EFFECTS OF AUDITOR ATTRIBUTES ON AUDIT REPORTING LAG: EMPIRICAL EVIDENCE FROM NIGERIAN SERVICE FIRMS

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ABSTRACT

The main objective of this paper is to identify the effect of auditor attributes on the audit report lag of quoted service companies operating in Nigeria. The motivation behind this research is hinged on the lack of consensus in prior studies coupled with the dearth of research in listed service companies. This paper employed a sample of sixteen (16) service companies operating on the floor of the Nigerian stock exchange from 2007 through 2016. The results of the regression technique indicate that longer auditor tenure significantly decreases audit report lag. This finding implies that auditors' expertise improves in the service industry as their tenure increases. This is in turning will accelerate and enhance the quality of audit work. The study recommends that service companies sustain their existing auditors to a reasonable period to enhance timeliness in the audit report. Timely audit reports will enhance the confidence of users of the financial statements to make good decisions.

Contribution/ Originality

This paper contributes to the existing audit report lag (ARL) literature by documenting the effect of auditor characteristics on the ARL. Although a sizable volume of literature exists on ARL in other industries mostly financial in different countries, research on the service industry is limited in Nigeria. Service industry is unique compared to their counterparts as they contribute grossly to GDP.

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1. INTRODUCTION

Users of financial statements essentially focus on the timeliness of financial reports which enhance their reliability to make decisions. The availability of financial statements on a timely basis boosts investors' confidence. However, the delay of this information may hamper its usefulness. Thus, for capital markets to function effectively, they require a vibrant reporting system to enhance investors' assurance of quality investment decisions. Information contained in the financial statements is expected to possess excellence before its receipt by various users as they demand timely financial information. As such, one of the striking qualities of financial reporting is timely information which translates to excellent judgment regarding the state of affairs of an enterprise. Timely information maintains its economic value and minimizes information asymmetry by improving the pricing of securities, mitigating insider trading. Timely financial information also minimizes the likelihood of false information regarding the firm. The crucial role of independent audit necessitates investors to place more emphasis on information provided by accountants Investors in today's markets rely on accountants to provide greater information on a suitable basis.

A timely audit report serves as the bedrock of confidence for all users of financial information (Che-Ahmad and Abidin, 2008). Timely financial information enables stakeholders involved in the decision process to utilize the information before its loss of value. This refers, explicitly a shorter period that an independent auditor submits the audited annual report compared to the end of the client's accounting year. The crucial role external auditors play towards ensuring timely audit report necessitates further empirical studies to capture the aspects of audit trails that minimize audit lag. Shareholders are keen on the period which an audit report takes before its' release. Moreover, a strong correlation exists between auditors' characteristics like tenure, a fee paid to audit firms, size of the audit firm, audit opinion to name a few and reporting lag. As such, audit delay seems to be closely associated with the audit functions. This holds as an auditor cannot issue a report until the end of the audit (Shukeri and Islam, 2012).

In developing markets, the availability of timely financial information remains the crucial avenue that shareholders are informed of the value of their investments. As emerging markets struggle with difficulties of the current global situation due to financial crisis, the uncertainties about the safety of investments increase thus, the request for the timely audit report. Therefore, the study of this sort will enhance the understanding of the factors undermining timely audit reports in developing economies like Nigeria. Companies operating in developing markets like Nigeria have been confronted with failure as a result of erroneous financial reporting. As such, a timely audit report becomes highly necessary as a result of amassed coverage of business in Nigeria relative to international capital markets (Adebayo and Adebiyi, 2016). The crucial role service firms play towards the economic growth of every economy cannot be overemphasized. The Organization of Economic Cooperation and Development (2008) provides the service firms provide states that the service industry provides crucial contributions for the other sectors thereby improving the entire investment, therefore, having a significant effect on the overall investment environment. In most of the emerging markets, the services industry constitutes an increasing percentage of gross domestic products (GDP). The variety of contributions they render to all other businesses ranges from energy, telecommunication to transportation to name a few. The service industry is unique compared to their counterparts as they contribute immensely to most industries especially manufacturing, thus the dire need to curb challenges that may threaten investors' confidence in the industry.

