Relative Contributions of Audit and Management Delays in Corporate Financial Reporting: Empirical Evidence from Nigeria

OLADIPUPO, A.O. (Ph.D & FCA)
Senior Lecturer
Department of Accounting
Faculty of Management Sciences
University of Benin
Benin City, Nigeria

IZEDOMI. F.I.O. (Ph.D & FCA)
Professor of Accounting & Dean
Faculty of Management Sciences
University of Benin
Benin City, Nigeria

Abstract

The objective of the study is to assess the relative contributions of audit delay and management delay to the total delay in corporate financial reporting in Nigeria. Three types of delay in corporate financial reporting were identified: audit, management and total delays. Data were obtained from the annual reports and accounts of Seventy Five (75) companies quoted on the Nigerian Stock Exchange from 2000 to 2010. The contributions of audit delay and management delay to the total delay in corporate financial reporting were analysed using relative frequency distribution method and test of significance difference in means. The results showed that on the average the audit delay was about 163 days while management delay and total delay were 92 days and 255 days respectively. These showed that audit delay contributed more significantly to total delay than the management delay in corporate financial reporting. The difference in the means of audit and management delays, which was 71 days, was statistically significant at 5% level unlike what was found in India by Amitabh (2005). We recommended that auditors should be made to work faster on their audit engagements to enable companies meet their early reporting obligations.

Keywords: Audit delay, management delay, total delay and corporate financial reporting

1. Introduction

Corporate financial reporting is a means by which management achieves their steadwarship responsibility by preparing and publishing audited annual reports and accounts. Timeliness of the published audited annual reports and account is one of the essential qualitative attributes desired of any good accounting information. Timeliness of accounting information is about the availability of accounting information when it is needed and how current when it is received and used. Many studies on timeliness of accounting information examined factors causing delay in corporate financing reporting. Most of these studies centred on audit delay thereby giving impression that the delay in corporate financial reporting is caused by the auditors.

Oladipupo and Izedonmi (2009) posit that delay in corporate financial reporting is inevitable and delay is not only caused by the auditors but that management is partly responsible. Management has a lot of discretion to exercise in corporate financial reporting process. No external audit exercise will commence until the management makes a draft copy of annual report and accounts ready. Similarly, the management has role to play in facilitating the commencement and chasing progress of audit exercise. Even after the end of audit exercise and the audit report is made available, it take management responsibility to organize for annual general meeting where the audited annual report and accounts can be presented to the stakeholders. Even in the matter of filing of copies of audited annual report and accounts with various regulatory bodies like relevant tax authorities, security and exchange commission (SEC) and corporate affairs commission (CAC), management has a lot of discretion to exercise, the extent guidelines and regulations not withstanding.

The use of management discretion power in corporate financial reporting has necessitated the study of how much delay is caused by management in corporate financial reporting process. Amitabh (2005) in India and Akle (2011) in Egypt have examined this phenomenon of management delay in corporate financial reporting. Studies in Nigeria on delay in corporate financial reporting have essential concentrated on the role of auditors in what is generally tagged audit delay (see Fagbemi & Uadiale, 2011; Oladipupo, 2011; Modugu, Eragbhe & Ikhatua, 2012 and Iyoha, 2012). There is no existing study on management delay in corporate financial reporting to the best of out knowledge. It is against this back drop that this study examines the contributions of management delay and audit delay to total delay in corporate financial reporting. It is hypothesized that there is no statistical significant difference between the mean of audit delay and mean of management delay in corporate financial reporting in Nigeria.

2. Review of Literature

Many studies on timeliness of corporate financial reporting have been on audit delay. Those studies on audit delay attempt to account for factors responsible for audit delay. Audit delay has been considered as the length of time from a company's financial year end (otherwise known as the balance sheet date) to the date of the auditors report (Abdulla, 1996; Ashton, Willinghan & Elliot, 1987; Carslaw & Kaplan, 1991; Hossian & Taylor, 1998; Ng & Tai, 1994; Whittred & Zimmer, 1984)

Abdulla (1996) examined the relationship between firms' characteristics and audit delay of 26 companies in Bahraini. The firm characteristics considered included profitability size, distributed divided industry membership and debt equity ratio. The results however showed that there was a significant negative relationship between audit delay and profitability, company size and distributed dividend respectively.

Similarly, Bonson-Ponte, Flores and Escobar-Rodrignez (2008) analysed the factors that determined delays in signing audit reports in the Spanish markets for the period of four years (2002-2005). They observed that regulatory pressure and company size affected the audit delay while audit firm, qualifications or regulatory changes showed no significant relationships with audit delay. Big companies and those that were internally regulated and subject to regulatory pressure signed the audit reports earlier than the others.

Mohammed-Nor, Shafie and Wan-Hussin (2010) examined audit report by in Malaysian public listed companies using a cross-section data in 2002 from 628 firms. Audit lag was regressed on board of directors and audit committee characteristics. The results showed that active and larger audit committees shorten audit lag but no empirical evidence to support the relationships and effects of the audit committee independence and expertise on the timeliness of audit reports.

