

Firm Attributes and Audit Report Lag in Listed Insurance Companies in Nigeria

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Abstract

This paper presented empirical findings on the effect of audit firm type, leverage and firm size on audit report lag of listed insurance companies in Nigeria. The study sampled seventeen listed insurance companies. Data were extracted from the annual reports and accounts of the sampled companies for the period 2011 to 2020. The study made use of multiple regression analysis as an estimation technique to analyze the data. The study found that audit firm type has significant positive relationship with audit report lag while leverage and firm size have negative and significant relationship with audit report lag. Based on the findings, it is recommended, among others, that the Big-4 audit firms in Nigeria should adopt measures to reduce as much as possible the number of days it takes in completing audit so as to make timely audit report to stakeholders.

Keywords: Audit report lag, Leverage, Firm size, Audit firm type

Introduction

The failure to release timely financial reports is a feature identified with many Nigerian listed companies. In an attempt to stem the tide of untimeliness of accounting information in Nigeria, the regulatory authorities and frameworks including the Corporate Affairs Commission (CAC), Securities Exchange Commission (SEC), and Companies' and Allied Matters Act (CAMA) 2020 as amended issued a regulation requiring corporations operating in the economy to published to the public, their yearly reports on or before 90 days from the end of their accounting period.

However, a publication by the Nigerian Securities and Exchange Commission (SEC, 2018) on the list of firms that submitted their reports to the commission three months after their financial year end showed that, out of the 29 listed insurance firms, 17 were unable to submit their audited accounts to the commission within the stipulated period. As a result of noncompliance, several insurance companies in Nigeria have been exposed to huge amount

of fines by the SEC (Nwoji, 2018). This has been an issue of concern to the shareholders of the affected companies. Because, the fines paid to the commission have effect on their returns (earnings).

Several studies have been conducted examining the factors that influence firms to release their reports timely (Vania, et al., 2021; Evidence et al., 2020; Machmuddah, 2020; Siyanbola et al., 2020; Adesewa & Promise, 2020). Vania, et al. (2021) contended that in developing economies, companies that are audited by large audit firms are more likely to release their financial reports more rapidly because big audit firms are more experienced and have more staffs in evaluating their customers. On the other hand, Machmuddah (2020) was of the view that firms that have higher level of leverage are likely to release their financial reports timely because they are expected to do so by their long-term borrowers. However, Adesewa and Promise (2020) were of the view that firms with lower level of leverage are likely to release their financial reports timely. Adesewa and Promise (2020) is of the view that firms that are large with huge value of assets are likely to release their reports quickly in order to maintain their reputation. These conflicting views provides opportunity for empirical research into the factors affecting the timeliness of release of financial reports by companies.

The studies on the factors that influence the timeliness of financial reports have mostly been conducted in other sectors of the Nigerian economy. This is in spite of the fact that insurance industry has also not been able to comply with the provisions of the law. Akingunola (2018) examined the effect of client attributes on the audit report lag for Nigerian audit companies. Ahmed and Che-ahmad (2016) examined the effect of corporate governance characteristics on Audit Report Lag (ARL) of banks in Nigeria. Also, Ilaboya and Ohiokha (2016) examined the effect of board size, board independence, audit firm type, audit committee size, audit committee independence and firm size on audit report lag among Nigerian manufacturing companies. All these studies were on other sectors and not insurance. It is worthy to note that the results of these studies may not necessary be tenable in the insurance industry because of regulatory and operational differences.

It is in the light of this that the current study sought to examine the relationship of the specific firm attributes of audit type, leverage and firm size on the audit report lag of listed insurance firms in Nigeria. In line with this objective, the following null hypothesis was tested:

Ho₁: Audit firm type, leverage and firm size has no significant relationship with audit report lag of listed insurance companies in Nigeria.

This study provides empirical evidence to practically guide stakeholders particularly investors who are concerned with investing in companies that release timely financial

statements to do so using firm attributes. The study is organized into five main sections. The foregoing introduction is section one, section two is literature review, section three is methodology, section four and five is results and discussion, and conclusion and recommendations respectively.