Prior studies conducted in developed countries provided evidence that auditor tenure and specialization, gender are influential factors in financial reporting lag. Further researches have been conducted on the external auditor's index and the auditor reporting delay (Dao and Pham, 2014; González-Díaz et al., 2015). They found that the intricacy emanating from the size of the client and the nature of transaction information significantly determine the period of producing an audit report.

In Nigeria, a bulk of studies on financial reporting rests on the quality (Kibiya *et al.,* 2016; Eyenubo *et al.,* 2017; Akeja and Babatunde, 2017). Studies that examined FRL focus largely on banking firms (Ahmed and Ahmad, 2016; Akhor and Oseghale, 2017; Adebayo and Adebiyi, 2016). Although abundant literature exists on the subject globally, much remains unclear about how external auditors strive to minimize to ARLs in listed service companies in Nigeria. Against this backdrop, this study aims to examine the effect of auditor attributes on auditor report lag of listed quoted firms in Nigeria.

Nigeria, one of the developed capital markets in sub-Saharan Africa strives to enhance the efficiency of its capital market and the confidence of the investors. Therefore, findings of this study can create new dimensions in ARL, as such, the necessity of this study becomes apparent. Furthermore, the results might help auditors to form efficient audit teams to reduce delays in the presentation of the audit report. This rest of this paper is structured as follows; Section two entails a literature review, and developing hypotheses. Section three comprises the methodology. Section four presents the results and discussion. Section five captures conclusions, recommendations including suggestions for future studies.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Concerning the Companies and Allied Matters Act (CAMA) of 2004 as amended to date which specifies in sections 213, 214 & 218; that each company shall hold an annual general meeting and present its annual reports before its shareholders in a period not exceeding fifteen months between the date of its annual general meeting and that of the next. The exception to this rule lies in the situation where the first annual general meeting of a company did not exceed three months. This statement implies that the maximum period of reporting lag allowed by the Companies and Allied Matters Act in Nigeria is six (6) months. In the work of Lehtinen (2013), it was documented that the filing deadline for financial statements of companies was reduced from 90 to 60 days. This was meant to progress the market efficiency in the United States of America.

Lee and Jahng (2008) view audit reporting lag as the duration a company concludes its business year and the period an auditor issues his report. A shorter period is an indication of efficiency as it enhances the relevance and reliability of the information content for strategic decision making (Afify, 2009). Similarly, Enofe *et al.* (2013) refer to audit report lag (ARL) difference between a business year-end and the conclusion of the entire audit of a fiscal year and the end of audit investigation when an auditor signs the report. Akhor and Oseghale (2017) and Salleh *et al.* (2017) captured audit report lag as several days between the conclusion of the business accounting year-end and the date an auditor signs the report. This study conceptualizes audit report lag as the duration of between the end of a company's accounting year and when the audited financial reports and accounts are signed for onward submission to the firm.

2.1. Auditor tenure and audit report lag
Audit firm tenure is considered as a crucial determinant of auditors' efficiency. Prior empirical studies indicate that the longer the audit tenure, the higher audit efficiency (Dao and Pharm, 2014). New audit teams take a longer period to familiarize themselves with their client's business. This implies that the first audit functions may be less efficient than the subsequent ones (Aljaaidi *et al.,* 2015). This paper captures audit tenure as the total number of successive years a company has been audited by the same auditor. Controversies still exist on the empirical evidence concerning auditor tenure and ARL. Prolonged auditor tenure is likely to improve auditor skills and knowledge of the client's business over time hence minimizing the audit delay. However, auditors' level of independence may be impaired as he may be reliant financially on his client (González-Díaz *et al.,* 2016). Dao and Pham (2014) examines the association between audit firm tenure and audit report lag (ARL). Results from their study that newly engaged auditors lack adequate knowledge of their clients' activities resulting in prolonged longer ARL. As such, the client's performance is impaired.

