International Journal of Economic Perspectives, 2017, Volume 11, Issue 3, 1078-1083.

Firm-Specific Characteristics and Audit Report Delay: Empirical Evidence from Iranian Firms

Majid FATHI
Department of Accounting, Gorgan Branch, Islamic Azad university, Gorgan, Iran. E-mail: maj_f2012@yahoo.com.

Mehdi Safari GERAYLI *
Department of Accounting, Bandargaz Branch, Islamic Azad University, Bandargaz, Iran. Tel: +989395898912; E-mail: Mehdi.safari83@yahoo.com.

ABSTRACT

The process for providing accounting information to the public has not changed much in the last century even though the extent of disclosure has increased signifi cantly. The term "audit delay" has been used to denote the elapsed time between the close of a fiscal year and the end of audit fieldwork. The latter is normally the date on which substantive audit tests are completed and the auditor leaves the client's premises. It is typically documented by the dating of the auditor's published report. This study is concerned with investigating the relationship between firm-specific characteristics and Audit Report Delay (henceforth, ARD) in the firms listed in Tehran Stock Exchange with this regard a sample of 94 listed firms during the years 2011-2015 were selected. Multivariate linear regression was also adopted to analyze the research hypotheses. The results of the study indicate that firm size, firm profitability and financial leverage are positively associated with ARD. However, no evidence was found to support the relationship between audit firm size and ARD. The results not only fill the research gap in the field, but also provide investors, Stock Exchange and other stakeholders with useful information for decision-making.

JEL Classification: G32; L11; L25.

Keywords: Firm Size; Financial Leverage; Profitability; Audit Report Delay.

* *Corresponding Author.*

1. INTRODUCTION

One of the most important characteristics of financial information is its timeliness. It refers to the availability of information at the right time. Once information is not available to users at the right time, it loses its capacity to influence decisions (kirk et al., 1980). The key variable in timeliness is "Report Delay". Since financial information is sensitive to the passage of time, and this may undervalue its contribution to decision-making process, the shorter the period between fiscal year and the issuance of financial statements is (report delay), the more the value of the disclosed information is. One of the most important factors that influences the timeliness of information release is the timeliness of the annual audit. In other words, the delay in releasing financial statements is tightly bound with audit operation delay, and they are considered synonymous in the financial reporting literature. One of the most essential factors that affects the timing of the release of annual audited financial statements is firm size. Large firms are willing to acquire external financing. Therefore, investors exert more control on these firms, which induces greater demand for audit service within short period of time. Large firms hold more financial resources, so they can pay more audit fee for timely audit report. Hence, large firms are expected to release their financial reports with less delay (Al-Ajami, 2008).

Timeliness of financial reporting by firms, of which the length of an audit is a fundamental component, adds information content and impacts firm value, making an examination of audit report lag determinants important. Audit committee members with financial expertise, prior audit committee experience and those who are independent are associated with shorter audit report lag. Legislation mandating audit committee financial expertise and independence are effective also in improving the timeliness of financial reporting. Profitability points to the ability of the firm in generating revenue and acquiring income. Profit or loss statement can be a center of attention as good or bad news about corporate annual performance.

المنارة للاستشارات
www.manaraa.com

As good side, profitable firms tend to release their audited financial statements early, thereby willing to accomplish their audit work quickly and reduce the interval between end of fiscal year and date of information release. When profit margin or rate of return in a company is higher than industry average (good news), then that company benefits from market predictions and users' decisions about company. Positive corporate performance has a salient impact on the corporate stock value (Frost and Pownall, 1994; Knechel and Payne, 2001). Nevertheless, regarding the issue of increase in corporate profitability from the perspective of corporate income tax, directors are expected to delay the release information about profit rise to avoid paying tax.