Literature Review

Conceptual Framework

Audit report lag is the period contrast from the money-related report issue date and review conclusion period for a statutory audited financial statement (Subekti&Widiyanti, 2004). Audit report lag is referred to as the number of days, between the financial year-end and the day the statutory audited financial statement is issued (Karim, & Ahmed, 2006).

The Figure 1 presents graphically the relationship between the dependent variable and the independent variables of the study.

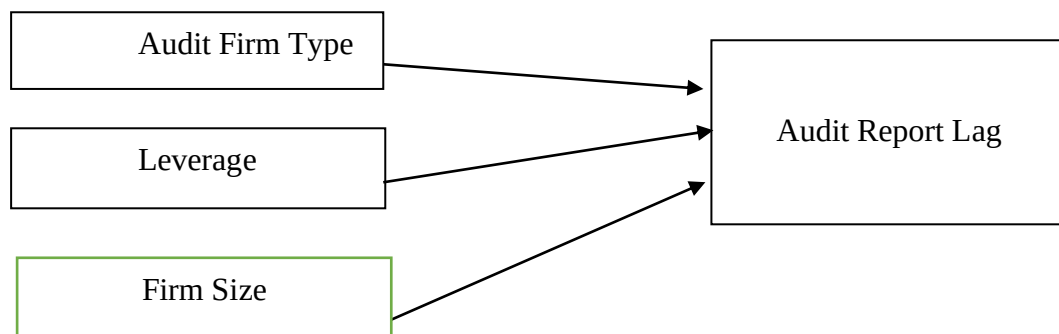


Figure 1: Conceptual Framework of the Study

Source: Authors Design, 2022.

Figure 1 indicates that the firm attributes of audit firm type, leverage and size are determinants of audit report lag. It is assumed that these firm attributes to a large extent will determine how timely the statutory auditors of each company will be able to complete the audit exercise hence release of financial reports.

Audit Firm Type and Audit Report Lag

According to Ohiokha and Idialu (2017) and Ahmed and Kamarudin (2003), audit firms are categorized into Big-4 and Non-Big-4. The Big-4 refers to KPMG, Ernst and Young, Pricewater House Coopers and Deloitte, while the Non-Big-4 are the local audit firms in Nigeria categorized as partnership audit firms and sole proprietorship that are relatively smaller in size. Because of their resources, the Big-4 audit firms are associated with shorter audit report lag than the Non-Big-4 audit firms.

Empirically, Ibadin and Afensimi (2015) found that audit firm size has influence on audit delay. Darryl and Senny (2018) studied the effect of corporate governance instruments on

audit report lag in Indonesia. The result of the research suggested that audit firm type have significant association with audited statutory financial reports timeliness. Inuwa, et al. (2015) assessed IFRS adoption, corporate attributes and audited statutory financial report timeliness using Nigerian companies. The study used ordinary least squares (OLS) technique for data analysis and found that auditors' firm types are substantial predictors of audit timeliness in Nigerian deposit money banks.

On the contrary, Dibia and Onwuchekwa (2013) investigated the delay in presenting audit reports for companies in Nigeria. The findings reveal that there is a positive but insignificant link between audit firm type and the delay in the audited reports. Likewise, Big4 audit firms do not directly influence the timely release of the auditor's report. Hashim and Razak (2013) investigated the association between business attributes and timely reporting in Malaysia. The regression result showed that there is an insignificant relationship between the timeliness of business reports and the size of an accounting firm.

Leverage and Audit Report Lag

Leverage is the ratio to which a company uses interest rate embedded instruments such as debt than equity to finance its commercial activities (Yegon, 2015). High level of financial leverage is usually followed by high interest payment. It is generally expected that companies that are highly levered have experience longer audit report lag. This is because it may take the audit firm longer time to investigate debt contracts. On the other hand, it is also argued that highly indebted companies are under pressure to release more timely their financial reports to satisfy lenders (Abdulla, 1996).

The empirical evidence on the relation between leverage and audit report lag is mixed. Ibadin and Afensimi (2015) who examined corporate characteristics and review delay in developing markets with a focus on Nigeria, using panel regression techniques as a tool of data analysis, showed that leverage has no significant influence on audit delay. In another study by Akle (2011) on the association between characteristics of companies and audit report timeliness of listed firms on the Egyptian stock exchange, it was shown that companies that are highly geared are faster in releasing their financial reporting.