They recommended hiring a specialized auditor in the industry concerned to curtail delay in the audit report. In Indonesia, Asni *et al.* (2017) examined the effect of auditor traits on audit delay on a sample of 13 local governments in Indonesia from 2012-2014. Findings of their study document that educational background and auditor tenure have a significant influence on audit delay. Tepalagul and Lin (2015) conclude that the mixed evidence is documented for auditor tenure and audit quality. González-Díaz *et al.* (2015) reported an association between audit tenure and audit quality using a sample of 254 audits carried out on Spanish state-owned foundations for 2003 and 2010. In other words, longer audit tenure curtails the chances of a longer audit report delay. Based on the aforementioned review and theory, the following hypothesis is stated in null form;

H0i. Audit tenure has no significant effect on ARL of listed service firms in Nigeria.

2.2. Audit fee and audit reporting lag
In Iran, Vahid (2016) examined the impact of audit report lag, audit fee on the ethnicity of CEOs of 69 listed companies for seven years and a strong relationship between CEO's ethnicity and audit report lag except for audit fees. In the same spirit of research, Alali and Elder (2014) report that firm size, abnormal audit fees, and profits strongly determine FRL. In Greece, Leventis *et al.* (2005) examine the effect of auditor type, audit fees and the nature of audit opinion of quoted companies on the floor on the Athens Stock Exchange. The results of their study were generally statistically significant. Beri (2015) has investigated the audit report lag variable for Nigerian listed companies. Using 266 firm-years data, the study concluded that the audit delay is associated with variables like company size, profitability, and leverage. In the quest to preserve their investors' confidence, larger firms ensure a faster audit than smaller firms. Moreover, larger firms tend to possess more efficient internal control than smaller firms which hasten their audit process. However, highly leveraged and high performing firms were found to subject to longer audit work. Therefore, this study hypothesized that;

H0ii. Audit fee has no significant effect on ARL of listed service firms in Nigeria.

2.3. Audit firm size and audit report lag
Anecdotal empirical evidence documents that big audit firms offer more qualitative services than smaller counterparts (Ahmed and Che-Ahmad, 2016). Impliedly, larger audit firms are likely to outperform their smaller counterparts as a result of international recognition, more partners, equipment and qualified personnel.

Ahmed and Che-Ahmad (2016) examine the impact of corporate governance traits on the delay of audit report delay banks in Nigeria with a sample of fourteen banks. Results of OLS robust regression present that audit quality and some board structures have a significant effect on audit delay. The study recommended that investors should persist on the use of big four audit firms for efficiency to boost the assurance of all the interested parties. In a similar vein, Adebayo and Adebiyi (2016) examine the timely report of financial statements of listed deposit money banks in Nigeria with an ordinary least square technique and that audit firm size increases audit report lag. Abidina and Ahmad-Zaluki (2012) investigate whether the audit assignment is more efficient when specialized auditors are engaged with a sample of 873 publicly quoted firms. Using a regression technique multivariate, they reported a positive relationship between big four audit firms and shorter audit delay. Rusmin and Evans (2017) also reported similar results with a sample of listed manufacturing companies on the Indonesian Stock Exchange. Aljaaidi *et al.* (2015) examine the determinants of audit report delay in using primary data from 87 independent auditors of listed companies in Jordan in the year 2009. Findings from OLS regression indicate that higher audit committee diligence and more reliance on internal audit minimize audit report lag. In line with the above review, it is hypothesized that,

H0iii. Audit size has no significant effect on ARL of listed service firms in Nigeria.

2.4. Theoretical framework

Financial reporting is considered as one of the recent topics in the realm of corporate governance. Corporate governance found its roots in the work of (Fama and Jensen, 1983) studies. Agency costs arose as a result of the separation of ownership and control lead to the likelihood of managers acting contrary to the interest of the principal. As such, an independent party needs to certify the financial statements of the enterprise which is prepared by the agents to assure or otherwise the stakeholders, the safety or danger associated with their investments. Prior literature document audit report lag rendered indications of the substantial role corporate governance traits play in determining the timeliness of financial statements (Fama and Jensen, 1983; Sulaiman *et al.,* 2014). In this light, the underpinning theory of this paper is agency theory as it explains agent's effort through auditor features and audit report lag.