An increase in the dividend payout to shareholders is considered to be good news, which motivates directors of those firms whose cash dividend has increased to release their statements with less delay. However, firms which prefer holding dividend to distributing it among shareholders are expected to delay the release of their financial statements to prevent shareholders' reactions against not distributing dividend to them (Al-Ajmi, 2008). Companies with high debt-to-equity ratio are likely to hide their risk rate and level. To do so, they may release their annual financial statements with delay. On the other hand, increased debt-to-equity ratio may impede companies from repaying their debts and fulfilling their obligations. In such cases, auditors are worried about underestimation of debts by companies. To reduce the burden of possible future claims, therefore, auditors plan to exert a meticulous control and devise auditing methods which ensure the accuracy of the recorded debts. These activities prolong the implementation of audit services and delay the release of financial statements (Soltani, 2002). Timeliness of an audit report is one of the determinants of audit quality (Al-Ajmi, 2008). Large audit firms perform high quality audit services. Large audit firms deliver high quality audit services due to their ability in exerting higher controls (Watts and Zimmerman, 1986). Therefore, the present study aims to investigate whether firm-specific characteristics is positively related to ARD in the Iranian capital market or not.

2. THEORETICAL BACKGROUND

Besides firm size, profit or loss statement can be a center of attention as good or bad news about corporate annual performance. As good news, profitable firms tend to release their audited financial statements early, thereby willing to accomplish their audit work quickly and reduce the interval between end of fiscal year and date of information release (Bhuiyan and Islam, 2013). Companies with high debt-to-equity ratio are likely to hide their risk rate and level. To do so, they may release their annual financial statements with delay. On the other hand, increased debt-to-equity ratio may impede companies from repaying their debts and fulfilling their obligations. In such cases, auditors are worried about underestimation of debts by companies. In addition to the above items, audit firm size is another factor affecting the timeliness of audit report since larger audit firms, due to access to more resources and equipment for training experienced and expert auditors, need short time to be familiar with client's accounting and financial reporting system, which in turn results in timely release of audit report (Al-Ajmi, 2008; Afifi, 2009).

Timely reporting is a function of audit-related and corporate-specific factors. Audit-related factors are those which impede implementing audit work or releasing timely audit report. On the other hand, corporate-specific factors help management release timely annual report or reduce costs of report delay. This study investigates some of these socioeconomic factors within an Iranian context. Corporate-specific factors include size, profitability and financial leverage, and audit-related factors involve audit firm size. Wang and Song (2006) investigated the impact of the variables of type of audit opinion, profitability, firm size and financial leverage on the timeliness of audit report. The findings reported a significant relationship between profitability and firm size, and timeliness of audit report. Al-Ajmi (2008) also explored the factors influencing audit report lag in the capital market in Bahrain. To do so, the researcher sampled 382 firm-years during the years 1992-2006. Employing multivariate regression model, the research concluded that audit report delay is positively correlated with financial leverage and complexity of accounting operation, whereas is negatively associated with audit firm size, firm size and profitability.

Afify (2009) collected data from 85 firms listed in Egyptian Stock Exchange during the years 2003-2007 and then investigated whether board independence, CEP duality, firm size, audit firm size, industry type and corporate profitability are linked with corporate audit report delay. The results of this study suggested that corporate audit report delay is negatively related with board independence, firm size, audit firm size, industry type and corporate profitability, and is positively correlated with CEO duality. Aubert (2009) examined why some managers of listed companies in France decide to disclose their financial reporting with delay.

المنارة للاستشارات
www.manaraa.com

He concluded that annual financial reporting delay has a positively significant relationship with financial leverage, and is negatively associated with delay in the previous period. Iszmi et al., (2010) studied the effect of ownership structure on the timeliness of financial reporting in Malaysian Stock Exchange. They investigated the effect of ownership concentration, institutional ownership and external ownership on the timely release of financial statements of 198 firms listed in Malaysian Stock Exchange. they found that firms with major shareholders' ownership deliver their audited financial statements with less delay. Chen et al., (2012) examined the impact of audit quality on timeliness of corporate audit reporting. They selected 460 firms listed in Chinese Stock Exchange during the years 2006-2010. Their findings indicate that employing client's industry specialist auditor reduce the audit report delay. Wang & Song (2006) studied the effect of corporate governance and firm-specific characteristics on timeliness of audit report in a sample of 202 firms listed in Nigerian Stock Exchange. their findings pointed to a negatively significant relationship between timeliness of audit report and corporate financial leverage, and a positively significant relationship with board independence, institutional investors' ownership, firm size and profitability.