Adebayo and Adebisi (2016) analyzed timeliness of financial statements of 15 Nigerian deposit money banks for the period 2005 to 2013. The result shows that leverage is not a significant factor influence that determines timeliness of financial statements. Turel and Tuncay (2014) conducted an analysis on audit delay using 508 Turkish firms for the period 2013. Using multiple regression analysis to analyze the data, it was found that leverage has a negative but statistically not significant association with audit delay. Also, Sulaiman (2015)

who analyzed the timeliness of financial reports of companies listed in Jordan stock market, adopting the logistic regression analysis, showed that there is no significant relationship between leverage and the timeliness of statutory financial reports.

Firm Size and Audit Report Lag

The literature on audit report lag largely posits that larger firms are associated with longer audit report lag than smaller companies. Ilaboya and Ohiokha (2016) examined the effect of board size, board independence, audit firm type, audit committee size, audit committee independence and firm size on audit report lag among Nigerian manufacturing firms. Using a sample of 120 listed manufacturing companies on the Nigerian Stock Exchange with data sourced from annual reports and accounts of the companies and adopting OLS regression for analysis, the study found that firm size has a significant effect on audit report lag.

Machmuddah, (2020) examined the influence of firm size, profitability solvability and size of the accounting firms on audit report lag among mining firms in Indonesia from 2015-2020. The data was sourced from annual reports and accounts of 96 listed mining companies in Indonesian Stock Exchange. Using multiple regression model, the study found that firm size has no influence on audit report lag. Sanyaolu and Adejumo (2021) analysed the effect of firm's attributes on auditors' report lag of 10 listed banks in Nigerian Stock Exchange. The data was generated from annual accounts and reports. Using multiple regression analysis, the study found that size has no significant effect on audit report lag.

Theoretical Framework

This study is supported by the agency theory. The agency theory was propounded by Jensen and Meckling (1976). The theory postulates that agency costs arise from clashes of interest among the company's owners and managers. Costs for the agency are characterized as the totality of the prices of supervision incurred by the principal, contracting costs suffered by the agent and residual loss. The theory suggests that agents can engage in opportunistic behavior at the expense of the principal. In addition, low management interest in operations will greatly affect the performance of the company. Shukeri and Nelson (2010) indicates that effective corporate governance improves management control over the company and reduces the occurrence of mismanagement and backlog of audit reports. Corporate governance is thus seen as an important tool for controlling management behavior (Shukeri & Nelson, 2010).

Jensen and Meckling (1976) stated that the institution's problems are due to the inability of the principal to monitor the company administrators directly. To reduce the agency's difficulties, the client requires that the financial report be certified by a professional and independent auditor. External audit is therefore a method of managing opportunistic

management behavior and making the financial reporting framework more reliable (Shukeri & Nelson, 2010). If the agency's problems persist, the auditors will spend more time reviewing and in turn increase the delay in the audit report (Leventis, Weetmanm & Caramanis, 2005). Timeliness of financial statements will certainly cause problems in the communication between the principal and the agent. High indebtedness puts a lot of pressure on debtors to submit reports (Abdulla, 1996) as a result, the corporation will submit its audited report on time. However, companies that are highly leveraged may intend to conceal the level of risk, in turn delaying the publication date of their statutory business report (Modugu & Ikhatua, 2012).

Methodology

This study examined the relationship between firm attributes and audit report lag of insurance companies in Nigeria. The population of the study consists of the twenty-nine listed insurance companies in Nigeria as at 31st December, 2020. However, seventeen companies were sampled. The sample was arrived at in line with the following criteria;

- i. A firm should not have been delisted within the period under consideration, and
- ii. A company's data must be available throughout the period of the study (2011-2020).

The study data was extracted from the annual reports and accounts of the sampled companies during the period 2011 to 2020. The dependent variable in this study is audit report lag and is measured as the number of days between the accounting year-end and the date that the auditor signed the audited statutory financial reports (Oreoluwa, Adedapo & Okunuga, 2018). The explanatory variables for study comprise of audit firm type, leverage and firm size. Audit firm type is measured as a value of 1 for Big-4 firms and 0 for others (Oreoluwa, Adedapo & Okunuga, 2018). Leverage is measured as the ratio of firms current and non-current liabilities to total assets (Khalid & Qais, 2012) while firm size is measured as natural logarithm of the total assets.

