



Impact of Firm Attributes on Audit Delay: A Focus on Quoted Manufacturing Firms in Nigeria.

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Abstract

The degree of trust placed in the financial statement may be negatively impacted by audit delay, which has drawn the attention of regulatory organizations and accounting experts. The study's goal is to discover how firm characteristics affect audit delay, with a focus on publicly traded industrial companies in Nigeria. The design used is correlational. A sample of 25 quoted manufacturing companies was chosen from the population of 74 manufacturing corporations that are listed on the Nigerian stock exchange. The OLS Robust Regression result using descriptive statistics and correlation demonstrated that all the explanatory factors from business size, profitability, age, accrual, and complexity have a substantial influence on audit delay. However, the only factors that have a positive, substantial association with audit delay are firm size and firm complexity. Based the outcomes and recommendations, companies should adhere to all laws and regulations, particularly accounting standards, and have effective internal controls and accounting systems in order to decrease the reporting lag of auditors.

Keywords: Firm size, firm profitability, firm age, firm accrual, firm complexity, audit delay.

Introduction

Owing to the growing connection of commercial institutions and the sale of stocks on the capital market, the need for accurate and fast financial information has become critical worldwide. Thus, business organizations are required to give investors and potential investors with well-timed info in the yearly financial reports to gratify their info needs. Knowing the significance of well-timed disclosure of financial info, regulatory acts like the Companies and Allied Matters Act (2004) established legislative maximum deadlines for

listed corporations in Nigeria to release audited financial declarations to stakeholders and submit such reports to the Securities and Exchange Commission (SEC) and Corporate Affairs Commission (CAC). “Despite the 90-day window provided by CAMA, most licenced enterprises in Nigeria found it challenging to report within the deadline” (Dibia and Onwuchekwa, 2013). According to Nigerian law, corporations with local incorporation must file their annual reports 90 days after the end of the financial year in which

they operate. In order for stakeholders to use the information contained in financial statements to make critical decisions, financial statements must be made available to them in a timely manner. Financial statements express vital info on the financial wellbeing of a corporation. “*No matter how you use the information, it will eventually lose its usefulness*” (Salem, 2013). This specifically implies a thinner window of time in which an sovereign auditor must provide the audited yearly report as opposed to the end of the client's accounting year. The vital part that external auditors play for providing promptly audit reports calls for additional empirical investigations to document the feature of audit trails that reduce audit lag. Investors pay close attention to how long it takes an audit report to be released. Furthermore, there is a substantial link between reporting lag and the features of the auditors, such as tenure, the fee paid to the audit firm, firm size, and audit opinion, to mention a few. As a result, it appears that the audit functions are directly related to audit delay. Shukeri and Islam (2012) said “*it is accurate since an auditor cannot publish a report until the audit is complete*”.

In terms of the distinctiveness of the resources used in its activities, a firm's characteristics are the particular features that distinguish and set it apart from others. firm age and leverage are two of these characteristics (Kwaltommai, Et al., 2019). The worth of a financial report decreases if it is not made accessible upon request for people to take knowledgeable decisions, suggesting that a firm's qualities are those distinctive characteristics that set a corporation differently and which, comparatively, are the key movers of the financial report's distinctive individualities. As a result, the timeliness of released company financial accounts determines their value. Users of financial info primarily look out for the timeliness of financial info since it increases their capacity to make reliable decisions. When financial statements are released on schedule, investor trust is increased. The timing of this info, though, may limit its utility. A dynamic reporting system is therefore necessary for any company to operate efficiently and increase the confidence of investors in their investment decisions. Information obtained from the financial statements must be accurate before it is delivered to those consumers since diverse users require well-timed financial info. As a result, one of the distinguishing features of financial reporting is prompt info, which converts into exceptional verdict on the status of a corporation.

Statement of the Problem

Accounting experts and regulatory authorities are paying more and more attention to audit delays. It is proof that businesses in developing market economies release their financial statements earlier than those in transitional economies. As a result, such a delay can negatively impact how much trust is placed in the financial statement (McGee, 2007). According to the rules of CAMA (2004) as modified, corporations in Nigeria have three (3) months to complete and publish their financial reports. An investigation on the present state of audit delay in Nigerian corporations is thus necessary.

Objective of the Study

To inspect the influence of firm characteristics on audit delays with prominence on quoted manufacturing corporations in Nigeria.

Literature Review

Conceptual Framework

Firm Attributes

A firm's attributes or features include but are not limited to the size of the corporation, its age, the month of the year it ends, its industry categorization, its status as a multinational or local business, its listing status, and the management style. Other factors that affect how well a company performs are its net income sign, its financial standing, its accrual, its debt-to-equity ratio, its relative profitability, and its

market success, among others. According to Che-Almad and Abidin (2008), *“timely financial information empowers decision-making stakeholders and is the foundation of confidence for all users of financial information”*.

