African Journal of Accounting and Financial Research
ISSN: 2682-6690
Volume 3, Issue 1, 2020 (pp. 68-76)
www.abjournals.org

AUDIT FEES AND TIMELINESS OF AUDIT REPORT OF LISTED INDUSTRIAL FIRMS IN NIGERIA

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ABSTRACT: *This study examined effect of audit fees on timeliness of audit report of listed industrial firms in Nigeria. Population of the study comprised of all the 14 listed industrial firms on the floor of the Nigerian Stock Exchange (NSE). A purposive sampling technique was used to arrive at a sample size of thirteen (13) based on the availability of data. The research used secondary sources of data collection covering a period of seven (7) years from 2012 to2018.The dependent variable is timeliness (TML) while the independent variable is Audit fees (AUDFEE). Multiple regression analysis with Random Effects Model was employed to analyze data. The panel data result which was estimated through the use of Ordinary Least Square (OLS) method showed that AUDFEE is statistically significant hence, have significant effect on audit report timeliness. The study concludes among others that companies pay auditors less, they will ensure prompt release of audit report as auditors tend to spend less time for auditing when given lesser fees and in return provide audited annual reports and accounts within a shorter time frame. It is therefore recommended that, to ensure timeliness of audit report in Nigeria, regulatory and enforcement agencies ought to investigate audit delay and articulate policies that would put in force compliance with the timely release of audited annual reports and accounts.*

KEYWORDS: Audit Fees, Audit Report, Industrial Firms, Signaling Theory, Timeliness

INTRODUCTION

Divergence opinions in writings show that audit fees have effect on timeliness of audit report. This is the timeliness of audit reporting is frequently affected by fees the external auditors are paid. Audit fee is an amount paid by the company for the certification of financial statements to have an opinion considering their uniformity to Generally Accepted Accounting Principles (GAAP) (Santos, Cerqueira, & Brandao, 2015). Financial statement is one of the most effective reports that investors rely on for making economic decisions. Owing to the conflict of interest which exist between managers and users of financial statements, an independent audit report provides a reasonable assurance of the credibility, dependability and reliability of the report as provided by an auditor. The auditor in return demands for certain amount as an audit fees for his services. When audit fees are high, shareholders would expect high-quality audit report. High-quality audit requires long time which could affect the timeliness of accounting information (Ali, Bahman&Azam2013).

Audit report however, is a written opinion of an auditor regarding an entity's financial statements. It is written in a standard format, as mandated by Generally Accepted Auditing Standards (GAAS). Thus, audit report timeliness becomes an important characteristic of financial accounting information for prompt decision making. It can also be viewed as a way of reducing information asymmetry, mitigating insider trading and reducing the opportunity to spread rumors about the companies' financial health and performance. Similarly, the delay in submitting audited annual reports can trigger a delay in stock transactions by potential shareholders, which can cause investor distrust of the company. Timeliness reflects the credibility and quality of the information presented for this reason, the Securities and Exchange Commission (SEC) which is a regulator of the Nigerian Stock Market has set 31st March for all the listed firms to submit their audited annual financial reports for the previous year ending 31st December. Nevertheless, firm's presentation of annual financial reports takes greatly extended date than expected (Modugu, Eragbe & Ikhatua, 2012). The longer the delay period for the issuance of audit reports, the relevance and reliability becomes increasingly doubtful.

Hence, timeliness is seen as a qualitative attribute of general-purpose financial reporting. "Presentation of financial information in a timely fashion is about making audited annual report and account available to the users of financial information as and when due and ensuring that it is current when it is received and when it is to be used as information" (Accounting Principle Board, 1970). The timeliness of submitting audit reports can increase the usefulness of the information produced (Deni, 2018). The longer the time for submission, the lower the economic value. The delay in submitting audited annual reports can trigger a delay in stock transactions by potential shareholders, which can cause investor distrust of the company. Timeliness reflects the credibility and quality of the information presented. The longer the delay period for the issuance of audit reports, the relevance and reliability becomes increasingly doubtful.

There is need for empirical studies on the industrial goods firms in Nigeria particularly on the subject of audit fees and timeliness of audit report. There are few previous studies so far in Nigeria on this subject such as; Austine, Chijioke and Henry (2013); Modugu, Eragbhe and Ikhatua (2012) do not have a coverage period extended to 2018 and none of them used this sector of the economy. Thus, creating the gap that this work will fill. The outcome of this research would be of benefit to the accounting professional body for governance and monitoring the remuneration of auditing firms.

