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Investment Opportunity in Companies and Audit Report Lags: Evidence from Iran

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Abstract

The main objective of this study was to investigate the relationship between investment opportunities of companies and the delay in presenting the audit report. To measure the investment opportunities, company ranking method was used based on three ratio of market value to book value of assets, the ratio of market value to book value of equity and the ratio of gross property, machinery and equipment. To test the research hypotheses, data on 77 companies including 847 firm-year observation was collected from 2003 to 2013 and panel data method was used for estimating multivariate regression model. Results of the statistical tests conducted on the hypotheses showed that companies with more investment opportunities in comparison with other companies had shorter delay in the audit report.

Keywords: Investment opportunities, Timeliness of financial reports, the Delay in auditing report.

Introduction

Due to the movement towards privatization of Iranian companies in recent years, the financial information released by Iranian companies plays an important role in this respect (Setayesh et al., 2013). It is always important that the information entered to the accounting process and ultimately presented as the basic financial statements when is beneficial to users of financial statements in making reasonable decisions that in addition to having reliable quality, it should be timely as well. In general, in a dynamic business environment, financial information should be available on time to lead to the correct and effective decisions (Sulaiman Yousef AL-Tahat, 2015). Many studies are done on the delay in the audit report and the timeliness of financial reporting in different countries. These studies provide strong support that the essential factor affecting the usefulness of accounting information is timeliness. Studies have also shown that timelyin formation 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 a symmetry in emerging markets (Owusu-Ansah and Leventis 2006).The duration of the audit process has much effect on the delay in the audit report and also it cannot be ignored that the implementation of the audit process and commenting on the fairness of the financial statements has become one of the factors that usually lead to the interval in providing financial statements to the users. Several studies including Habib and Bhaiyan (2011) and Pham et al. (2014) pointed out that delays in audit reports is associated with the factors related to features of company and factors related to the audit. Moreover, the relationship between the delay in audit report and investment opportunities in companies listed on the stock Exchange in Tehran has not been considered so far. Research on the relationship between the delay in the audit report and an investment opportunity in companies is important because, today investors without sufficient and timely information, cannot detect the opportunities and risks of the investment appropriately and information should be provided timely in order to be effective on decisions of the financial statement users. In general, it is noteworthy that whatever the audit information to be released with less delay, due to the timely use of reliable information, decisions made by investors are improved and this in turn increases the attractiveness of financial and capital markets and eventually increases the efficiency of market. Since any research is not done in the field of investment opportunities and delay in presenting audit reports in Iran so far. Therefore, given the importance of the issue, in the present study it is tried to investigate the relationship between investment opportunities in companies and delay in their audit report during the recent financial years. The variables that were used in this study to measure investment opportunities including the ratio of market value to book value of assets, the ratio of market value to book value of equity and the ratio of gross property, machinery and equipment.

Given that whatever audited data to be released with less delay, due to the timely use of reliable information, decisions made by investors are improved and this in turn increases the attractiveness of financial and capital markets and ultimately will increase the efficiency of the market. Hence, the relationship between investment opportunities and delays in the audit report has great importance.

Review of literature

The timeliness of financial reports and Audit Report Lag

Financial information is collected from different sources. But financial statements are the core of financial information that are obtained from the accounting system. Therefore, users considers such information more than other financial sources. Audited financial statements which are as one of the reliable information sources for consumers when can be used by users that have a set of qualitative characteristics. One of these features is timely use of information. Schroeder et al (2008) believe that the timeliness of information is supportive feature for relativeness of information. The timeliness of financial reports of companies is crucial for consumers and as a fundamental factor in appropriate disclosure of information influence the value of the financial statements. America Securities Commission has confirmed the importance of timeliness and has enforced the companies to release their financial reports until the certain time. Since timeliness accounting to standards of Iran is one of the factors that limits the qualitative feature of information, excessive delay in audit report threatens the quality of financial reporting by providing information with delay to investors. In Stock Exchange, the main and most important feature is its efficiency. In the event of effectiveness of exchange, the price of the securities is determined properly and fairly and also the asset allocation as the most important factor of production and economic development is done optimally. Stock efficiency has close relationship with existing information in the market and timely and quick reflection of information on the prices of securities. Moreover, Habib (2015) claimed that most likely, auditors before commenting on the fair presentation of the financial statements, spend a lot of time to understand the transactions logically and this in turn can increase the delay in audit report.