Bhuiyan and Islam (2013) carried out a research on "industry specialist auditor and audit report lag" to investigate the association between industry specialist auditor and audit report lag in a sample of 105 firms listed in New Zealand Stock Exchange during the years 2004-2008. They employed regression models to analyze the collected data and finally concluded that firms audited with industry specialist auditors release their audit report with less delay. They also found that controlling variables like type of industry, financial leverage, operation complexity and corporate loss are positively correlated with audit report delay, which in turn is negatively related to firm size. Barzideh and Moayeri (2006) examined factors that influence timeliness of audit report. In their study, audit lag was calculated as the interval between the end of fiscal year and date of their audit report release. They sampled 233 firms listed in Tehran Stock Exchange during the years 2003-2005. Using univariate correlation analysis, they concluded that firm size, firm profitability, firm risk and auditor type are not associated with audit lag. Based on the literature that mentioned above, the research hypotheses are proposed as follow:

H1: There is a significant relationship between firm size and corporate audit report delay.

H2: There is a significant relationship between audit firm size and audit report delay.

H3: There is a significant relationship between financial leverage and audit report delay.

H4: There is a significant relationship between corporate profitability and audit report delay.

3. METHODOLOGY

As a quasi-experimental research, this study is conducted in the area of positive accounting. The statistical population consists of all firms listed in Tehran Stock Exchange during the years 2011-2015, among which 94 firms meeting the following conditions were selected:

1- Firms should be listed in Tehran Stock Exchange since 2011 and hold their membership until 2015.

2- To increase their comparability, their fiscal year should end in final March.

3- They have remained in the same business during the propose fiscal year.

4- They should not be an investment company or financial intermediary.

5- They should not have more than six month hiatus.

According to the previous literature, the following variables are regarded as variables affecting ARD.

1- Firm size: To calculate the variable of firm size, various measures are proposed in the literature. Following Al-Ajmi (2008) and Afify (2009), the natural log of net sale is employed.

2- Audit firm size: As a dummy variable, it takes the value of 1 if auditor is Audit Organization, 0 otherwise.
3- Financial leverage: Following Afify (2008) and Bhuiyan and Islam (2013), debt ratio is used to calculate financial leverage.

للاستشارات المنارة
www.manaraa.com

4- Profitability: According to Al-Ajmi (2008) and Bhuiyan and Islam (2013), return on equity is employed to measure the corporate profitability.

Audit Report Delay is the dependent variable in this research, which is computed by subtracting the end of fiscal year from the date of audit report release.

4. RESULTS AND DISCUSSION

Descriptive statistics is a useful instrument to examine the general specifications of the research variables and analyze them. Table 1 represent the descriptive statistics of the research variables.

Table 1. Descriptive Statistics of the Research Variables

SD	Max.	Min.	Median	Mean	V
2206/0	000/127	0000/27	0000/84	3298/81	*ARL*
8561/0	1857/15	8651/9	9451/11	0958/12	*SIZE*
4273/0	0000/1	0000/0	0000/0	2404/0	*BIG*
2206/0	5656/1	0902/0	6277/0	6266/0	*LEV*
2251/0	8563/1	3156/1-	1344/0	1081/0	*ROE*

To test the research hypotheses, the following equation is formulated:

$$ARL_{i,t} = \beta_0 + \beta_1 SIZE_{i,t} + \beta_2 BIG_{i,t} + \beta_3 LEV_{i,t} + \beta_4 ROE_{i,t} + \varepsilon_{i,t} \quad (1)$$

The results of testing the research hypotheses are presented in Table 2.

