Corporate Governance Mechanisms and Financial Reporting Quality of Nepalese Commercial Banks

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Abstract

The study examines the effect of corporate governance mechanism on financial reporting quality of Nepalese commercial banks. Audit delay and accruals are selected as the dependent variables. Likewise, board size, audit committee, foreign ownership, board independence, number of board meeting and female board director are selected as the independent variables. The study is based on secondary data of 17 commercial banks with 101 observations for the study period from 2016/17 to 2021/22. The data were collected from Banking and Financial Statistics published by Nepal Rastra Bank and annual report of respective banks. The correlation coefficients and regression models are estimated to test the significance and importance of corporate governance mechanisms on financial reporting quality in the context of Nepalese commercial banks.

The study showed that board size has a negative impact on audit delay and accruals. It means that increase in board size leads to decrease in audit delay and accruals. Similarly, female board member has a negative impact on audit delay and accruals. It means that increase in gender board diversity leads to decrease in audit delay and accruals. Moreover, number of independent directors has a negative impact on audit delay and accruals. It shows that increase in number of independent directors leads to decrease in audit delay and accruals. Furthermore, audit committee has a negative impact on audit delay and accruals. It indicates that increase in audit committee size leads to decrease in audit delay and accruals. Likewise, number of board meetings, lower would be the audit delay and accruals. In addition, foreign ownership has a positive impact on audit delay and accruals. It shows that higher the proportion of foreign ownership, higher would be the audit delay and accruals.

Keywords: audit delay, accruals, board size, board independence, ownership structure, female director, number of board meeting, audit committee

1. Introduction

In the competitive banking environment, effective corporate governance indicator has been identified as a potent force in the profitability of banks operating in Nigeria (James and Ibezim, 2015). The very essence of corporate governance is to monitor the ills of the directors and other management staff with a view to ensuring prudent management of scarce resources as well as financial reporting quality. Financial reporting is a means through

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which an enterprise conveys information about its financial performance and condition to external users. Shareholders are linked to the directors through the financial reporting system. The quality of financial reports relates to the extent to which relevant information about the firm's earnings is communicated to stakeholders. In order to enhance the integrity of financial reporting, companies are required to put in place, a designed structure in the form of sound corporate governance to ensure the true and fair presentation of a company's financial position. Paulinus *et al*. (2018) stressed that financial reporting is perceived no longer as a low priority book keeping exercise, but a central function for directing a company under good corporate governance principles.

Corporate governance is the system process and practices that ensures that a firm is well governed and creates sustainable values for its stakeholders. It ensures transparency, accountability, responsibility and fairness in corporate operation and practices. The corporate governance of banks is more important than other industries (Adnan *et al*., 2011). Corporate governance is seen as an essential mechanism helping the company to attain its corporate objectives and monitoring its performance (Mallin *et al*., 2013). Corporate governance is necessary to maintain and helps to improve the public confidence in the bank system about its abilities to properly manage its assets and liabilities, showing their commitment to the depositors, shareholders and others stakeholders. The characteristics of competition, high regulation, agency problems and high information asymmetric of banking system led to the intense concern about the corporate governance in banking system (Nworji *et al*., 2011). Corporate governance comprises of various mechanism that provides effective direction and control of a firm that creates value for its shareholders (Morck, 2002). The mechanism can be classified as internal and external mechanisms. The external mechanisms include legal framework, market structure and forces, regulatory structure, external watchdogs and agencies and protection of minority ownership rights. Similarly, the internal mechanisms comprise of boards composition and structure, ownership structure, management, compensation practices, internal control and risk management, transparency in current financial operations and reporting and shareholders' right protection (Lipman and Lipman, 2006).