Investment Opportunities and Audit Report Lag

In fact, investment opportunities indicate the investment potential of the company. This means that whatever the company's investment potential to be more in the future, the company has more investment opportunities (Khademi, 2009). Collection of investment opportunities refers to the access of business unit to grow opportunities. With flourishing and the rise of technology, this feature attracted a lot of attention during the '80s and' 90s decades. In terms of economy, business units which are at starting point of their activity have higher growth opportunities. In the competitive world of today, given that the companies with high investment opportunity have high potential for investment and also, the issue that the investment opportunities set of a company deeply influence the attitude of managers , owners, investors and creditors to the company; These companies are more attractive for investors to invest and managers also plan to invest in new projects; because, the growth of company enhances the power of managers by increasing the resources under their control, hence, they have an incentive to grow the company (Farzaneh Nokhandan, 2011). Moreover, the important issue in firms with high investment opportunities is to ensure investor to invest in listed companies. Hence, the issue of the timeliness of financial reporting in companies with high investment opportunities has considerable importance to them because today, the role of information in the field of economic decision-making is very critical and investors without sufficient and timely information can not detect the opportunities and risks of the investment appropriately and the information should be provided at right time to influence the decisions of financial statements users. The emergence of joint stock companies is the largest economic developments and one of the results of this phenomenon is the separation of ownership from management. Todays, due to the increase in joint stock companies and the separation of management from ownership, the issues of Agency has become one of the most important concerns for investors. Agency problems stem from the fact that investors often have not the required ability for corporate governance, hence, this responsibility is delegated to managers (Sarraf and Aghabalaei Bakhtiar, 2014). Thus, decision-makers in large organizations cannot get a lot of firsthand information. They should rely on the information provided by others and the fact in many cases increases the risk of getting unreliable information. Therefore, shareholders can use the audited financial statements as one of the important reassuring tools to be aware of how to manage their investments and to the ensure accuracy of performance and efficiency of managers. The possibility of ill will in the preparation of the financial statements by the Board of Directors led to feel the need for the audit profession and the people in the name of the auditor (Darabi and Rezai Jafari, 2012).

Due to the precautionary cost of managers, the value of future investment is uncertain, therefore, managers have more information about investment opportunities and their value compared to the shareholders (Mojtahedzade and Saadat Abadi, 2012).

Given the importance of information asymmetry in firms with high investment opportunities, more control and supervision over the behavior of the managers of these companies is necessary to ensure owners from the lack of opportunistic behavior of managers. Firms with investment opportunities control the management behavior with audit control to ensure the shareholders from the lack of managers' opportunistic behavior. Therefore, it is considered that the existence of a control mechanism that can relatively guarantee the transparency of information reported in the financial statements, it is necessary. This mechanism is provided in the form of financial auditing and by independent auditors in a free economy that is dominant in Iran.

In general, annual report is not released prior to the independent auditor's comment. Thus, auditing report should be on time to provide fair information to the users (Dastgir and Ahmadi, 2014). As a result, the financial information should be provided to them before giving chance to the users to decide or judge upon them. Therefore, whatever information to be closer to the date of occurrence of events, information will be more on time as well which can help investors in economic and financial decisions. Therefore, it can be concluded that whatever the interval between the end of the financial year and the release date of independent auditor's report (delay in the auditing report) to be shorter, its information value and benefits that are obtained from these reports is more. Therefore, since the financial statements provide useful information with respect to business and economic decisions, delay in the publication of the financial statements increases the uncertainty regarding the investment decisions. Hence, it is noteworthy that special attention should be paid to the problem of delay in audit report of firms with high investment opportunities.

Accordingly, this study tried to investigate the relationship between investment opportunities in companies and the delay in the auditing report.

