J. Basic. Appl. Sci. Res., 2(12)12278-12282, 2012
© 2012, TextRoad Publication

ISSN 2090-4304
Journal of Basic and Applied Scientific Research
www.textroad.com

Audit Report Lag and Auditor Change: Evidence from Iran

Bahman Banimahd, Mehdi Moradzadehfard, Mehdi Zeynali

Department of Accounting, Islamic Azad University, Science and Research Branch, Tehran, Iran

ABSTRACT

One of the important objectives of corporate reporting is to provide information that will assist external users in decision making. This information, however, is required to be made available within a short period of time from the end of reported period. Objective of this study is to investigate audit report lag and auditor change in firms listed on Tehran Stock Exchange (TSE). We use a correlation method and a multiple regression to test of hypothesis. Data collected from financial statements of firms listed on the Tehran Stock Exchange through 2002-2010. Findings of this research shows that, the determinant factors on audit report lag are , firm size, audit report type and auditor change from audit organization to private audit firms. In this study, we have not found any relation between audit report lag and financial leverage, profitability and Auditor change from a private audit firm to another private audit firm and audit report lag. This paper provides some important suggestions for both regulatory bodies and researchers. The results of this study suggest to assess the work quality of private audit firms by the Iranian auditing regulatory bodies.

KEY WORDS: Audit report lag, Audit Privatization and Auditor Change.

1. INTRODUCTION

Many significant changes have taken place rapidly in the audit markets over the past decade. This change has been also occurred in Iranian audit market. Privatization of auditing services happened in 2001 in Iran by introducing Iranian Association of Certified Public Accountants (IACPA). By this privatization, number of private sector audit firms and subsequently the number of auditor change have increased in Tehran Stock Exchange (Banimahd and Vafaei, 2012). Auditor change also could have an impact on the audit report lag. The new auditor must learn about the business operations and client's financial reporting systems and this could impact on audit lag report. This is main motivation to investigate the relation between audit report lag and auditor change in Iran. Audit report lag effect on timeliness of audited financial statements. The timeliness is a qualitative attribute of financial information, which requires the information to be made available to the financial statement users as rapidly as possible. There are many studies on the audit report lag and financial reporting timelines in different countries. These studies provide strong support that the main and essential factor affecting the usefulness of the accounting information is timeliness. Studies have also shown that timely information affects the prices of securities on the market (Givoly and Palmon, 1982; Kross and Schroeder, 1984, Zeghal 1984) and has claimed that Information timeliness will enhance decision-making and reduce information asymmetry in emerging markets (Owusu-Ansah and Leventis 2006).

We extend last studies on the auditor report lag to include auditor change in an emerging market. In other words, we provide evidence on determinants of the audit report lag after audit privatization in Iran as an emerging market. The Iranian audit market differs from other markets because it is an emerging market. Iran, as a country has some distinct attributes relevant to the auditing assurance services. For example, there is no big international auditing firm (Big Four firms) in Iranian audit market. Iran's experience in audit privatization is likely to influence other developing countries. The outcomes of this study can also help the accounting profession of developing countries in monitoring and governance the audit firms.

The first objective of this paper is to determine relation between audit report lag and auditor change in listed companies in TSE from 2002 to 2010. The second objective of the paper is to provide additional evidence on audit report lag literature in emerging markets. The rest of this paper contains a brief summary of the relevant literatures. It then describes the development of hypothesis and research method before analyzing and discussing the results.

2. LITERATURE REVIEW

Cohen and Leventis (2012) indicate that there is a considerable audit report lag from several municipalities. They find that strong political opposition to the mayor, mayoral re-election, population, and the existence of internal accounting teams for accrual accounting, audit remarks and municipality size are all statistically significant factors in explaining variations in audit report lag.

Habib and Bhuiyan (2011) investigated the audit firm industry specialization and the audit report lag. It is found that the audit report lag is shorter for firms audited by industry specialist auditors. Their findings also

***Corresponding Author:** Mehdi Zeynali, Department of Accounting, Islamic Azad University, Science and Research Branch, Tehran, Iran

reveal that the adoption of international financial reporting standard (IFRS) has increased the audit report lag for all auditors except for industry specialist auditors.