The data used is panel in nature because the data cut across different firms at different times. Therefore, panel regression was used for the purpose of analyzing the relationship between the dependent variable and explanatory variables. The relevant regression model is specified as follows:

$$ARL_{it} = \beta_0 + \beta_1 AUDTY_{it} + \beta_2 LEV_{it} + \beta_3 FMSZ_{it} + \epsilon_{it} \dots\dots\dots (1)$$

Where; ARL=Audit report lag, AUDTY= Audit Firm type, LEV= Leverage, FMSZ= Firm Size, i = no. of sampled firms (17), t = no. of years (t=10), β_0 = Intercept, β_1 , β_2 , = the coefficients of the independent and control variables, and ϵ = Error term.

Results and Discussion

Table 1 presents the summary descriptive statistics of the study data.

Table 1: Summary of Descriptive Statistics

Variables	Mean	Std. Dv.	Min.	Max	Obs.
ARL	212.57	180.99	51	312	170
AUDFTY	0.64	0.68	0	1	170
LEV	1.09	7.64	5.6	99.6	170
FSIZE	11.47	1.10	13.06	99.06	170

Sources: Authors computation

From Table 1, it can be seen that the average audit report lag is 212 days which means averagely it takes the insurance companies 212 days to release their audited financial reports. The minimum is 51 days which means that the lowest days it takes the firms to release their audited reports is 51 days and the maximum of 612 days shows that there are insurance firms that take up to 312 days before releasing their audited annual reports. For audit firm type, it can be seen that 64% of the sampled insurance firms use Big-4 audit firms in Nigeria and the minimum is 0 while the maximum is 1 which signifies the dichotomous nature of the variable. The average leverage is 1.09 with 5.6 and 99.6 as minimum and maximum respectively. The average firm size is 11.47 with 13.06 and 99.06 as minimum and maximum respectively. The standard deviations in the Table 1 shows that there is serious variability from the mean for all the variables with the exception of firm size.

Table 2: Correlations Matrix

	ARL	AUDFTY	LEV	FSIZE
ARL	1.00			
AUDFTY	0.5875	1.00		
LEV	0.0420	0.0568	1.00	
FSIZE	-0.8057	0.3914	-0.1352	1.00

Source: Authors Computation

From the Table 2, it can be seen that the correlation between the independent variables and the dependent variables have both positive and negative values signifying that there is both positive and negative correlation among the variables. There are some correlation values that are more than 0.8 which shows the likelihood of existence of multicollinearity. Gujarati (2004) stated that a correlation value greater than 0.8 may amount to multicollinearity. This was ascertained by conducting the test for multicollinearity using the Variance Inflation Factor (VIF) and tolerance tests. Table 3 presents the results.

Table 3: Multicollinearity Tests

VARIABLES	VIF	1/VIF
FSIZE	1.20	0.83
AUTYPE	1.18	0.85
LEVERAGE	1.02	0.98
Mean VIF	1.13	

Source: Authors Computation.

From Table 3, the tolerance value (1/VIF) of the individual variables are all greater than 10% and less than 1. So also, the highest value of VIFs is 1.20 (less than 10). The mean VIF of 1.13 is less than 10 which confirms the absence of multicollinearity among the variables (Gujarati, 2004).

The summary regression result is presented in Table 4.

Table 4: Summary Regression Results

Variables	Coefficient	Std. Error	t- value	p-value
AUDTY	121.0	16.13	7.5	0.000
LEV	-1.65	0.64	-1.75	0.082
FSIZE	-113	7.12	-15.95	0.000
Constant	1590	86.62	18.26	0.000
R ²	0.7367			
F-Statistics	158.64			
Probability	0.000			

Source: Authors Computation.

