

Audit Fees and Timeliness of Accounting Information: Evidence from Iran

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ABSTRACT

The present research investigates 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.

KEYWORDS: Accounting Information, Audit Fees, Capital Market and Disclosure

1. INTRODUCTION

Timeliness of accounting information is a qualitative characteristic of accounting information. The users of accounting information need to accurate and timely information for their decision making. Statement of financial accounting concepts No. 8 recognizes relevance and representational faithfulness as two fundamental qualitative characteristics of accounting information. This statement introduces timeliness of accounting information as a characteristic can enhance the relevance and representational faithfulness of accounting information.

Financial statements can also be taken into account as one of the most effective reports for users' economic decision making. Due to interest conflict between managers and users, an audit system can provide a reasonable assurance on reliability of financial statements that are free from material error for users. In fact, users need to credibility services of financial statements by independent auditor. Auditor request a certain audit fees for his services. When audit fees are high, Shareholders will expect a high-quality audit of financial statements. High-quality audit involve a long time, and this could be effect on timeliness of accounting information. 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 timeliness of accounting information to include audit fees in an emerging market. In other words, we provide evidence on determinants of the timeliness of accounting information 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 fees and timeliness of accounting information in listed firms in TSE from 2003 to 2011. The second objective of the paper is to provide additional evidence on timeliness of accounting information 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 result.

2. LITERATURE REVIEW

Timely disclosure of accounting information has roots in efficient market theory. The most important influence of capital market on financial reporting is full disclosure of information by firms listed in stock markets. Disclosure of different accounting procedures like depreciation methods, methods of inventories pricing, methods of investments recognition and so on must be provided for investors through notes that accompany with financial statements so that they can make better decisions. Furthermore, preparation of interim financial

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statements, consolidated financial statements, cash flow statement, comprehensive income statement, restatement of previous financial statements and the like are samples of stock market impact on financial reporting. According to efficient market theory, if company's management has some information, that information must be disclosed for investors and other users. This will allow investors to make better predictions about the company's future profitability and firm's cash flows (Scott, 2009).

Al-Mosa and Al-Abbas (2008) find that company size, auditor's opinion, auditor's type, industry type and company's profitability impact on timeliness of financial reporting in Saudi-Arabia. Owusu-Ansah and Leventis (2006) find that there is significant relationship between company size, leverage ratio, auditor's type, industry type, internal managers' share and timely disclosure of accounting information in Greece. Ezat and El-Masry (2008) find that company size, industry size, managerial board structure, liquidity and ownership structure influence on timely disclosure of accounting information in Egypt. Abdollah (2007) claim that there is significant relationship between profitability, leverage ratio, managerial board structure, presence of auditing committee and timely disclosure of financial statements in Malaysia.

Mahajan and Chander (2008) found that company size, industry type, and profitability are among important factors in timely disclosure of information in India. Patton and Zelenka (1997) claim that there is significant relationship between profitability, leverage ratio, managerial board members combination, company size and timely information in Czech republic. Boritz *et al* (2006) investigated factors affecting timely information in Canada and find that company size, profitability, financial leverage, audit firm type, industry type, profitability of company are important factors that affect timely information disclosure. Dogan *et al* (2007) found that there is significant relationship between news type, financial leverage, company size, company type, and timely information disclosure. Mensah and Werner (2010) there is significant relationship between company size, leverage ratio, sale growth, industry type, profitability and timely disclosure of accounting information. Dyer & McHugh (1975) found that there is significant relationship between profitability, company size and timely information in Australia. Abdollah (1996) found that there is relationship between profitability, leverage ratio, industry type, company size and timely information in Bahrain. Karim *et al* (2006) confirm that there is a significant relationship between profitability, company size, audit firm type, debt ratio, multi-national companies and timely information disclosure in Bangladesh. Ashton *et al* (1989) found that company size, industry type, auditor's remarks, liability ratio, influence timely disclosure of accounting information in Canada. Leventis and Weetman (2004) verified that company size, industry type, audit opinion type, debt ratio, and profitability influence timely disclosure of financial statements in Greece.