The main objective of this work is to examine the effect of audit fees on timeliness of audit report of listed industrial firms in Nigeria. In order to achieve this objective, the research hypothesis is formulated and tested in the study:

H_0: Audit fee has no significant effect on timeliness of audit report of listed industrial firms in Nigeria.

The study is structured into five sections: section one is the Introduction, section two takes up the literature review, section three presents the methodology, section four deals with results and discussions and section five concludes the study.

LITERATURE REVIEW

Conceptual Issues

Audit fees has been defined by El-Gammal, 2012; Rusmanto and Waworuntu 2015, to be the determined cost in a contract incurred by a client to an auditing firm for the purpose of auditing its financial statements. Whereas, Santos, Cerqueira and Brandao 2015, opined that, audit fees are an amount paid by the company for the certification of financial statements to have an opinion considering their uniformity to GAAP. Nonetheless, this could result to a very high audit fees, detrimental to the client, or a very low audit fees, detrimental to the auditor, since prices are budgeted through taking into cognizance the amount of hours or days needed to conduct the audit. Zhang and Huang 2013, posited that audit fees paid to auditing firms generally comprised of three parts via; fixed cost of carrying out the audit procedure and delivering audit opinion, the cost of litigation for probable audit failure and reputation loss and the margin of profit determined by the audit firm and market competition. The natural method of pricing expenses is calculated via a simple equation among estimated number of hours (cost) and hourly rate to be applied, which is expressed by the equation as given below:

AudE = HR x RT

Where:

AudE: Audit expenses

HR: Estimated number of hours

RT: Hourly rate to be charged

This method of calculation permits the auditor to negotiate additional charging hours in the event that the amount of hours differs significantly from the budgeted. The higher the audit fees paid as remuneration to the auditor the higher the amount of time put into the audit exercise which could affect the timeliness of the release of audited report. Audit fee is measured by taking natural logarithm of audit fees for any company.

On the other hand, "timeliness of audit report is a measure of the lapse of time between a firm's year-end and the date of release of financial information to the public. Timeliness can be measured as the time between when data is expected and when it is readily available for use. It also means having information available to decision-makers in time to be capable of influencing their decisions. In general, the older the information is, the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends. Timeliness can be defined as the capacity of the decision makers to access information before losing its relevance and ability to affect judgments" (Jim, 2014; Arowoshegbe, Uniamikogbo & Adeusi, 2017). In general, the lesser the time lag, more effective decision one can make out of it.

Theoretical Review

Signaling theory originated from the work of Spence (1973) which explained reasons why managers make known accounting information to the public. Like the agency theory, signaling theory discourses the information asymmetry as a result of the separation of ownership and management. The theory maintains that, the information asymmetry problem in agency theory can be minimized if management give information signals to the investors (Ezat, 2010).

Spence 1973 opined that; signals are the actions taken by management in order to provide investors with quality information about the financial position of the company. Hence, bigger and high-quality companies will want to make a distinction from the smaller once by signaling their achievements and good financial performances in order to gain good reputation. Companies with bad news are also motivated to disclose more timely information so as to avoid bad reputation which may arise due to late disclosure (Ezat, 2010). Signaling theory examined how auditors are well thought of as signals by management in the stock market. Moore and Ronen (1990) as cited in Donia (2017) posited that, companies who can acquire the services of an expensive high-quality audit firms/auditors whose name can add value to the credibility of the financial statement do so to signal that it is a profitable company.

Signal of good and or bad news issued from the financial statements has the ability to affect the decision of investors and as a result, the stock price of the company (Mukhtaruddin & Relasari, 2015). Timely accounting information therefore, signals a good and high qualitative information conveyed by the management whereas smaller companies may have the tendency not to provide timely information. The inability to provide information in a timely manner may give the impression that there is bad news the firm is withholding from publishing to the public which could lead to a decline in the organization's stock price.

Signaling theory therefore, provides the theoretical framework for this research titled audit fees and audit report timeliness (lag) since according to the theory, extended audit repot delay may possibly give investors a bad signal vis-à-vis the company whereas a shorter time frame tends to confirm the quality of the information provided in the stock market. Furthermore, expensive and high-quality audit firms may signal credibility and high-quality financial reports.