Financial reporting is considered as a crucial part of corporate governance mechanisms. Corporate governance is a major driver of quality financial reporting in firms in the light of macroeconomic challenges (Okpamen and Ogbeide, 2020). Good corporate governance influences the likelihood of financial reporting in firms. Conventionally, stakeholders expect corporate transparency and quality information for decision making, which is facilitated by corporate governance practices by moulding the corporate reporting process in a positive direction (Cooray *et al*., 2020). Gois (2014) investigated the financial reporting quality and corporate governance of Portuguese firms using multivariate regression model. The study showed that board composition changes and its degree of independence does not produce any influence on the quality of the accounting information in Portugal. Adegbie and Fofah (2016) investigated the ethics, corporate governance and financial reporting in the Nigerian banking industry using Analysis of Variance. The results showed that good corporate governance will produce good ethical behaviour which will eventually produce reliable and faithful financial report. Cohen *et al.* (2004) argued that one of the most important functions of corporate governance is to ensure the quality of the financial reporting process. Obona and Ebimobowei (2012) opined that financial reporting forms the basis for economic decision making by various stakeholders and that the financial reports produced by the accountant should be based on certain fundamental qualities for various stakeholders to understand the content of the report. Klai and Omri (2011) examined corporate governance and financial reporting quality of Tunisian firms using multiple regression model. The results revealed that the governance mechanisms that affect the Tunisian firms are lack of board independence and high level of ownership concentration. The governance mechanisms have a significant effect on the financial reporting quality of Tunisian firms.

Tsetim and Tyonande (2022) examined the effect of corporate governance on financial statement quality of listed deposit money banks in Nigeria. The findings revealed that board independence and audit committee have significant positive effect on financial statement quality of listed deposit money banks in Makurdi, Benue State. The study concluded that dimensions of corporate governance are statistically significant in explaining the quality of financial statements of listed deposit money banks in Makurdi, Benue State. Corporate governance indicators assist to ensure that financial reports are in compliance with International Financial Reporting Standards (IFRS). Board size, audit committee size, board independence and female board members are common indicators of corporate governance in the assessment of quality of reports (Zalata *et al*., 2018). These indicators of corporate governance play a vital role in influencing the quality of financial reporting. Norwani *et al.* (2011) examined corporate governance failure and its impact on financial reporting of selected firms in Malaysia. The findings revealed that failure in corporate governance leads to failure in financial reporting in

Malaysia. Similarly, Al-Sufy *et al.* (2013) investigated corporate governance and its impact on the quality of accounting information in Amman Financial Market, Jordan. The findings of the study showed that there is a significant positive relationship between corporate governance and quality of financial reporting in Amman. In addition, Hasan *et al*. (2020) concluded that corporate governance mechanism such as financial accounting expert and meeting have significant effect on real financial reporting quality. However, audit committee independence and size have an insignificant effect on real financial reporting quality. In addition, the results show that audit quality of the audit committee leads to less aggressive practice in real activities. The findings also showed that audit quality and audit committee have a significant role in restricting the real financial reporting quality.

Dobija *et al*. (2022) examined the association between board gender diversity and financial reporting quality. The study revealed that increased share of women on boards is associated with improved financial reporting quality proxied by reporting timeliness, earnings management, and auditor opinions. Ud Din *et al*. (2021) investigated the relationship between the expertise of female audit committee (AC) chairs and financial reporting quality (FRQ). Similarly, the study also examined the moderating effect of the expertise of AC female chairs on the relationships between internal control (ICS), components of ICS, and FRQ of 302 firms listed on the Pakistan Stock Exchange from 2010 to 2016. The study concluded that the accounting expertise of AC female chairs enhances FRQ better than their male counterparts. Moreover, the accounting expertise of AC female chairs improve corporate governance mechanisms and ICSs (i.e., Control Environment, Control Activities, and information and communication). According to Hillman *et al*. (2002), female directors with non-business careers or financial expertise could bring different experiences, knowledge, and ideas to the boards they are serving. The diverse backgrounds and other demographic characteristics of female directors on board and AC chairs enhance efficiency to measure risks and deter financial misstatements. Similarly, female directors with diverse experiences make the AC vigilant and enhance disclosure quality. Sultana *et al*. (2015) stated that AC chairs with accounting expertise improve the timeliness of FRQ. Dhaliwal *et al*. (2010) explained that industry knowledge and the economy knowledge of AC members also enhance the efficiency of ACs. Furthermore, the status of AC chairs, i.e., independence, gender, and financial expertise, detect irregularities timely and discourage restatements.