Lamei (2003) investigated the quality of disclosed items in quarterly financial reports provided for TSE and their importance grade from shareholders' point of view through questionnaire. His research results revealed that financial and non-financial disclosed information in quarterly financial reports of companies in TSE is corresponds to information needs of investors. Chitsazan (2003) investigated the information contents of quarterly financial reports in order to influence on users' decision-making through questionnaires. He showed that these reports are effective and provide users with necessary information. Rezayeenayeri and Tehrani (2003) studied the influence of publishing quarterly financial reports on stock price in listed firms on TSE. The results showed that increase (decrease) in earning per share in the mentioned reports would result in increase (decrease) in share price one week before and one week after reports publishing date. Arab Salehi and Bagherpour investigated expectations gap between financial statements users and providers in Iran in a field research and found that financial reporting system cannot satisfy financial statements users' expectations. They showed that users receive their necessary information via non-accounting resources. They attribute this issue to inadequacy of non-financial information disclosure in financial statements, untimely preparation of financial statements, and absence of appropriate accounting electronic information systems in order to get access to information (Arab Salehi and Bagherpour, 2009, 7).

3. METHODOLOGY

3.1. Variables of the research

In this research, the time interval between ending date of financial year and auditing report date of financial statements of the TSE companies for timely preparation of accounting information is the dependent variable. Independent variables are as follows:

Audit type: it is an nominal variable which is shown by zero and one. If a company's auditor is a non-governmental (=private), then the value is zero and if the auditor is Auditing Organization, then the value will be 1.

Audit tenure: is the time when an auditor is auditing in a company.

Firm size: is a scale variable which shows company's size. This variable is measured based on the natural logarithm of each company's sale in every year.

Loss report: it is a nominal variable which takes numbers 1 and zero. If a company reports loss, it takes 1; otherwise, it takes number zero.

Debt ratio: it is the ratio of total debts to total assets.

Auditor change: it is a nominal variable which is shown by 1 and zero. If a company's auditor has been changed in a year, it takes 1 and otherwise, it receives zero.

Institutional ownership: it is a nominal variable and is shown with 1 and zero variables. If the main shareholder of the company is an institute or an investment company, its value is one and otherwise, it receives zero.

Auditor's report type: it is an ordinal variable and it is indicated by 1 and zero. If the auditor's report is unqualified opinion, it is 1 and otherwise zero.

Auditing fee: this variable is calculated by taking natural logarithm of audit fees for any company.

3.2. Research Hypotheses

Research hypotheses are developed as follows, based on the theoretical background of the research:

First hypothesis: there is a significant relationship between audit fees and timely disclosure of financial statements.

Second hypothesis: there is a significant relationship between audit type and timely disclosure of financial statements.

Third hypothesis: there is a significant relationship between audit tenure and timely disclosure of financial statements.

Fourth hypothesis: there is a significant relationship between firm size and timely disclosure of financial statements.

Fifth hypothesis: there is a significant relationship between loss report and timely disclosure of financial statements.

Sixth hypothesis: there is a significant relationship between debt ratio and timely disclosure of financial statements.

Seventh hypothesis: there is a significant relationship between auditor change and timely disclosure of financial statements.

8th hypothesis: there is a significant relationship between institutional ownership and timely disclosure of financial statements.

Ninth hypothesis: there is a significant relationship between auditor's report type and timely disclosure of financial statements.

3.3. DATA AND SAMPLE

Financial statements of sample companies in TSE list during 2003-2011 were analyzed using SPSS 18 software Panel analysis considering the temporary nature of research variables data. Furthermore, investigation of relationship between dependent and independent variables in each year was conducted through correlation and multi-variable regression analysis. Method of selecting statistical sample is as follows:

- 1) Companies which have presented their financial statements to TSE from 2003 onwards.
- 2) They must not be a member of specialized investment and bank companies, because the nature and constituting items of such companies' financial statements is different.
- 3) Their financial period is until the March 21
- 4) Their financial data was in access.

Considering above conditions, about 75 companies (637 observations) had the mentioned conditions and they were selected as research statistical sample.

4. FINDINGS

4.1. Descriptive statistics

Before conducting hypothesis test, research's descriptive statistics are provided as summarized in table 1.

Table 1. Research descriptive statistics (quantitative variables of research)

	Audit fees (million Rials)	debt ratio	Firm size (million Rials)	Audit tenure	Timeliness of accounting information	Number of observations
Mean	309/92	0/157	589,328/6	4	80/69	637
median	240	0/055	175,894	3	78	637
Standard deviation	136/63	0/839	110,154	2/36	36/9	637

Furthermore, table 2 shows the descriptive statistics of qualitative variables of the research. This table shows that the number of unqualified opinions more than qualified opinion. Furthermore, not changing auditor is very larger than changing auditor and many companies in the sample select their auditor from among private auditing companies.