Furthermore, Fagbemi and Uadiale (2011) in examined the determinants of timeliness of audit reports, using data from 45 listed companies, audit report lag was regressed on six corporate characteristics; audit firm size, the business complexity, leverage profitability, international affiliation and the company size. Using the data of the year 2007, the results showed strong negative relationship between the timeliness of financial reports and the companies, affiliation with foreign companies, company size audit firm size, and the profitability. Positive relationships existed between the timeliness of financial reports and business complexity.

Furthermore, Oladipupo (2011) investigated the empirical relationships and the impacts of some of firm characteristics on the audit delay in Nigeria. The study showed that the international linkages of audit firms had positive significant impact on the audit delay. Modugu, Eragbhe and Ikhatua (2012) assessed the relationship between audit delay and some company characteristics over a period of 2009 and 2011. Multinational connections of companies, company size and audit fees appeared significant in influencing audit delay in Nigeria. Iyoha (2012) examined the impact of company attributes on the timelines of financial reports in Nigeria using annual reports of 61 companies for the period of 1999 to 2008. Company age was found to be a significant factor influencing the overall quality of timeliness of financial reports in Nigeria.

Contrary to most studies on audit delay Amitabh (2005) considered three forms of time lags in corporate financial reporting: total time lag, the auditor time lag and reporting time lag. The total time lag was estimated as the interval between the last day of accounting year and the date of annual general meeting. The auditor time lag was taken as the interval between the last day of accounting year and the date of auditors' signatures. The reporting time last was taken as the interval between the date of auditor signature and the date of annual general meeting.

It is this reporting time lag which is called management delay because management is solely responsible for whatever happens after the auditors have signed off the audit report and the time it takes before the auditor reports are filed with the appropriate regulatory bodies or the annual general meeting is scheduled when the audited aimed report and accounts would be presented to the public. Each of three forms of time lags was regressed on the five company characteristics using data from four financial institutions in 2002 and two financing institutions in 2003. The results showed that the various company characteristics did not affect auditor's time lag, reporting time lag and totals tenure lag except the share capital which affected reporting and total time lags respectively.

In another related study, Akle (2011) explored the relationship between corporate governance and financial reporting timeliness (i.e., reporting lag or management delay) for 83 companies listed in Egyptian Stock Exchange for the periods from 1998 to 2007. Regressing the reporting lag on the industry type, company size, gearing, leverage earnings quality and audit opinion the results showed that there were significant differences between the average of delaying period before and after applying the international. Beside the two studies, there are no other studies known to us the best of our knowledge particularly there is no study in Nigeria that considers management delay in financial reporting. This is the gap that this study tends to fill.

3. Methodology

3.1 Source and Method of Data Collection

The data used in this study were collected from the audited annual reports and accounts of 75 companies out of 214 quoted companies on the Nigeria Stock Exchange as at 31st December 2010. The sample size represents 35% of the population. These were companies that could get complete data for the 11 years period. The data, which were extracted from the audited annual reports and accounts, include the balance sheet dates, the audit report dates and the annual general meeting dates of these sampled quoted companies.

3.2 Definitions and Measurement of variables

The three variables were estimated. These are the audit delay, management delay and total delay. These measures of delay in corporate financial reporting were estimated as follows:

(i) Audit delay (AD)

Audit delay is the number of days elapsed between the balance sheet date (BSD) and the audit report date (ARD), when the auditors sign-off the audited annual report and accounts. This is expressed as

AD= ARD- BSD……. (i)

(ii) Management Delay (MD)

Management delay otherwise known as financial reporting delay is the number of days elapsed between the audit report date (ARD) and the annual general meeting date (AGMD) when the audited annual report and account are presented to the public. This is also expressed as:

MD= AGMD-ARD…… (ii)

(iii) Total Delay (TD)

The total delay is the number of days between the balance sheet date (BSD) and the annual general meeting date (AGMD). It is the sum of audit delay and management delay expressed as follows;

TD= AGMD-BSD…… (iii)

3.3 Methods of Data Analysis

Beside the use of descriptive statistics such as the frequency distribution and measures of central tendency and dispersion i.e. minimum, maximum and mean distribution and standard deviations, the relative contributions of audit delay and management delay to the total delay in corporate financial reporting, was examined using relative frequency distribution method, a descriptive statistical method and test of significance difference in means.

4. Data Presentation, Analyses and Interpretation of Results

We present the behavior of audit, management and total delays in corporate financial reporting in Nigeria over the period between 2000 and 2010. The data for this study were collected from a total of Seventy – Five (75) companies which were randomly selected from Eighteen (18) sectors of the companies quoted on the Nigerian Stock Exchange (NSE) between the period of 2000 and 2010. This gives 825 firm-observations of data points.

4.1. Audit Delay behaviour

We considered the behaviour of audit delay (otherwise called audit time lag) in the companies during the years under study.

