

IMPACT OF CORPORATE INTERNATIONAL LINKAGE ON THE INCIDENCE OF AUDIT DELAY IN NIGERIA

A. O. Oladipupo

Department of Accounting, University of Benin, Benin City

E-mail: sinaoladipupo@yahoo.com

Abstract

This paper examined the relationship between the audit delay and characteristics of reporting companies in a developing country, Nigeria. The objective of the study is to measure the extent of audit lag in Nigeria. Both univariate and multivariate analyses were performed on the data collected from forty listed companies used for this study. The audit delay for each of the 40 listed sample companies ranged from 16 to 284 days. Nigeria listed companies under study take approximately four months on the average beyond their balance sheet date before they are finally ready for the presentation of the audited accounts to the shareholders at the annual general meeting. The results of the 40 listed Nigerian companies showed that most of the explanatory variables namely, profitability, total assets, total debt, total equity, audit fees and industry type have no significant impact on audit delay.

Keywords: Audit, delay, profitability, equity

Introduction

Timeliness as one of the qualitative attributes or characteristics of useful information or relevant disclosure has been first considered by the American Accounting Association (AAA, 1954 and 1957). Subsequently, the Accounting Principles Board (APB) in the USA, the Institute of Chartered Accountants of Canada (ICA) and the Institute of Chartered Accountants in England and Wales (ICAEW) followed the AAA path. Now timeliness has been recognized as one of the important characteristics of financial statements by the professional bodies, regulatory authorities, financial analysts, investors, managers and the academics. Timeliness requires that information should be made available to financial statement users as rapidly as possible (Carslaw and Kaplan, 1991) and it is a necessary condition to be satisfied if financial statements are to be useful (Davies and Whittred, 1980). It has been argued that the shorter the time between the end of the accounting year and the publication date, the more the benefits that can be derived from the audited annual reports (Abdulla, 1996).

However, it is not possible to release annual report unless it is certified as accurate by professional chartered accountant(s). Put differently, one of the most tangible seasons for the late publication of annual reports by public limited companies is that accounts need to be audited before they can be published. Time lag in financial report publication and audit delay are intertwined and used interchangeably in financial reporting literature. As a result, in most cases timeliness has actually dealt with audit delays.

This study possesses at least two unique characteristics. First, Ashtan, Willingham and Elliot (1989) have suggested for the inclusion of additional variables to increase the predictive ability of audit delay. The study has included two new company characteristics (audit fee and multinationality of the companies) which have not been considered in prior research. Secondly, there is a paucity of research about the timeliness of the published audited accounts of the companies in developing countries in general and audit delays in particular. Only a few studies focused on the timeliness of corporate annual reports in developing countries.

However, there is no study which specifically examined the corporate attributes in Nigeria. This study may be the first which attempt to establish the association between a set of corporate attributes and the audit delay in Nigeria. Greater concern about the timeliness of the public information disclosure has motivated several investigations on the determinants of audit delay (Ashton, Willingham and Ashton, 1989) and (Carlsaw and Kaplan, 1991). Thus, the purpose of the present study is to provide further evidence on the determinant of audit delay in Nigeria. This study extends the previous studies by focusing on the Nigerian setting with more recent data.

In emerging economies, the provision of timely information in corporate reports assumes more importance since other non-financial statement sources such as media releases, new conferences and financial analyst forecasts are not well developed and the regulatory bodies are not as effective as in West developed countries (Williams and Dirsmith, 1988). The motivation of this study is derived from a long standing problem of a lack of a timely provision of corporate financial report in Nigeria.

Audit delay is generally defined in this study as the length of time from a company's financial year-end to the date of the auditor's report. In this study, audit delay has been considered as the time from a company's accounting year end to the date of the auditor's report. The primary problem of this study therefore is, why are there delays in audit?

Literature review

Timeliness is an important qualitative attribute of financial statement, which requires the information to be made available to the users as rapidly as possible. The increase in the reporting lag reduces the information content and relevance of the documents. The recognition that the length of audit may be the single most important determinant affecting the timing of earnings announcement has motivated recent research

on audit delay, (Whittred, 1980b; Givoly and Palmon, 1982; and Carlsaw and Kaplan, 1991).

Both empirical and analytical evidences found that the timeliness of financial statement has some repercussions on the firm's value, (Beaver, 1968; Givoly and Palmon, 1984). For instance, Givoly and Palmon (1982) contended that the price reaction to the disclosure of early earnings announcements was significantly more pronounced than the reaction to late announcements. Beaver (1968) asserted that investors may postponed their purchases and sales of securities until the earnings report is released. Likewise, the investors would probably search for alternative source of information. The delayed disclosure may encourage certain unscrupulous investors to acquire costly private pre-disclosure information and exploit their private information at the expense of "less informed" investors, (Bamber, Bamber and Schoderbek, 1993).

