

A Study Effect of the Audited Financial reports Timeliness on Audit Quality of Companies listed the Stock Exchange

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Abstract: This study examines the timeliness of annual financial reports published by companies listed on the Iran Stock Exchange (TSE). Audit quality indicators used in this study, the size of the audit firm. Also, the timeliness of audit reports to the short duration of the auditor's report refers to the end of the fiscal year. For this purpose, the data of listed companies in Tehran Stock Exchange during the years 2009 to 2014 were extracted. To analyze data and test hypotheses of multivariate regression model and panel data is used. The results of the study hypothesis suggests that the timeliness of financial reporting and audit quality and there is no significant positive relationship.

Keywords: Timeliness, Reporting Lag, Annual Financial Reports.

Introduction

The accounting disclosure is defined as efforts to provide accounting information, and this professional job is normally performed by accountants. The accounting disclosure is very important for all stakeholders as it provides them with the necessary information to reduce the uncertainty and helps them to make suitability economic and financial decisions. Informed data of corporate report for example is vital for economic stability and the promotion of sustained levels of high quality investment by corporation. This is achieved through the preparation of financial reports. The annual financial reports published by companies are considered one of the most important sources of information due to the diversity of information contained in these reports. In order for financial statements to be relevant, they should have a number of characteristics. One of the most important characteristics is timeliness. In a dynamic business environment, financial information must be available on a timely basis so that sound and effective investment decisions can be made (Jeter & Chaney, 2004). The need for timeliness in financial reporting is recognized by both the accounting profession and the Securities and Exchange Commission (SEC) statement NO.4 of the Accounting Principles Board 1970 which specifies timeliness as one of the objectives of accounting (Givoly & Palmon, 1982).

Companies listed on the Iran Stock Exchange (TSE) in Jordan are required to prepare The Company's annual report within three months at the most of the end of its fiscal year. In 2004 the Iran Stock Exchange issued the "Directives for Listing Securities on the Iran Stock Exchange for the year 2004" regulations, issued by virtue of the provisions of Article 72 of the Securities Law No. 76 of 2002. In paragraph 15 of these regulations, it specified the type of information that the companies listed in the TSE must provide, the periods of providing this information, and the deadlines for providing it. According to the auditor's role in the decisions of users, the size of the audit firm as a

key factor in the preparation of audit reports, is of interest to users. The size of the audit firm theoretical basis is expected to speed up the audit report. In this regard, this study seeks to answer the question is whether the industry and the size of the auditor is the auditor pursuant to the timeliness of reporting or not?

Literature review

The researcher conducted a study in the US to determine the effect of timeliness on the informational content of interim and annual financial reports. The analysis was chiefly motivated by the characteristics of the two types of information and the differences in the regulations, and the rules which govern their disclosure. According to the study results, accounting reports with shorter delay have a higher informational content than those with longer delay. At the time of release to the capital market, the effect of delay on the information content seems to be more significant in the case of the interim rather than the annual financial reports. This may be explained by the major characteristics which differentiate the information contained in the interim financial reports from that contained in the annual financial reports, and the differences in their role in the investor's decision process.

In the UK, Hussey and Woolfe (1998) compared various features of the interim financial reports of the companies prepared between the years of 1992 and 1997. By examining the changes in the content and timing of issue of the interim financial report, the study elicited that more companies in the UK were issuing their interim financial reports within 90 days in 1997 than in 1992. The average time lag improved from 68.7 days in 1992 to 62.4 days in 1997. The difference in results is due to the different samples used in the studies. However, the average number of days reported by Hussey and Woolfe is close enough to the 60 days as recommended by the ASB guidelines issued in 1997. This study also extended prior research by determining the association between timeliness and each of the following company attributes – size, profitability, growth, and capital structure. An analysis of 117 quarterly financial reports ended on 30 September 2001 was run. Of the 117 companies, they found only one company (0.9%) reported after the due date, and the financial reporting lag being 64 days. This means that the overall compliance rate was very high (99.1%). Evidently, the financial reporting lag of companies in this study was between 32 and 64 days with a mean and median of 55.7 days and 58 days, respectively. This implies that, on average, companies reported about 5 days before the due date. The study also provides evidence that there is a significant association between timeliness and each of the four company attributes, and the association supported the hypothesis of the study.

