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**THE MEDIATING EFFECT OF CORPORATE GOVERNANCE QUALITY
ON THE ASSOCIATION BETWEEN AUDIT REPORT LAG AND
EARNINGS QUALITY IN NSE**

MERCY A. NYANGWESO (006895)

**A Research Thesis Submitted to the School of Management
and Commerce in Partial Fulfillment for the award of a
Master of Commerce Degree of Strathmore University**

April 2018

DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

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Strathmore University

Mercy Atieno Nyangweso

.....

.....

Approval

The thesis of Mercy **Atieno Nyangweso** was reviewed and approved by the following:

Dr. David Mathuva

Senior Lecturer, School of Management and Commerce,

Strathmore University

Prof. David Wang'ombe,

Dean, School of Management and Commerce,

Strathmore University

Professor Ruth Kiraka,

Dean, School of Graduate Studies,

Strathmore University

DEDICATION

This work is dedicated to my supervisor who gave me invaluable moral support and to my many friends who kept on trusting in my potential. You taught me that even the most challenging task can be accomplished.

ACKNOWLEDGEMENTS

I am eternally grateful to God for giving me the ability to pursue this research to completion.

Firstly, I express my heartfelt gratitude to Strathmore University for sponsoring my master studies and according me the privilege to pursue a Master degree in Commerce. Secondly, I appreciate my supervisor, Dr. David Mathuva, for his guidance and encouragement in undertaking the research and writing this thesis. The constructive feedback I received from him was invaluable in shaping the research.

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ABBREVIATIONS AND ACRONYMS

AC	Audit Committee
ARL	Audit Report Lag
CGQ	Corporate Governance Quality
CEO	Chief Executive officer
CMA	Capital Markets Authority
EM	Earnings management
EQ	Earnings quality
FASB	Financial Accounting Standards Board
GoK	Government of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IS	Industry sector
NSE	Nairobi Securities Exchange
PCAOB	Public Company Accounting Oversight Board
ROA	Return on Assets
SPSS	Statistical Package for the Social Sciences
VIF	Variance Inflation Factor

DEFINITION OF TERMS

Audit report lag is defined as the length of time from a company's fiscal year-end to the date of the auditor's report (Abernathy, Barnes, Stefaniak, & Weisbarth, 2017; Ashton, Graul, & Newton, 1989; Habib & Bhuiyan, 2011; Hasan, Hadad, Ahmed, & Hassan, 2016).

Corporate governance (CG) means the process and structure used to direct and manage the business and affairs of a company, towards enhancing business prosperity and corporate accountability, with the ultimate objective of realizing long-term shareholder value, whilst taking account of the interests of other stakeholders (CMA, 2015).

Corporate governance quality (CGQ) is defined as the ability to possess and meet the common corporate governance standards set by the authorities (Lokman, Cotter, & Mula, 2009).

Earnings quality (EQ) Is defined as the extent to which reported earnings faithfully corresponds to the change in net economic assets other than from transactions with owners (Hicks, 1953; Schipper & Vincent, 2003).

ABSTRACT

The purpose of this research is to establish the mediating effect of corporate governance on the association between audit report lag and earnings quality. The research aims at addressing two main research questions. First, how earnings quality influence audit report lag and second, what mediating role does corporate governance quality play on the association between earnings quality and audit report lag in non-financial companies listed on the Nairobi Securities Exchange? In this study, both primary and secondary data were used. The secondary data were obtained from companies' audited annual reports, while a closed-ended research questionnaire was used to collect primary data. The data was analyzed in two stages. In the first stage, an association test between the audit report lag (which was measured as the number of days from the financial year-end to the date of signing the audit report) and earnings quality (which was measured as discretionary accruals as per the discretionary accruals model) was carried out. In the second stage, a mediation test to examine the mediating effect of corporate governance qualities on the association above was conducted. The association test was analyzed based on the significance of the independent variables. Although the model was significant, the t-statistic for the discretionary accruals was statistically insignificant despite there being a negative correlation between earnings quality and audit report lag, which could be interpreted as an increase in the earnings quality leads to a decrease audit report lag. For the mediation test, the R-squared, F-statistics and the t-statistics were significant. This justifies that there is a mediating effect of corporate governance quality on the association between audit report lag and earnings quality. To corroborate these findings from the secondary data, the findings from the primary data with valid Cronbach's Alpha, provided additional evidence on the importance of the quality of corporate governance in mediating earning quality and audit report lag. While audit report lag can be easily identified, there are still difficulties in detecting earnings management. As such, these findings may act as a red flag for detecting earnings management in non-financial firms listed on the NSE. This study will be of interest to investors in identifying earnings management, regulatory bodies for detecting gaps in reporting and policymakers who would set up corporate governance policies to improve companies' management.

Keywords: Earnings quality, Audit report lag, corporate governance quality

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

A robust and efficient financial sector requires quality and timely financial reporting. Quality and timeliness of financial reporting are key in supporting the decision-making processes of stakeholders (Waweru, 2014). To achieve these,, several regulating bodies exist to oversee companies financial reporting (Taillord, 2012). These bodies are responsible for overseeing the development of codes and guidelines that support quality financial reporting. In Kenya, the Capital Markets Authority (CMA) introduced a new code of corporate governance practice for issuers of securities to the public in 2015. The code came into effect on March 4, 2017 after being gazetted on March 4, 2016. Apart from replacing the guidelines of corporate governance practices by listed companies, 2002, the CMA also believes that this code will enhance good corporate governance practices CMA, 2017.

Previously, extensive research has been done on corporate governance quality (CGQ), earnings quality, (EQ) and Audit report lag (ARL) (Abernathy et al., 2017; Apadore & Mohd Noor, 2013; Owino, 2017). Most of the studies either discussed the relationship between corporate governance and Earnings quality (Blankley, Hurtt, & MacGregor, 2015; Outa, Eisenberg, & Ozili, 2017), the relationship between corporate governance quality and audit report lag (Afify, 2009b), or linking audit report lag to earnings management (Abernathy et al., 2017; Blankley et al., 2015). However, there have been no studies that try to link the mediating effect of corporate governance quality to the association between audit report lag and earnings quality. Therefore, this study's intent on finding out whether corporate governance quality qualifies to mediate the association between earnings quality and audit report lag. To achieve this objective, this study adopted the accrual-based approach to measure earnings quality, used number of days to measure audit report lag and used a single but informative measure developed by Brown (Brown, Beekes, & Verhoeven, 2011) and used by (Outa et al., 2017) to measure corporate governance quality. The corporate governance score was developed based on the corporate governance codes issued in 2002 (Outa et al., 2017).

1.1.1 Earnings Quality and Audit Report lag

Quality and reliability of annual financial reporting are important (Alkhatib & Marji, 2012; Ashton et al., 1989) as it guarantees that relevant data is conveyed especially to potential speculators with

the goal that legitimate venture choices could be made by them (Waweru, 2014). Convenient and timely issuance of yearly reports depicts the ability of the organizations to convey data and declare their income to investors. In this way, the organization fulfills one of the key purposes of financial reporting which is to provide information that is useful for decision making (Financial Accounting Standard Board (FASB, 2016).

During the audit, auditors have a tolerance threshold for audit quality (Asthana, 2014), which implies that the auditor is likely not to clear the audit until the minimum threshold on the quality of financial reports as set by the auditor is surpassed. In situations where the threshold is not obtained, the auditor will put in extra effort to the audit and/or have auditor clients negotiations (Salterio, 2012). When either or both situations arise, then it is most likely that the audit report lag could be as a result of the earnings quality.

Assessing earnings quality from the decision usefulness is not possible without assessing the timeliness of the earnings reporting. The balancing between timelines and quality has, for a long time, been a key concern for auditors (Abbott, Parker, & Peters, 2012; Abernathy et al., 2017). Earnings quality is defined as the extent to which reported earnings faithfully corresponds to the change in net economic assets; other than from transactions with owners (Hicks, 1953; Schipper & Vincent, 2003). In this study, earnings quality is used as a proxy for financial reporting quality. Audit report lag, which is viewed as the most important determinant for financial reporting timelines (Abbott et al., 2012; Givoly & Palmon, 1982), is defined as the length of time from a company's fiscal year-end to the date of auditor's report (Abernathy et al., 2017; Ashton, Robert, Graul, & Newton, 1989; Habib & Bhuiyan, 2011; Hassan, 2016).

1.1.2 Corporate Governance and regulatory provisions in Kenya

Global concerns over companies' collapse, such as Enron, are always closely associated with corporate governance (Earnest & Sofian, 2013; Ketz, 2003). Kenya is characterized as a developing country and an emerging economy with middle-income. Nevertheless, Kenya has faced serious concerns over the effectiveness of its regulatory institutions (Tauringana, Kyeyune, & Opio, 2011). The fall of Chase Bank and Uchumi supermarket were mostly attributed to weak regulatory frameworks in the country financial sector (Holmey, 2016; Mathuva, 2014). With continuous hope in the strengthening of the regulatory institutions (Association of Certified Fraud

Examiners, 2014; Mathuva, Mboya, & McFie, 2017), the country has made significant steps. They include, for example, the promulgation of the Constitution in 2010, the introduction of the new Companies Act in 2015 and in the same year the CMA implemented the new corporate governance practice for listed companies which superseded the voluntary corporate governance code of 2002. The 2015 corporate governance code emphasizes on compulsory disclosure, unlike the repealed code that focused on voluntary disclosures leaving gaps that led to doubt on the quality of reporting.

The Nairobi Securities Exchange (NSE) and CMA both assume an increasingly important role as the financial regulators in the Kenyan economy. They are keen on setting regulations and ensuring compliance to achieve market efficiency. Market efficiency contributed greatly in attracting capital for the Sixty -Six listed companies in the NSE as at 31st December 2017. These companies are distributed among twelve sectors. According to the table, the banking sector; commercial and service sector and the manufacturing and allied companies take up half of the listed companies. A recent study on the association between audit report lag and earnings quality of firms in the United States found this relationship to exist and it affects firm value forcing the market to adjust for the association when valuing the firm (Asthana, 2014). To back up Asthana's findings, a study by (Darweesh, 2015; Waweru, 2014) proved that corporate governance quality has a positive influence on investors' decisions. These studies provide evidence of the importance of observing the audit report lag, how it influences earnings quality and whether corporate governance quality could mediate this association.

Currently, there are debates on whether financial statements can be prepared and audited without compromising their quality; especially their reliability (Abernathy et al., 2017; Aktaş & Karğın, 2011). Therefore, in light of this literature review coupled with the aim to reduce audit report lag so as to manage pressure from stakeholders, it is imperative to study whether practicing quality corporate governance by listed non-financial companies in Kenya has any influence on the association between the quality of earnings and audit report lag. Based on the purposive sampling technique and using both the primary and secondary data, this study seeks to respond to the following research question: do companies that have adopted the corporate governance codes experience improved earnings quality and a shorter audit report release period?

1.2 Statement of the Problem

The trade-off between quality and timely financial reporting is one of the most discussed topics in accounting as well as auditing profession (Ball & Shivakumar, 2005; Blankley et al., 2015). The fact that it is almost impossible to achieve quality at the expense of timeliness in company reporting is clear from both audit and accounting research findings (Abdullahi & Abubakar, 2017; Oluoch, Muturi, & Florence, 2017). Quality and timely financial reporting characteristics bring out the two main qualitative characteristics of accounting information, which are relevance and reliability.

A review of the literature relating to audit report lag, earnings quality and corporate governance provides evidence that earnings management is perceived to contribute to longer audit report lag (Blankley et al., 2015). Other researchers relate audit report lag to its' ability in shaking investors' confidence. For the latter, a good example is Uchumi supermarket which is listed on the NSE. When the audit report for Uchumi took longer than six months to be released, investors withdrew their investments claiming that there was bad news being concealed by managers of Uchumi (Iraya, Mwangi, & Muchoki, 2015). While for the former, other researchers found that audit delay acts as a positive sign where the effectiveness of fraud detection is high (Habib & Bhuiyan, 2011; Malsch & Salterio, 2015).

Inconsistencies in the literature findings on the relationship between earnings quality, corporate governance qualities and audit report lag were as a result of the studies focusing on different jurisdictions (Chan, Luo, & Mo, 2016; Habib & Bhuiyan, 2011). Studies on corporate governance characteristics and audit report lag provide contradicting results when company-specific characteristics such as industry and firm size are considered (Habib & Bhuiyan, 2011; Kamalluarifin, 2016). Some studies found that a company's specific characteristic such as the industry may be negatively associated with audit report lag when using a longitudinal approach but positively related when using a cross-sectional approach as a research method (Henderson & Kaplan, 2000; Owino, 2016). These findings further contradict other studies that attempted to explain the relationship between corporate governance quality and earnings quality or corporate governance quality and audit report lag. From the researchers, literature review studies on the mediating effect of corporate governance quality on the association between audit report lag and earnings quality are less forthcoming, yet corporate governance quality, audit report lag and earnings quality are key concepts that have the potential of affecting securities trading negatively.

They may create information asymmetry and or delay trading. With the current growth in the use of technology to enhance real-time trading, these delays also build pressure on management from investors, auditors and those charged with governance.

Most investors wait for the report to inform their decision. Delaying the report might make them prefer another investment option (Abernathy et al., 2017; Dao & Pham, 2014). In cases where audit delays are as a result of the quality of the presented accounts, this will affect the auditors' audit plan and audit process, management performance and potential investor decision-making process. As such, earnings quality, audit report lag and corporate governance quality are key concepts for investigation (Apadore & Mohd Noor, 2013; Ball & Shivakumar, 2005; Blankley et al., 2015). Based on these realities coupled with the inconsistent and inconclusive literature in the previous studies, the two create an opportunity and justify the relevance of discussing the mediating effect of corporate governance on the association between earnings quality and audit report lag.

1.3 Research Objectives

1.3.1 General Objective

The study seeks to investigate the mediating effect of corporate governance quality on the association between earnings quality and audit report lag by listed non-financial companies on the NSE.

1.3.2 Specific Objectives

This study seeks to address the following specific objectives:

1. To establish the influence of earnings quality on audit report lag of listed non-financial companies on the NSE.
2. To establish the association between audit report lag and corporate governance quality of listed non-financial companies on the NSE.
3. To obtain views from the preparers and auditors of the annual report of listed non-financial companies on the influence of corporate governance quality on earnings and audit report lag.

1.4 Research Questions

The study will seek to answer the following research questions:

1. How does earnings quality influence audit report lag of non-financial companies listed on the NSE?
2. What mediating role does corporate governance quality play on the association between earnings quality and audit report lag in non-financial companies listed on the NSE?
3. Do annual report preparers and auditors of listed non-financial firms perceive an association between earnings quality, corporate governance quality and audit report lag?