Tanyi and et al. (2010) found that the audit report lag is significantly higher for former Andersen clients than for clients voluntarily changing auditors from another Big 5 predecessor for the fiscal year ended December 31, 2002. They also showed that clients with voluntary auditor changes have only marginally higher audit reporting lags compared to clients without auditor changes. They also found that ex-Andersen clients that followed the Andersen partner to the new audit firm had shorter audit report lags than ex-Andersen clients that did not follow their Andersen partner.

Afify (2009) investigated determinants of audit report lag in Egyptian listed companies. He found that audit report lag is approximately two months on average in Egyptian companies. He showed that board independence, duality of CEO, existence of an audit committee, company size, industry and profitability significantly affect on audit report lag. He also indicated that ownership concentration has insignificant affect on audit report lag.

Vermeer (2008) showed that costs of auditor change, the financial performance of a non-profit, and the size of the audit market are related with the likelihood of a non-profit audit client being a follower.

Al-Ajmi (2008) investigated the audit report delay of companies listed on the Bahrain Stock Exchange. He found that the determinants of the audit report delay of annual reporting are company size, profitability, and leverage. He showed that there is no relation between auditor type and audit report lag.

Ezat & El-Masry (2008) examined the key factors that affect the timeliness of corporate internet reporting by the Egyptian listed corporations on the Cairo and Alexandria Stock Exchange. They showed a significant relationship between the timeliness of corporate internet reporting and firm size, type of industry, liquidity, ownership structure, board composition and board size. The results of their study indicated that firms typically in the service sector, that were large and had a high rate of liquidity, a high proportion of independent directors, a large number of board directors and a high free float disclose more timely information on their web sites. Furthermore, they found a significant association between the entire independent variables and some items of timeliness of corporate internet reporting.

Abdullah (2007) investigated the roles of the composition of board of directors, audit committee and the separation of the roles of the board chairman and the chief executive officer on the audit report lag in Malaysia. The findings showed that board independence and the separation of the roles of board chairman and CEO significantly are associated with audit report lag. He found a positive relation between audit report lag and leverage and a negative relation between firm's profitability and audit report lag in his study.

Owusu-Ansah and Leventis (2006), in Greece, showed that large companies, service companies and companies audited by the former Big-5 audit firms have a low audit report lag. Their results showed that construction companies, companies whose audit reports were qualified and companies that had a greater proportion of their equity capital directly or indirectly held by insiders do not promptly release their audited financial statements to the public after their financial year-end.

In Iran, Hajiha and Rafiee (2011) have investigated the effect of internal audit function quality on audit report lag by a survey method and questionnaire. Their results indicated that objectivity and competence have a significant association with audit delay (audit report lag), but internal audit size has no significant relation with audit duration. Their results indicated that in companies that internal auditors cooperated with independent auditors, audit report lag is short.

Banimahd (2010) investigated determinants of audit report lag in interim financial statements in listed companies of the Tehran Stock Exchange. He found that the audit report lag of interim financial statements is decreasing. His results indicated a significant relation between the audit report lag of corporate interim financial statements and firm size, financial leverage, audit report type, ownership type and profitability.

Sarhangi(2001) studied factor effecting of audit report lag in Iranian capital market. He found a significant relation between profitability and audit report lag. He also claimed that there is no relation between firm size, financial leverage, firm age and audit report lag in Iranian companies.

3. METHODOLOGY

3.1. Data and Sample

In this study, we collected data the financial statements of companies listed on the Tehran Stock Exchange through 2002-2010. The number of firms selected was based on several criteria. First, in Iran the fiscal year of most firms ends 21 of March. Since it was necessary to have common period for the homogeneous variables across all the sample firms, whose fiscal years ended at some time other than 21 of March were excluded from the sample. Second, due to different nature and classification of the financial statements among investment and banking firms, our research did not conclude these firms. Subject to these criteria, the final sample consisted of 1639 firm-year unbalanced observations (243 firms for 9 years). The research method is correlation. The hypotheses' test was done by multiple linear regressions.

3.2. Measurement of Dependent Variables

In this research, the dependent variable is audit report lag. This variable is measured according to the difference between the date of audit report and the end of fiscal year.