In the context of Nepal, Sapkota (2020) assessed the impact of corporate governance on banks performance in Nepal. The study concluded that debt ratio, net interest margin and total assets have significant positive contribution on banks performance. The study also revealed that board meeting and liquidity have negative impact on banks performance. However, board size and ownership concentration have no significant contribution to the firm performance. Bhattrai (2020) investigated the relationship between financial performance and corporate governance of commercial banks in Nepal. The study found that the board size negatively impacts the financial performance of commercial banks in Nepal whereas audit committee size and portion of independent directors positively impact the financial performance of commercial banks in Nepal.

The above discussion shows that empirical evidences vary greatly across the studies on the effect of corporate governance mechanism and financial reporting quality. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The main purpose of the study is to analyze the effect of corporate governance mechanism and financial reporting quality of Nepalese commercial banks. Specifically, it examines the relationship of board size, audit committee, foreign ownership, female board member, board independence and number of board meeting with audit delay and accruals of Nepalese commercial banks.

The remainder of this study is organized as follows. Section two describes the sample, data and methodology. Section three presents the empirical results and the final sections draws the conclusion.

2. Methodological aspects

The study is based on the secondary data which were gathered from 17 commercial banks for the period from 2016/17 to 2021/22, leading to a total of 102 observations. The main sources of data include Banking and Financial Statistics published by Nepal Rastra Bank, reports published by Ministry of Finance and annual report of respective banks. This study is based on descriptive as well as causal comparative research designs. Table 1 shows the list of commercial banks selected for the study along with the study period and number of observations.

Table 1

List of commercial banks selected for the study along with study period and number of observations

S. N.	Name of the banks	Study period	Observations
1	Citizens Bank International Limited	2016/17-2021/22	6
2	Everest Bank Limited	2016/17-2021/22	6
3	Global IME Bank Limited	2016/17-2021/22	6
4	Himalayan Bank Limited	2016/17-2021/22	6
5	Kumari Bank Limited	2016/17-2021/22	6
6	Machhapuchchhre Bank Limited	2016/17-2021/22	6
7	Nabil Bank Limited	2016/17-2021/22	6
8	Nepal Bank Limited	2016/17-2021/22	6
9	Nepal Investment Bank Limited	2016/17-2021/22	6
10	Nepal SBI Bank Limited	2016/17-2021/22	6
11	NIC Asia Bank Limited	2016/17-2021/22	6
12	NMB Bank Limited	2016/17-2021/22	6
13	Prabhu Bank Limited	2016/17-2021/22	6
14	Sanima Bank Limited	2016/17-2021/22	6
15	Siddhartha Bank Limited	2016/17-2021/22	6
16	Standard Chartered Bank Nepal Limited	2016/17-2021/22	6
17	Sunrise Bank Limited	2016/17-2020/21	5
Total number of observations			**101**

Thus, the study is based on 101 observations.

The model

The model used in this study assumes that the financial reporting quality of the bank depends on different corporate governance variables. The dependent variables selected for the study are audit delay and accruals. Similarly, board size, audit committee, foreign ownership, female board member, board independence and number of board meeting are the selected independent variables. Therefore, the model takes the following form:

Financial reporting quality = *f* (BS, ACS, FBM, FO, N and BI)

More specifically,

$$AM_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 ACS_{it} + \beta_3 FBM_{it} + \beta_4 FO_{it} + \beta_5 N_{it} + \beta_6 BI_{it} + e_{it}$$

$$AD_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 ACS_{it} + \beta_3 FBM_{it} + \beta_4 FO_{it} + \beta_5 N_{it} + \beta_6 BI_{it} + e_{it}$$

Where,

AM = Accruals as measured by the difference of cash flow from operating activities and net income, Rs in billions.

AD = Audit delay as measured by the gap in time of the audit, i.e., time required by the auditors to produce a report, in day.

BS = Board size as measured by the number of board members, in number.

ACS = Audit committee size as measured by the number of audit members, in number.

FBM = Female board member as measured by the number of female directors on the board, in number.

FO = Foreign ownership is a dummy variable which is measured as '0' if there is no foreign ownership and '1' as if there is foreign ownership.

N = Number of board meeting as measured by the number of board meeting conducted in one fiscal year, in number.

BI = Board independence as measured by the number of independent directors on the board, in number.

The following section describes the independent variables used in this study along with hypothesis formulation.