Table 2. The statistical Results of Testing Research Hypotheses

Dependent Variable: ARL
Method: Panel EGLS (Cross-section weights)
Sample: 1 470
Periods included: 5
Cross-sections included: 94
Total panel (balanced) observations: 470
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.624917	0.444503	3.655581	0.0003
SIZE	-0.101523	0.037776	-2.687512	0.0076
BIG	-0.042141	0.049895	-0.844609	0.3990
LEV	0.064980	0.025828	2.515841	0.0124
ROE	-3.515543	1.073815	-3.273881	0.0012

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.658004	Mean dependent var	0.616275
Adjusted R-squared	0.620139	S.D. dependent var	0.368925
S.E. of regression	0.142726	Sum squared resid	6.070431
F-statistic	10.01306	Durbin-Watson stat	1.930455
Prob(F-statistic)	0.000000		

المنارة للاستشارات
www.manaraa.com

Considering the t-statistics (10.013) and its level of significance (0.000), one can conclude that the fitted regression model is significant at 5 percent level. According to the adjusted coefficient of determination, independent and control variables are claimed to explain 62% of the changes in the dependent variable. Therefore, the research hypotheses can be analyzed as follow:

- As can be seen in Table 1, the estimated coefficient and t-statistics of the variable of firm size are negative and significant at 5 percent level. Therefore, H0 is rejected, whereas the first hypothesis is accepted at 5 percent level of significant.

- The second hypothesis states: there is a significant relationship between audit firm size and audit report delay. As indicated in the table, the estimated coefficient and t-statistics of the variable of audit firm size are not negative and significant at 5 percent level. Therefore, H0 is accepted, whereas the first hypothesis is rejected at 5 percent level of significant.

- The third hypothesis states: there is a significant relationship between financial leverage and audit report delay. As indicated in table (4-8), the estimated coefficient and t-statistics of the variable of financial leverage are positive and significant at 5 percent level. Therefore, H0 is rejected, whereas the first hypothesis is accepted at 5 percent level of significant.

- The fourth hypothesis states: there is a significant relationship between corporate profitability and audit report delay. As indicated in the table, the estimated coefficient and t-statistics of the variable of corporate profitability are negative and significant at 5 percent level. Therefore, H0 is rejected, whereas the first hypothesis is accepted at 5 percent level of significant.

5. CONCLUSION

This study investigated the firm-specific characteristics that cause annual report delay. Therefore, it aims to examine the relationship between corporate characteristics and audit report delay in the firms listed in Tehran Stock Exchange. To test the research hypotheses, a sample of data collected from financial information of 94 listed firms during the years 2011-2015. Having measured the research variables, multivariate linear regression model was used to test the research hypotheses. The first hypothesis considers the relationship between firm size and audit report delay. The results of testing this hypothesis indicate that they have a negatively significant relationship together. The findings reveal that increasing firm size reduces audit report delay. That is, larger firms have more stakeholders who monitor their operations meticulously. Therefore, firms are forced by creditors, legal institutions and other stakeholders to release their financial statements timely. Hence, directors of large firms tend to reduce the audit report delay. Our findings are in line with those of Adzrin and Ahmed (2003) and Al-Ajmi (2008), whereas they contradict the findings of Henderson and Capllan (2000) and Pain and Jensen (2002).

The second hypothesis examined the relationship between audit firm size and audit report delay. The results indicated a negatively significant relationship between these two variables. The findings explain that an increase in audit firm size can reduce audit report delay. That is, larger firms which have access to more resources than small firms need much more time to perform their audit work. Therefore, larger firms release their audit report with more delay. The third hypothesis presented the relationship between financial leverage and audit report delay. The results indicated that financial leverage is positively correlated with audit report delay. The findings suggest that larger firms with higher financial leverage release their audit report with more delay. The fourth hypothesis examined the relationship between corporate profitability and audit report delay. The results indicated a negatively significant relationship between these two variables. As such, corporate profitability can act as good news about corporate annual performance in the market. Therefore, profitable firms inform their investors on their appropriate performance and force their auditors to perform their audit work shortly after the fiscal year.