Table 1: Frequency Distribution of Audit Delays in Days

	Frequency	Percent (%)
1 - 100 Days	288	34.9
101 - 200 Days	369	44.7
201 - 500 Days	145	17.6
501 - 1000 Days	16	1.9
>1000 Days	07	0.9
Total	825	100

Source: Authors' computations (2013)

In table 1, the highest frequency of audit delay of 369 cases with 45% was in the class between 101 and 200 days. From the above analysis, it took between 101 days and 200 days (2-3 months) to get audit reports signed. There were instances where audits of annual reports and accounts were delayed for years with the delays running up to 1,000 days (about 3 years) and above.

4.2 Management Delay Behaviour

After the audit reports had been signed off by the auditors, it took some considerable period of time again before the managements would present the audited annual reports and accounts to the public at the annual general meetings. This showed the exercise of discretional power by management.

Table 2: Frequency Distribution of Management Delays in Days (MD)

	Frequency	Percent (%)
1 - 100 Days	653	79
101 - 200 Days	134	16
201 - 500 Days	24	03
501 - 1000 Days	11	1.3
>1000 Days	03	0.7
Total	825	100

Source: Authors' computations (2012)

Table 2 showed the frequency distribution of the number of days it took managements of the various companies under study to present their audited annual reports and accounts to the public. As observed in table 2, managements took up to 100 days (more than 3 months) in most cases to make the audited annual reports and accounts public at annual general meeting. The highest frequency of 653 cases with 79 % occurred in the first class ranging between 1 – 100 days.

4.3. Total Delay Behaviour

Table 3 showed the frequency distribution of the total delay in corporate financial reporting amongst the various companies in the study

Table 3: Frequency Distribution of Total Delay in Days (A3TTL)

	Frequency	Percent (%)
1 - 100 Days	6	.7
101 - 200 Days	403	48.6
201 - 500 Days	364	44
501 - 1000 Days	37	5
1001 - 1500 Days	07	.8
1501 - 2000 Days	06	.7
2001 - 2500 Days	02	.2
Total	825	100

Source: Authors' computations (2012)

Table 3 showed that the highest frequency total delay (403 cases) with 49% occurred in the class between 101 days and 200 days. Thus, in most cases the total delay took between 101 days and 200 days.

4.4 The Relative Contributions of Audit and Management Delays to Total Delays in Corporate Financial Reporting

The main objective of this study was to examine the relative contributions of audit and management delays to total delays in corporate financial reporting. We have shown that total delay in corporate financial reporting consists of the audit delay and management delay. The relative contribution of each of these components to the total delay in financial reporting was determined by the test for the significance in mean difference using paired-samples t-test. The difference in the mean of audit delay (163 days) and management delay (92 days), which was 71 days, was considered to be statistically significant at 5% level (table 4). Thus, audit delay contributed more significantly to the total delay in corporate financial reporting than the management delay. However, there were instances, where the management delay exceeded audit delay. This may be an issue for further investigation.

Table 4: Test of Difference in Means of TLAR and TLPD

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Time Lag of Auditors' Reports (Auditors Delay)	163.27	825	166.377	5.793
	Time Lag of Public Disclosure (Management Delay)	91.79	825	130.149	4.531

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Time Lag of Auditors' Reports (Auditors Delay) & Time Lag of Public Disclosure (Management Delay)	825	.067	.054

Author's computations (2012)

4.5 Discussion of Findings

The objective of this study was to examine the relative contribution of audit and management delays to the total delays in corporate financial reporting in Nigeria. Unlike in India, for example, where audit time lag (64 days) and reporting time lag (63 days) contributed almost equally to the total time lag in financial reporting (Amitabh, 2005), the situation was different in Nigeria, where the mean audit delay (163 days) contributed more than the mean management delay (92 days) to the mean total delay (255 days), with 71 days mean difference which was found to be statistically significant at 5%. Few exceptions existed where management delay exceeded audit delay, an issue which is calling for further investigation.

5. Summary of Research Findings, Recommendations and Conclusion

The study revealed that the public companies have late culture of financial reporting. Audit delay contributed significantly more to the total delay than management delay. However, few instances existed where management delay exceeded audit delay. The time lags of corporate financial reporting in Nigeria were considerably higher than most other countries of the world. The reasons for the prolonged delay could be as a result of these loose regulations on timeliness of corporate financial reporting. The periods of 120 days (4 months) and 180 days (6 months) after the balance sheet dates expected of companies in the financial and non-financial sectors to publish their audited annual reports and accounts are quite too long. Consequently, when the companies have these extensive periods to publish their accounts and cannot still meet up, the delays become incomparable to the best practice internationally.

The auditors should be made to complete their audit assignments within reasonable period of time to help reduce the total delay in financial reporting. Management should assist the auditors to commence and complete their audit assignments on time. This is because much still depends on the management in terms of appointing and mobilizing the auditors on time. Auditing regulatory bodies should come up with regulations as to monitoring the audit timing amongst their members.

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