Board size

Jensen (1993) revealed that a large number of directors will foster a high degree of coordination and communication between them and managers, which is expected to increase the quality of financial reports. Bradbury *et al*. (2006) argued that a smaller board size may awaken elements of managerial entrenchment. It also increases coordination and communication problem, hence, decline directors' ability to oversee management. Moreover, Byard *et al.* (2006) argued that a high number director on the board helps to ensure the value relevance of financial statements. Based on it, this study develops following hypothesis:

H_1: There is a positive relationship between board size and financial reporting quality.

Audit committee size

The audit committee is structured to ensure reliable and high-quality financial report as it oversees the financial reporting process as well as auditing the financial statements. Chan and Li (2008) showed that larger audit committee and independent board improves firm value and financial reporting quality. Moreover, Khan and Kotishwar (2011) found that independent non–executive directors are able to monitor and control the chairman/ chief executive. They serve as a link to the external environment and help to maintain an ethical climate. In addition, Onuorah and Imene (2016) concluded that the quality of information contained in the financial reports increases when there is an increase in the percentage of outside independent directors. Based on it, this study develops following hypothesis:

H_2: There is a positive relationship between audit committee size and financial reporting quality.

Number of board meeting

Hope *et al*. (2013) assessed the financial reporting quality of US private and public firms. The results showed that board size and board meeting have positive association with financial reporting quality. Similarly, Cohen *et al*. (2004) found that the corporate governance factors such as board independence, board meeting, gender diversity etc have a positive effect on financial reporting quality. Moreover, Vafeas (2005) showed that audit committees and boards meeting have positive relationship with the quality of reported earnings. Hassan and Bello (2013) found that there is a positive relationship between number of board meeting and financial reporting quality. Furthermore, Houqe *et al.* (2012) revealed that there is a positive relationship between number of board meeting and financial reporting quality. Based on it, this study develops following hypothesis:

H_3: There is a positive relationship between number of board meeting and financial reporting quality.

Board independence

Board independence means the number of independent non-executive directors on the board in relation to the total number of directors (Uwuigbe, 2011). Peasnell *et al*. (2000); Davidson *et al*. (2005) confirmed a strong link between board independence and financial reporting. Joseph and Ahmed (2017) also affirmed that board independence has a significant positive effect on the timeliness and quality of financial reports. Similarly, boards with a significant number of outside directors will be more independent and will make better decisions than boards dominated by insiders because of their fiduciary duty to its shareholders and their independence from management (Fama and Jensen, 1983). Based on it, this study develops following hypothesis:

H_4: There is a positive relationship between board independence and financial reporting quality.

Female board member

Female directors are change agents which provide competitive platforms to change traditional policies, and develop robust monitoring mechanisms whereby CEOs are more accountable (Srinidhi *et al*., 2011). Therefore, a higher proportion of female financial experts on ACs have a significant effect on earnings management than their male counterparts (Zalata *et al*., 2018). Other characteristics also make female directors more distinctive, such as being more risk-averse and more accounting conservative, being more sensible towards ethics (and having more transformational leadership qualities (Burke and Collins, 2001). The study also found a positive and significant effect of gender diversity on financial reporting quality. Based on it, this study develops following hypothesis:

H_5: There is a positive relationship between female board member and financial reporting quality.

Foreign ownership

Klai and Omri (2011) examined the characteristics of the board of directors and the ownership structure of the firms listed on the Tunis Stock Exchange during the period 1997–2007. The results revealed that the governance mechanisms affect the financial information quality of the Tunisian companies. Particularly, the power of the foreigners, the families and the blockholders reduces the reporting quality, while the control by the State and the financial institutions is associated with a good quality of financial disclosure. An (2015) investigated how foreign ownership affects the financial reporting quality of firms listed on the Korean Stock Exchange (KSE) during the period from 2000 to 2005. The study suggested that foreign ownership decrease the quality of financial reporting. Yasser *et al*. (2016) assessed the quality of financial reporting in the Asia-Pacific region. The results showed a negative relationship between foreign ownership composition and the quality of financial reporting in the Asia-Pacific region. Based on it, this study develops following hypothesis:

H_6: There is a positive relationship between foreign ownership and financial reporting quality.

3. Results and discussion

Descriptive statistics

Table 2 presents the descriptive statistics of the selected dependent and independent variables during the period 2016/17 to 2021/22.