Regarding the above findings, exerting extra control and monitoring over the firms with report delay is of paramount importance. Hence, capital market authorities have to set more strict rules and regulations to force firms to release their financial report timely. Also, considering the amount of time spent on examining the research variables, the researcher recommends that Tehran Stock Exchange, as the most important capital market in Iran, calculate these variables and present the results to scholars. This not only facilitates the process of conducting research, but also contribute to the homogeneity of the data used in various research. Different topics deserve a lot of attention for further research, the most important ones are suggesting below:

المنارة للاستشارات
www.manaraa.com

1- The effect of type of industry on ARD

2- Examining the explanatory power of other audit quality variables like expertise and auditor tenure and their effects on ARD.

3- Studying the ARD in different periods and evaluating the market reaction towards it.

REFERENCES

Afify, H. A. E. (2009), Determinants of audit report lag: Does implementing corporate governance have any impact? Empirical evidence from Egypt, Journal of Applied Accounting Research, 10 (1), pp. 56-86.

Al-Ajmi, J. (2008), Audit and reporting delays: Evidence from an emerging market, Department of Economics and Finance, University of Bahrain, Advances in Accounting, Incorporating Advances in International Accounting, pp. 217-226.

Aubert, F. (2009), Determinants of corporate financial reporting lag: The French empirical evidence, Journal of Accounting and Taxation, Vol.1, No. 3, pp. 053-060 .

Barzide, F and Moayeri, M (2006), Determinants of Timely Audit Report. The quarterly of Acounting Studies.

Bhuiyan, H. A., and Islam, A., (2013), Financial Distress, Earnings Management and Market Pricing of Accruals During The Global Financial Crisis, Managerial Finance, Vol. 39, No. 2, pp.155–189.

Chen, F., Hou, Y., Richardson, G., and Ye, M. (2012), Auditor industry expertise and the timeliness and usefulness of litigation loss contingency disclosures, Available at www.ssrn.com.

Frost, C. A. & Pownall, G. (1994), Accounting disclosure practice in the United State and the United Kingdom, Journal of Accounting Research, 32, (1), pp. 75- 85.

Iszmi, I. & Ahmad Subhi, M. S. & Azwan, A. R. (2010), The effect of company ownership on the timeliness of financial perorying:Empirical evidence from Malaysia, Unitar Journal, 6 (2), pp. 20-35.

Kirk, D. L. & Block, F. E., March, J. W., Morgan, R. A., Mosso, D., Sprouse, R. T. & Walters, R. E. (1980), "Statement of Financial Accounting concepts No. 2: Qualitative characteristics of Accounting Information, Journal of Accounting, 150 (2), pp. 105-120.

Knechel,W. R. and Payne, J. L. (2001), Additional evidence audit report lag, Auditing :A Journal of Practice and Theory, 20(1), pp. 137-146.

Moayeri, M (2007), Determinants of Timely Audit Report, Unpublished M. A dissertation, University of Tehran.

Soltani, B. (2002), Timeliness of corporate and Audit Reporting:some Empirical Evidence in the French Context, The International Journal of Accounting, No. 3, pp. 215-246.

Wang, J., & Song, L. (2006), Timeliness of annual reports of Chinese listed companies, Journal of Chinese Economic and Business Studies, No. 4, pp. 241−257.

Watts, R. and Zimmerman, J. L. (1986), Positive accounting Theory, prentice Hall, Englewood Cliffs, NJ.

المنارة للاستشارات
www.manaraa.com

Reproduced with permission of copyright owner. Further reproduction prohibited without permission.

www.manaraa.com