3.3. Measurement of Independent Variables

3.3.1. Auditor change from the audit organization to private audit firm:

It's a dummy variable with a value of zero and one. If a firm changes its auditor from the audit organization to a private audit firm, its value will be one and otherwise zero.

3.3.2. Auditor change from a private audit firm to another private audit firm:

It's a dummy variable with a value of zero and one. If a firm changes its auditor from a private audit firm to another private audit firm, its value will be one and otherwise zero.

3.3.3. Profitability: Profitability is simply the ratio of the net profit to total assets. This ratio shows how management of a firm has gained profits by using assets regardless of their financing location.

3.3.4. Financial Leverage: It is the ratio of total liabilities to total assets.

3.3.5. Firm Size: This variable is measured according to the natural logarithm of total assets per a year in the company.

3.3.6. Audit Report Type: It's a dummy variable with a value of zero and one. If the firm's audit report was unqualified, its value will be one and otherwise zero.

In this study we consider profitability, financial leverage, firm size and audit report type as control variables.

3.4. Research Hypotheses

The research hypotheses are as follows:

First Hypothesis: There is a significant relationship between auditor change from the audit organization to private audit firm and audit report lag.

Second Hypothesis: There is a significant relationship between auditor change from a private audit firm to another private audit firm and audit report lag.

4. Model

To test our hypotheses we apply the multiple linear regression model as follows:

$Y = \alpha_0 + \alpha_1 x_1 + \alpha_2 x_2 + \alpha_3 x_3 + \alpha_4 x_4 + \alpha_5 x_5 + \alpha_6 x_6 + \alpha_7$ INDUSTRY. Model (1)

Where:

Y = Audit Report Lag ,

X_1 = Auditor change from the audit organization to private audit firm

X_2 = Auditor change from a private audit firm to another private audit firm

X_3= Profitability

X_4 = Financial Leverage

X_5= Firm Size

X_6 = Audit Report Type

INDUSTRY = dichotomous variables contains 13 industries.

5. FINDINGS

5.1. Descriptive Statistics

Table 1 and 2 show descriptive statistics of the study. Table 1 shows qualitative variables and table 2 indicates quantitative variables. Table 1 show that auditor change from a private audit firm to another private audit firm is increasing and auditor change from audit organization to private audit firms, is decreasing during the study period. Also, number of unqualified audit report is added and average of audit report lag is decreasing. Table 2 also shows average of audit report lag is 83.11

Table 1. The Descriptive Statistics (Qualitative variables)

Year	Average of Audit Report Lag	Number of Unqualified Audit Report	Number of Qualified Audit Report	Auditor Change From Audit Organization to private Audit Firms	Auditor Change From a Private Audit Firm to Another Private Audit Firm
2002	98	21	146	25	12
2003	93	31	152	27	10
2004	84	33	154	26	17
2005	83	49	140	4	9
2006	82	53	138	7	36
2007	79	64	138	5	29
2008	78	59	126	3	25
2009	77	62	125	4	42
2010	74	52	96	3	30

Table 2. The Descriptive Statistics (Quantitative variables)

Statistics	Profitability	Financial Leverage	Size	Audit report lag
Mean	.2499	.2107	2244151.5	83.11
Median	.0975	.0568	326221	83
Std.Deviation	0.17079	2.00001	17863797.7	37.953

5.2. Hypothesis Test

In table 3, the level of each variable has been shown, regarding the fact that the numbers related to significant level of auditor change from audit organization to private audit firms, audit report type and firm size have been less than 5 percent. Thus, in the assurance level of 95 percent, there is a significant relationship between these variables and the audit report lag. Hence, first hypothesis is confirmed and second hypothesis is rejected.

Table 3. Regression Results

Variables	Coefficients	T	Sig	VIF
Constant	41.582	4.922	0.000	
Auditor Change From Audit Organization to private Audit Firms	8.696	2.347	0.019	1.063
Auditor Change From a Private Audit Firm to Another Private Audit Firm	0.726	.265	0.791	1.092
Profitability	-0.104	-.395	0.693	1.060
Financial Leverage	0.611	1.363	0.173	1.070
Firm Size	2.105	3.309	0.001	1.226
Audit Report Type	4.528	2.143	0.032	1.258
F	7.438		0.000	
R^2	7.5%			
Durbin Watson	1.681			

6. Conclusions

Our results indicate that audit report lag is decreasing during study period. This study shows that auditor change from audit organization to private audit firms (as a audit privatization index), firm size and audit report type (Unqualified audit opinion) have a positive relation with the audit report lag in firms listed on the TSE. In addition, we have not found any relationship between audit report lag and auditor change from a private audit firm to another private audit firm, profitability and financial leverage. These findings support that audit privatization in Iran has decrease audit report lag.