Both internal and exogenous performance metrics and the decision-making process of the company. Farouk, et al. (2019) took an alternate viewpoint and considered businesses' qualities as structural aspects that may be either well-regulated or uncontrolled factors, and that might be either internal or external to the corporation's strategic decision. These include size, leverage, and age.

Therefore, the term "firm attributes" refers to the numerous data that businesses publish in their financial reports for a specific date to inform stakeholders of their performance (Abdullahi, 2016). *“They were also referred to as those incentive variables that influence the firm's internal and external decisions and are comparatively sticky at the firm level over time”* (Shehu & Ahmad, 2013). *“They are regarded as elements that, for the most part, fall under the direct control of management and frequently account for variations in financial performance between firms”* (Kazeem, 2015). *“These unique characteristics that make a company stand out and allow for a variety of viewpoints are what they are. These characteristics are listed by businesses in their financial accounts and convey information about their performance to various stakeholders”* (Abdullahi, 2016).

According to Naser, et al. (2002), *“company attributes can be divided into market-related (firm size, audit firm status, and industry type), performance-related (profit margin, return on equity, and liquidity), ownership-related (high spread ownership vs. low spread ownership), and structure-related (gearing) attributes”*. They could also be divided into three categories: monitoring (board composition and institutional shareholding) and company organization (firm size and leverage), as well as performance (profitability, liquidity, and growth). Nevertheless, Kazeem (2015) divides firm characteristics into *“financial (size, growth, risk, liquidity, tangibility, and leverage) and non-financial (age, management skills, and range of operation) categories”*. In a study on company characteristics and stock prices, Rabiu (2019) *“identified profitability, growth, leverage, firm size, board size, board gender, audit committee membership, audit committee meetings, and managerial and institutional share ownership as key company characteristics”*.

Concept of Audit Report Delay (ARD)

The period of time between the end of a fiscal year and the conclusion of the audit investigation is the "Audit Delay". The latter is often the day the auditor departs the client's property after concluding the substantive audit tests. The auditor's report's release date frequently serves as proof. Numerous earlier research looked examined the relationship between different potential causative factors and ARD. *“The presence of accounting or disclosure issues, such as extraordinary items, loss contingencies, uncertainty, audit qualifications, and accounting charges, have all been looked into”* (Ashton, 1987). Other factors that have been examined include the nature, size, and complexity of the client's operations and controls, the quantity of audit work that is completed after the fiscal year ends, and the audit corporation's propensity to use a designed audit method. *“It has been suggested that management has incentives to exercise discretion over the timelines of reporting”* (Verrecchia, 1983). The hypothesis that negative news is announced later than good news has received significant support from empirical studies (Chambers & Penman, 1984). Givoly and Palmon (1982) proposed that a factor explaining variation in ARD is variation in the length of the annual external audit. The results of measuring the audit delay lapse between the financial year's end and the auditors' signature date are ambiguous. The argument is that there is a delay between the date of the external auditor's signature and the date of the financial statement's publication. Research that has already been done on the audit report delay has been

done for a variety of reasons, in a variety of fields. Additionally, the most often researched parameters in these investigations were “*firm complexity, age, size, profitability, and total accruals*”.

Empirical Studies

Using 133 enterprises as a sample, Azam and Salehi (2017) explored the connection between ARD and the potential for investment on the Tehran Stock Exchange. The investigation discovered a substantial positive correlation between audit report delay and company size. Sager (2015) used firm age in his research and discovered a substantial inverse link between audit delay and firm age. The "teething problems" that would otherwise result in extraordinary delays are reduced as a company continues to exist and its accountants gain more knowledge. Because of the learning experience obtained over the course of many years of existence, an older, more established organization is likely to be more adept at receiving, processing, and disseminating info when necessary. In their research on the causes of ARD in Croatia, Vuko and Cular (2014) took into account company intricacy as an explaining parameter. According to the report, there is a strong correlation between ARD and corporate complexity. In their study (2010) on the ARD of listed Chinese businesses, Hooy and Lee used total accrual to clarify ARD in China utilizing a sample of forty non-financial corporations during a five-year period from 2003 to 2007. With the ARD, they discovered that total accrual was positive and considerable.

Theoretical Framework

Agency Theory (AT)

The shareholders had to set up certain methods to alleviate the agency problem that would have resulted from the separation of management from ownership due to the agency cost between managers and shareholders. Managers taking advantage of opportunities and maximize their own interests at the cost of the company are examples of the agency crisis in action. According to Shukeri and Nelson (2010), opportunistic behavior is a minor contributor to corporate mismanagement and ARD in a setting with strong corporate governance. According to Akingunola, et al. (2018), a professional certificate of financial reporting by an independent and expert auditor is crucial for reducing agency problem and, as a result, safeguards the interests of the stockholders by proving to the veracity and correctness of substances in the financial declaration.