Previous studies

Given that today the role of information is crucial in economic decisions and users of the financial statements rely on the financial statements for making economic decisions and auditing reports is a useful tool to assess the reliability of financial information provided by economic enterprises and often contain more information about presented financial reports. Due to the importance of delay in the publication of audited financial statements, some of the relevant studies are considered in the following.

Habib (2015) showed that after the adoption of the new accounting standards in China, delay in auditing report is increased significantly and it is expected that this increase in delay in auditing report to be more for companies that their auditing is done by small audit institutions.

Pham et al (2014) showed that the most likely, the delay in auditing report of companies with high investment opportunities will be longer. Moreover, results showed a positive correlation between the variables of loss, the auditor's opinion about the continuation of the activity, the fiscal year ending in December, important weaknesses in internal controls and auditor change and the delay in the auditing report and also the size of the company and Big four accounting firmhave significant negative relation with the delay in the auditing report.

Rahimiyan and colleagues (2014) in their study demonstrated that financial distress has no effect on the delay in the auditing reports of companies listed on the Stock Exchange in Tehran.

Rezai Dawlatabadi and colleagues (2014) in a study investigated the factors affecting the delay in the publication of audited annual financial statements at Tehran Stock Exchange on 97 active companies. Their research results revealed that a significant negative relation between the size of the company and the period of signature of auditor as well as the size of the company and the implicit period and ultimately, companies with more debt ratio (financial leverage), more good news and with more number of major shareholders have more delay in release of the audited annual financial statements.

Alavi Tabari and Arefmanesh (2013) have examined the relationship between specialization of auditor in industry and the delay in the auditing report on companies listed in Tehran Stock Exchange in the period from 2002 to 2010. The results showed that the delay in the presentation of the auditing report on companies that have been audited by the specialized auditor in industry is shorter.

Hypothesis development

According to several researches (Tsuiet al., 2001; cahanet al., 2008, Pham et al., 2014) the probability of opportunism of management has been more in firms with high investment opportunities and accounting system has low reliability which including (a) having confidential information about the value of future projects, (b) lack of information asymmetry between shareholders and managers, (c) weak internal control system.

The above-mentioned reasons and the complexity and uncertainty in investment opportunities and higher discretionary accruals increase the risk of auditing in firms with high investment opportunities. Therefore, auditors in the face of increasing auditing risk need to increase the scope of their auditing work to provide the area for informed decisions making about risk; which eventually led to the prolonged delay in providing the audit report. Accordingly, it is expected that companies with more investment opportunities involve the long delay in the auditing report. This issue has led to the hypotheses of study.

H1: There is a positive relationship between the investment opportunity in companies and audit report lag.

H1-1: There is a positive relationship between market-to-book asset (FIRMASS) and audit report lag.

H1-2: There is a positive relationship between market-to-book equity (MKTBEQ) and audit report lag.

H1-3: There is a positive relationship between gross property, plant and equipment ratio (PPEGT) and audit report lag.

Research Methods and Sample Selection

Research Design

We are looking for the conducted studies about delay in auditing report (including, Ettredge et al., 2006; Lee et al., 2009;Habib and Bhaiyan, 2011 and Pham et al., 2014). A multivariate regression model is used to evaluate the relationship between the opportunities to invest in companies and delay in providing auditing report. The model is as follows: Model (1)

$$ARL=\alpha 0 +\alpha 1\ InvestOpp+\alpha 2\ ROA+\alpha 3\ LOSS+\alpha 4\ GC+\alpha 5\ BIG+\alpha 6\ SIZE+\alpha 7\ AUDCHG +\varepsilon.$$

Also, in order to examine the relationship between the ratio of market value to book value of assets and the delay in the auditing report the equation (2) is used that is as follows: Models (2)

$$ARL=\alpha 0+\alpha 1\ FIRMASS +\alpha 2ROA +\alpha 3\ LOSS+\alpha 4GC+\alpha 5BIG+\alpha 6\ SIZE+\alpha 7\ AUDCHG +\varepsilon.$$