1.5 Significance of the Study

The findings of this study will be significant in the following ways:

1.5.1 To Researchers

This study endeavoured to add to the existing literature in the following three ways. First, by contributing to the knowledge on drivers of audit report lag. Second, by discussing the influence of earnings quality on the audit report lag and finally, it also examined the mediating effect of corporate governance on the association between earnings quality and audit report lag. By adopting a mixed method approach, the findings of this study extend the literature on the knowledge of the relationship between corporate governance quality, audit report lag, and earnings quality in a developing country. It is also hoped that the results of this study will be used by other researchers to modify existing theories or support in developing new theories on the variables studied.

1.5.2 To company managers and auditors

Knowledge of the relationship between earnings quality and audit report lag is likely to provide more insight on the audit quality. The findings of this study will aid the auditor in having a better understanding of the influence of earnings quality on audit report lag. This could help the managers and auditors plan their audit engagements.

1.5.3 To Regulators and policymakers

Regulators play an important role in formulating policies and ensuring that the regulated companies adhere to the provided regulations. Knowledge on the moderating effect of corporate

governance may inform policymakers such as Capital Market Authority (CMA) and the Institute of Chartered Public Accountants in Kenya (ICPAK) when formulating the regulatory codes and when pushing for compliance. This study also provides information that the regulators may use as a red flag to detect non-compliant companies. Effective regulation will encourage efficiency, robustness and strengthen the investors' belief in the market.

1.5.4 To Investors

This study seeks to guide investors when choosing their investment preference. Depending on the relationship between corporate governance quality, audit report lag and earnings quality, investors can be able to decide on which companies to invest in the NSE. Audit report lag may signify poor earning quality. Investors may easily notice audit report lag rather than earnings quality when making investment decisions.

1.6 Scope of the Study

The scope of a study can be discussed in terms of the conceptual scope, organization scope and temporal scope (Bell, 2014). The conceptual scope of this study comprised the audit report lag, corporate governance quality and earnings quality. The target scope was public listed companies in NSE and the temporal scope was the period studied. Further, this study endeavoured to establish the influence of earnings quality on audit report lag and discuss the mediating effect of corporate governance quality on the association between earnings quality and audit report lag. Kenya provided an interesting setting for examining these research questions since the study had not been conducted in Kenya before. For instance, there have been relatively new adjustments in Kenya's corporate governance practices since the introduction of the new code in 2015. This study also sought responses from the preparers and auditors of annual financial reports to enable the researcher to triangulate the results. These respondents were the most relevant because, presumably, they understand the study variables better. Their experience and professional qualifications were key in validating the questionnaires. The study was limited to non-financial companies listed on the NSE from 1st January 2007 to 31st December 2016. This period provided an opportunity to observe the variables over a long period of time, therefore, justifying consistency on the findings.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the theoretical and empirical literature on the associations between audit report lag, earnings quality and corporate governance quality. The chapter is divided into six sections. The first section analyses the theoretical review; signaling theory, stakeholder's theory and agency theory are all discussed as the theories relevant to audit report lag, corporate governance quality and earnings quality. The second section expounds on the empirical review, extent literature on the audit report lag, earnings quality and corporate governance quality is discussed. Thirdly a research gap is presented, followed by the conceptual framework and finally the chapter summary explains the literature gap which forms the basis of this study.

2.2 Theoretical Review of Literature on audit report lag, earnings quality and corporate governance quality

2.2.1 Signaling theory

Signaling theory or Flagging hypothesis as referred to, by other researchers was formulated by Spence (1973) and progressed by Watts, Zimmerman and Cliffs (1986) to clarify conduct in labor advertisement. The ability of the signaling theory to describe the behavior of two parties who have access to two different information made it applicable to several other research in accounting and finance (Connelly, Certo, Ireland, & Reutzel, 2010). Thus, the theory can likewise be utilized to clarify the idea of opportune financial reporting. This theory is mainly concerned with removing information asymmetry in financial markets. Information asymmetry arises when firms internal members have insider information which is not available to the public (Cao & Hui, 2009; Lauer mann, 2012).

Information asymmetry can be reduced when the advantaged party signals the disadvantaged party with information that is relevant and believable, or when proper regulations exist in the market to ensure better access to information. The processes of releasing financial statement or audit reports act as a signal to investors. Early release of reports may be viewed as good news to an extent that they affect the firm value positively (Cao & Hui, 2009; Givoly & Palmon, 1982). Late release of audit report may act as a bad signal towards the possibility that the company is not performing as good as the books show. For example, when the audit report for Uchumi Supermarket delayed for

more than six months and investors panicked and withdrew what they could. This was an example of what a market can face due to late release of report for a company listed on the NSE. As such, directors should be keen on audit report lag, especially when caused by earnings quality and may contribute to delayed audit report thus signaling bad information in the market. Other activities such as the arrival of reviewed reports, the planning of the arrival of reports, delay of audit report might be interpreted by investors as a signal of how the firm is performing. Therefore, signaling theory is relevant in the discussions of audit report lag. The study attempts to detect whether audit report lag would signal poor earnings quality and whether audit report lag would signal poor corporate governance quality.

2.2.2 Stakeholder theory

Stakeholder assumes a role like that of a bookkeeper with a specific objective of acquiring opportune money related data. Whereas some stakeholders may be straining to prepare timely and quality financial reports, others may be speculating and watching the performance of the firms. Such stakeholders' behaviors makes it important for the research to study stakeholders' behaviors.

Stakeholders theory, being a fundamental concept in management of institutions has been discussed in most past studies (Bitsch, Brochstedt, Holm, & Knudsen, 2017; Donaldson & Preston, 1995; Freeman, Wicks, & Parmar, 2004). The initial focus of stakeholder theory was on identifying the stakeholders, categorizing them into internal and external stakeholders and managing what drives and influences the stakeholders (Freeman et al., 2004). In this way the stakeholders were viewed as subjects to be managed especially through monitoring. This view has changed; the current studies are focusing on aligning stakeholders interest in a way that it creates a more network based and rational view of the institutions stakeholders (Bitsch et al., 2017; Jones & Wicks, 1999; Scholl, 2002).

This theory was developed further into stakeholder networking theory, which focuses on stakeholders interdependence, dynamic and mutuality (Timur & Getz, 2008). The Stakeholders networking theory advocates for multiple stakeholders moving beyond dyadic ties (Rowley, 1997). The connection between stakeholders theory, be it stakeholder theory of cooperation by (Donaldson & Preston, 1995) or stakeholders networking theory by (Rowley, 1997) are both relevant to this study considering how varying interest of stakeholders can affect a company's ability to achieve its' objectives.

The fundamental basis of stakeholder theory is normative approach, which involves acceptance of the following two ideas. First that Stakeholders are persons or groups with legitimate interest in procedural and substantive aspects of corporate activities; they are identified by their interests and whether their corporation has any corresponding functional interest in them. Secondly, that the interest of all stakeholders has an intrinsic value, which means that each group of stakeholder merits and the company considers not merely to cover the interest of some groups such as share owners. The stakeholder's theory is managerial in terms that it does not simply describe the cause, existing situation or predict cost effect relationships. It also involves attitude structure and practices which taken together constitute stakeholder's management. Stakeholder management requires at its' key; attitudes and simultaneous attention to the legitimate interest of all appropriate stakeholders both in establishment of organization structures, general policies and in case, by case decision making. These requirements holds to anyone managing or effecting corporate policy including not only professional managers but shareowners, the government and others (Freeman et al., 2004).

Donaldson and Preston (1995) view Stakeholder theory from three aspects; the descriptive perspective; that is the accuracy, instrumental perspective; that is its' power and the normative perspective; that is its' validity. Though descriptive, normative and instrumental perspectives seem different from each other they are mutually supportive of each other (Scholl, 2002). When stakeholder theory is viewed as descriptive, it presents a model describing what a corporate is, as a correlation of competitive and comparative interests possessing intrinsic value. The actions for this model may be tested for describing accuracy. Stakeholder theory is instrumental when it establishes a framework between stakeholder's management and achieving of corporate performance goals. This framework can be used for examining the connection if any between stakeholder management and achievement of various corporate performance goals. This is the main connection between stakeholder theory earnings quality and adopting corporate governance quality in addressing stakeholder's conflicts.

Some studies on stakeholder theory propose that corporates practicing stakeholder management through adopting principles such as corporate governance codes, are more likely to be relatively successful in conventional performance when compared with companies that do not practice stakeholders management (Donaldson & Preston, 1995; Freeman et al., 2004).

2.2.3 Agency Theory

An agency relationship arises where one party (principal) contacts another person (agent) to perform a service and gives the agent decision making authority (Eisenhardt, 1989a). Auditors, directors and management work on behalf of shareholders and therefore their interconnection may create an agency relationship that would lead to agency-principal problems. Agency problems arise either when the principal's and the agent's goals conflict and or when identifying whether the agent has behaved properly (Olson, 2000). Some scholars believe that the theory has an assumption that all actions of individuals are motivated by their self-interests. Hence, agent's self-interests oblige the principals to incur monitoring and bonding costs to safe guard their interest. This is the positivist approach to agency theory (Eisenhardt, 1989b; Shapiro, 2005).

When stakeholders who are bonded by agency contracts have different risk appetites and different desires then conflict of interest exists. The principal approach identifies this situation of conflict and prescribe governance mechanisms to address the conflicts, for instance, through the development of codes such as the corporate governance codes. The link between corporate governance quality, earnings quality and agency theory occurs because of the separation between managers and owners (Outa et al., 2017). The corporate governance codes can also be viewed as an application of a normative theory approach which links to the agency theory.

Corporate governance codes, auditing/accounting standards, regulatory instructions or ethical standards can be conceptualized as normative theories that may be supportive or problematic in agency relationships (Malsch & Salterio, 2015). The corporate governance codes may be used in research to evaluate the practices of the directors or the regulations can be evaluated considering what the directors do. In some cases, both ways are evaluated. Studies on normative theories argue that codes, standards or guidelines may limit the directors to the options permitted in the regulations (Griffith, Hammersley, Kadous, & Young, 2015). Griffith et al., (2015) argues that the regulatory guidance could be the root cause of poorer conduct of audit or audit evidence especially when auditors take a safer approach. It is therefore important to study the regulatory theory to establish whether the guidelines are relevant and support corporates in achieving their main objectives. This leads to conceptualizing on how regulations should be done, develop a baseline to evaluate how the codes work, and ensure the guidelines cover to a greater extent the users' requirements. Despite the fact that there are indications that the users are not complying with these

regulations (Outa et al., 2017), it is key for a user to conform to the guidelines set by the regulations as long as they can help address the organizations' challenges. Study of the normative theories may also lead to suggestions for revision of standards or codes.

In conclusion, agency theory is key in this study in two ways, first, when considering how organizations manage conflicts of interest, the existence of codes such as corporate governance codes could help in managing the conflicts. Second, from the normative theory perspective of agency theory, corporate governance qualities also set precedence on how to manage performance. The second key theory is the stakeholders' theory. For this theory, through ensuring earnings quality and practice of quality corporate governance these are some of the ways of ensuring stakeholders interest are met. Finally, signaling theory is applicable to this study in that audit report lag or companies which do not practice quality corporate governance may be a signal of poor earnings quality.

2.3 Empirical review of extant literature on audit report lag, earnings quality and corporate governance quality

In this section, the literature on audit report lag, earnings quality and corporate governance quality shall be reviewed with the objective of discussing the determinants of audit report lag, how audit report lag relates to earnings quality and corporate governance quality, the proxies of earnings quality, how corporate governance quality can be used to mediate the association between audit report lag and earnings quality. Finally, a brief discussion on the control variables will be done.

2.3.1 Audit report lag

Stakeholders around the world have emphasized for decades the need for financial reporting timeliness. Literature uses other synonyms like audit lag, audit timeliness, abnormal audit delays, or financial reporting timeliness for audit report lag. Research on audit report lag were keen on the determinants of audit report lag or discussed ways to reduce the audit report lag period started way back in the 1970s. The studies were carried out in different countries by different researchers: (Carslaw & Kaplan, 1991) study was in New Zealand, (Davies & Whittred, 1980) study was in Australia while (Ashton et al., 1989) study was in Canada. All these studies were concerned with the delay of the audit report.

Some of the key focus in the study of audit report lag are the factors determining audit report lag. Earlier investigations have classified drivers of audit report lag as reviewer related components, organization related elements and corporate administration related elements (Afify, 2009; Eghliaow, 2013; Hassan, 2016). These components, are distinctive in various nations because of the diverse institutional set-up in the distinctive nations (Apadore & Mohd Noor, 2013; K. H. Chan, Luo, & Mo, 2016; Hasan et al., 2016). Some of the studies were detailed and were able to categories the determinants as ether: company specific factors (Givoly & Palmon, 1982; Owino, 2017), audit related factors (Ashton et al., 1989; Dao & Pham, 2014) or corporate governance factors (Habib, 2015; Hasan et al., 2016; Ilaboya & Christian, 2014; Sultana, Singh, & Van der Zahn, 2015). Johnson, Davies, & Freeman, (2002) developed a combined model with several specific factors to measure abnormal audit delay. When (Asthana, 2014) applied this model to try and establish the relationship between abnormal audit delays and earnings quality in United states firms (Asthana, 2014). The model was found to be insignificant with an adjusted r-squared of only 27%.

Other studies focused on audit report lag and corporate qualities (Ashton, Robert et al., 1989) and examined the relationship between audit report lag and corporate qualities. They found that, the industry (financial or manufacturing), type of audit report (qualified or unqualified), performance of the company (loss/profit), nature of the company (listed or private), presence of internal controls among other factors as the determinants of audit delays. Their findings were later supported by (Carslaw & Kaplan, 1991). Current studies on audit report lag have summarized the factors that influence the AR L as Audit related Factors, company related factors and corporate governance factors (Hasan et al., 2016; Owino, 2017; Sultana et al., 2015).

Asthana (2014) used an abnormal audit delay model, which was previously used by (Johnson et al., 2002) to determine audit report lag. The model result was a 27% adjusted r-squared. When compared with the 80% for audit fee model used by other studies (Afify, 2009a).

2.3.2 Earnings Quality

Earnings quality has been discussed extensively in literature and most studies on earnings quality focus on three things: how it is defined, what contributes to earnings quality and the drivers of earnings quality (Schipper & Vincent, 2003; Hicks, 1953; Salterio, 2012). Hicks,(1953) was among the first researchers to discuss what constitutes earnings quality. He defines earnings as

what can be consumed (that is paid out as dividends) during a financial period while at the same time the paying firm's equity at the beginning and at the end of that period remains in a stable state. Therefore, according to Hicks earnings quality is the extent to which earnings represent Hicksian income.