3. METHODOLOGY

For this study, ex-post-facto and correlational research designs were used. This justification is that using ex-post factor research design is that the source of data is secondary which was generated from annual reports and accounts of listed service firms in Nigeria. The correlation research design was adopted basically to elucidate associations amongst the explanatory variables and the explained. The population of the study comprises of all the twenty-five 25 listed service companies on the floor of the Nigerian Stock Exchange as at 31st December 2016. This period of the study is chosen to capture some of the effects that arose as a result of the corporate scandals in Nigeria. A filtering technique was employed to list service companies quoted on the Nigerian Stock Exchange as at 31st December 2016. This paper employed a judgmental technique to arrive at eleven companies for ten years. Listed service companies are quoted on the Nigerian Stock Exchange on or before 2007 and are actively trading up to 31st December 2016. Companies whose annual reports are available to constitute the sample of the study. Eleven companies were employed based on these criteria. The study will cover the ten (10) years period starting from 2007 to 2016. The period of the study was chosen due to the implementation of the International Financial Reporting Standards within the period of the study which commenced in the year 2012. The period of the study is significant as it includes high-profile audit scandals worldwide.

3.1. Model specification

In this paper, based on the works of Alali and Elder (2014) and Leventis *et al.* (2005) with modification in terms of audit tenure and audit firm size in Alali and Elder (2014), the relationship of the variables is expressed as;

$$ARL_{it} = \beta_0 + \beta_1 AUDTENURE_{it} + \beta_2 AUDFEE_{it} + \beta_3 AUDSIZE_{it} + \beta_4 DEBT + \varepsilon_{it} \qquad \text{……………. (1)}$$

Where:
ARL = Number of days from the accounting year-end to the date of submission of the auditor report.
$AUDTENURE_{it}$ = No of successive years a service company has been continued audited by the same auditor.
$AUDFEE_{it}$ = log of total fees paid for annual audit.
$AUDSIZE_{it}$ = takes a value of 1 if an audit firm is a big four or 0 if a non- big four.

$DEBT_{it}$ = Debt scaled by total assets.
β_0 = Constant Coefficient
$\beta_1 - \beta_4$ = Explained coefficient of the independent variables
ε_{it} = Disturbance term.
The presumptive signs of the parameters in the specifications are:
$\beta_1, \beta_2, \beta_3 > 0$

4. RESULTS AND DISCUSSIONS

This section presents data and its analysis, interpretations and discussions. It begins with the analysis of the data using bivariate and multivariate analysis to ascertain the correlation amongst the variables employed and the effect of the independent variables on the dependent variables (audit report lag, auditor tenure, audit fee, audit firm size, debt). The implications of the results were explained.

4.1. Descriptive statistics

Table 1 present the bivariate results of the study variables which capture the central tendency such as the mean. It also presents the results of standard deviation, minimum, maximum, skewness and kurtosis of all the variables under study. Descriptive statistics analyze the basic feature of audit report lag (ARL) and auditor characteristics.

Table 1: Summary statistics of the variables

Variables	Obs.	Mean	Std. Dev.	Min	Max
ARL	110	121.036	67.766	50	456
AUDTENURE	110	2.555	0.7242	1	3
AUDFEE	110	3.693	0.377	2.778	4.357
AUDSIZE	110	0.409	0.494	0	1
DEBT	110	54.580	22.777	13.87	133.11

Source: Stata output

From table 1 above, the Audit report lag presents an average of 50 and a maximum of 456 days. The implication is that the maximum period an auditor submits his signed report in a service firm is 456 days which exceeds a year. The average period is 121 days meaning that service companies in Nigeria have their reports delayed for over 3 months by their external auditors. Besides, some firms experience a substantial delay of more than a year which is alarming. On average, their auditors spend almost 3 consecutive years auditing their accounts before rotation indicating familiarity with service firms' business and more experience by their auditors. However, some service companies rotate an auditor after each year causing a delay in submitting audit report as it may likely take the time to familiarize with the client business. The standard deviation implies a reasonable dispersion in the data for ARL. AUDFEE presents a minimal dispersion in the data with of average mean of 3.69. The measure of variation (0.37) interprets to mean a low disparity in the audit fees paid by service companies in the sample. The variable AUDSIZE indicates that some of the service firms are not audited by big audit firms. Generally, service firms in the sample portray a reasonable leverage profile as indicated by the mean of 56 percent. Overall, explanatory variables show a minimum dispersion in the data.