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 17 Nepalese commercial banks for the study period from 2016/17 to 2021/22. The dependent variables are AM (Accruals as measured by the difference of cash flow from operating activities and net income, Rs in billions) and AD (Audit delay as measured by the gap in time of the audit, i.e., time required by the auditors to produce a report, in day). The independent variables are BS (Board size as measured by the number of board members, in number), ACS (Audit committee size as measured by the number of audit members, in numbers), N (Number of board meeting as measured by the number of board meeting conducted in one fiscal year, in number), BI (Board independence as measured by the number of independent directors on the board, in numbers.), FBM (Female board member as measured by the number of female directors on the board, in number) and FO (Foreign ownership is a dummy variable which is measured as '0' if there is no foreign ownership and '1' as if there is foreign ownership).

Variables	Minimum	Maximum	Mean	Std. Deviation
AM	-2.77	13.96	-2.03	6.35
AD	61.00	697.00	183.28	103.89
BS	5.00	8.00	6.55	0.90
ACS	2.00	5.00	3.13	0.53
N	6.00	62.00	22.51	11.96
BI	0.00	1.00	0.84	0.37
FBM	0.00	2.00	0.67	0.57
FO	0.00	1.00	0.54	0.50

Source: SPSS output

Correlation analysis

Having indicated the descriptive statistics, Pearson's correlation coefficients are computed and the results are presented in Table 3.

Table 3

Pearson's correlation coefficients matrix

This table shows the bivariate Pearson's correlation coefficients of dependent and independent variables of 17 Nepalese commercial banks for the study period from 2016/17 to 2021/22. The dependent variables are AM (Accruals as measured by the difference of cash flow from operating activities and net income, Rs in billions) and AD (Audit delay as measured by the gap in time of the audit, i.e., time required by the auditors to produce a report, in day). The independent variables are BS (Board size as measured by the number of board members, in number), ACS (Audit committee size as measured by the number of audit members, in numbers), N (Number of board meeting as measured by the number of board meeting conducted in one fiscal year, in number), BI (Board independence as measured by the number of independent directors on the board, in numbers.), FBM (Female board member as measured by the number of female directors on the board, in number) and FO (Foreign ownership is a dummy variable which is measured as '0' if there is no foreign ownership and '1' as if there is foreign ownership).

Variables	AM	AD	BS	ACS	N	BI	FBM	FO
AM	1							
AD	0.104	1						
BS	-0.092	-0.054	1					
ACS	-0.032	-0.048	0.083	1				
N	-0.119	-0.065	0.170	-0.210*	1			
BI	-0.068	-0.065	0.052	-0.153	-0.048	1		
FBM	-0.145	-0.230*	-0.255*	-0.025	-0.018	0.085	1	
FO	0.004	0.095	0.257**	0.116	-0.192	0.030	-0.118	1

Note: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

Table 3 shows that board size has a negative relationship with accruals. It means that increase in board size leads to decrease in accruals. However, there is a negative relationship between female board member and accruals. It means that increase in gender board diversity leads to decrease in accruals. Similarly, number of independent directors has a negative relationship with accruals. It shows that increase in number of independent directors leads to decrease in accruals. Furthermore, audit committee has a negative relationship with accruals. It indicates that increase in audit committee size leads to decrease in accruals. In contrast, there is a negative relationship between number of board meeting and accruals. It indicates that higher the number of board meetings, lower would be the accruals. Furthermore, foreign ownership has a positive relationship with accruals. It shows that higher the proportion of foreign ownership, higher would be the accruals.

Similarly, the result also shows that board size has a negative relationship with audit delay. It means that increase in board size leads to decrease in audit delay. However, there is a negative relationship between female board member and audit delay. It means that increase in gender board diversity leads to decrease in audit delay. Similarly, number of independent directors has a negative relationship with audit delay. It shows that increase in number of independent directors leads to decrease in audit delay. Furthermore, audit committee has a negative relationship with audit delay. It indicates that increase in audit committee size leads to decrease in audit delay. In contrast, there is a negative relationship between number of board meeting and audit delay. It indicates that higher the number of board meetings, lower would be the audit delay. Furthermore, foreign ownership has a positive relationship with audit delay. It shows that higher the proportion of foreign ownership, higher would be the audit delay.