When earnings quality is discussed from the point of view of its decision usefulness, especially as adopted by (FASB) and by some academic researchers then, it is imperative to link the importance of earnings quality and firm's investment stakeholders and other stakeholders in a contractual relationship with the firm. This view of earnings quality also informs contractual arrangements such as the debt agreement. Thus, when such arrangements are entered into and the earnings quality is not achieved, they may lead to an unintended transfer of wealth. For example, an intended overstatement of earning may lead to overpayment of managers and longer audit in cases where audit client negotiations have to take place.

Earnings quality is a key measurement of performance for any profit-making organizations. Previous discussions on earnings quality have mostly focused on measuring and validating the earnings (Kashmiri, 2014; Schipper& Vincent, 2003). To address objective two in this study, the literature on the association between audit report lag and earnings quality is key. One of the most recent studies by (Asthana, 2014) found that there exists a negative association between audit report lag and earnings quality. The study used the following proxies to measure earnings quality (earnings persistence, earnings predictability, discretionary accruals, earnings volatility and earnings timeliness). Where persistence covered the extent to which earnings remain in the future realization. It is sometimes used as a synonym for suitability. Predictive ability is a function of distribution especially the variance of the earnings.

Asthana's study is among the studies arguing that earnings management is only a section of earnings quality and therefore other factors other than earnings management affecting earnings quality have to be incorporated to achieve an effective earnings quality (Asthana, 2014; Lo, 2008). This is unlike other studies, which measure earnings quality as the absence of earnings management. Earnings quality construct may further depend on either the accounting treatments (smoothing, discretionary accruals, abnormal accruals) and or the underlying events and transactions to measure earnings quality (Barker & Imam, 2008; Schipper & Vincent, 2003).

From other previous studies in developed economies by (Asthana, 2014; Malsch & Salterio, 2016; Salterio, 2012), it is evident that audit report lag may be caused by the differences in the numbers to be reported in the financial statement. This situation often arises when the external independent auditor holds a different opinion from the client's opinion on accounting figures to be disclosed, hence discussions between the external auditor and the management would arise that would lead to audit delays. When this happens, it is likely to be an indication of poor earnings quality.

Accounting concepts such as provisions and off-balance sheet financing make it more complicated to observe earnings quality from a layman perspective (Asthana, 2014; Balboa, López-Espinosa, & Rubia, 2013; Kashmiri, 2014). These concepts are usually left for management judgments with limited guidance irrespective of the fact that some grey areas exist when reporting provisions or dealings with off-balance sheet transactions (IASB, 2009). These grey areas contribute to the difficulties when measuring earnings management.

Earnings management can therefore be measured differently. McNichols, (2000) describes three different categories with which earnings management can be measured. The approaches are: the methodological/special accruals approach, how earnings is distributed after management and the aggregate accruals approach. Special accruals methodology is limited by its' nature in that it focuses only on special industry sectors with specials accruals. Therefore, the special accruals approach would be more applicable when studying the differences in earnings quality in different industries. While the distribution of earnings after management only focuses on the statistical approach, the aggregate accruals identifies discretionary accruals based on the ration between total assets accruals and hypothesized explanatory factor. The aggregate model, as such, accounts for the limitations in the other two models and is therefore purposely selected for this study.

Given the fact that more than twenty five published papers have looked at the determinants of audit report lag. It is important to take a different perspective and discuss how the audit report lag relates to other key factors in the organization. In this regard, therefore, the research question on whether audit report lag may have been caused by material disagreements between the auditor and the client regarding accounting practices and or calculation of accounting numbers may contain information about quality of earnings that has not extensively been investigated (Asthana, 2014). Based on the discussions above, the following hypothesis is formulated:

H1 Earnings quality is negatively associated with audit report lag

Table 2.1 shows a discussion of the measures and the definition of the variables to be used in in the study.

2.3.4 The mediating effect of corporate governance quality on the association between AR and earnings quality

A mediating variable is a variable that explains how or why such effects occur. Though in some studies the mediating and moderating variables may be a bit complex; it is key to note that a moderating variable specifies when certain effects will hold. In this case, a moderating variable only affects the dependent variable. On the other hand, a mediating variable explains why the effect in the relationship between independent and dependent variable as an intervention process occur. It is sometimes referred to as intervening variable and therefore affects both the dependent and independent variable. In this study corporate governance is discussed as the mediating variable; the following paragraphs discuss literature on corporate governance.

The concept of corporate governance was first introduced in 1999 by the Organization for Economic Co-operation and Development (OECD) (OECD, 1999; Waweru, 2014). Since then the code has been applied to different companies and realized several benefits such as investors' confidence and their desire to invest more in companies practicing corporate governance increased (Waweru, 2014). Earnest & Sofian (2013) state that corporate governance is the cornerstone for maintaining and sustaining success in future. The Kenyan corporate governance code 2015 can be categorized into two: the principal corporate governance practices and the recommendations of the best practices. However, with these two options of practicing corporate governance, corporate scandals with the ability to affect firm performance still exist; these scandals particularly in Kenya have left some stakeholders questioning the effectiveness of the corporate governance code (Outa 2016). The scandals have also contributed to the reforms in the capital market which aim to improving board operations and control, prioritize shareholders rights while according minority shareholders protection and finally ensuring transparency and disclosures of the affairs of the company.

Based on the previous findings and study, researchers seem to place the importance of corporate governance at a crossroad denoting that the expectations of the benefits of corporate governance

is rivaled by the critics of corporate governance (Daily, Dalton, & Cannella, 2003). Daily et al., (2003) defines corporate governance to involve determination of the broad uses of organization resources and how conflicts are resolved. These definitions present a different approach to corporate governance compared to the previously discussed. Daily et al., (2003) attempt to link corporate governance to organizations where ownership and control are separate and therefore focuses on protecting shareholders. This provides a different angle for viewing corporate governance. Other studies on corporate governance focus on the company characteristics or the specific corporate governance characteristics.

Previous research on corporate governance tend to focus on the quality of corporate governance (Chan, Watson, & Woodliff, 2014; Nicoló, Nicol, Ueda, & Laeven, 2006; Zitouni, 2016). These studies were mainly backing up to the importance of corporate governance and its' ability to improve investors' confidence (Chang & Sun, 2009; D. M. Mathuva et al., 2017; (Brown et al., 2011). Regardless of the slight changes in the corporate governance quality matrix used especially when different relationships are being observed, their findings eco the importance of corporate governance concluding that investors would wish to pay more for a well-regulated firm. Therefore, as the quality of corporate governance increases in a firm, the firm is more likely to be associated with firm value increase and equity cost decrease causing investors top refer firms with good corporate governance (Waweru, 2014; Darweesh, 2015).

Apart from increasing firm value and reducing cost of equity, corporate governance has been studied in relation to many other variables. For example, Brown et al., (2011) examined corporate governance and financial reporting. In Browns study, corporate governance quality proxies were the existence of strong and practical laws with the ability to protect investors. He found out that countries with such strong laws and regimes tend to have higher quality accounting and reporting, which, in turn, attracts new investors and build their confidence. These findings were similar to (Darweesh, 2015) finding who examined whether there is a relationship between corporate governance, financial performance and market value.

Studies relating corporate governance quality to audit report lag tend to focus on company's corporate governance specific characteristics such as the audit committee quality characteristics (Bamber, Bamber, & Schoderbek, 1993; Apadore 2013). Bamber found that companies with an effective audit committee characteristics had less chances of audit report lag than companies with

non-functioning audit committees. In Bamber's study, effective audit committee was characterized by the following: presence of an audit committee, composition of the audit committee in that there are independent directors, the level of professional expertise of the directors especially in the finance sector, number of meetings the committee holds and the size of the audit committee.

Different researchers tend to focus on different corporate governance quality attributes, which are directly related with the variables they are interested in. Some of the key corporate governance effectiveness questions discussed by past researchers are: what is the size of the board? How frequent are the board meeting held? What is the proportion of board directors (number of non-executive director in the board)? Is the audit committee independent and finally; what is the composition of professional experts of the audit committee? It may seem obvious, from the principles of corporate governance that corporate governance quality moderates earnings quality and audit report lag. However, previous studies have conflicting finding on the influence of corporate governance on either earnings quality or audit report lag (Iraya, Mwangi, & Muchoki, (2015).

Studies on the effect of corporate governance characteristics on earnings management found that corporate governance characteristics such as ownership concentration, board size, and board independence negatively relate to earnings management (Iraya et al., 2015). These findings on corporate governance characteristics and its association with earnings quality were similar to the findings by (Sáenz González & García-Meca, 2014) study in the northern America. While (Waweru, 2014) study on African market found that board size and board independence affect earnings management differently. (Iraya et al., 2015) study recommended for quality corporate governance though they also found that other corporate governance quality characteristics like board activity and CEO duality do not affect earnings quality.

Based on these findings there are continuous debate on whether the new corporate governance code in Kenya is more effective than the voluntary corporate governance code that existed before (Outa et al., 2017; Iraya et al., 2015). (Outa et al., 2017) found that the voluntary corporate governance code was not effective in constraining earnings management. He further states that though the mandatory corporate governance quality in Kenya somehow supported companies in reducing earnings management, the voluntary nature of the current corporate governance does not allow it to prevent earnings management. Therefore, his study contributes to the debate on the

effectiveness of audit report lag by seeking to demonstrate that the new corporate governance code would be effective in maintaining earnings quality. Based on the discussions above, on whether corporate governance has an association with the audit report lag or earnings quality the following hypothesis is formulated:

H2 The association between earnings quality and audit report lag is mediated negatively by corporate governance quality.

2.3.5 The mediating test on the effect of corporate governance quality on audit report lag

Corporate governance quality is a mediating variable to the extent that it carries the influence of earnings quality (Independent variable) to audit report lag (dependent variable). The effect of the mediation will be tested by following (Baron & Kenny, 1986). Baron states that in testing the mediation effect the following conditions must be met. First, the study must prove that there is an effect to be mediated that is the independence variable (earnings quality) influences the dependent variable (audit report lag). Second, the study must treat the mediator as if it was an outcome variable; that is, the independent variable earnings quality influences the mediator (CG). Third, the mediator (CG) must influence the dependent variable (audit report lag). Finally, the effect of the independent variable (earnings quality) on the dependent variable (audit report lag) is diminished after controlling for the effect of the mediator.

If all the above conditions are satisfied, and the influence of the earnings quality on audit report lag becomes insignificant in the presence of a corporate governance quality, then the effects of the earnings quality are “completely” mediated by corporate governance quality. On the contrary, if the influence of the earnings quality remains insignificant in the presence of corporate governance quality, then the effect of the independent variable is partially “mediated”. There is no mediating effect if any of the above conditions are not satisfied.

2.4 Summary of the Literature

Three-key variables in the study have been discussed. Literature has shown evidence on the determinants and drivers of audit report lag (Apadore& Mohd Noor, 2013; Chan et al., 2016; Hasan et al., 2016) across the continents. These studies identify the determinants and classify them according to the rate of influence. (Afify, 2009b; Chan et al., 2016; Knechel & Payne, 2001;

Owino, 2016) determined the drivers of audit report lag to establish whether they are determinants or drivers. There is extant literature on this perspective of viewing audit report lag.

In other studies, as discussed in the literature, audit report lag has been related to earnings quality (Habib, 2015; Habib & Bhuiyan, 2011). These three studies in different contexts and jurisdictions prove that the level of earnings quality affect audit report lag. (Lambert, Jones, Brazel, & Showalter, 2017; Messier, Glover, & Prawitt, 2016) also had similar findings on the relationship between the quality of financial statements and audit report lag.

In the last section, this study reviews literature on corporate governance and how they affect earnings quality and audit report lag. Earlier studies that focused on this aspect are (Courtis, 1976; Hsu, Wang, Tsai, & Lu, 1995; Lokman et al., 2009). These studies were more concerned with the quality of financial reporting. Recent studies on corporate governance focus on the measures of corporate governance (Mathuva et al., 2017; Zitouni, 2016). Two current studies have discussed the impact of corporate governance quality on earnings quality (Kanagaretnam, Lim, & Lobo, 2014; Outa et al., 2017). These studies explain the relationship between the key variable from past literature.

2.5 Research Gap

The prior research, to a greater extent, has examined the determinants of audit report lag (Apadore & Mohd Noor, 2013; Hasan et al., 2016; Owino, 2017). However, the possibility that audit report lag may have been caused by material disagreement between the auditors and the client regarding accounting practices and/or disagreements resulting from calculation of accounting numbers, which may contain information about quality of earning beyond those conveyed by other factors has not been investigated in developing economies. In developed countries, for example the United States, (Salterio, 2012) research suggests that positive abnormal audit delay is an indication that audit delay took place as a result of audit clients having material disagreements in the accounting treatments.

Asthana 2014 found that there exists an association between audit report lag and earnings quality. Asthana study used the following proxies for earnings quality (earnings persistence, earnings predictability, discretionary accruals, earnings volatility and earnings timeliness) although his measure of earnings quality was insignificant. It would be relevant to study this association in a

developing country considering the different regulatory framework, economic status and jurisdictions.

In 2015, CMA introduced a new code of corporate governance, with this code the CMA intend to improve the quality of financial reporting, boost investors' capital and improve the capital base in the NSE. This study hopes to inform the regulators and the users of the accounts on whether corporate governance as a regulatory requirement is important in boosting investors' confidence.

2.6 Conceptual Framework

The figure below explains the relationship between the variables. The independent variable is earnings quality, audit report lag is the dependent variable while corporate governance quality is the mediating or intervening variable.