Empirical Review

A number of empirical studies have been done to analyze the effect of audit fees on timeliness of audit report. On the foreign scene, Ali, Bahman and Azam, (2013) investigated audit fees and timeliness of accounting information of listed Tehran companies. The research population comprised all the firms listed on the Tehran Stock Exchange (TSE) for the period of 2003 to 2011. Multiple regression analysis was used to analyze data obtained from secondary sources. The result revealed that audit fees have an inverse effect on timeliness of accounting information, as audit fees increase, financial statements are provided timelier to users. Similarly, Walther, Ivam and Glauco (2015) examined the determinants of audit fees paid by companies listed in Brazil. Secondary data was sourced from companies listed on the Brazilian stock exchange for the year 2012. The result of the multiple regression analysis revealed that, there exist a positive and significant effect between fees and audit delay. This research however used only one-year data for analysis which may not give an extensive and comprehensive representation of the result as revealed.

Donia (2017), explored the determinants of audit fees and audit report timeliness on the Egyptian and UK contexts. The study used survey research design and the sample size comprised 212 companies listed on the Egyptian stock exchange and top 350 firms listed on the London stock exchange covering the period of six (6) years from 2008 to 2013. The panel data was analyzed using multiple regression model which revealed that there is a positive significant effect of audit fees and audit report lag. This research differs from the current one in terms of country, domain and the period covered.

In a similar research in Nigeria, Modugu, Eragbhe and Ikhatua (2012) examined the effect of audit delay and several company characteristics in Nigeria. The research used audit fees as one of the variables which was aimed at measuring the extent of audit lag and to establish the impact of selected corporate attributes on audit delay in Nigeria used a sample size of 20 quoted companies for the period of 2009 to 2011. The results from the panel data which was estimated using OLS regression showed that, a major determinant of audit delay in Nigeria included audit fees as paid to the auditors hence, have significant effect on audit delay. Correspondingly, Austine, Chijioke and Henry (2013) determined the effect of audit firm rotation and audit report lag in Nigeria using audit fees as one of the variables. Secondary data was sourced from annual reports and accounts of fifty (50) sampled firms listed on the Nigerian Stock Exchange for the year ended 2011. Data was analyzed using the Ordinary Least Square method (OLS) to determine the effect of the dependent on the independent variables. The research revealed that audit fees has positive significant effect on audit report lag. Though these researches were also in Nigeria but have a coverage period of three years and one year respectively which the current study surpasses and it also differs in domain.

METHODOLOGY

Dependent variable is Timeliness (TML) measured as the interval between the last day of accounting year and the date of auditor's signature. Arowoshegbe, Uniamikogbo and Adeusi (2017)

Independent variable is Audit Fees (AUDF)is measured by taking natural logarithm of audit fees for any company (Santos, Cerqueira, & Brandao, 2015).

The model specification is as follows:

$$\mathbf{TML_{it} = \beta 0 + \beta 1\ AUDF_{it} + \varepsilon}$$

Where:

TML = Timeliness of Audit Report

AUDFEE = Audit Fees

E= Error Term.

$\beta 0$= is the intercept

$\beta 0 – \beta 1$= are the parameters to be estimated in the equation

i= Number of sample firms

t = Number of years

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DATA PRESENTATION AND DISCUSSION

This section presents data for the study, analysis and discussion of findings in accordance with the specific research objective.

Table 1: Descriptive Statistics

Variable	Observations	Mean	Std. Dev.	Min	Max
TML	91	4.474651	.2284487	3.610918	5.192957
AUDIT FEE	91	4.58e+07	9.72e+07	200000	5.39e+08

Source: Researcher Computation Stata 14.2

From Table 1, TML (Timeliness) is a dependent variable while AUDFEE (Audit fees) is the independent variable of the regression model. TML has an average mean of 4 months and 5 days for the industrial firms and is skewed towards the right since it is greater than the median with a minimum 3months 6days and a maximum lag of 5months and 2days which is more than 90 days as stipulated by SEC. This is an indication that many of the industrial companies exceed the stipulated period for the publication of their audited annual report.

AUDFEE has a minimum value of #200,000 which implies that the company has the minimum capacity to pay audit fees of #200,000. The lesser the value of the company's audit fees, the timelier it will be in submitting its audited annual report and accounts. However, the maximum value which the industrial firms can pay its auditors as AUDFEE as shown by the observation is #5.4. Hence, it can be deduced from the observation that, the higher the amount of a firm's AUDFEE, the more the company will be late in submitting its audit report. This therefore implies that, the amount of audit feesrequired by the firms should range from between #200,000 to #5.4. The average value of audit fees to be paid by the observed company is #9.7. The standard deviation measures the average distance between each quantity and mean. From Table 1, it can be observed that data is well spread out from the means of TML and AUDFEE having overall standard deviations of 0.228 and 9.72 respectively.