In the first US study on audit delay, Garsombke (1981) finds in conclusive evidence that firms with January to March fiscal year – ends are less timely than other firms, that there is no significant difference among major CPA firm's audit timeliness, that firms with listing statuses vary in timeliness, that current ratio is negatively associated with timeliness while debt ratio is positively associated with it, and that good news is not reported more quickly than bad news. Givoly and Palmon (1982) analyze timeliness and information content of annual reports and examine their relationship with certain corporate attributes. They tested Beaver's (1968) suggestion that good news is released promptly while the release of bad news is systematically delayed, using relative measure of profitability and both absolute and relative measures of timeliness.

Corporate attributes and audit delay relationship

The present study examined the corporate attributes affecting audit delay of listed companies in Nigeria. The following hypotheses will be tested.

Hypothesis One

Firms with greater assets are likely to complete audit of accounts sooner than those firms with fewer total assets.

Hypothesis Two

Firms with higher debt are likely to complete audit of their accounts sooner than firms with lower debt.

Hypothesis Three

Firms with profit are likely to complete audit of their account sooner than firms with losses.

Hypothesis Four

Firms that engage audit firms with international linkage are likely to complete audit of their account sooner than those firm that engage firms without international linkage.

Hypothesis Five

Firms with lower audit fees are likely to have the audit of their accounts completed sooner than those with higher audit fees.

Hypothesis Six

Firms with less complex operations are likely to express completion of the audits of their accounts sooner than companies having complex manufacturing process.

Hypothesis Seven

Firms with higher equity are likely to complete audit of their accounts sooner than firms with lower equities.

Research methodology

Research design

The sample covers 40 listed companies for the year 2008. The time audit delay data on each of the selected companies were taken from their annual reports. The balance sheet date represents the year and date for which the financial reports were prepared. The profit, total assets, audit fees, international link of audit firms, industry type, debt and equity were extracted from the annual reports. The interval period (i.e. audit lag) has been calculated from the dates supplied by the corporate annual reports being the interval of days between balance sheet date and the date of auditor’s report.

Research instrument

Multiple linear regression will be used to test the hypotheses of this study. In the model, the time lag has been used as the dependent variable as in equation (1) below:

$$Y = \alpha + \beta_1 \text{AUDFEE} + \beta_2 \text{PAT} + \beta_3 \text{TASSET} + \beta_4 \text{DEBT} + \beta_5 \text{TEQT} + \beta_6 \text{INTYPE} + \beta_7 \text{INLINK} + \varepsilon \quad (1)$$

Where;

- Y = audit delay (in days)
- α = the constant
- ε = error term

Method of estimation

In order to assess the relevance of the theoretical proportion exposed in table 1, we will need to generate the parameters of the relationship specified there in the ordinary least squares (OLS), which we adopted.

Results of correlation analysis

To examine the correlation between independent variables, Pearson Product Moment Correlation Coefficients (r) were computed. Four correlation matrices for all the values of r for the explanatory variables along with the dependent variable were constructed in table 4.

The coefficient of the correlation between total equity and total asset is higher than every other corporate characteristics. Table 4 shows a reasonable amount of significant collinearity between total equity and total assets variables (.998), between total equity and profit after tax variable is .899, between total assets and profit after tax variables is .871, between total debt and profit after tax is .722, and between total debt and total asset is .336. The above results indicate that on the average, there is a strongly linear correlation between the independent variables.

Results of regression analysis

Empirically, this study has attempted to examine audit delay in Nigeria in the light of

the econometric model specified in the previous chapter. The regression results obtained from the estimation exercise are interpreted below.

The variables for the empirical estimation were defined as follows: AUDFEE (audit fees), PAT (profit after tax), TASSET (total assets), TDEB (Total debts), TEQT (total equity), INDTYPE (industry type) and INLINK (international linkage). The variables were however expressed in relation to audit delay (AUDLY). The variables are analyzed below using the Ordinary Least Squares (OLS) estimation because of its properties of unbiasedness, consistency and efficiency

From table 5, the following equation is obtained.

$$\begin{aligned}
 \text{AUDLY} = & 119.104 - 0.367\text{AUDFEE} - 3.051\text{PAT} + 6.77\text{TASSET} + 2.070\text{TDEBT} - \\
 & 4.916\text{TEQT} - 0.212\text{INTYPE} + 0.489\text{INLINK} \\
 & \quad (-4.159) \quad (-1.177) \quad (-0.898) \quad (0.803) \quad (1.272) \quad (-0.526) \\
 & (-1.139) \quad (2.317)
 \end{aligned}$$

In the model above, t-ratios are presented in parentheses below each coefficient estimate. An overview of the preliminary OLS results shown indicates that about 30% of the total systematic variation of the dependent variable (audit delay) has been explained by the model. This is indicated by the coefficient of determination (R²) of 0.308. This is an unsatisfactory result as about 70% (0.70%) of the systematic variation of audit delay is left unaccounted for by the model, hence captured by the stochastic disturbance term in the model. Thus, it is not a good fit of the regression line.