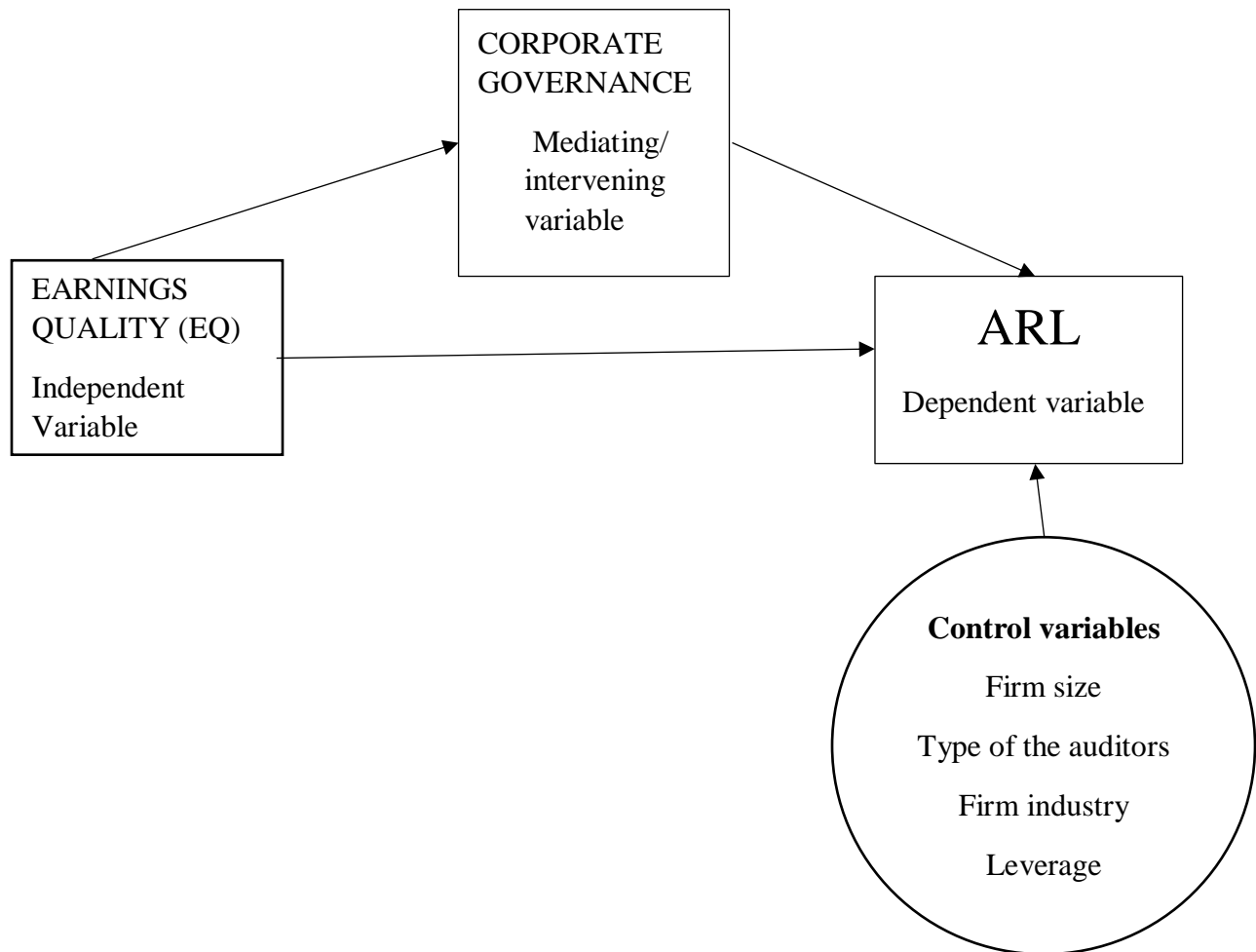


Figure 2.1: Conceptual framework

The relationship between earnings quality and audit report lag may be mediated by corporate governance quality. A mediator variable (Corporate governance quality) explains how and why the association between audit report lag and earnings quality exist. Corporate governance qualities, therefore, may serve as a mediator variable to the extent that it accounts for the relation between earnings quality and audit report lag. The mediating effect is a hypothesized causal chain in which one variable affect a second variable that in turn affects a third variable (Prado, Korelo, & Silva, 2014). The paths between: earnings quality and corporate governance, corporate governance and audit report lag and finally between earnings quality and audit report lag represent the direct effects while the mediational effect in which earnings quality leads to audit report lag through corporate governance is the indirect effect. The indirect effect represents the portion of the relationship between earnings quality and audit report lag that is mediated by corporate governance. In the above mentioned relationships there are some moderating variables. A moderating variable explains how or when certain effects occur. In this study they are: firm size, auditor type, foreign ownership, leverage, and industry and audit committee qualities. The operationalization of the variables is discussed in table 2.1: variables definition.

2.6.1 Operationalization of the Variables

This section describes how the researcher measures the independent, dependents and control variables used in the study. The independent variables are earnings quality and corporate governance quality while the control variables are: firm size, auditor type, foreign ownership, leverage, and industry and audit committee qualities. Table 2.1: variable definition and measures provide a summary of how the variables were operationalized.

Table 2.1: Variables definition

Variable	Measure	Definition	Reference	Data source
Audit committee qualities	<i>ACQS</i>	Measured by the audit committee quality index in appendix V	2015, Mathuva, Mcfie, & Mboya (2016) and Zitouni (2016)	Audit committee quality index in the appendix VI and questionnaires in appendix 11

Audit fees	<i>LN- AUDIT FEE</i>	The natural log of audit fees (Abbott, Parker & Peters, 2012)	(Abbott, Parker & Peters, 2012)	Listed company's annual reports
Audit report lag	<i>ARL-NO-DAYS</i>	is defined as the length of time from a company's fiscal year-end to the date of the auditor's report	(Abernathy et al., 2017; Afify, 2009b; Asthana, 2014)	Listed company's annual report and data collection sheet for audit report data appendix III
Audit report lag estimated	<i>ARL ESTIMATED</i>	The error term after regressing the ARL model on drivers of audit report lag	F. Otieno Asthana	Listed company's annual report
Auditor type	<i>AUDITOR-TYPE</i>	A dichotomous variable of 1 if audit firm was Big-4 and 0 otherwise	(Che-Ahmad and Abidin, 2009)	Listed company's annual report
Audit risk	<i>AUDIT-RISK</i>	The ratio of current assets to current liabilities	(Sultana, Singh, & Mitchell Van der Zahn, 2015).	Listed company's annual report
Corporate Governance Qualities	<i>CGQS</i>	Measured by the corporate governance index in the appendix iv	(D. Mathuva, Mcfie, & Mboya, 2016)	corporate governance index in the appendix V and questionnaires in appendix 11
Company size	<i>LN-TA</i>	The natural log of total assets	(Asthana, 2014)	Company size
Complexity of the audit	<i>COMPLEXITY</i>	Measured as ratio of inventory and receivable to total assets	(Barinov, Park, & Yildizhan, 2016)	Listed company's annual report
Discretionary Accruals	<i>DACC</i>	Is calculated as the ratio of discretionary accrual to total asset at the end of the fiscal year. The discretionary accruals are calculated	(Asthana, 2014) (Dechow, 1994; M. F. McNichols, 2000; M.	Listed company's annual report

		using (Dechow, 1994) as in (DeFond & Jiambalvo, 1994)	McNichols & Wilson, 1988)	
Earnings quality	<i>E-QUALITY</i>	DACC	(Asthana, 2014)	Listed company's annual report
Foreign Ownership	<i>FOREIGN SHAREHOLDER COMPANY</i>	This was the proportion of shares owned by foreigners	F.OT	Listed company's annual report
Industry sector	<i>IS_AGRIC</i> <i>IS_AUTO__ACC</i> <i>ESSO</i> <i>IS_COMM_SERV</i> <i>IS_MAN</i> <i>IS_TELECOM</i>	A dummy variable 1 If company is in the industry being analyzed and 0 otherwise	(Eghliaow, 2013).	Listed company' annual reports
Leverage	<i>LEVERAGE</i>	Total liabilities to total assets (da Silveira Di Miceli, Leal, Barros, &Carvalho-da-Silva, 2009)	(da Silveira Di Miceli, Leal, Barros, &Carvalho-da-Silva, 2009)	Listed company's annual report
Period	<i>DYR</i>	Dummy variable for the period being studied		Listed company's annual report
Profitability	<i>PROFITABILITY</i>	A dichotomous variable of 1 if firm is profitable and 0 otherwise		Listed company's annual report
Profit Warning	<i>PROFIT-WARNING</i>	A dichotomous variable of 1 if firm is profitable and 0 otherwise	(Soltani, 2002).	
Total accruals	$TA_{i,t}$	Total accruals are (Δ Current assets- Δ Current liabilities-Cash+Short Term debt-Depreciation	Asthana Dechow, 1994; M. F. McNichols, 2000	Listed company's annual report

		and amortization Expenses)/ $A_{i,t-1}$		
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2.7 Summary of the Chapter

This chapter has expounded on the empirical and theoretical literature relevant to the study. In the theoretical literature, three theories have been discussed; signaling theory, stakeholder's theory and the agency theory. Agency theory is relevant to this study based on the view that the auditors and management in many of the organizations are agents working for their principal (shareholders). Therefore, agency cost may arise, which leads to supervisory measures like ensuring corporate governance quality. Agency and stakeholder's theory are almost viewed in the same way in this study. The fact that auditors, management and directors are different stakeholders with different stakeholder's interest. Once again, practices such as implementing a corporate governance code moderates this relationship. Hence the role of corporate governance is key. For this reason there are discussions on normative theory briefly at the end of stakeholder's theory to explain the use of regulations and standards to address stakeholder's differences. Finally signaling theory is also relevant to the study, audit delay or poor corporate governance practices may send certain wrong signals to the speculating investors. In addition to this, the regulatory authorities may also use the audit report lag as a red flag for detecting companies practicing earnings management.

In the empirical literature review section, discussion on audit report lag from the initial audit related to audit report lag is presented. Audit report lag is a concept that was first discussed more than forty years ago. From the literature review, most past studies on audit report lag focused on determinants of audit report lag. Further literature also brings out the need for discussion on how the audit report lag can be reduced to an acceptable level, therefore the chapter brings out how audit report lag is linked to earnings quality and corporate governance quality. Some studies which advocate for this relationships to be discussed were (Abernathy et al., 2017; Asthana, 2014; Owino, 2017). Abernathy et al., (2017) provided a synthesis of literature from extensive international past studies on audit report lag. From his findings one of his main suggestions for future research was on studies that would seek solutions for the trade-off between timeliness and quality of reporting.

Asthana study in the USA investigated the association between abnormal audit delay and earnings quality in the USA. Though the model the study used to determine abnormal audit delay failed the significant test, the second model which the study used to measure earnings quality was relevant in both Multivariate and univariate regression. Therefore this study adopted a more comprehensive methodology with clear stages of data analysis.

The key articles that informs this study are (Abernathy et al., 2017; Asthana, 2014; Outa et al., 2017). As discussed above (Abernathy et al., 2017) informed the literature review through giving the international perspective of the audit report lag, (Asthana, 2014) informed the methodology and (Outa et al., 2017) informed the discussion on the moderating and mediating variables (corporate governance quality).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This Chapter lays out the methodology used in collecting and analyzing the data with the aim of responding to the study objectives. It is divided into eight sections starting with an introduction. Section two and three expounds on the philosophical assumptions underpinning the research and the research design, respectively. Section three, on the other hand, explains the population and sampling methods adopted. This is followed by a discussion on the data collection instruments used. Thereafter, the data processing, analysis, and research quality. The last section weighs in on ethical considerations.

3.2 Research Philosophy

An Ontological approach, unlike the epistemological approach, which focuses on what the reality is and how to reach it, shows the relationship between concepts or ideas and hence relates more to the dynamic of human behavior. It deals with the nature of reality and applies a systematic belief that reflects on individual interpretation of what constitutes a fact (Malsch & Salterio, 2015). In this regard, this study used an ontological framework to collect, analyze and interpret the data, which formed the background of the study, and to interpret what contributes to audit report lag using a positive approach. This means that this study considered audit report lag as a social observable reality hence the effect of corporate governance quality or earnings quality on audit report lag could lead to the review of the corporate governance practices or earnings management practices (Creswell, 2013).

Philosophical ideas are usually hidden in a study (Creswell, 2013a) although they are the ideas behind the research discovering hidden assumption in behavioral research and they also help in justifying the quality and quantity of the research. The most discussed assumptions are interpretivism and the positivism. The former finds it difficult to define what is right or wrong while the latter approach gives validity and objectivity to the study. For these reasons, this study adopted a positivist approach with the following philosophical premises; the reality is out there, that reality can be scientifically measured, there exists causality and determinism (which means cause determines effect), and reductionism which means (Ideas are reduced, and theories verified using empirical methods. To counteract this philosophy, this study used both primary and

secondary data. The secondary data was collected from companies' websites, annual reports, and the CMA websites. The data was keyed in an excel sheet while the primary data was collected using the research questionnaire in Appendix ii. The questionnaires were administered to internal auditors, external auditors, and accountants of the listed non-financial companies in the study.

3.3 Research Design

A research design is a plan of the methods and techniques to be adopted for collection and analysis of data required in obtaining answers to research questions (Mugenda, 2003). The choice of a research methodology to be used is dependent on the topic of study and the nature and scope of the data to be collected (Creswell, 2013; Graham, Harvey, & Rajgopal, 2005).

Using a panel data approach to analyze the secondary data collected, and corroborating the results from the primary data source that were analyzed. The study conducted normality tests for the secondary data and reliability test for the primary data to validate the data that was used to the two hypotheses and the third research objective.

3.3.1 Quantitative approach

Research methodology can be categorized into three broad areas: qualitative, quantitative or the mixed method. Creswell, (2013b)) states that all research is both qualitative and quantitative in a way. They are all qualitative because even numerical figures can conceal a number of meanings, and they are quantitative because all things can be counted. The choice of a research methodology used is dependent on the topic of study and the nature and scope of the data collected (Creswell, 2013; Graham et al., 2005). In order to address the research objectives in chapter one, a quantitative approach was used with survey design. Towards this end, both quantitative approach and survey design complemented each other, when further matters in relation to the study were explored.

Graham et al., (2005) states that though large sample empirical analysis provided statistical power and cross-sectional variation. The large sample studies suffered from several weaknesses related to variable specification and inability to ask qualitative questions. First, large samples cannot always speak to the relative importance of competing hypothesis for phenomena because in the large sample, the explanatory sample with the least measurement error might dominate in a regression analysis (Malsch & Salterio, 2016), while in a qualitative analysis, it is almost possible to rate the hypothesis. Secondly, developing good empirical evidence on the association between

audit report lag and earning quality and the mediating effect of corporate governance was key for this study, therefore survey offered an opportunity to ask listed non-financial companies' accounts preparers and auditors specific qualitative questions that would support this study's research objectives.

Both the survey and the quantitative research design enabled the study to obtain a detailed explanation of the associations and mediating effects of the variables rather than focusing on narrow explanations. The use of surveys also enabled the study to explain new factors that were not considered by previous researchers. Nevertheless, the survey methodology despite addressing part of the study's objective, suffers from some limitations; it measures beliefs which may not coincide with the respondents' action or respondents may give information that they think the researcher wants to hear (Graham et al., 2005). To address this possibility where for example the respondent gives feedback on what they learned in school rather than what is actually done on the ground, the study used different approaches when choosing the respondents and when analysing the data.