Butler et al (2007) examined how the frequency of interim financial reporting affects earnings timeliness, the speed with which accounting information is impounded into price based on a sample of 28,824 reporting-frequency observations from 1950 to 1973. They found little evidence of a difference in either intra period, or long-horizon timeliness, between firms reporting quarterly and those reporting semiannually, even after controlling for self-selection. They found that the increase in reporting frequency had no statistically significant effect on long-horizon timeliness for mandatory increases. Results indicate that, after the switch, voluntary increasers tend to recognize bad news more quickly, but experience no change in the timeliness of good-news recognition. Turel (2010) examined the relationship between the timeliness and both company specific and audit related factors in a developing country, Turkey. The objectives of this study are two-fold. First, to measure the extend of timeliness in a developing country, Turkey. Second, to establish the impact of both company specific and audit related factors on timeliness of financial reporting in Turkey.

This study reports on the results of an empirical investigation of the timeliness of financial reports by 211 non-financial companies listed on the Istanbul Stock Exchange. The researcher found that 59% of the companies that prepares separate financial statements and 66% of the companies that prepares consolidated financial statements release their financial statements less than the maximum time allowed after the financial year-end. 28% of the companies that prepares separate financial statements and 16% of the companies that prepares consolidated financial statements exceeded the regulatory deadline. The multivariate regression analysis indicates that both sign of income, audit opinion, auditor firm and industry affect timeliness. The findings indicate that the companies that report net income, that have standard audit opinion, and that are operating in manufacturing industry release their financial statements earlier. On the other hand, it is found that the companies that are audited by big four audit firms are late reporters.

Merdekawati and Arsiah (2011) the researchers analyzed timeliness of financial reporting in Indonesia. In this study timelines of financial reporting are measured by audit lag and reporting lag. This study utilized an unbalanced panel of 700 firm-years of companies listed on the Indonesia Stock Exchange during the period 2007-2009. The mean of audit lag is 74 days and the mean of reporting lag is 94 days. It is found that corporate governance and audit opinion negatively affect both audit lag and reporting lag, whereas firm size positively affects audit lag and reporting lag. Debt ratio only negatively affects reporting lag. Auditor's firm, profitability, price earnings ratio and dividend payout ratio do not significantly affect either audit lag or reporting lag. Inter-industry analysis of audit lag

and reporting lag reported that the financial industry has the shortest audit lag and reporting lag. The trade, service and investment industries have the longest audit lag whereas the property, real estate and building construction industries have the longest reporting lag.

Iyoha (2012) examined the impact of company attributes on the timeliness of financial reports in Nigeria based on a sample of 61 companies' annual reports for the years 1999-2008. The data were analyzed and results estimated using Ordinary Least Square (OLS) Regression which was complimented with the panel data estimation technique. The findings reveal that the age of company is the major company attribute that influences the overall quality of timeliness of financial reports in Nigeria. It was also observed that there is a significant difference in the timeliness of financial reporting among industrial sectors in Nigeria. The banking sector is found to be timelier in financial reporting. Though the results suggest that regulations are not enough to ensure that the quality of financial reports are timely in Nigeria, reporting lag may however be reduced by the existence and strict enforcement of rules and regulations of regulatory bodies.

Vuran and Adiloğlu (2013) examined the relationship between the timeliness of corporate financial reporting and accounting and auditing related ten variables. In this study firstly timeliness of financial statements is calculated by subtracting the allowable publication date which is requiring by ISE from the publication date of financial statements. After calculating this, reporting timeliness of companies are categorized into three groups for both separate and consolidated audited financial statements. Variables, namely, Total Equity/Total Assets, ROA, ROE, Cash flow From Operations/Interest Expense, Growth in Total Assets are categorized according to their sign and Current Ratio is classified whether it is greater than 1 or not. And the sign of net income, ISE 100, Big 4 and opinion variables are already collected as categorical variables.