And to examine the relationship between the ratio of market value to book value of equity and the delay in providing the auditing report the equation (3) is utilized that is as follows: model (3)

$$ARL=\alpha 0+\alpha 1\ MKTBEQ+\alpha 2ROA+\alpha 3LOSS+\alpha 4GC+\alpha 5\ BIG+\alpha 6\ SIZE+\alpha 7AUDCHG +\varepsilon.$$

And also, the equation (4) is applied to examine the relationship between the ratio of gross property, machinery and equipment and a delay in the auditing report that is as follows: model (4)

$$ARL=\alpha 0+\alpha 1PPEGT+\alpha 2ROA+\alpha 3\ LOSS+\alpha 4\ GC+\alpha 5BIG+\alpha 6\ SIZE+\alpha 7AUDCHG +\varepsilon.$$

In which:

ARL indicates the difference interval between the end of the financial year and the date of the independent auditor's report

Invest Opp is the sum of the ranks of three indicators of the ratio of market value to book value of assets, the ratio of market value to book value of equity and the ratio of gross property, mechinery and equipment.

FIRMASS is the total of market value of equity and book value of long-term debt divided by total assets

MKTBEQ market value of equity divided by its book value

PEEGT shows the fixed visible gross assets divided by the total market value of equity and long-term debt of the company.

SIZE is the natural logarithm of total assets

ROA is the ratio of net profit after tax to total assets

LOSS shows that if the company reports loss, the code of 1is used, otherwise zero.

Gc if the provision of lack of continuity of activity does not exist in the auditing report, the code 1 is used, otherwise the code zero.

BIG if auditing of company to be done by the auditing organization, the code 1 is used otherwise zero.

AUD CHG If audited companies change their auditor, the code 1 is used, otherwise zero

Population and Sample

The statistical population of this study is all companies listed on Tehran Stock Exchange from 2003 to 2013. The required data to test hypotheses were collected by audited financial statements of the companies surveyed and software Rahavard Noein.

The sampling method of this research was screening methods. Therefore, among all listed companies, those that were not eligible for any of the following conditions have been removed and finally the remaining companies were selected for the test:

- The statistical population excludes the investment companies, banks and financial institutions.
- The Company's fiscal year should be terminated to the end of March.
- Companies should not change their fiscal period from 2003 to 2013.
- They should not have trading interval more than six months.
- The required information about companies should be available and at least since 2003 should be listed in Stock Exchange and should be active until the end of the study.

According to the above criteria, for each year, 77 companies were selected as study population and data of eleven years (from 2003 to 2013) which includes 847 firm-year, were extracted from the audited financial statements, auditing report and Software of Rahavard Noein.

Data analysis and Results

Investment Opportunities and Audit Report Lag

As can be seen from Table 1, the results of main hypothesis testing for a period of eleven years show that t-test of the model in the error level of 1% is significant with an inverse relationship. Therefore, the main research hypothesis is rejected. Thus, the main hypotheses of study is rejected. Among variables influencing the delay in the auditing report used as a control variable in the regression model are the change of auditor, company size, auditing organization, and return on assets. Results of the model estimation showed that return on assets and accounting organization with reliability level of 95% have inverse impact on the delay in the auditing report and auditor change with reliability level of 95% has a direct effect on auditing report and also the size of the company at 99% reliability level has a direct effect on the delay in auditing report.

Table 1: Test results related to investment opportunities in companies and the delay in auditing report

P-Value	T	Std. Err	Index	Abbr.	Variable
0/00	-7/35	2/67	-19/64	Invest Opp	Investment opportunities***
0/67	-0/42	12/13	-5/08	LOSS	Loss
0/03	-2/07	23/44	-48/59	ROA	Return on asset**
0/82	-0/23	12/98	-2/93	GC	The auditor's opinion on the continuation of activities
0/04	2/05	7/99	16/38	AUDCHG	Auditor change**
0/02	-2/28	5/99	-13/65	BIG	Auditing organization**
0/00	4/84	1/96	9/52	Ln Size	Company size***
0/07	1/80	30/36	-54/66	Cons	Intercept
847					Number of observation
0/1465					R2
0/0000					Sig.
20/58					F