3.3 Population and sampling

The Population is a complete set of elements (persons, events or objects) that pose some common characteristics defined by the sampling criteria established by the researcher (Creswell, 2013). Most researchers tended to agree that population study is more representative. They base their argument on the assumption that every element had an equal chance to be included in the drawn sample. One of the fallacies encountered when using a population study was that it assumed homogeneity in research, while in fact, this statement does not hold water for all studies and therefore the reason why sampling and the use of the case studies are more preferred in other studies (Che-Ahmad & Abidin, 2008; Malsch & Salterio, 2016).

3.3.1 Sampling Frame

The population of the study was well defined. The targeted population was listed companies in the NSE. To eliminate a potential bias, the sampling technique used in the study was purposeful considering the following criteria: First, the companies should have been registered and were in operation for the period starting 1st January 2007 – to the period ending 30th December 2016. This was to ensure that all companies included have the appropriate number of years of operation. These years were also considered to be the most recent yearly reports available as at the time of the study.

Secondly, companies offering financial services which include companies in the banking, insurance, and investment industries were also eliminated from the sample. These industries are under some regulations which give the minimum required audit report period. Given that audit report lag is our main variable in questions, it was inevitable to exclude these companies because their audit report period seemed to be consistent. Table 3.1 Presents the sectoral distribution of the population and sampled companies in the NSE.

Table 3.1: Sectoral Distribution of the population and Sampled Companies

Industry sector	Number of listed firms	Number of sampled firms
Agriculture	7	5
Automobile	3	2
Construction and allied	5	5
Banking	11	0
Energy and petroleum	5	4
Commercial and services	11	6
Manufacturing	9	5
Telecommunication	1	1
Real estate Investment	1	0
Insurance	6	0
Investment services	1	0
Investment	5	0
Total	65	28

Source NSE 2017

3.4 Data Collection Instrument

This study relied on both the primary and secondary data. The secondary data used in addressing the first and second objectives were sourced from the annual reports (which could be obtained from the company website or the NSE database). The primary data were collected using the questionnaire in appendix II. This helped in addressing the third research question. Other than the annual reports, this study obtained more secondary data from other sources like the CMA's website and any other sources that were deemed relevant.

3.5 Data Processing and Analysis

To achieve the study objectives, a seven-stage approach was followed when processing and analyzing the data. In the first stage, audit report lag period was determined from the annual financial statements using the data collection tool in (appendix v). In the second stage, both the

primary and secondary data collected was cleaned, coded and classified in preparation for analysis at the next five stages.

The third stage entailed the first analysis stage. In this stage, a regression of the determinant of audit report lag (equation i) was performed to determine the estimated audit report lag that was later used in the association test between audit report lag and earnings quality. In the fourth stage, a regression of the discretionary accruals variable using Deschow model see (equation ii) was carried out to determine the residuals of the model which is assumed to be the measure of earnings quality in this study, followed by an association test between the estimated audit report lag and the residuals from the discretionary accruals model to measure earnings quality in the fifth stage, see (equation iii). In the sixth stage, a mediation test of corporate governance quality characteristics was done to test the mediating effect of corporate governance on the association between earnings quality and audit report lag see (equation iv). Finally, in the last stage, the data from the primary data was analyzed and compared to the findings of the secondary data.

The equations below provide detailed explanation of the variables used in the study.

The following model was used to calculate the unexplained audit report lag. The unexplained audit report lag was the error term from the regression of ARL and its determinants. This error term was then used to test whether it has an association with earnings quality.

3.5.1 Equation to determine unexplained audit report lag

$$ARL_{i,t} = \beta_0 + \partial_1 \sum_i^n AUDFACTORS_{i,t} + \partial_2 \sum_i^n COMPANYCHAR_{i,t} + \partial_3 \sum_i^n CORPORATEGOV_{i,t} + YEARS_{i,t} + IND_{i,t} + \varepsilon_{i,t} \quad (\text{equation i})$$

Where:

$ARL_{i,t}$ = Audit report lag of company i at time t

$AUDFACTORS_{i,t}$ = Audit related factors (auditor type, audit fee and audit risk) of firm i time t

$COMPANYCHAR_{i,t}$ = Company related factors (complexity, foreign ownership, leverage, industry sector, firm size, ownership concentration profit warning) of firm i time t

$CORPORATEGOV_{i,t}$ = Corporate governance quality score and audit committee quality score of firm i at time t

$YEARS_{i,t}$ = Firm year control

$IND_{i,t}$ = Industry control

$\xi_{i,t}$ = error term (Which the study uses as an estimated audit report lag)

3.5.2 Equation to determine the discretionary accruals residuals

The following equation is a regression of the total accruals. In this model the estimate of accruals quality are based on the statistical properties of the discretionary accruals. High accrual quality will be used as a proxy for high earnings quality. Therefore this equation provides an inverse measure of earnings quality. The absolute values of the residuals measure the earnings quality.

$$TA_{i,t} = \beta_0 + \beta_1 (1/A_{i,t-1}) + \beta_2 (\Delta REV_{i,t} - \Delta REC_{i,t}) + \beta_3 PPE_{i,t} + \xi_{i,t} \quad (\text{Equation ii})$$

Where:

$TA_{i,t}$ = Total accruals in year t for firm i Calculated as $(\Delta \text{Current assets} - \Delta \text{Current liabilities} - \text{Cash} + \text{Short Term Debt} - \text{Depreciation and amortization Expenses}) / A_{i,t-1}$

$A_{i,t-1}$ = Total assets in the year t-1 for firm i

$\Delta REV_{i,t}$ = Revenue in year t less revenue in year t-1 for firm i scaled by $A_{i,t-1}$

$\Delta REC_{i,t}$ = Receivables in year t less receivables in year t-1 for firm i scaled by $A_{i,t-1}$

$PPE_{i,t}$ = Gross property plant and equipment in the year t for firm i scaled by $A_{i,t-1}$

$\xi_{i,t}$ = error term in the year t for firm i

This formula gives the non-discretionary accruals. Therefore the residuals of the regression model will represent discretionary accruals (DACC).

3.5.3 Equation to determine the association between ARL and DACC

In the fifth stage the association test between audit report lag and earnings quality to test the first hypotheses:

H1: Earnings quality is negatively associated with audit report lag.

$$ARL = \beta_0 + \beta_1 DACC + \beta_2 \sum_i^n CONTROLVAR_{i,t} + YEARS_{i,t} + IND_{i,t} + \xi_i \quad (\text{equation iii})$$

Where:

ARL = the audit report lag from equation- the unexplained audit report lag (i)

$DACC$ = the residuals from equation (ii)

$CONTROLVAR_{it}$ = Where the auditor type, the log of total assets, foreign ownership

$YEARS_{i,t}$ = Firm year control

$IND_{i,t}$ = Industry control

$\xi_{i,t}$ = error term

3.5.4 Determining the mediating effect of CGQS on the association between ARL and DACC

A mediating variable explains why such an association occurs. Therefore, the mediation test discussed in chapter two was applied by first developing a mediating variable.

After defining the mediating variable the following mediation test was carried out

$$ARL = \beta_0 + \beta_1 DACC + \beta_2 CGQS + \beta_3 \sum_i^n CONTROLVAR_{i,t} + YEARS_{i,t} + IND_{i,t} + \xi_i(\text{equation iv})$$

Where

ARL = the audit report lag from equation (i)

$CGQS$ = Mediating variable

$DACC$ = the residuals from equation ii

$CONTROLVAR_{it}$ = Where the auditor type, the log of total assets, foreign ownership

$YEARS_{i,t}$ = Firm year control

$IND_{i,t}$ = Industry control

$\xi_{i,t}$ = error term

During analysis, if the model is degraded and the parameters remained unaffected, then the study can conclude that the influence of the earnings quality on audit report lag become relatively insignificant. Otherwise, in the presence of a corporate governance quality; this means that the effects of the earnings quality are “completely” mediated by corporate governance quality. It is also important to note that when the influence of the earnings quality remains insignificant in the

presence of corporate governance quality, then the effect of the independent variable (EQ) is partially “mediated”. Finally there would be no mediating effect if any of the above conditions were not satisfied.

3.6 Research Quality

To ensure validity, the researcher conducted a pilot study which enabled the researcher to align the data collection instruments to the research objectives. The questionnaires were administered to the first five respondents and thereafter repetitive or meaningless questions were excluded from the data collection instrument. This process enabled the study to achieve internal validity through justifying the extent to which the variation would be considered a causal relationship (Internal validity) and whether the causal relationship could be generalized (External validity).

3.7 Ethical Issues in Research

The researcher did not use the names of the respondents or the names of the companies in the study. Each participant and company was coded with a unique number known only to the researcher. By using generic names and codes in the study, for example, referring to respondents as accountants or auditors, this helped the study avoid ethical issues related to privacy.

During the administering of the questionnaires, the researcher sought to obtain informed consent from the participants. After explaining a brief background of the study, the researcher informed them as to why they and their organizations were considered fit to participate in the study.

CHAPTER FOUR
PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

The findings of the primary and secondary data collected during the study are enumerated in this chapter in four separated sections; the first one being an introduction. The second section presents results from the diagnostic tests; the study conducted an autocorrelation, heteroscedasticity and multicollinearity test. Consequently, secondary data results were analyzed where the association and mediation tests results are diagrammatically presented. Subsequently, a succinct depiction of the results from the primary data analysis is made. The presentation of the primary data encompassed the demographic data and stakeholders’ perspectives on the influence of corporate governance qualities on the audit report lag and earnings quality. In closing, the primary results were corroborated with the secondary results.

4.2 Sample representation

Table 4.1 presents the sample breakdown for the 66 targeted companies on the NSE as of 31 December 2017.

Table 4.1: Sample representation

Sample selection	Number of firms	Number of firm-year observations
Total companies listed as of 31 December 2017	66	594
Listed companies since 1st January 2016 to 2017	(1)	9
Number of delisted companies	(1)	9
Number of companies listed during the study period	(16)	144
Unavailable annual reports		0
Banking Insurance and investment companies	(16)	144
Companies in the sampled industries that were deregistered from trading during the sampled period	(4)	36
Total number of companies sampled	28	252
Number of missing observations		39
Number of observations in the final sample		213

According to Table 4.1, the final sample consist of twenty-eight companies with two hundred fifty-two expected observations. The total number of listed companies as at December 2017 were sixty-

six. Sixteen companies that were listed during the study period were not included in the sample because the data to be obtained from them would have been incomplete. The other sixteen listed companies from banking, insurance, and investments sections were also not included in the sampled data. Companies from the financial sector were excluded from the sample to enhance the generalizability of the study findings. The Deschow (1994) model has been cited to be one of the best models for measuring earnings quality for non-financial companies (Deschow 1994, DeFond (1994) Kanagaretnam (2015)). Therefore, either using the same method to measure earnings quality of the financial firms or using a different method to measure the earnings quality would lead to possible biases in the study. The sample size also excludes two companies one which was listed and the other was delisted during the sample period. Four companies from the sampled industries that were deregistered from trading were also excluded from the sample.

4.3 Diagnostic tests

This section explains the diagnostic tests carried on the data prior to further analysis in the study. The diagnostic tests performed included: the normality tests, test for autocorrelation, test for multicollinearity and reliability test.

4.3.1 Normality tests

Figures 4.1 and 4.2 present the Q-Q plots for ARL and DACC respectively.

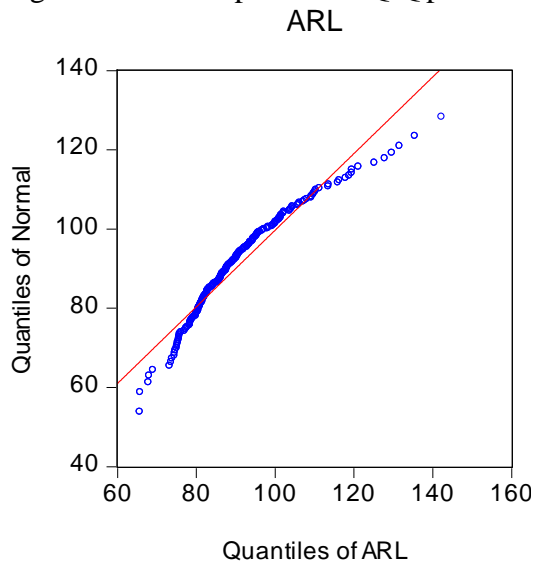


Figure 4.1: Q-Q plot for ARL

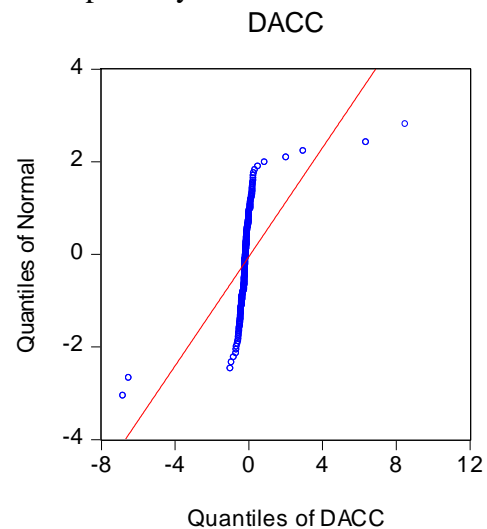


Figure 4.2: Q-Q plot for DACC

According to the figures above, the ARL seems to follow a near-normal distribution while the DACC deviates from the normal distribution. The skewness and kurtosis for ARL were 1.062 and

4.482 while that of DACC was 1.708 and 45.593. Implying that for the skewness, the data was evenly skewed with a value less than two (>2). For the Kurtosis, which explains the peakedness of the data with values greater than <3 showing that there are many outliers. Presence of outliers means that the tail in the DACC data is heavier than the normal distribution. Since the main variable of interest, ARL was near normally distributed, a Panel Two-Stage Least Squares regression approach was utilized. A Panel least regression is the extension of the ordinary least square method. It is mostly used to analyze structural questions especially when the dependent variable (audit report lag) is correlated with the independent variable (earnings quality).

4.3.2 Test for Autocorrelation

Table 4.4 shows the Durbin-Watson test on the regressions carried out

Table 4.2: Durbin-Watson statistics

Regression	Durbin-Watson statistics
Regression – The association between ARL and CGQS	1.328
Regression influence of earnings quality on the audit report lag	1.373
Regression, ARL, CGQ and DACC	1.331
Regression–The mediating effect of corporate governance on the association between ARL and DACC	1.352

Autocorrelation or serial correlation characteristic appears in data when the correlation between the values of the same variable is either based on related objects or violates the assumption of independence in the model. It mostly appears in data selected from the same source and could lead to incorrect standard errors. In this study, the serial correlation was checked using the Durbin-Watson statistic consistent with (Mathuva, 2016; Owino, 2017). According to (Gujarati, 2004) the null hypotheses of no autocorrelation cannot be rejected if the Durbin- Watson statistic was equal or close to 2. From this study findings, Table 4.2 shows the Durbin-Watson statistic figures were close to two, therefore, the autocorrelation did not pose a problem.