In Table 4, it can be observed that the R² is 0.737 meaning that the independent variables captured in the model of the study account for 73.7% of the changes in the dependent variable, while the remaining is accounted for by variables not included in the model. The F-Statistics of 158.64 which is significant at less than 1% level of significance indicates that the model is fit. It further suggests that the explanatory variables selected for this study jointly and significantly affect audit report lag of listed firms in Nigeria.

As can be seen in Table 4, the coefficient of AUDTY is 121 which is significant at less than 1% level of significance. This means that audit firm type has positive and significant relationship with audit report lag. The coefficient of 121 means that an increase in the audit service by the Big-4 audit firms will lead to increase in audit report lag by 121 days. This implies that the Big-4 firms take longer time in completing their audit in the listed companies in Nigeria. This could be as a result of the fact that the Big-4 audit firms are careful in conducting their audit, they may want to ensure that their audit is comprehensive and of good quality trying to mitigate litigation thus increasing the number of days it takes to finish audit job. The result provides basis to reject the null hypothesis which states that audit firm type

has no significant relationship with audit report lag of listed insurance companies in Nigeria. This finding is in conformity with studies by Shin, et al. (2017) and Meckfessel and Sellers (2017) who found evidence that Big-4 firms takes longer time in preparation of audit report. Furthermore, the result from Table 4 indicates that there is negative but not significant relationship between leverage and audit report lag. This is shown by the coefficient of -1.65 with p-value of 0.082, which exceeds the 1% level of significance. This implies that increase in leverage will result to decrease in audit report lag. This means that companies with high debt may release more timely their audited accounting information. On this basis we reject the null hypothesis that says, there is no significant relationship between leverage and audit report lag. The finding contradicts the finding of Efobi and Okougbo (2014) and Akle (2011) who found that leverage and audit report lag are positively and significantly related. Finally, Table 4 indicates that firm size has a negative and significant relationship with audit report lag as proven by the coefficient of -113 with p-value of 0.000, which is less than the 1% level of significance. This implies that increase in firm size will result to decrease in audit report lag. This means that firms with huge value of total assets may release more timely their audited accounting information. On this basis we reject the null hypothesis that says, there is no significant relationship between leverage and audit report lag.

Conclusion and Recommendations

Based on the outcome of the analysis conducted, the study concluded that firm attributes play an important role in explaining changes in audited financial report delay of listed insurance companies in Nigeria. In particular, the study concluded that the type of firm employed by insurance companies to audit their annual reports is a determinant of audited financial report delay. Also, leverage and firm size have the capacity to influence the audited financial report delay of listed companies in Nigeria.

In line the with findings, the study recommended that the Big-4 audit firms in Nigeria should adopt measures to reduce as much as possible the number of days it takes in completing audit so as to make timely audit report to stakeholders. In addition, stakeholders who are concerned with timely release of financial reports should invest in big companies and that are highly levered.

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Appendix 2: Population and Sample of the Study

S/N	Company Name	Remarks
1	African Alliance insurance PLC	Not selected
2	Aiico insurance PLC	Selected
3	Axa mansard insurance PLC	Selected
4	Cornerstone insurance PLC	Selected
5	Consolidated hallmark insurance PLC	Selected
6	Continental reinsurance PLC	Selected
7	Crusader Nigeria PLC	Not selected
8	Custodian insurance PLC	Not selected
9	Equity assurance PLC	Selected
10	Gold link insurance PLC	Not selected
11	Great Nigeria insurance PLC	Selected
12	Guarantee trust insurance PLC	Not selected
13	Guinea insurance PLC	Not selected
14	International energy insurance PLC	Not selected
15	Lasaco assurance PLC	Not selected
16	Law union and rock insurance PLC	Selected
17	Linkage assurance PLC	Selected
18	Mutual benefit assurance PLC	Selected
19	Nem insurance PLC	Selected
20	Niger insurance PLC	Selected
21	Oasis insurance PLC	Not selected
22	Prestige assurance PLC	Selected
23	Regency assurance PLC	Selected
24	Sovereign Trust insurance PLC	Not selected
25	Staco insurance PLC	Not Selected
26	Standard alliance insurance PLC	Selected
27	United capital insurance PLC	Selected
28	Universal insurance PLC	Not selected
29	Wapic Insurance PLC	Selected

Source: Nigerian stock exchange website 2020.