*Significance at the 90% level, **significance at the 95% level, ***significance at 99% level

Market-to-book asset (FIRMASS) and Audit Report Lag

Table 2: Test results related to the ratio of market value to book value of assets and the delay in the auditing report

P-Value	T	Std. Err	Index	Abbr,	Variable
0/03	-2/18	0/01	-0/01	FIRMASS	The ratio of market value to book value of assets**
0/65	0/44	12/74	5/63	LOSS	Loss
0/00	7/01	1/93	13/58	Ln Size	Company size***
0/80	-0/24	13/35	-3/26	GC	The auditor's opinion on the continuation of activities
0/02	-2/23	27/69	-61/68	ROA	Return on asset**
0/00	-2/97	6/16	-18/27	BIG	Auditing organization***
0/02	2/27	8/22	18/67	AUDCHG	Auditor change**
0/41	-0/81	29/29	-23/84	Cons	Intercept
847					Number of observation
0/0967					R2
0/0000					Sig,
12/84					F

*Significance at the 90% level, **significance at the 95% level, ***significance at 99% level

According to Table 1, the results of the first sub-hypothesis testing for a period of eleven years show that the t-test of model test in the error level of 5% is significant with an inverse relationship. Therefore, the results of research represent that the first sub-hypothesis is rejected.

Market-to-book equity (MKTBEQ) and Audit Report Lag

Table 3: The results of testing the relationship between the ratio of market value to book value of equity with the delay in the auditing report

P-Value	T	Std. Err	Index	Abbr.	Variable
0/00	-3/01	0/01	-0/01	MKTBEQ	The ratio of market value to book value of assets***
0/52	0/64	12/73	8/14	LOSS	Loss
0/00	7/14	1/93	13/79	Ln Size	Company size***
0/84	-0/20	13/32	-2/59	GC	The auditor's opinion on the continuation of activities
0/22	-1/22	30/08	-36/82	ROA	Return on asset
0/00	-2/97	6/13	-18/21	BIG	Auditing organization***
0/02	2/19	8/20	18/00	AUDCHG	Auditor change**
0/37	-0/89	29/23	-26/06	Cons	Intercept
847					Number of observation
0/1013					R2
0/0000					Sig,
13/51					F

*Significance at the 90% level, **significance at the 95% level, ***significance at 99% level

Based on Table 3, t-test of the model testing in the error level of 1% is significant with an inverse relationship. Therefore, the second sub-hypothesis is rejected.

Gross property, plant and equipment ratio (PPEGT) and Audit Report Lag

Multivariate Regression

With respect to the Table 4, the third sub-hypothesis testing results show that the t-test of the model testing in the error level of 1% is meaningful with a direct relationship. Therefore, the results of the study confirm the third sub hypothesis.

Table 4: The results of testing the relationship of the gross property, mechinery and equipment with a delay in the auditing report

P-Value	T	Std. Err	Index	Abbr.	Variable
0/00	3/33	0/04	0/13	PPEGT	Gross property, mechinery and equipment***
0/82	0/22	12/44	2/78	LOSS	Loss
0/00	6/97	1/93	13/45	Ln Size	Company size***
0/84	-0/20	13/30	-2/68	GC	The auditor's opinion on the continuation of activities
0/01	-2/60	24/84	-64/55	ROA	Return on asset**
0/00	-3/04	6/13	-18/63	BIG	Auditing organization***
0/02	2/27	8/18	18/59	AUDCHG	Auditing change**
0/26	-1/13	29/34	-33/07	Cons	Intercept
847					Number of observation
0/1035					R2
0/0000					Sig.
13/83					F

*Significance at the 90% level,**significance at the 95% level,***significance at 99% level

Discussion and conclusion

Since the financial statements provide useful information with respect to business and economic decisions, increase the investment as well. Hence, it is noteworthy that the special attention should be paid to the issue of delay in auditing report of companies with high investment opportunities. Accordingly, the study tried to examine the relationship between investment opportunities of companies and a delay in auditing report in the companies listed in Tehran Stock Exchange.