4.3.3 Test for multi-collinearity

Multi-collinearity is a type of disturbance in the data. It arises when there are very high intercorrelations or inter-associations among the independent variables. When this occurs, the statistical inference made on the data may not be reliable. Previous studies on ARL used the Spearman's correlation matrix to test for multi-collinearity (Owino, 2016; Sultana et al., 2015). However, the fact that this study tests the mediating effect of an independent variable, a mediating variable, unlike a moderating effect, influences both the independent and the dependent variable. Therefore, this study found it relevant to use both the correlation matrix and the Variance Inflation Factor (VIF) to test for the multi-collinearity. Prior studies state that when the VIF is less than ten (10) then this implies no multicollinearity exists. From the correlation matrix in table 4.5 and the VIF on the database, the study shows that no multi-collinearity existed.

4.3.4 Test for Fixed or Random Effects

A Hausmann test was performed to determine whether fixed effects of random effects model is to be used. The test summary showed a Chi-square statistic of 48.889 (7 chi-square degrees of freedom) with a significance of $p < 0.01$. Since the test statistic was large and significant, the null hypothesis was rejected and fixed effects regression model was used.

4.3.5 Reliability test for questionnaire data

Table 4.3 shows the chronbach's reliability test on the primary data

Table 4.3: Cronbach's alpha

Section of the questionnaire	Reliability Statistics	
	Cronbach's Alpha	N of Items
Effects on audit report lag	0.877	28
Effect on earnings quality	0.844	21
Mediating effect of corporate governance	0.768	7

Table 4.3 shows the Chronbac's reliability test on the primary data. Chronbach's alpha as discussed by (Field, 2013) was used to measure the internal consistency of the primary data using SPSS. Model questions were found to be closely related as a group with a value which surpasses

the recommended value of a range between 0.7 and 0.8. Therefore there was no need for conducting total statistical tests.

4.4 Descriptive statistics

Table 4.4 reports the results of the descriptive statistics for the full sample of 213 observations over the period 2006 to 2016

Table 4.4: Descriptive statistics for the full sample

Variable	N	Mean	Median	Std. Dev.	Minimum	Maximum	Skewness	Kurtosis
<i>ARL</i>	213	91.041	88.572	13.177	65.722	142.237	1.062	4.482
<i>DACC</i>	213	-0.125	-0.164	1.037	-6.807	8.517	1.708	45.593
<i>CGQS</i>	213	0.640	0.667	0.168	0.000	0.917	-1.178	6.074
<i>AUDITOR_TYPE</i>	213	0.845	1.000	0.363	0.000	1.000	-1.907	4.638
<i>LN_TA (SIZE)</i>	213	16.114	16.026	1.619	10.964	19.652	-0.214	3.073
<i>FOREIGN SHARES</i>	213	0.236	0.076	0.280	0.000	0.977	0.982	2.989
<i>LEVERAGE</i>	213	0.506	0.484	0.237	0.000	1.611	1.195	6.247
<i>ACQS</i>	213	0.881	1.000	0.222	0.167	1.000	-2.122	6.852

According to results in Table 4.4 which represents the descriptive statistics of the data. The audit report lag has a mean of 91.041 days with a standard deviation from the mean of 13.177. This means that an audit of non-financial firm listed in the NSE will take on average 77 days to 104 Days. These findings on audit report lag are similar to Owino (2017) findings of the audit report lag in the NSE. However, Blankey (2015) found out that the audit report lag in the American firms was between 50.8 to 79.9 days. Audit report lag was found to be higher in developing countries than in the developed countries Blankey (2015) cite more. In Indonesia, the finding on audit report lag for listed companies was an average of 76.54 days, the one for manufacturing firms was between 30 to 141 days. It seems that on average these are the audit report lag.

The DACC which is a measure of Earnings quality has a mean of -0.125 and a standard deviation of 1.037. This means that the range of the quality of earnings varies between -1.162 to 0.912. This implies that there exists a possibility of poor earnings quality in the NSE listed non-financial firms. The corporate governance qualities have a mean of 0.64 and standard deviation of 0.16. According to the corporate governance quality index in appendix IV. On average listed non-financial firms are keen on implementing corporate governance. Studies attempted to link this to the strong

regulatory environment for the listed companies. The size of the company was calculated using the natural log of the total assets.

4.5 Correlation analysis

Table 4.5 Presents the Spearman's correlations for the variables in the study.

Table 4.5 Correlation matrix

Variable	ARL	DACC	CGQS	AUDITOR_T YPE	LN_TA	FOREIGN SHARES	LEVERAGE
DACC - coefficient	0.022						
p-value	0.746						
CGQS - coefficient	0.076	-0.282***					
p-value	0.272	0.000					
AUDITOR_TYPE - coefficient	-0.538***	-0.028	-0.183***				
p-value	0.000	0.686	0.008				
LN_TA - coefficient	-0.182***	-0.251***	0.564***	-0.002			
p-value	0.008	0.000	0.000	0.978			
FOREIGN SHARES- coefficient	-0.444***	-0.067	0.074	0.138**	0.119*		
p-value	0.000	0.332	0.280	0.045	0.082		
LEVERAGE - coefficient	0.448***	0.307***	0.002	-0.227***	0.128*	-0.058	
p-value	0.000	0.000	0.972	0.001	0.063	0.397	
ACQS - coefficient	-0.177***	-0.080	0.506***	-0.199***	0.417***	0.234***	0.138***
p-value	0.010	0.242	0.000	0.004	0.000	0.001	0.044

*** - significant at the 1%, ** - significant at the 5%, * - significant at the 10% levels.

According to the Spearman's correlation matrix results in Table 4.5, the strength of the association between variables in the study has been measured. Spearman's' correlation coefficient is a nonparametric rank statistics that measure the strength of the relationship between two variables and unlike other measures like the Pearson's' correlation, Spearman's correlation matrix does not need the data to be linear (Gujarati, 2004). The correlation matrix also presents the findings of the association test.

The findings of the correlation of the variables were as follows: the correlation coefficient between DACC and CGQs was 0.282 with a p-value of 0.000, therefore, there is a positive and significant association between the earnings quality and the corporate governance quality in the study. The study also finds that Auditor type, total assets, foreign shareholding, Leverage and audit committee characteristics were all significant to the ARL. The negative coefficients mean that there is a negative relationship between audit report lag and auditor type. This could imply that companies

with small auditors tend to have longer audit report lag. The correlation coefficient of the total assets to the audit report lag was negative with a significant P-Value. This could mean that companies with large assets could have shorter audit report lag. Foreign shareholding and audit committee quality characteristics had been being both significant with a negative coefficient which could be interpreted as the higher the quality of audit committee and the shorter the audit report lag and the more the foreign ownership the shorter the audit report lag.

While there is a positive relationship between the audit report lag and corporate governance qualities. The variable DACC which is a measure of earnings quality had a positive relationship with the Audit report lag, however, with a P-Value of 0.746, it was not significant implying that the earnings quality may not be related to the audit report lag. The same applies to audit report lag and corporate governance qualities, though there is a positive association between this variable the association has a P-Value of 0.272 therefore not significant.

The correlation matrix apart from indicating the association between the variable, it was also used in this study to determine which panel models individual effect term could be used. The random effect is only sufficient for use in cases where there are no correlation between the variables in the regression. However the fixed effect model is efficient in both situation where there is correlation with the model and where there is no correlation. For this reason the study used a fixed effect. According to Hausmans' test we reject the null hypothesis and use the fixed effect.

4.6 Regression results

4.6.1 Establishing the discretionary accruals

Regression analyses were performed to first establish the discretionary accruals (DACC) to be used in the estimation models. The results of this first set of analysis are presented in Table 4.6

Table 4.6: Results of discretionary accruals estimation

Dependent Variable: Total accruals				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
I/A_{t-1}	2011.556	34617.090	0.058	0.954
PPE/A_{t-1}	-0.152	0.158	-0.963	0.337
$(\Delta REV_{i,t} - \Delta REC_{i,t})$	0.036	0.092	0.393	0.695
Intercept	0.121	0.144	0.843	0.400
R-squared	0.005			
S.E. of regression	1.030			
Sum squared resid	221.806			
Log likelihood	-306.548			
F-statistic	0.384			
Prob(F-statistic)	0.765			
Durbin-Watson stat	3.819			
Observations	213			

Critical value at 99% > 2.33, critical value at 95% > 1.96, critical value at 90% > 1.645

The initial model to establish the discretionary accruals using Dechow, 1994; M. F. McNichols, 2000; Table 4.6 shows summary statistics of the regression. Though the results of the t- statistics and the R-Squared is insignificant, this means that the omitted variables explain the discretionary accruals. From the table, this shows that the *DACC* is explained by the residuals which shall be used in the regression to test the association between audit report lag and earnings quality.

4.6.2 Influence of earnings quality (DACC) on ARL

Regression analysis was performed to establish the influence of earnings quality on ARL. The results are presented in Table 4.7

Table 4.7: Influence of earnings quality (DACC) on ARL

Dependent Variable: ARL				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
<i>DACC</i>	-0.503	0.517	-0.972	0.332
<i>AUDITOR_TYPE</i>	-21.080***	1.651	-12.768	0.000
<i>LN_TA</i>	-1.656***	0.483	-3.426	0.001
<i>FOREIGNSHAREHOLDERCOMPANY</i>	-13.700***	2.142	-6.396	0.000
<i>LEVERAGE</i>	20.084***	2.446	8.210	0.000
<i>ACQS</i>	-8.173***	3.244	-2.520	0.013
<i>IS_AGRIC</i>	2.345	2.756	0.851	0.396
<i>IS_AUTO__ACCESSO</i>	-6.264**	2.795	-2.241	0.026
<i>IS_COMM_SERV</i>	3.444*	1.783	1.931	0.055
<i>IS_MAN</i>	-2.478	1.872	-1.324	0.187
<i>IS_TELECOM</i>	3.855	3.333	1.157	0.249
<i>YEAR</i>	0.462*	0.240	1.927	0.055
<i>INDUSTRY_INDEX</i>	0.011	0.077	0.141	0.888
Intercept	-805.747	488.116	-1.651	0.100
R-squared	0.678			
Adjusted R-squared	0.656			
S.E. of regression	7.723			
F-statistic	32.165			
Prob(F-statistic)	0.000			
Instrument rank	18.000			
Durbin-Watson stat	1.373			
Hausmann Chi-square stat	48.889			
Significance of Hausmann Chi-square	0.000			
Observations	213			

*** - significant at the 1%, ** - significant at the 5%, * - significant at the 10% levels.

Critical value at 99% > 2.33, critical value at 95% > 1.96, critical value at 90% > 1.645

According to the results in Table 4.7, the model is significant with an F statistic of 0.000 which means that at least one of the variables is significant. The R-squared is 0.678 which also means that the variables explain 67.8% of the model. Earnings quality has a negative effect on the audit report lag though the effect is not significant with a $t > 1.645$. Therefore, even though discretionary accruals has a negative coefficient it is not statistically significant. From the industry perspective, the automobile and accessories and the commercial services are significant with a negative

coefficient meaning that companies in the manufacturing industries have a shorter audit report lag than companies in the other industries while with a positive significant coefficient of 3.444 could imply that companies in the commercial services would have a longer audit report lag than companies in agriculture and manufacturing industry. Though the telecom industry has also a coefficient of 3.855 these findings are not statistically significant with a statistic of 1.157.

4.6.3 Influence of CGQs on ARL

Regression analysis was performed to establish the influence of corporate governance qualities on ARL. The results are presented in Table 4.8

Table 4.8: Influence of CGQs on ARL

Dependent Variable: ARL				
Variable	Coefficient	Std. Error	T-Statistic	Prob.
CGQS	31.321***	5.380	5.822	0.000
AUDITOR_TYPE	-17.747***	1.636	(10.849)	0.000
LN_TA	-3.585***	0.559	(6.410)	0.000
FOREIGNSHAREHOLDERCOMPANY	-13.63***	1.985	(6.869)	0.000
LEVERAGE	21.019***	2.270	9.261	0.000
ACQS	-16.377***	3.315	(4.940)	0.000
IS_AGRIC	2.150	2.552	0.842	0.401
IS_AUTO__ACCESSO	-9.119**	2.636	(3.460)	0.001
IS_COMM_SERV	0.988	1.707	0.579	0.563
IS_MAN	-3.629**	1.745	(2.080)	0.039
IS_TELECOM	2.985	3.089	0.966	0.335
YEAR	0.479*	0.222	2.154	0.032
INDUSTRY_INDEX	0.054	0.072	0.755	0.451
Intercept	-866.846*	451.922	(1.918)	0.057
R-squared	0.723			
Adjusted R-squared	0.705			
S.E. of regression	7.156			
F-statistic	39.989			
Prob(F-statistic)	0.000			
Instrument rank	18.000			
Durbin-Watson stat	1.328			
Observations	213			

*** - significant at the 1%, ** - significant at the 5%, * - significant at the 10% levels.

Critical value at 99%>2.33, critical value at 95%>1.96, critical value at 90%>1.645

According to the results in Table 4.8, the model is significant with an F statistic of 0.000 which means that at least one of the variables is significant. The R-squared is 0.723 which also means that the variables explain 72.3% of the model. Corporate governance quality has a positive effect on the audit report lag. The effect is significant with a probability of 0.000. Therefore, corporate governance quality has a positive coefficient to ARL and is statistically significant. From the industry perspective, the automobile and manufacturing are significant with a positive coefficient, meaning that corporate governance in the automobile and manufacturing industries is key in reducing audit report lag than companies in the other industries.

4.6.4 Mediating effect of corporate governance quality on the association between earnings quality and ARL

Table 4.9 reports the results of the mediation effect of corporate governance quality on the association between audit report lag and earnings quality.