Research Methodology

The population of the investigation is comprised of 74 manufacturing corporations listed on the NSE as of December 31, 2019, in the industrial products, consumer goods, agricultural, conglomerate, natural resources, and health care sectors. It used a correlational research design. For five years, from 2015 to 2019, a sample of 25 listed manufacturing companies was used. Stratified sampling techniques were used to choose the sample for the investigation.

The Model

$$Y = \alpha + \beta x + \mu i$$

$$AUDE_{it} = \alpha_{it} + \beta_1 FSIZ_{it} + \beta_2 FPRT_{it} + \beta_3 FAGE_{it} + \beta_4 FIACL_{it} + \beta_5 FCOM_{it} + \mu_{it}$$

Where “*AUDE = Audit delay; α_{it} = The constant; *FSIZ = Firm size; $FPRT$ = Firm profitability; $FAGE = Firm age; FTACL = Firm total accruals; FCOM = Firm complexity; μ = Error term; $\beta_1 - \beta_5 = Beta coefficient; it = Period, and time_i$$* ”*

Data Analysis

Table 1: Descriptive Statistics

Variable	Mean	S. Deviation	Minimum	Maximum
AUDE	21.114	44.325	0.00	214.00
FSIZ	7.266	0.797	5.79	8.99

FPRT	0.052	0.077	-0.26	0.24
FAGE	45.143	13.979	17,0	70.00
FTACL	-0.0367	0.117	-0.41	0.49
FCOM	0.244	0.133	0.04	0.57

Source: Authors Computation (2023)

According to the aforementioned statistics, the mean audit delay (AUDE) for Quoted manufacturing firms (QMF) is 21 days. The fact that there is only a 23-day difference between the mean and standard deviation of AUDE among QMFs indicates modest variability around the mean. This indicates a very wide range because the min and max AUDE are 0 and 214 days, respectively. In other words, audit delays are much more common in certain years than others. Consequently, QMFs frequently report very high AUDE in some years and low AUDE in others. The mean corporate size, as displayed, represents the typical size of the QMF included in the investigation. The standard deviation is 0.80, representing that the variables' variability is quite low. This indicates that, in terms of their overall assets, the majority of QMFs fall within the same range. 5.80 and 8.99 are the lowest and maximum firm sizes, correspondingly. This suggests that the rate is 3.19, showing a reasonable variance in the QMFs' total asset holdings. It suggests that there is virtually little variance between the biggest QMF and the tiniest. The standard deviation, which measures the normal changeability of return on total assets across the studied QMFs throughout the study's sampling period, is 0.076, showing the average company profitability portrayed by the mean, which represents the average return on asset. This suggests that the QMF's profitability levels are evenly distributed. Compared to other businesses, some tend to report higher levels of profitability. The table's lowest and highest values are 0.26 and 0.24, individually. The rate is 0.5 as a result, showing a fairly significant disparity between the maximum income and lowest loss. The mean age, which is 45.14, serves as a proxy for the normal age of the tested QMF. The standard deviation of 13.98 indicates that the parameters are very varied. It implies that the majority of QMFs do not fall into the same age group. The age of the sampled QMFs ranges from 17 to 70, accordingly. This suggests that the range is 53 years, which shows that the sampled QMFs' ages range widely. It suggests that there is a significant age gap between the business with the youngest age and the QMF with the oldest age.

Firm accrual has an average level of -0.04 throughout the analyzed QMFs, and its standard deviation is 0.12, according to the data. The standard deviation deviates by 0.08 from the mean, indicating a deviation from the mean in the business accrual. This indicates that there is hardly any variance in the sampled enterprises' firm accrual status. The variety is between -0.41 and 0.49, respectively. This indicates a fairly broad range of 0.9. The range supports the standard deviation's finding that the variance between the corporation with the lowest corporation accruals and one with the highest firm accrual is incredibly small. Over the course of the study, the sampled QMFs' average firm complexity was 0.24. The standard deviation of 0.13 specifies that there is comparatively little disparity in the degree of firm complexity amongst the firms. The standard deviation deviates by 0.11 from the mean. This shows that the erraticism about the mean is really minimal. The insinuation is that the QMF complexity in Nigeria differs only slightly from other QMFs. 0.04 and 0.57 are the minimum and greatest values, correspondingly. The range value, which represents the variance between the complexity of the sampled QMFs' maximum and minimum, is thus 0.53.