This study contributes to the literature on audit report lag and timeliness of information in several ways. It considers whether privatization of audit market has any impact on the audit report lag. It extends the last studies on audit report lag by focusing on audit market privatization. This paper offers evidence on the determinants of audit report lag in an environment where audit market is an emerging market. The outcomes of this research can help to improve the quality of auditing practice in private audit firms by monitoring of the national auditing bodies in any developing country. The results of this study are sufficiently interesting to warrant an extension to other emerging economies particularly those in the Middle East region that have a similar social and economic environment.

7. Suggestions of the Study

This paper provides some important suggestions for both regulatory bodies and researchers. This paper suggests assessing the adequacy of the audit report lag by the Iranian auditing regulatory bodies. These bodies can monitor the work quality of private audit firms by regulating audit report lag requirements. Given to the results of this research that find a relation between audit report lag and auditor change , our suggestion is that auditing scholars can study the effect of audit competition on audit report lag. Researchers also can investigate the relation between audit report lag and audit quality.

REFERENCES

Abdullah S, (2007)."Board Composition, Audit Committee and timeliness of Corporate Financial Reports in Malaysia ", Corporate Ownership and Control Vol. 4, Issue 2 pp 48-62.

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, Vol. 10 Iss: 1, pp.56 – 86

Al-Ajmi J, (2008). "Audit and reporting delays: Evidence from an emerging market",Advances in Accounting, incorporating Advances in International Accounting, 24 PP. 217–226

Banimahd B, (2010). "Determinants of audit report lag in interim financial statements ", Iranian Journal of Accounting and auditing Researches, Islamic Azad university, Central Tehran Branch, (Forthcoming)

Banimahd B, and Vafaei E, (2012). "The effects of client size, audit report, state ownership,financial leverage and profitability on auditor selection:Evidence from Iran"African Journal of Business Management, Vol. 6(11), pp. 4100-4105,

Cohen S, and Leventis S, (2012). "Effects of municipal, auditing and political factors on audit delay", Accounting Forum, (forthcoming)

Ezat A, & El-Masry , A, (2008). "The impact of corporate governance on the timeliness of corporate internet reporting by Egyptian listed companies"Managerial finance, Vol 34, Issue 12. 848 – 867

Givoly D, and Palmon, D, (1982). "Timeliness of annual earnings announcements: some empirical evidence". Accounting Review, 57(3), July: 486-508.

Habib A, and Bhuiyan B,(2011). "Audit firm industry specialization and the audit report lag", Journal of International Accounting, Auditing and Taxation, 20, PP. 32–44

Hajiha z, and Rafiee A, (2011)." The Impact of Internal Audit Function Quality on Audit Delays", Middle-East Journal of Scientific Research 10 (3): 389-397, 2011

Kross W, and Schroeder D, A, (1984). "An empirical investigation of the effect of quarterly earnings announcement on stock returns". Journal of Accounting Research, 22(1), spring: 153-176.

Owusu-Ansah S, and Leventis s, (2006). "Timeliness of Corporate Annual Financial Reporting in Greece" European Accounting Review, Vol. 15, No. 2, 273–287.

Sarhangi H, (2001). "Investigating factor effecting Timeliness of financial reporting in Iranian capital market", Master Thesis, Tarbiat Modares University, Tehran, Iran.

Tanyi P, Raghunandan K, and Barua A, (2011). "Audit Report Lags afterVoluntary and InvoluntaryAuditor Changes", Accounting Horizons, Vol. 24, No. 4, pp. 671–688

Vermeer T, (2008). "Market for former Andersen clients: Evidence from government and non-profit sectors". Journal of Accounting and Public Policy 27: 394–408.

Zeghal D, (1984)." Timeliness of accounting reports and their information content on the capital market" Journal of Business Finance and Accounting, Vol. 11, No. 3, pp. 367–380.