Regression Analysis

Tables 2 to 4 respectively present results of the ANOVA, over all Model Fit and the regression analysis with one dependent variable to be Timeliness (TML) and one independent variable to be Audit fees (AUDFEE).

Table 2: ANOVA

Source	SS	Df	MS
Model	.203861491	1	.203861491
Residual	4.49313103	89	.050484618
Total	4.69699252	90	.052188806

Source: Researcher Computation Stata 14.2

Table 2 shows the analysis of variance in the outcome table as the categories to be looked at which are model (variance which can be explained by independent variables), residual (variance which is not explained by independent variables) and total. Sum of Squares (SS) associated with the three sources of variance – Model, Residual and Total are respectively .2039, 4.4931 and 4.6969. Their degrees of Freedom (df) and Mean Square (MS) are also shown in the Table.

Table 3: Over all Model Fit

Number of obs	**= 91**
F (1, 89)	= 4.04
Prob> F	= 0.0475
R-squared	= 0.0434
Adj R-squared	= 0.0327
Root MSE	=.22469

Source: Researcher Computation Stata 14.2

It can be seen from Table 3 that 91 observations were used in the regression analysis. The F-statistic which is the mean square model divided by the mean square residual is 4.04 with a p-value of 0.0475 indicates that the model is statistically significant. The R-squared is 0.0434, which means that approximately 0.43% of the variability of TML is accounted for by the variables in the model. The adjusted R-squared indicates that about 0.33% of the variability of TML is been accounted for by the model after taking into account the number of predictor variables.

Table 4: Regression Analysis Result

TML	**Coef.**	**Std. Err.**	**T**	**P>$\|t\|$**	**95% conf.**	**Interval**
AUDITFEE	-4.90e-10	2.44e-10	-2.01	0.048	-9.74e-10	-5.49e-12
_cons	4.497084	.0260652	172.53	0.000	4.445293	4.548875

Source: Researcher Computation Stata 14.2

From Table 4, the coefficient of the independent variable is -4.90 for AUDFEE. This means, for every unit increase in AUDFEE there will be an expected decrease of 4.90in TML all other variables been held constant. The estimated coefficient of the individual variables can be represented in the regression model as follows:

TML = 4.4971 -4.90AUDFEE

Test of Hypothesis

The objective of this work is to study the effect of audit fees on timeliness of audit report of listed industrial firms in Nigeria. The null hypothesis of the study states that:

H_0: Audit fees has no significant effect on timeliness of audit report of listed industrial firms in Nigeria.

From Table 4, the P>$|t|$ column shows the 2-tailed p-values used in testing the null hypothesis that the coefficient is 0 using an alpha of 0.05. Audit fees has a negative coefficient of-4.90 which is statistically significant because its P-value of 0.04 is smaller than 0.05. From the estimates of the model, AUDFEE has positive significant effect on timeliness of audit report of listed industrial goods firms in Nigeria. Based on the result, the null hypothesis that audit fees have no significant effect on timeliness of audit report of listed industrial firms in Nigeria is rejected. It can therefore, be concluded that, we reject the null hypothesis and state that audit fees has significant effect on audit report timeliness of listed industrial firms in Nigeria. This outcome is in line with the findings of Walther, Ivam and Glauco (2015); Donia (2017) but contrary to the finding Ali, Bahman and Azam, (2013).

CONCLUSION AND RECOMMENDATIONS

This work examined the effect of audit fees on timeliness of audit report of listed industrial firms in Nigeria for the period of 2012 to 2018. Data was obtained from annual report and accounts of the companies. Multiple regression analysis with Random Effect Model was employed, the result of the hypothesis test showed that audit fees has significant effect on timeliness of audit report of listed industrial firms in Nigeria. Based on the findings, it is recommended that companies should pay auditors less to ensure prompt release of audit report as auditors tend to spend less time for auditing when given lesser fees and in return provide audited annual reports and accounts within a shorter time frame. Whereas, the higher the amount of a firm's AUDFEE, the more the company will be late in submitting its audit report. Furthermore, to ensure timeliness of audit report in Nigeria, regulatory and enforcement agencies ought to investigate audit delay and articulate policies that would put in force compliance with the timely release of audited annual reports and accounts.

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