4.2. Correlation matrix
Table 2 presents the correlation coefficients of the dependent variables.

Table 2: Correlation matrix of the dependent and the independent variables

VARIABLES	ARL	AUDTENURE	AUDFEE	AUDSIZE	DEBT
ARL	1				
AUDTENURE	-0.367*	1			
AUDFEE	0.066	0.117	1		
AUDSIZE	0.234*	0.039	0.628*	1	
DEBT	0.315*	-0.108	0.291*	0.032	1

Source: Stata output
Note: * indicates significant at 5% level of significance

Table 2 shows the correlation coefficients on the relationship between the dependent variable (ARL), and explanatory variables (audit tenure, audit fee, audit size, and debt). The values of the correlation coefficient range from -1 to 1. The sign of the correlation coefficient indicates the direction of the relationship (positive or negative). The absolute value of the correlation coefficient indicates the strength, with larger values indicating stronger relationships. The correlation coefficients on the main diagonal are 1 because each variable has a perfect positive linear relationship with itself.

As shown in Table 2, the relationship between, audit fee, audit size and debt are positively associated with ARL with strong correlation coefficients value of 0.0664, 0.2341 and 0.3151 except for insignificant audit fee. This means that longer audit tenure implies lower chances of an audit report lag. Most of the correlations are positive amongst the regressors except between audit tenure and debt. Most of the correlations were reasonably low (between 0.03-0.6) and that indicates the absence of multicollinearity.

Table 3: Summary of regression results

	OLS	FIXED EFFECTS	RANDOM EFFECTS	ROBUST OLS
CONS	6.87***	5.65***	6.69***	6.67*** 120.30
AUDTENURE	-3.40	-3.53	-3.42***	-2.38*** -17.77
AUDFEE	-1.84*	0.51	-1.45	-1.43 0.002
AUDSIZE	3.14***	0.95	2.74***	2.92*** 31.56
DEBT	3.72***	1.54	3.34***	3.57*** 0.689
Obs	110	110	110	110
GROUPS	11	11	11	11
R^2	0.25	0.23	0.28	0.28
Wald chi		-	36.04	
F-STAT	10.19	5.17	-	5.65
P-VALUE	0.0000	0.0008	0.0000	0.004

Source: output using STATA software
Note: The asterisks in brackets *, ** and *** shows significance at the level of 10%, 5% and 1% respectively

4.3. Diagnostic tests

Series of diagnostic tests were performed to satisfy the assumptions of the ordinary least square regression technique. These include tests of normality, homoscedasticity and the likelihood of high or near-perfect correlation amongst regressors (multicollinearity). SK test was carried out to test for normality of the data with the skewness (0.1391) and kurtosis (0.451) respectively, indicating the normality of the residuals. The Breusch–Pagan test was applied to test the heteroscedasticity of the residuals, which confirmed that the error terms appearing in the population regression have the same variance. The figure (0.2686) justifies the lack of errors related to the data. Moreover, the mean-variance inflation factor result of the explanatory variables was 1.21 indicating the absence of multicollinearity.

To test the preference of the fixed or random-effect model, the Hausman specification test was applied. The probability value of the Hausman test is insignificant demonstrating the superiority of the random effect model over to the fixed effect model. To determine the preferred model between the between random effect and pooled ordinary least squares (OLS) model, Breush Pagan LM test was implemented. The chi-square value indicates insignificance, hence the superiority of the pooled

OLS regression over the random effect model. Although the random and pooled OLS results seem to be the same but the statistical test distinguish between the two in favor of OLS. Therefore, the study presents a robust OLS result in Table 3.