For separate audited financial statements sign of net income and sign of ROA are found to be significant at 10 % significance level, current ratio and audit opinion are found to be significant at 5 % significance level. For separate audited financial statements timeliness of the financial statements are related with the sign of net income, sign of ROA, current ratio and the audit opinion. For consolidated audited financial statements, sign of total equity/total assets is found to be significant at 5 % significance level and sign of cash flow from operations/interest expense is found to be significant at 10 % significance level. For consolidated audited financial statements timeliness of the financial statements are related with the sign of total equity/total assets and cash flow from operations/interest expense. Rahmawati (2013) examined the information content and the determinants of the timeliness of Indonesian manufacturing companies during the period 2003 – 2008. The main objective of this study is to test whether there is an association between timeliness of financial reporting and information content and how company characteristics, such as company' size, company' profitability, company' capital structure, complexity of operations and audit factors affect timeliness of financial reporting in an emerging market, Indonesian stock exchange.

The empirical analysis reveals that the significant determinants of timeliness of annual reporting are company size, company capital structure, and audit opinion. Profitability, accounting complexity and audit firm (Big Four or non-Big Four) are not significant determinants of timeliness of financial reporting in Indonesia though these factors have been found to be significant determinants of financial reporting in other countries. Furthermore, no evidence was found to support the information content of timeliness of financial reporting in Indonesian manufacturing firms. Behrouzi et al (2013) investigated relationship between audit fees and timeliness of accounting information in the companies that have been listed in Tehran Stock Exchange (TSE). Statistical population of the research was all Iranian companies listed in Tehran Stock Exchange during 2003-2011. The results of multiple regression analysis revealed that audit fees have an inverse relationship with timeliness of accounting information. In other words, as audit fees increase, financial statements are provided more timely for its users. Evidence also shows that when auditor's report is unqualified opinion, the time of providing accounting information will decrease. The results also indicate that some variables like auditor change, size of the audited company, type of auditor and a loss report will increase the time of providing accounting information. Test of the hypotheses did not confirm the relationship between audit tenure and timeliness of accounting information. It also did not confirm the relationship between debt ratio and timeliness of accounting information.

Hashim et al (2013) examined the timeliness of financial reporting of 200 listed companies on the main board of Bursa Malaysia. It also examined company-specific factors and audit-related factors as well as its relationship that significantly influenced timely reporting of the sample companies. In this study, the absolute values of discretionary accruals in companies that have been audited by industry specialists to deal with other companies, to examine earnings management were compared. The results showed companies that they audit, an industry expert has the management level of discretionary accruals are lower.

Hypothesis development

This section discusses the association between timeliness and audit quality. Some of the researchers studied the relationship between timeliness of a financial report and audit quality of a company. The majority of studies concentrated on annual financial reports, and a few of them on interim financial reports. This study hypothesizes that timeliness is associated with audit quality. Following is the discussion on the independent variables that are hypothesized to be associated with the timeliness.

Audit Firm Size

In general, audit firm rotation is expected to reduce the timeliness of audit completion as the successive audit firms are forced to build up client-specific knowledge from scratch. Therefore, those audit firms are bounded to incur significant start-up time and costs to become adequately acquainted themselves with clients' businesses and operations (Lai & Cheuk, 2005). Bamber et al (1993) investigated the determinants of the length of time auditors require to complete the audit or audit report lag (ARL). They found that regarding audit structure, the results showed that greater structure generally led to longer audit report lags, but that accounting firms with greater structure also reacted more quickly to unanticipated events. Some of studies found audit firm size to show negative and significant relationship to financial reporting lag in annual financial reports. Being audited by big six audit firms, companies would take less time in releasing information.

Hence based on the above theoretical and empirical evidence, this study hypothesizes that:

H₁: There is a significant relationship between the size of audit firm and the timeliness of financial reporting.

The Model Based on the above discussion, the following model is developed to predict timeliness:

$$ART_{i,t} = \alpha_0 + \beta_1 AuditSize_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 ROA_{i,t} + \varepsilon_{i,t}$$

Where:

ART = the timeliness, measured by reporting lag.

Audit Size = audit firm size, classified as big firm (big 4 or local firms with international affiliations) and small.

LNSIZE = company size, measured by natural log of total assets;

LGLEVE = leverage of a company, measured by log of ratio of debt to total assets;

ROA= Return on assets, measured by net income divided by total assets.