Table 4.9: Mediating effect of CGQ on DACC and ARL

Dependent Variable: ARL				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
<i>DACC</i>	4.782*	2.444	1.956	0.052
<i>CGQS</i>	26.775***	5.723	4.679	0.000
<i>AUDITOR_TYPE</i>	-17.682***	1.624	-10.887	0.000
<i>LN_TA</i>	-3.645***	0.556	-6.557	0.000
<i>FOREIGNSHAREHOLDERCOMPANY</i>	-13.480***	1.971	-6.839	0.000
<i>LEVERAGE</i>	22.213***	2.316	9.591	0.000
<i>ACQS</i>	-14.718***	3.375	-4.361	0.000
<i>IS_AGRIC</i>	1.848	2.537	0.728	0.467
<i>IS_AUTO__ACCESSO</i>	-8.331***	2.641	-3.154	0.002
<i>IS_COMM_SERV</i>	0.383	1.716	0.223	0.824
<i>IS_MAN</i>	-3.976***	1.740	-2.285	0.023
<i>IS_TELECOM</i>	1.673	3.123	0.536	0.593
<i>YEAR</i>	0.422*	0.222	1.904	0.058
<i>INDUSTRY_INDEX</i>	0.064	0.072	0.896	0.371
Intercept	-762.962*	451.039	-1.692	0.092
R-squared	0.730			
Adjusted R-squared	0.709			
S.E. of regression	7.103			
F-statistic	35.505			
Prob(F-statistic)	0.000			
Instrument rank	18.000			
Durbin-Watson stat	1.352			
Observations	213			

*** - significant at the 1%, ** - significant at the 5%, * - significant at the 10% levels.

Critical value at 99%>2.33, critical value at 95%>1.96, critical value at 90%>1.645

According to the results in Table 4.8, the regression model is significant with an F-statistic of 0.000 and R-squared of 73%. This means that the model is significant, the variables explain our dependents variable. Introduction of a mediating effect CGQS has strengthened the model. This means that companies that practice quality corporate governance are likely to have a shorter audit report lag. It is also interesting to note that the introduction of a mediating effect into the model make the DACC significant at 10% level. This means that corporate governance quality mediates

the association between audit report lag and earnings quality. This confirms our hypothesis to be true.

From the industry perspective, the manufacturing and the automobile and accessories were significant. This implies that the mediating effect of corporate governance on the association between audit report lag and earnings quality is higher in automobile and accessories industry and manufacturing industry. These two industries have a negative coefficient meaning that companies in these industries have a shorter audit report lag. It interesting to also note that though companies in the commercial services were significant in the previous model in table 4.7 to test the association between audit report lag and earnings quality. They are not significant when the moderating effect is introduced. This could be interpreted that the quality of corporate governance in the commercial services may not have an impact on the association between audit report lag and earnings quality.

4.7 Questionnaire results on the preparer and auditor views on influence of earnings quality on CGQ and ARL

4.7.1 Demographic data

Table 4.9 reports the demographic results of the participants who filled in the research questionnaire in appendix ii

Table 4.9: Questionnaires Demographic Data

		Frequency	Valid Percentage
Gender			
1	Male	10	52.6
2	Female	9	47.4
Occupation			
1	Finance manager	2	10.5
2	Accountant	7	36.8
3	External auditor	2	10.5
4	Others	8	42.1
Years of experience			
1	Between 1- less than 5 years	9	47.4
2	between 5 years to less than 10 years	9	47.4
3	Over 15 years	1	5.3
Professional Accounting qualification			
1	ACCA	4	22.2
2	CPA	12	66.7
3	CFA	1	5.6
4	Others	1	5.6
Total		19	

According to table 4.10 derived from the primary data questionnaires, the demographic results show that among the Thirty-eight (N= 38) respondents to the questionnaire, twenty were male (52.6%) while eighteen were female (47.4%). In addition to this, the findings in table 4.9 could be interpreted to explain that the number of women in the accounting and auditing profession is slowly increasing the number of women still lag behind. The findings were therefore similar to (Iraya et al., 2015; Owino, 2016) who also found that the number of women in the auditing and accounting profession was steadily increasing in the listed companies. Mohamed, (2013) in his study on fraud found out that, accounting and auditing firms had put in processes that would enhance gender inclusiveness. These could be one of the reasons for supporting these findings.

The question on respondents' main profession had 57.9% in the accounting profession while 42.1% indicated other professions. These were mainly management accountants, forensic auditors, and consultants who 88.9% have professional accounting qualification. For this reason, the other indicated profession was still in the accounting field and therefore their feedback informed the

study. On average, half of the respondents had at least more than five years' experience while the rest had worked for at least one year but not more than five years, with this fact of the duration they had worked, helped in validating the questionnaires because they had the required experience. Most of the respondents agreed on the fact that auditors should take less than one year to complete the audit. In conclusion, based on the demographic data of the study the respondents had the right qualifications to be able to give valid informative data for the study.

4.7.2 Preparer and auditor views on the influence of earnings quality on CGQ and ARL

From the analysis of the feedback from the table the questionnaire most respondents strongly agreed to the questions on whether corporate governance qualities enhanced ARL. Some of the strongly agreed to points on corporate governance were; trained board members and the presence of an audit committee reduces the audit report lag. However, they were neutral and even some disagreed on either presence of gender diversity in the audit committee, or having more than ten board members or holding more than ten committee meetings in a year would reduce the audit report lag.

Feedback on the association between audit report lag and earnings quality was strongly agreed to by the respondents. The respondent felt that auditors took longer to audit where there were disagreements with the management or when they suspect fraud. The question on whether when a company reports profiting the audit take long was neither strongly agreed to nor disagreed to. This may mean that the audit process is more dependent on the other factors than whether a profit or a loss is made.

The feedback on the mediating effect of corporate governance quality on the association between audit report lag and earnings quality was well responded to. One of the key questions on whether auditors take long to audit when they have earnings management challenges was strongly agreed to, however, it was surprising that most respondents also believed that gender diversity increases audit report lag and if board elections are held annually then this would reduce the earnings quality.

4.8 Triangulation of results of secondary and primary data

This chapter began by presenting the sampling process followed by the diagnostic tests for both the primary and the secondary data. Generally, the findings from the secondary data show that there is no significant association between the audit report lag and the earnings quality. From the

primary data questionnaires, the respondent was almost indifferent with their opinion with some agreeing to the fact that issues like management disagreement with the auditor on financial reporting and when accounts need further adjustments, then the audit report will be longer. However, they were indifferent on whether when a company reports a loss or when a company reports a profit with a negative cash position would lead to a longer audit report lag.

Nevertheless, the results on the mediating effect of corporate governance on the association between audit report lag and earnings quality from the secondary data were significant. This fact reflected clearly on the questionnaires feedback with most respondents strongly agreeing to the questions on whether the identified corporate governance qualities would influence either the audit report lag or the earnings quality. Based on both the primary and the secondary data it is evident that the corporate governance quality moderates the association between audit report lag and earnings quality.

CHAPTER FIVE

DISCUSSION, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

Chapter five draws a conclusion and gives recommendations on the basis of the literature review and research findings. A critical discussion of the research findings on each research objective is undertaken. On the first research objective of the association between audit report lag and earnings quality, the discussion revolves around the research finding that there is no association. The second research objective on the mediating effect of corporate governance on the association between audit report lag and earnings quality; the mediating effect that exists in analyzed. On the third research objective, the views of stakeholders on the influence of corporate governance quality on audit report lag and earnings quality are illuminated. This is followed up with concluding insights on the research findings. The chapter wraps up with giving recommendations and a caveat on the limitations of the study with possible areas for further research and review.

5.2 Discussion of findings

5.2.1 The association between audit report lag and earnings quality

The study sought to establish the association between audit report lag and earnings quality of listed non-financial firm in the NSE. Hence, the regression results in Table 4.7 with an R-squared of 67.8% and a Prob (F-Statistic) of 0.000 showed that the earnings quality had a beta of -0.503. This implied that a change in the quality of earnings (that is when earnings quality improve) causes a change in the audit report days by 0.503 days. Though findings indicate a slight change in the number of audit days the model was not statistically significant even though the other variables in the model were significant.

One of the recent studies by (Asthana, 2014) found that there is an association between audit report lag and earnings quality. Therefore, the result reported in this study are contradicting a few past studies with finding proving that audit report lag influence audit quality. The researcher relates these findings to the difference in the measure of earnings quality. While this study measured earnings quality simply as discretionary accruals, some previous studies disagree with this measure claiming that discretionary accruals is only a part of the earnings quality and therefore they introduce other proxies to measure earnings quality such as earnings timeliness, volatility, predictability, persistence, transitory and the possibility that the earnings per share missed the

analyst forecast made during the thirty calendar days preceding the fiscal year-end. This could be the key reason for the difference in the findings.

Regardless of the findings that no association exists between audit report lag and earnings quality, the model used was significant. Indicating that the auditor type, company leverage, and foreign ownership were key variables that influence audit report lag. Even though these variables were not our key focus these findings were consistent with previous studies by (Afify, 2009b; Apadore & Mohd Noor, 2013; Dao & Pham, 2014; Owino, 2016). To back up these findings majority of the responses from the preparers were indifferent on whether earnings quality was associated to audit report lag. This could be interpreted to mean that the accounting practitioners had no clear idea of whether there is an association between the audit report lag and the earnings quality.

5.2.2 The mediating effect of corporate governance quality on the association between audit report lag and earnings quality.

The results from secondary data analysis showed that there is a mediating effect of corporate governance on the association between earnings quality and audit report lag. When the findings were corroborated by the results from the primary data the preparers of accounts seemed to agree that corporate governance quality affects earnings quality. These findings were similar to previous findings by (Halim, Mustika, Sari, Anugerah, & Mohd-Sanusi, 2017; Sáenz González & García-Meca, 2014). In addition to these local studies by Iraya (2015) and Waweru (2013) both found out that for companies listed in the NSE board size and board independence which are some of the key attributes of corporate governance affect earnings management. In addition to this, from the questionnaire, the question on whether board size influence had on earnings quality had an average of 4.42 with a standard deviation of 0.82. This meant that the preparers of the accounts strongly agreed while others agreed to the question on whether the board size affects earnings management. Although the findings prove that corporate governance index had an influence on the earnings quality, it is important to note that while presence of non-executive directors has been widely discussed in the literature as an indicator of quality corporate governance (Halim et al., 2017; Waweru, 2014), in this study, the preparers of the accounts were mostly neutral as to whether the presence of non-executive directors influences audit report lag or earnings quality.

On whether corporate governance quality affects audit report lag, the respondents agreed to most of the questions asked. As such, these findings were consistent with the previous findings by

(Afify, 2009b; NaimiMohamad-Nor, Shafie, & Wan-Hussin, 2010) who found that presence of poor corporate governance could lead to audit delay. Earnings quality and audit report lag were combined to get the mediating effect.

The mediating effect was presented in 4.8 with an R-squared of 73.0% which means that the variables used explained 73.0% of the audit report lag thus, the model was significant. This means that corporate governance quality mediates the association between audit report lag and earnings quality. In addition to these findings, the preparers tended to have agreed that: when there is a need for many adjustments in the financial statements when board elections are held annually or the more the board members are in an audit committee, these will influence the quality of earnings and audit report lag. These findings also showed that the presence of gender diversity in the board would improve earnings quality and reduce audit report lag.

5.3 Conclusions

This study addressed the following research questions: how does earnings quality influence audit report lag of non-financial companies listed on the NSE? What mediating role does corporate governance quality play on the association between earnings quality and audit report lag in non-financial companies listed on the NSE? Whether annual report preparers and auditors perceive an association between earnings quality, corporate governance quality and audit report lag? To the extent that ARL has a relationship with earnings quality, in that audit report lag could be caused by serious differences between the clients reported figures in the financial statement and the auditors advised figures to be reported in the financial statement. It was key to note the fact that audit delay is more observable than earnings quality, investors may, therefore, use audit report lag to form an opinion on the quality of earnings.

In the second objective, the role of corporate governance quality in mediating the relationship between earnings quality and ARL was found to be significant with an R squared of 72%. However, this may not always be the case unless corporate governance quality is maintained. In light of these facts, companies should come up with measures for overcoming corporate governance challenges in a way that they ensure corporate governance quality is practiced so as to maintain the mediating effect corporate governance on the association. These findings are hence important in understanding the mechanism of the audit process to the extent that earnings quality and corporate governance qualities mediate the association. The fact that detecting earnings quality

is not as direct as observing audit report lag, policymakers such as the CMA and investors may use Audit report lag and CGQ variables as indicators of the presence or lack of earnings quality.

5.4 Recommendations

5.4.1 To Researchers

A researcher could use this study as a key contribution to knowledge on the determinants of audit report lag. This study investigates the relationship between earnings quality, audit report lag and corporate governance quality in a developing economy. Therefore, these findings also contribute to the literature on both corporate governance and earnings quality.

5.4.2 To company managers and auditors

The fact that poor earnings quality is not easily detected from a company makes this study relevant to auditors and shareholders, as it provides an additional material of which managers, shareholders' and auditors can use as a red flag on the quality of earnings.

5.4.3 To Regulators and policymakers

Regulators play an important role in formulating policies and ensuring the regulated companies adhere to the formulated codes. Considering this function of regulators, knowledge on the moderating effect of corporate governance may inform policymakers such as CMA and ICPAK when formulating the codes and when pushing for compliance. This study also provides a source of information that the regulators can use as a red flag to detect non-compliant companies. Effective regulation will encourage efficiency and strengthen the investors' belief in the market. This study backs up other studies that push for effective regulations.

5.4.5 To Investors

This study seeks to guide investors when choosing their investment preference. Considering the relationship between corporate governance qualities, audit report lag, earnings quality, investors can be able to decide on which companies to invest in, in the NSE. Audit report lag may signify poor corporate governance quality. Lack of corporate governance qualities is one of the factors the investors could also consider. Therefore, this study could be used in informing investment decisions.

5.5 Areas for further studies

This study mainly focused on the listed non-financial firms in the NSE. It would be interesting for other researchers to focus on all listed firms in the NSE or other stock markets. Furthermore, this study only used two methods for data collection, those were the questionnaires and the secondary data from the audited report. In order to gain more clarity on the issues of the association between audit report lag and earnings quality, other data collection methods such as focused group discussions with the preparers of the accounts may be considered. Finally, the study used unbalanced panel data due to some missing data, hence, there is an opportunity for future further studies to use balanced data and where possible carry out the study in different jurisdictions. This will enable those future studies to observe any changes as a result of the change in the regulatory framework, culture, country-specific factors or the institution's framework.

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APPENDICES

APPENDIX I: Letter of introduction



15th March 2018

TO WHOM IT MAY CONCERN

Academic Reference for Atieno Mercy Claire Student No. 6895

Ms Atieno Mercy Claire is a postgraduate student in our Master of Commerce (MCom) programme. In partial fulfilment of the MCom degree, students are required to carry out a research project and write a thesis on a contemporary subject within their field of specialisation. Among other activities, the project involves data collection and analysis.

Mercy is requesting to gather information to be used in her research. The information she will obtain from your organization will be used for this academic purpose only and will be kept confidential. The results of the survey will be in summary form and will not disclose any individual, company name or company information in any way.