In Table 3 below, the regression results were presented. The robust regression result shows that out of the four independent variables, three showed a significant effect on ARL. AUDTENURE appeared significant at 1 percent with a negative coefficient (17.77). This is confirmed by a t-statistic of -2.38. This finding implies that approximately, audit report ARL is reduced by 18 days when the same auditor repeatedly audits a service firm. ARL is minimized in the Nigerian service firms when they retain their auditors for longer periods. This can be attributed to the fact that longer audit tenure improves the knowledge of the client's operating environment and financial statements by the auditor thereby shortening ARL. Short audit tenure is likely to be detrimental for service firms in Nigeria as it may delay information provided to the market due to the auditors' unfamiliarity with service companies in Nigeria. Findings coincide with (Dao and Pharm, 2014; Tepalagul and Lin, 2015; González-Díaz, et al., 2015) who report that longer audit tenure enhances submission of an audit report on a timely basis thereby reducing the chances of auditors submitting their report late.

AUDFEE presents a negative coefficient of (-0.002) which is statistically insignificant. This implies that higher audit fee does not result in a significant decline in audit report lag. The finding supports the acceptance of the null hypothesis as observed by the t-statistics of -1.45. Finding is surprising as higher audit fee is charged by bigger audit firms with more technical expertise and knowledge about the client industry. Therefore, it expected to significantly shorten ARL. Findings corroborate that of Blankley et al. (2015), Vahid (2016) and contradict Leventis et al. (2005) and Alali and Elder (2014) who reports a positive but insignificant relationship between audit fee and ARL. The finding coincides with a priori expectation as high audit fees are expected to motivate audit firms to complete the audit and submit their report on time.

AUDSIZE enters into the regression results positive showing a t-statistic of 2.74 statistically significant at a 1 percent level. The financial consequence of this finding is that for a unit increase in the likelihood of a service firm in Nigeria being audited by a big four, ARL increases by 2 days. Finding is surprising as big audit firms are more experienced and efficient in audit operations and hence are expected to submit their report on time. The implication is that service firms audited big audit firms are likely to publish high-quality information hence the delay of their report. Another plausible explanation is that some big four audit firms in service firms in Nigeria have shorter tenure; this is as a result of inadequate knowledge of the client's business as a result, the audit report is delayed. Findings coincide with previous studies (Aljaaidi et al., 2015; Adebayo and Adebiyi, 2016). Contradicting findings are reported by Ahmed and Che-Ahmad (2016).

Control variable debt appeared positive and significant with audit report lag. Service companies in Nigeria who are highly indebted submit their audit reports late due to longer audit work compared to less leveraged companies.

5. CONCLUSION AND RECOMMENDATIONS

Sequel to the global financial scandals starting from 2002, the demand for competent professional accountants' auditors arose significantly. Thus, this paper seeks to examine the effect of external auditor traits on audit report lag. Audit tenure, audit firm size and debt presents significant effect on audit report lag as shown by the regression estimates. Longer auditor tenure minimizes ARL and service companies in Nigeria using audit firms delay more in submitting the audit report. The results indicate that more auditor stays in Nigerian service firms, with their knowledge of client industries, can reduce the negative effect of the auditors' lack of knowledge about client operations; thus, ARL. This paper prescribes longer auditor tenure for service firms. Service industries in Nigeria should

retain their auditors as it enhances their experience and knowledge of their client's business thereby shortening ARL and improving the quality of their reports. The contradiction on audit size result may be as attributed to the fact that most audit firms in Nigerian service are smaller audit firms.

This paper adds to the existing empirical studies on auditor traits and ARL in a developing market like Nigeria where empirical research is very limited. There is no research work without caveats. This study focusses on a few features of auditor attributes of listed service firms in Nigeria. Variables including busy auditors, audit committee traits, profitability and leverage are not encompassed thus and afar the coverage of this paper. These and other related variables may serve as frontier research as they may affect auditor characteristics and ARL.

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