Materials and Methods

Sample Selection and Data Collection: This research purpose, Practical in essence, quasi-experimental. In order to analyze the data and test the hypothesis, Multivariate linear regression equation Used. In order to do research, information and quantitative data required audited financial statements and other financial reports of companies, as well as, the software Tadbir and Rahavard novin Extracted.

Community sample: The population of this research are companies listed in Tehran Stock Exchange. Time scope of this study, between the years 2009 to 2014. For the National systematic sampling method is used. Companies that have all the following conditions were chosen as examples:

1. In terms of increased comparability, the financial period ended in March.
2. Before the year 2009, the Tehran Stock Exchange is accepted.
3. Information required in respect of these companies is available.
4. Companies are banks and financial institutions (investment companies, financial intermediaries, holding companies and leasing) not because of financial disclosures and structures are different.
5. By applying the above-mentioned conditions of the companies listed in Tehran Stock Exchange, total of 100 companies were selected as sample.

Data Analysis

The Timeliness in the Annual Financial Reports: In this study, timeliness of annual report refers to the reporting lag; the time interval between the end of the reporting period and the date the financial statements are issued. The maximum allowable reporting lag for companies in Iran is four months. As a result, the period between the dates of the audit report on the research end of each financial year, up to the date of the audit report will be considered.

Audit Firm Size: The index measuring the quality audit, audit firm size is such that the larger the audit firm size, the higher audit quality. In this study, the purpose of the audit firm size, reputation audit firm (business name). As a result of the audit firm's reputation, increased credibility financial information and therefore audit quality will be higher.

Results

Regression Analysis

Table 1. Descriptive Statistics.

Variable	Symbol	Average	Middle	Standard deviation
Timeliness financial reporting	$ART_{i,t}$	64.3	63.5	1.86
Audit Size	$AuditSize_{i,t}$	0.385	0.31	0.48
Size Company	$SIZE_{i,t}$	12.81	12.71	1.21
Financial Leverage	$LEV_{i,t}$	0.71	0.63	3.12
Return On Assets	$ROA_{i,t}$	0.146	0.125	0.132

As Table 1 shows, the average auditor size is to 0.375. The study suggests that companies of every 10 companies that have been audited, on average 4 companies they audit by the audit was conducted. Financial leverage of 0.71 indicates that the average assets of the companies surveyed have debt.

Table 2. Results testing hypotheses.

$ART_{i,t} = \alpha_0 + \beta_1 AuditSize_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 ROA_{i,t} + \varepsilon_{i,t}$				
Variable	Symbol	Coefficient	T-statistics	Significance level
C	α_0	44.6	2.94	0.003
Audit Size	$AuditSize$	1.129	0.48	0.630
Size Company	$SIZE$	-2.38	-2.11	0.035
Financial Leverage	LEV	0.15	0.467	0.64
Return On Assets	ROA	-22.97	-3.05	0.002
Durbin-Watson stat		1.98	R-squared	0.075
F-statistic (0.0000)		10.17	Adjusted R-squared	0.67

The hypothesis in this case was made between timeliness and quality of the auditor's report, there is a significant connection, as can be seen from the above table, coefficient and statistics T-statistics Auditor size variable is 1.129 and 0.48. These figures show there is no significant relationship between the size of the auditor and the auditor's report on the timeliness is assured 0.95. In other words, the audit size firm does not speed up the audit report.

Conclusion

Delay in the publication financial statements, due to several factors. An annual audited financial statement is notable as one of the factors. After accepting the fact that the audit of the financial statements could explain part of the delay in publishing the financial statements is made to identify the factors leading to the delay in the implementation and completion of the audit, the they is important. In this study, timeliness of an annual financial report refers to the financial reporting lag, that is the time interval between the end of the reporting period and the date the financial statements are issued. The maximum allowable financial reporting lag for companies in Iran is four month. In this regard, the audit firm as a property audit quality metrics was used. The results of the study hypothesis that the timeliness financial reporting and audit quality, there is no significant relationship. In other words, the audit firm size does not speed up the audit report.

Conflict of interest

The authors declare no conflict of interest

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