Table 2. Research descriptive statistics (qualitative variables of research)

Year	Auditor type		Auditor's change		Loss report		Auditor's report type	
	Audit Organization	Private auditor	Lack of Auditor's change	Auditor's change	Lack of loss report	Loss report	qualified opinion	unqualified opinion
2003	19	48	52	15	55	12	50	17
2004	28	55	72	11	73	10	61	22
2005	21	64	69	16	73	12	67	18
2006	16	56	68	4	64	8	62	10
2007	20	47	59	8	56	11	55	12
2008	22	56	64	14	66	12	63	15
2009	21	48	60	9	59	10	51	18
2010	21	45	52	14	55	11	46	20
2011	19	31	40	10	43	7	32	18
Total	187	450	536	101	544	93	487	150

Figure 1 shows that audit fees has an increasing trend over research period. Furthermore, figure 2 show that unqualified opinion has also an increasing trend. Figure 3 show that the timeliness of financial statements have decreasing over research period.

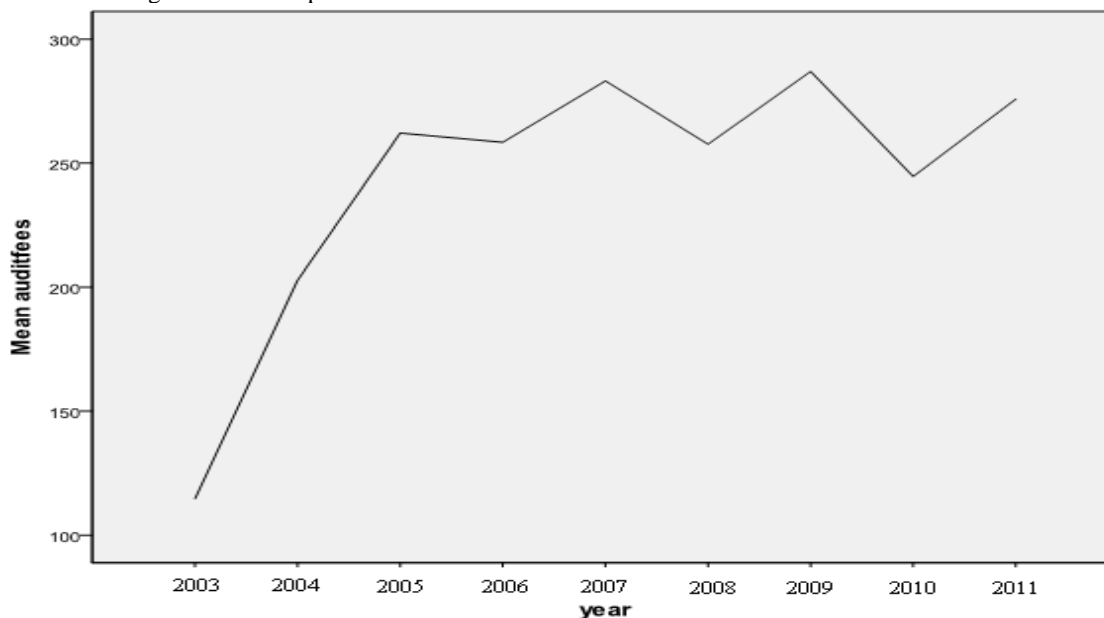


Figure 1.audit fees

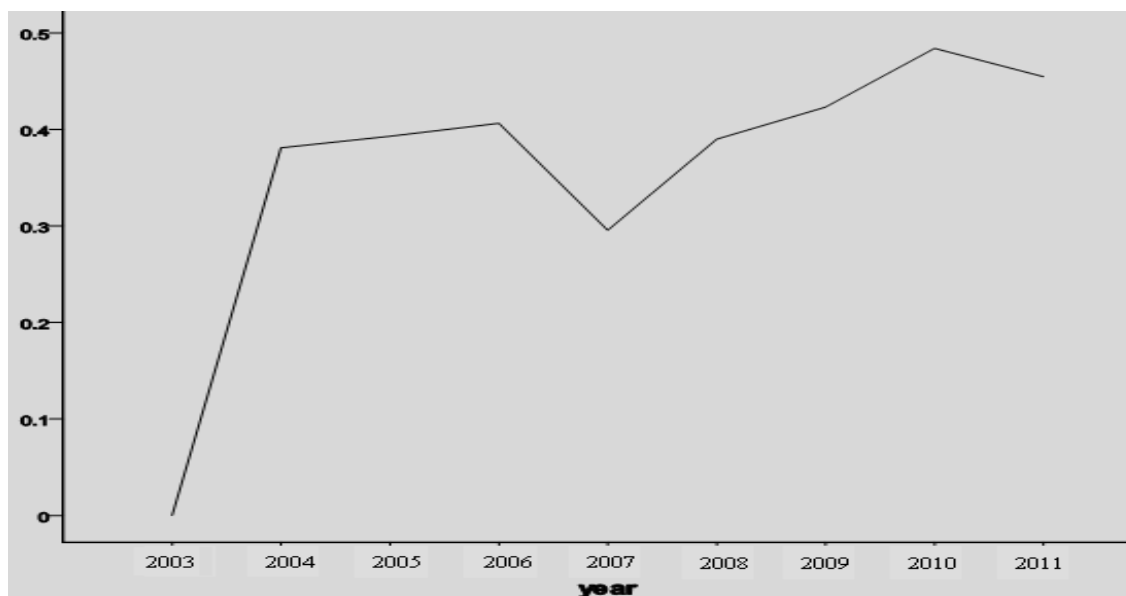


Figure 2.unqualified opinion

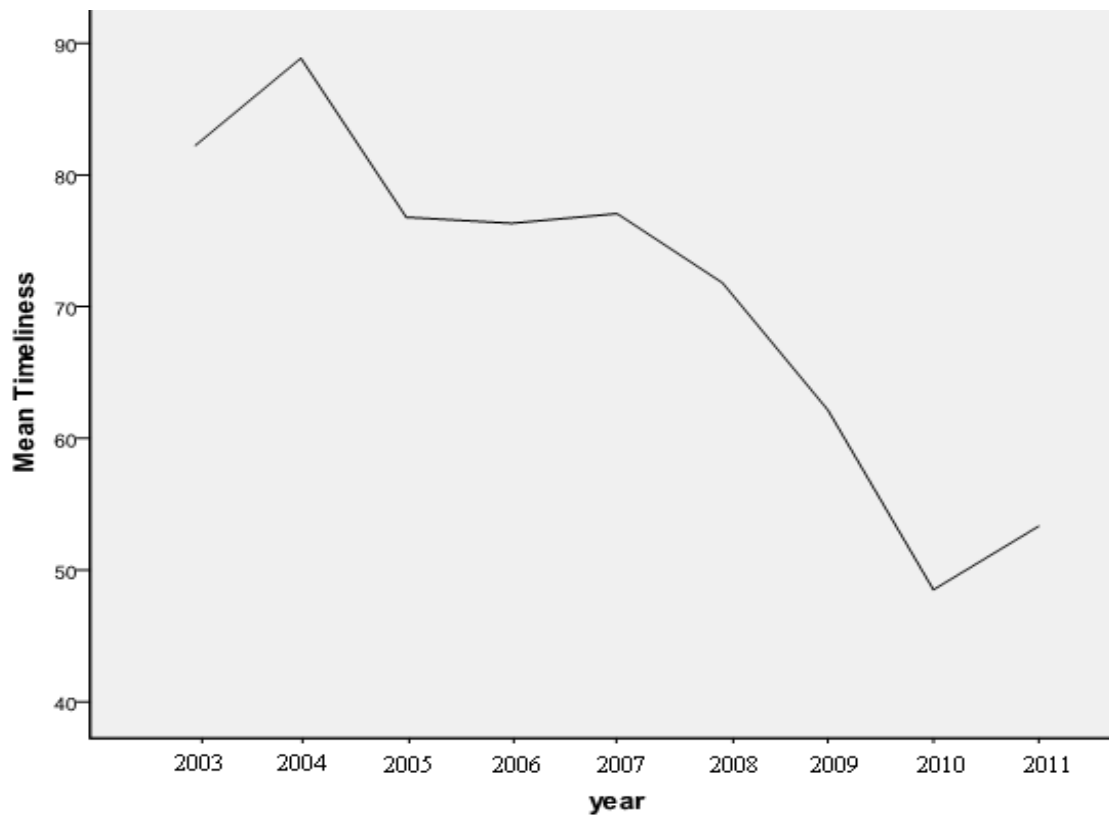


Figure 3. Timeliness of financial statements

4.2. Hypothesis test

Results of hypotheses test summarized in table 3 shows that determining factors in timeliness of financial statements in the studied companies include audit fees, auditor's report type, institutional ownership, auditor change, loss report, auditor's type and firm size.