Regression analysis

Having indicated the Pearson's correlation coefficients, the regression analysis has been carried out and results are presented in Table 4. More specifically, it shows the regression results of board size, audit committee, foreign ownership, female board member, board independence and number of board meeting on accruals in Nepalese commercial banks.

Table 4

Estimated regression results of board size, audit committee size, number of board meetings, board independence, female board member and foreign ownership on accruals

The results are based on panel data of 17 commercial banks with 101 observations for the period of 2016/17 to 2021/22 by using the linear regression model and the model is $AM_{it} = \beta_0$

$+ \beta_1 BS_{it} + \beta_2 ACS_{it} + \beta_3 FBM_{it} + \beta_4 FO_{it} + \beta_5 N_{it} + \beta_6 BI_{it} + e_{it}$ where, the dependent variable is AM (Accruals as measured by the difference of cash flow from operating activities and net income, Rs in billions). The independent variables are BS (Board size as measured by the number of board members, in number), ACS (Audit committee size as measured by the number of audit members, in numbers), N (Number of board meeting as measured by the number of board meeting conducted in one fiscal year, in number), BI (Board independence as measured by the number of independent directors on the board, in numbers.), FBM (Female board member as measured by the number of female directors on the board, in number) and FO (Foreign ownership is a dummy variable which is measured as '0' if there is no foreign ownership and '1' as if there is foreign ownership).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	ACS	N	BI	FBM	FO			
1	1.218 (9.676)**	-0.321 (4.608)**						0.115	0.450	21.234
2	1.511 (13.558)**		-0.123 (2.499)*					0.033	0.470	6.247
3	1.604 (15.146)**			-0.047 (1.716)				0.012	0.475	2.944
4	1.370 (12.695)**				-0.239 (3.967)**			0.086	0.457	15.740
5	1.306 (11.005)**					-0.442 (4.132)**		0.193	0.455	17.070
6	1.478 (14.346)**						0.148 (3.079)**	0.052	0.466	9.478
7	1.159 (8.307)**	-0.294 (3.920)**	-0.050 (0.982)					0.115	0.450	11.096
8	1.100 (7.261)**	-0.302 (4.004)**	-0.020 (0.333)	-0.047 (0.984)				0.114	0.450	7.719
9	0.981 (6.257)**	-0.247 (3.187)**	-0.012 (0.206)	-0.034 (0.714)	-0.155 (2.466)*			0.143	0.443	7.502
10	0.938 (5.888)**	-0.228 (2.907)**	-0.015 (0.250)	-0.019 (0.383)	-0.096 (1.275)	-0.106 (1.394)		0.148	0.441	6.428
11	0.937 (5.868)**	-0.226 (2.851)**	-0.013 (0.228)	-0.014 (0.267)	-0.095 (1.255)	-0.096 (1.163)	0.021 (0.346)	0.143	0.443	5.345

Notes:

i. Figures in parenthesis are t-values.

ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.

iii. Accrual is the dependent variable.

Table 4 shows that the beta coefficients for board size are negative with accruals. It indicates that the board size has a negative impact on accruals. This finding is similar to the findings of Byard *et al.* (2006). Similarly, the beta coefficients for audit committee size are negative with accruals. It implies that audit committee has a negative impact on accruals. This finding is consistent with the findings of Khan and Kotishwar (2011). Likewise, the beta coefficients for number of board meetings are negative with accruals. It indicates that number of board meeting has a negative impact on accruals. This finding is consistent with the findings of Vafeas (2005). Similarly, the beta coefficients for board independence are negative with accruals. It means that board independence has a negative impact on accruals. This finding is similar to the findings of Joseph and Ahmed (2017). Furthermore, the beta coefficients for female board member are negative with accruals. It indicates that female board member has a negative impact on accruals. This finding is consistent with the findings of Burke and Collins (2001).

The estimated regression results of board size, audit committee size, number of board meetings, board independence, female board member and foreign ownership on audit delay of Nepalese commercial banks have been presented in Table 5.