The research study is entitled "The Mediating Effect of Corporate Governance Quality on The Association between Audit Report Lag and Earnings Quality."

We hope that your organization can assist by providing information to the above named student.

Yours faithfully,



Quindos Karanja
Coordinator – Master Programmes
School of Management and Commerce
Email: qkaranja@strathmore.edu

APPENDIX II: Research questionnaire

My name is Mercy A. Nyangweso. I am currently a Master of Commerce Student at Strathmore University. I am conducting a research on “**The mediating effect of corporate governance quality on the association between audit report lag and earnings quality**”. At this point of my data collection, I am concerned with collecting data from accounting practitioners in the listed companies. The objectives of this study are to first, determine the association between audit report lag and earnings quality, then, determine the mediating effect of corporate governance quality on the association between audit report lag and earnings quality, finally to obtain views from preparers and auditors of the annual reports of listed companies on the association between earnings quality and, corporate governance quality and audit report lag. Therefore, your contribution will go a long way in achieving the objectives of the study. I am grateful in advance for sparing some time to fill in this questionnaire and I assure you that all the information provided for this study will be treated with confidentiality and will be used solely for this research. For any queries you may contact me on matieno@strathmore.edu or on +2540710394800.

SECTION A GENERAL INFORMATION

Information provided in this section will be used as background data to the information to be provided in the other sections.

1. Kindly tick against your Gender male () Female ()
2. Kindly indicate your main occupation?

Finance manager () accountant () Internal auditor () External auditor ()

Others (please specify)

3. Years of experience in your profession

Less than one year () between 1- less than 5 years () between 5 years to less than 10 years ()

Between 10 years to less than 15 years () Over 15 years ()

4. professional accounting qualification, ACCA () CPA () CFA ()

Others please specify

5. In your opinion, what is the average time the external auditors take to complete the audit?

Less than one year () between 1- less than 5years () between 5 years to less than 10 years () between 10 years to less than 15years () Over 15 years ()

Others (please specify)

SECTION B: INDICATORS OF QUALITY CORPORATE GOVERNANCE

The purpose of this section is to establish stakeholder’s views on how corporate governance quality mediates the association between earnings quality and audit report lag. Please indicate the extent to which you agree or disagree with the following statements by ticking the cell that corresponds to your choice.

EFFECTS ON AUDIT REPORT LAG		1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	When management ownership is less than 5% this reduces audit report lag					
2	Presence of board of directors reduces audit report lag					
3	When the board has more than 10 members in a year the audit report lag reduces					

4	When the board has more than ten(10) meetings in a year then the audit report lag reduces					
5	When board members are trained the audit report lag reduces					
6	When the number of independent directors is more than ten (10) this reduces the audit report lag					
7	Lack of CEO duality reduces the audit report lag					
8	Presence of an audit committee reduces the audit report lag					
9	Presence of an independent member of the audit committee increases the earnings quality.					
10	When an audit committee has more than five members this reduces the audit report lag					
11	When the audit committee holds more than ten meetings in a year this reduces the audit report lag					
12	When the AC members have relevant qualification, this reduces the audit report lag					
13	When a compensation committee exists the audit report lag reduces					

14	When the CEO is not a member of the compensation committee audit report lag reduces					
15	When there is Gender diversity in the board (management committee) then the audit report lag reduces					
16	When there is Gender diversity in the board (audit committee) then the audit report lag reduces					
17	When Board election are held annually the audit report lag reduces					
18	When there is Presence of other committees other than audit committee, management committee, compensation committee, the audit report lag reduces					
19	When management ownership is less than 5% this reduces the earnings quality					
20	Presence of board of directors increases the earnings					
21	When the board has more than 10 ten members the earnings quality increases					

22	When the board has more than ten(10) meetings in a year then the earnings quality increases					
23	When board members are trained the earnings quality increases					
24	When the number of independent directors is more than ten (10) this increases the earnings quality					
25	Lack of CEO duality increases the earnings quality					
26	Presence of an audit committee increases the earnings quality					
27	Presence of an independent member of the audit committee increases the earnings quality.					
28	When an audit committee has more than five members this increases the earnings quality					
29	When the audit committee holds more than ten meetings in a year this increases the earnings quality					
30	When the AC members have relevant qualification, this increases the earnings quality					

31	When a compensation committee exists the earnings quality increases					
32	When there is Gender diversity in the board (management committee) then the earnings quality increases					
33	When there is Gender diversity in the board (audit committee) then the earnings quality increases					
34	When Board election are held annually the earnings quality increases					
35	When there is Presence of other committees other than audit committee,management,committee ,compensation committee, the earnings quality increases					
36	Auditors take longer to sign the audit report when they have difficulties with the management?					
37	When the financial statements need many adjustments, auditors take longer to sign the audit report.					
38	When the company has reported a profit with a negative cash position, auditors take longer to sign the audit report					

39	The more the board members in a company, the longer it takes auditors to release the audit report.					
40	The more experienced the audit committee members are, the shorter it takes auditors to complete their audit.					
41	The presence of a relatively independent internal audit department, the shorter it takes external auditors to release their report.					
42	The more the CEO is involved in the audit, the longer it takes auditors to release their report.					
43	Better governed companies take shorter to get their audit completed.					
44	When companies report an operating loss with a positive cash flow position, auditors take shorter to complete their audit.					
45	When a company reports a negative cash flow from operations, auditors take longer to complete their audit.					

Adapted from (David M. Mathuva et al., 2017; Zitouni, 2016b)

Thank you for taking your time to fill this questionnaire

APPENDIX III: Sampled Companies

	SAMPLED COMPANY
1	Mumias
2	Kapchorua Tea Co.
3	Kakuzi
4	Limuru Tea Co. Ltd
5	BAT
6	Sasini Ltd
7	Williamson Tea Kenya
8	Car and General (K)
9	Sameer Africa Ltd
10	Express Ltd
11	Kenya Airways Ltd
12	Nation Media Group
13	Standard Group Ltd
14	TPS Eastern Africa (Serena)
15	Scangroup Ltd
16	EABL
17	Athi River Mining
18	Bamburi Cement Ltd
19	Crown Berger Ltd
20	E.A.Cables Ltd
21	E.A.Portland Cement Ltd
22	KenolKobil Ltd
23	Total Kenya Ltd
24	Kengen Ltd
25	Kenya Power & Lighting Co Ltd
26	Unga
27	Everready
28	Safaricom

APPENDIX IV: NSE listed companies

	COMPANY		COMPANY
	AGRICULTURAL		COMMERCIAL AND SERVICES
1	Eaagads Ltd.	23	Express Ltd Kenya.
2	Kapchorua Tea Co. Ltd.	24	Kenya Airways Ltd.
3	Kakuzi Ltd.	25	Nation Media Group Ltd.
4	Limuru Tea Co. Ltd	26	Standard Group Ltd.
5	Rea Vipingo Plantations Ltd.	27	TPS Eastern Africa Ltd.
6	Sasini Ltd.	28	Scangroup Ltd.
7	Williamson Tea Kenya Ltd.	29	Uchumi Supermarket.
	AUTOMOBILES AND ACCESSORIES	30	Hutchings Biemer Ltd
8	Car and General (K) Ltd.	31	Longhorn Kenya Ltd.
9	Sameer Africa Ltd.	32	Atlas African Industries Ltd.
10	Marshalls (E.A.) Ltd.	33	Nairobi Business Ventures Ltd
	BANKING		CONSTRUCTION AND ALLIED
11	Barclays Bank of Kenya Ltd.	34	Athi River Mining Cement Ltd.
12	CFC Stanbic of Kenya Holdings Ltd.	35	Bamburi Cement Ltd.
13	I&M Holdings Ltd.	36	Crown Paints Kenya Ltd.
14	Diamond Trust Bank Kenya Ltd.	37	E.A.Cables Ltd.
15	Housing Finance Co. Kenya Ltd.	38	E.A.Portland Cement Co. Ltd.
16	Kenya Commercial Bank Ltd.		ENERGY AND PETROLEUM
17	National Bank of Kenya Ltd.	39	KenolKobil Ltd.
18	NIC Bank Ltd.	40	Total Kenya Ltd.
19	Standard Chartered Bank Kenya Ltd.	41	KenGenCo.Ltd.
20	Equity Bank Ltd.	42	Kenya Power & Lighting Co Ltd.
21	The Co-operative Bank of Kenya Ltd.	43	Umeme Ltd.
	REAL ESTATE INVESTMENT		TELECOMMUNICATION
22	StanlibFahari I-REIT	44	SafaricomLtd.

	INSURANCE		INVESTMENT SERVICES
45	Jubilee Holdings Ltd.	56	Nairobi Securities Exchange Ltd.
46	Pan Africa Insurance Holdings Ltd.		MANUFACTURING AND ALLIED
47	Kenya Re-Insurance Corporation Ltd.	57	A.Bauman and Co. Ltd
48	Liberty Kenya Holdings Ltd.	58	B.O.C Knya Ltd.
49	British American Investment Co.Kenya.	59	British American Tobacco Kenya Ltd.
50	CIC Insurance Group Ltd.	60	Carbacid Investment Ltd.
	INVESTMENT	61	Eveready East Africa Ltd.
51	Centum Investment Co Ltd.	62	Lame Tree Group.
52	Trans-Century Ltd.	63	Kenya Orchards Ltd.
53	Home Afrika Ltd.	64	Mumias Sugar co. Ltd.
54	Kurwitu Ventures Ltd.	65	Unga Group Co. Ltd
55	Olympia Capital HoldingsLtd.		

APPENDIX V: Data collection sheet for audit report lag

	SAMPLED COMPANY	Year of study	Year-end date	Date audit report was signed	No of days (audit report lag)
1	Mumias				
2	Kapchorua Tea Co.				
3	Kakuzi				
4	Limuru Tea Co. Ltd				
5	BAT				
6	Sasini Ltd				
7	Williamson Tea Kenya				
8	Car and General (K)				
9	Sameer Africa Ltd				
10	Express Ltd				
11	Kenya Airways Ltd				
12	Nation Media Group				
13	Standard Group Ltd				
14	TPS Eastern Africa (Serena)				
15	Scangroup Ltd				
16	EABL				
17	Athi River Mining				
18	Bamburi Cement Ltd				
19	Crown Berger Ltd				
20	E.A.Cables Ltd				
21	E.A.Portland Cement Ltd				
22	KenolKobil Ltd				
23	Total Kenya Ltd				
24	Kengen Ltd				
25	Kenya Power & Lighting Co Ltd				
26	Unga				
27	Everready				
28	Safaricom				

APPENDIX VI: Corporate governance quality index

No	Description	Criteria	Score	Criteria	Score
1	Management ownership	> 5%	1	≤5%	0
2	Presence of board of directors	Yes	1	No	0
3	Size of board of directors	> 5	1	< 5	0
4	Number of board meetings in a year	> 10	1	≤10	0
5	Training of board members	Yes	1	No	0
6	Number of independent directors	> 10	1	≤10	0
7	CEO duality	Yes	1	No	0
8	Percentage of independent members of the audit committee	Yes	1	No	0
9	Presence of audit committee	Yes	1	No	0
10	Size of audit committee	> 5	1	≥5	0
11	Number of audit committee meetings per year	> 10	1	≥ 10	0
12	Relevant qualification of AC members	Yes	1	No	0
13	Presence of compensation committee	Yes	1	No	0
14	CEO member of compensation committee	Yes	1	No	0
15	Gender diversity in the board (management committee)	≥1/3 of total	1	≥ 1/3 of total	0
16	Gender diversity in the board (audit committee)	≥1/3 of total	1	≥ 1/3 of total	0
17	Board election	Every year	1	More than 1 year	0
18	Presence of committees other than Nos. 2, 9 and 13	Yes	1	No	0

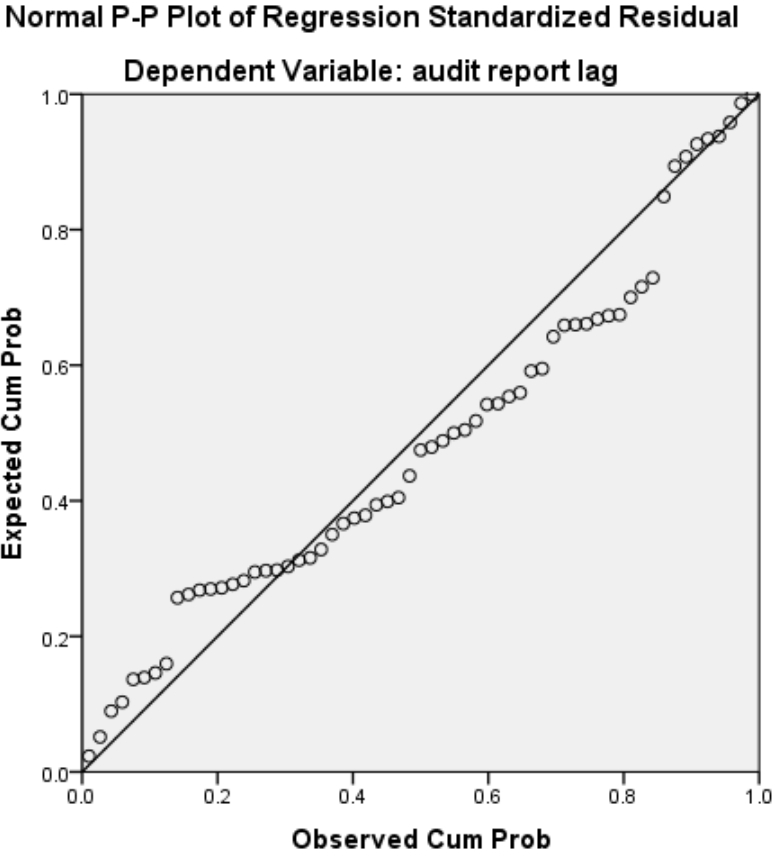
Source: The code of corporate practices for issuers of securities for the public 2015, Mathuva, Mefie, & Mboya (2016) and Zitouni (2016)

APPENDIX VII: Audit committee quality index

No	Description	Criteria	Score	Criteria	Score
1	Presence of audit committee	Yes	1	No	0
2	Number of independent non-executive directors	≥ 3	1	> 3	0
3	Size of AC board	≥ 3	1	> 3	0
4	Number of meetings in a year	≥ 3	1	> 3	0
5	Finance expertise	Yes	1	No	0
6	Supervisory experience	Yes	1	No	0

Source : (Habiba Al-Shaer aly salama Steven Toms, 2017; Zitouni, 2016)

APPENDIX VII: Normal P-P Plot of Regression Standardized Residual Dependent Variable: audit report lag



APPENDIX IX: Histogram Dependent variable: audit report lag