Table 3: hypotheses test results

Variables	B	T- Statistics	P-value	VIF
Constant	70/342	4/90	0/000	-
Auditor's type	9/768	2/922	0/004	1/532
Audit tenure	0/552	0/815	0/415	1/690
Firm size	2/134	1/892	0/039	1/613
Loss report	14/214	3/494	0/001	1/228
Debt ratio	1/829	1/199	0/231	1/049
Auditor change	11/367	2/829	0/005	1/407
Institutional ownership	-11/87	-3/818	0/000	1/436
Auditor's report type	-10/24	-3/126	0/002	1/27
Audit fees	-5/6	-2/60	0/010	1/492
F-Statistic		6/869	0/000	
R ²		0/192		
Durbin-Watson Statistic		1/684		

4.3. Timeliness financial statements model

In this part, a model is provided for timely presentation of financial statements for all companies in the sample. In the last part, it was indicated that audit fees, auditor's type, firm size, loss report, auditor's change, institutional ownership and auditor's report type has significant relationship with timely disclosure of financial statements and influence it. In table 3, coefficients of each of independent variables have been specified. Therefore, timeliness financial statements model has been extracted from table 3 as follows:

$$Y = 70/342 - 5/6x_1 + 9/768x_2 + 2/134x_3 + 14/214x_4 + 11/367x_5 - 11/87x_6 - 10/24x_7 + \mu$$

In which:

Y=Timeliness financial statements model

X₁= Audit fees which is natural logarithm of auditor's fee

X₂= auditor type, if it is Auditing Organization, the value is 1, Otherwise, it will be zero.

X₃= firm size which equals natural logarithm of sales.

X₄= loss report, which is 1 in the case of loss. Otherwise, it is zero.

X₅= auditor change, if the auditor has been changed, it is 1, Otherwise, it will be zero.

X₆= institutional ownership: it is an ordinal variable and is shown with 1 and zero variables. If the main shareholder of the company is an institute or an investment company, its value is one and otherwise, it receives zero.

X₇= Auditor's report type: it is an ordinal variable and it is indicated by 1 and zero. If the auditor's report is unqualified, it is 1, otherwise, it receives zero.

μ = model's error

5. Conclusions and suggestions

Results of the hypotheses test showed that audit fees has inverse relationship with timely disclosure of financial statements. This means as audit fees increases, the timeliness financial statements will reduce. This implies that increase in audit fees will reduce information asymmetry among shareholders and managers. On the other hand, this can possibly imply that auditors spend less time for auditing in return for receiving higher fees and provide financial statements within a shorter time. Therefore, it is advised to Iranian Association of Certified Public Accountants to improve oversight the quality of determining audit fees and auditing quality of the audit firms. The results also show that when there is institutional ownership in the ownership structure of a company, the financial statements are provided in a timely manner. Therefore, it is advised to TSE to implement corporate governance system in the listed firms because this results in reduction of disclosure time and transparency. Results confirm that whenever auditor's report is unqualified, the timeliness financial statements will reduce. Therefore it is advised to TSE and Association of Certified Public Accountants to have more supervision over auditing quality of auditing firms. Furthermore, results show that variables like auditor change, firm size, auditor type and loss report will increase the time of presenting financial statements. It is advised to large companies' managers to use modern accounting systems and reduce the timeliness financial statements. It is also advised to Auditing Organization and Iranian private auditing firms to have enough auditors staff for auditing large companies in order to reduce the timeliness financial statements. Results showed that auditor change will lead to later the timeliness financial statements. Therefore it is advised to Auditing Organization and private auditing firms to use adequate auditors' staff in the first auditing and consequently reduce financial statements presentation. Hypotheses test did not confirm any relationship between audit tenure and timely disclosure of financial information and also the relationship between debt ratio and the timeliness financial statements

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