Table 5

Estimated regression results of board size, audit committee size, number of board meetings, board independence, female board member and foreign ownership on audit delay

The results are based on panel data of 17 commercial banks with 101 observations for the period of 2016/17 to 2021/22 by using the linear regression model and the model is $AD_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 ACS_{it} + \beta_3 FBM_{it} + \beta_4 FO_{it} + \beta_5 N_{it} + \beta_6 BI_{it} + e_{it}$ where, the dependent variable is AD (Audit delay as measured by the gap in time of the audit, i.e., time required by the auditors to produce a report, in day). The independent variables are BS (Board size as measured by the number of board members, in number), ACS (Audit committee size as measured by the number of audit members, in numbers), N (Number of board meeting as measured by the number of board meeting conducted in one fiscal year, in number), BI (Board independence as measured by the number of independent directors on the board, in numbers.), FBM (Female board member as measured by the number of female directors on the board, in number) and FO (Foreign ownership is a dummy variable which is measured as '0' if there is no foreign ownership and '1' as if there is foreign ownership).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	ACS	N	BI	FBM	FO			
1	223.752 (2.925)**	-6.184 (0.534)						0.007	104.250	0.285
2	212.886 (3.365)**		-9.463 (0.474)					0.008	104.280	0.225
3	196.037 (8.841)**			-0.567 (0.651)				0.006	104.180	0.424
4	198.687 (7.628)**				-18.311) (0.645)			0.006	103.114	0.416
5	211.590 (13.450)**					-42.053 (2.349)*		0.043	101.610	5.518
6	172.702 (11.392)**						19.779 (0.954)	0.001	103.920	0.910
7	248.037 (2.601)**	-5.767 (0.494)	-8.636 (0.430)					0.016	104.680	0.234
8	261.888 (2.679)**	-4.204 (0.353)	-11.856 (0.573)	-0.622 (0.680)				0.021	104.970	0.309
9	285.920 (2.776)**	-3.446 (0.287)	-14.675 (0.696)	-0.690 (0.749)	-22.150 (0.758)			0.026	105.200	0.375
10	357.121 (3.420)**	-11.290 (0.932)	-13.635 (0.664)	-0.609 (0.678)	-14.697 (0.513)	-46.362 (2.467)*		0.026	102.520	1.533
11	365.124 (3.483)**	-14.484 (1.151)	-14.543 (0.707)	-0.411 (0.445)	-15.152 (0.529)	-45.427 (2.413)*	20.611 (0.941)	0.025	102.580	1.423

Notes:

i. Figures in parenthesis are t-values.

ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

iii. Audit delay is the dependent variable.

Table 5 shows that the beta coefficients for board size are negative with audit delay. It indicates that the board size has a negative impact on audit delay. This finding is similar to the findings of Bradbury *et al*. (2006). Similarly, the beta coefficients for audit committee size are negative with audit delay. It implies that audit committee has a negative impact on audit delay. This finding is consistent with the findings of Onuorah and Imene (2016). Likewise, the beta coefficients for number of board meetings are negative with audit delay. It indicates that number of board meeting has a negative impact on audit delay. This finding is consistent with the findings of Houqe *et al*. (2012). Similarly, the beta coefficients for board independence are negative with audit delay. It means that board independence has a negative impact on audit delay. This finding is similar to the findings of Peasnell *et al.* (2000). Furthermore, the beta coefficients for female board member are negative with audit delay. It indicates that female board member has a negative impact on audit delay. This finding is consistent with the findings of Zalata *et al.* (2018).

4. Summary and conclusion

Corporate governance is an emerging concept that has received huge attention from policy makers and practitioners in recent periods due to various corporate scandals and governance failures. It is a system process and practices that ensures that a firm is well governed and creates sustainable values for its stakeholders. It ensures transparency, accountability, responsibility and fairness in corporate operation and practices.

The study examines the interrelation between corporate governance mechanism and financial reporting quality in Nepalese commercial banks. The study is based on secondary data of 17 commercial banks with 101 observations for the period from 2016/17 to 2021/22.

The study showed that board size, audit committee size, number of board meetings, board independence and female board member have negative impact on audit delay and accruals in Nepalese commercial banks. The study further showed that foreign ownership has positive impact on audit delay and accruals. The study concluded that corporate governance mechanism explains changes in the financial reporting quality The study also concluded that female board member is the most influencing factor that explain changes in the financial reporting quality in terms of audit delay in Nepalese commercial banks.

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