Also the coefficient of the independent variables AUDFEE, PAT, TEQT and INDTYPE agreed with the a-priori expectation. Thus, having significant impact on audit delay. Others did not agree with the a-priori expectation, suggesting that they are not statistically significant in explaining the variations in audit delay. This might have resulted from sampling error or the method of analysis adopted.

On the basis of the individual statistical significance as indicated by the t-ratios, only INLINK passed the test at 5% level of significance while AUDFEE, PAT, TASSET, TDEBT, TEQT and INDTYPE did not pass the test at 5% level of significance because their calculated values are less than the critical values.

On the basis of the overall statistical significance of the model as indicated by the F-test at 1% level of significance, the overall model was statistically significant because the critical F-value is greater than the observed F-value. But at 5% level of significance, the overall model is not statistically significant, since the observed F-value is greater than the critical F-value.

The DW-statistics of 2.0 indicates the presence of a perfect auto-correlation from the model. This means that they did not take a pattern in the scatter diagram. To obtain a

better result, the model was re-estimated using the Prais-Winsten estimation method. Rho (AR1) converged after 6 iterations. The results are shown in table 6.

From the table 6, the following equation was obtained.

$$\text{AUDLY} = -122.241 - 0.147\text{AUDFEE} + 0.01\text{PAT} - 0.292\text{INDTYPE} + 0.492\text{INLINK}$$

(-4.888) (-0.869) (0.069) (-1.621) (2.479)

An examination of table 6 shows that only about 30% of the total systematic variation in the dependent variable (AUDLY), have been explained by the independent variables as indicated by the coefficient of determination (R^2) of 0.23. About 70% of the systematic variation of audit delay is still left unaccounted for by the model, which is captured by the stochastic disturbance term. This indicates the absence of a good fit of the regression line. This may be at a result of the absence of time series analysis. On the basis of the individual statistical significance, only INLINK is statistically significant.

Hypotheses testing

Hypothesis One

Firms with greater assets are likely to complete audit of accounts sooner than those firms with fewer total assets. It was observed that an increase in total assets had no significant impact on audit delay, hence we accept the null hypothesis and reject the alternative hypothesis.

Hypothesis Two

Firms with higher debt are likely to complete audit of their accounts sooner than firms with lower debt. The regression results showed that an increase in debt had no significant impact on audit, hence we accept the null hypothesis and reject the alternative hypothesis.

Hypothesis Three

Firms with profit are likely to complete audit of their account sooner than firms with losses.

From the regression results, it was observed that profitability of companies has no

significant impact on audit delay, hence we accept the null hypothesis and reject the alternative hypothesis.

Hypothesis Four

Firms that engage audit firms with international linkage are likely to complete audit of their account sooner than those firm that engage firms without international linkage. The results revealed that international linkage of audit firms has a significant impact on audit delay, hence we accept the alternative hypothesis and reject the null hypothesis.

Hypothesis Five

Firms with lower audit fees are likely to have the audit of their accounts completed sooner than those with higher audit fees. From the results, it shows that the audit fees paid to the auditors have no significant impact on audit delay, hence will accept the null hypothesis and reject the alternative hypothesis.

Hypothesis Six

Firms with less complex operations are likely to express completion of the audits of their accounts sooner than companies having complex manufacturing process. The results also revealed that the industry type has no significant impact on audit delay. Thus, we accept the null hypothesis and reject the alternative hypothesis.

Hypothesis Seven

Firms with higher equity are likely to complete audit of their accounts sooner than firms with lower equities. The regression result showed that an increase in equity has

no significant impact on audit, hence we accept the null hypothesis and reject the alternative hypothesis.

Findings, recommendations, and conclusion

This study examined the empirical impact between selected firm characteristics on the incidence of audit delay. These characteristics which formed the explanatory variables are total asset (size of company), debt, equity, profitability, international linkage, company size, audit fees and industry type. The audit delay was used as the dependent variable in the study.

If audit delay is to be reduced to its barest minimum in order to achieve the objective of timeliness of financial statements to afford the investors the opportunity of making timely decisions for the overall well-being of their portfolios, the Nigerian Stock Exchange, Securities and Exchange Commission. Nigerian Accounting Standards Board, Central Bank of Nigeria and other regulatory agencies should probe audit delay in Nigeria and formulates policies and penalties to enforce compliance.

The findings of this study may be generalized across the developing and developed countries after taking into consideration certain limitations. This study considered annual reports for a single year. Further research can be undertaken to measure audit delay longitudinally to determine whether the trend of audit delay has change overtime. Such a study should provide additional insights to the underlying causes of audit delay in developing countries in general and in Nigeria in particular. In addition useful comparisons should be made with comparable countries.

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