Table 2: Correlation Result

<i>Variables</i>	<i>AUDE</i>	<i>FSIZ</i>	<i>FPRT</i>	<i>FAGE</i>	<i>FTACL</i>	<i>FCOM</i>
<i>AUDE</i>	1.000					
<i>FSIZ</i>	-0.039	1.000				
<i>FPRT</i>	-0.383	0.236	1.000			

<i>FAGE</i>	-0.249	0.192	-1.184	1.000		
<i>FTACL</i>	-0.291	-0.011	0.212	0.134	1.000	
<i>FCOM</i>	0.217	-0.381	-0.0244	-0.199	-0.008	1.000

Source: Authors Computation (2023)

Each pair of variables' association with one another was displayed in the correlation matrix. While there should be little correlation between any two independent variables, there should be a substantial correlation between each independent parameter and the dependent parameter. In the table above, every pair of independent parameters has a correlation coefficient that is less than 0.8. Consequently, it can be concluded that a single regression model may effectively fit the five independent parameters.

Table 3: OLS Robust Regression Result

<i>Variables</i>	<i>Coefficient</i>	<i>t</i>	<i>P-value</i>
<i>INTEREST</i>	-26.640	-0.620	0.5470
<i>FSIZ</i>	11.720	2.070	0.0410
<i>FPRT</i>	-262.150	-5.210	0.000
<i>FAGE</i>	-0.980	-2.980	0.004
<i>FTACL</i>	-56.460	-2.080	0.040
<i>FCOM</i>	74.830	2.730	0.007
<i>R-square</i>	0.334		
<i>F-statistics</i>	6.440		
<i>Prob>chiz</i>	0.000		

Source: Authors Computation (2023)

Research Findings

The regression analysis outcomes showed that all the explanatory factors including the firm's size, profitability, age, accrual, and complexity have a substantial impact on the AUDE of QMFs in Nigeria. However, the only factor that exhibits a positive substantial link with AUDE of stated QMFs in Nigeria is corporation size and firm complexity.

The R-square value indicated how well the explanatory elements described the dependent parameter. R-square is 33.40 per cent. This indicates that the company believes that the study's factors accounted for 33% of the audit delay. F-statistical value is 6.44, and chi-squared probability is 0.0000. The model is fit because the likelihood of chiz is substantial at 1%. This provides convincing proof that the parameters for firm characteristics chosen for the investigation are appropriate.

Firm size was found to have a t-value of 2.07 and a p-value of 0.041. This demonstrates that a firm's size of 5% is significant. This finding suggests that the study has discovered sufficient proof to accept the alternative hypothesis that business size has a substantial effect on AUDE for QMFs in Nigeria and to reject the null hypothesis. The consequence of the finding is that business size affects the AUDE of QMF in Nigeria statistically.

The outcome exhibited a t-value of -5.21 and a p-value of 0.000 for company profitability. According to the p-value, company profitability is considerable at 1%. Since business profitability has a major impact on AUDE of QMFs in Nigeria, The inquiry yielded enough data to disprove the null hypothesis and support the alternative theory. By accepting the alternative hypothesis, the study came to the conclusion that one of the company factors that affects the AUDE of QMFs in Nigeria is a business profitability.

Firm age was found to have a t-value of -2.98 and a p-value of 0.004 as a result. Thus, it may be concluded that firm age has a 1% significance. This finding suggests that there is strong support for rejecting the null hypothesis and accepting the alternative one, which states that firm age significantly affects audit delay for QMFs in Nigeria. The result's implication is that corporate age statistically influences the AUDE of Nigeria's QMFs.

According to the results, firm accrual has a p-value of 0.045 and a t-value of -2.06. As a result, firm accrual is important at 5%. The findings imply that the alternative hypothesis—that business accrual considerably influences the AUDE of QMFs in Nigeria—has sufficient statistical evidence to be accepted in place of the null hypothesis. The finding is that one of the business characteristics, firm accrual, has an impact on the AUDE of QMFs in Nigeria.

Firm complexity has a p-value of 0.007 and a t-value of 2.73, according to the study. It implies that company complexity is significant even at 1%. This shows that there is enough information from the study to reject the H₀, thus, stating that company complexity significantly influences the AUDE of QMFs in Nigeria. This research implies that one of the firm factors that affects the AUDE of QMFs in Nigeria is firm complexity.

Conclusion and Recommendations

Based on an examination of the data and an analysis of the test's findings. The study came to the conclusion that firm characteristics during the time period covered by the study have a substantial impact on the AUDE of QMFs in Nigeria. Given the proof of delayed financial reporting that is linked to firm qualities, the study advises policymakers and regulators to step up their regulations and oversight of manufacturing enterprises. Making it a policy for QMFs to consider the corporation elements used in this study in particular could advance the quality of the audit work and the timeliness of financial reporting. To lessen the reporting lag for auditors, businesses should adhere to all requirements, including accounting standards, and have robust internal controls and accounting systems.

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