Since the relationship of investment opportunity in companies with a delay in the auditing report has not been studied in Iran, therefore, the study results are compared with external studies and the main hypothesis testing results with findings of Pham and colleagues in similar research (2014) showed that investment opportunities in companies have significant positive relation with a delay in providing the auditing report.

The primary expectation of the present study was that higher corporate investment opportunities prolong the delay in the auditing report that the investigation of research data indicated that in our country this hypothesis was not true. In this study, the probability of the existence of significant negative relationship between investment opportunities in companies and a delay in auditing report can be expressed in two directions:

First, it can be said that in this study the investment opportunity can be calculated through the ranking of three indicators of the ratio of market value to book value of assets, the ratio of market value to book value of equity and the ratio of gross property, machinery and equipment to ranks of zero, one, two and three. But in a study conducted by Pham et al. (2014) to calculate the investment opportunity the factor analysis method of three variables of the ratio of market value to book value of assets, the ratio of market value to book value of equity and the ratio of gross property, machinery and equipment is used. Given that in this study the variable investment opportunity is calculated by different method, it can be said that the results of this study may be distinguished from the results of Pham et al. (2014). Second, about the significant and negative relationship of investment opportunity with a delay in the auditing report of companies listed in Tehran Stock Exchange, this argument can be made that in Iran companies with high investment opportunity to gain confidence of investors to enjoy the growth prospects should pay more attention to the important criterion of investor for investing in these companies that are the reliability of information contained in the financial statements and because the auditing report includes the auditor's opinion on the reliability of financial statements, these companies provide auditing report with shorter delay. Also, among the control variables, four surveyed variables including changing the auditor, company size, auditing organization and return on assets have been effective on the delay in the auditing report. According to the results obtained, auditor change increases the time of delay in the auditing report. This result is consistent with the results of studies including Bani Mahd and Bahari (2014), Tanyi et al. (2010) and Pham et al. (2014), but is inconsistent with research findings of Kogilavani and Marjan Mohd(2013). On the other hand, the study results verified that more big companies provide auditing report with a longer delay. This result is consistent with research findings of research Givoly and Palmon (1982), Henderson& Kaplan(2000), Payne & Jenson (2002) , Zera Nezhad and Jafari (2008), Bani Mahd and Bahari (2014) and Pour Ali et al. (2013) and is different from the results of some researches likeCarslaw& Kaplan, 1991; Frost and Pownall, 1994;Abdulla, 1996; andAl-Ajmi, 2008. In companies that are audited by auditing organization, the results suggested that they provide shorter delay in auditing report compared to other companies. This finding is partly consistent with findings of Pham et al. (2014) and Gilling (1977). Moreover, the existence of a significant and negative relationship between return on assets and the delay in the auditing report was approved. This issue may be justified in this way that the rate of return on assets of company can be as an indicator for the health and company's financial situation. Hence, companies with more rate of return on assets may represent good news of company and tendency to provide more timely of good news to the public and consequently, shorter delays in auditing reports. The study that is partly associated with this conclusion is the study of Khodadadi and colleagues (2012).

Although no research has been done to examine the relationship between the ratio of market value to book value of assets, the ratio of market value to book value of equity and the ratio of gross property, machinery and equipment and a delay in the auditing report, the first and second hypothesis testing result of the study indicate the existence of negative and meaningful relation between the ratio of market value to book value of assets and the ratio of market value to book value of equity and delay in auditing report and also the third sub-hypothesis confirmation demonstrated a significant positive correlation between the ratio of gross property, machinery and equipment and a delay in the auditing report. To describe the first, second and third sub-hypothesis of study, according to the study of Myers (1977), it can be said that the value of a company is a function of existing investments and investment opportunities. Therefore, it is expected that the ratio of market value to book value of assets and the ratio of market value to book value of equity are positively linked to investment opportunity and since the ratio of gross property, machinery and equipment greatly refers to the existing investments and consequently, lower share of investment opportunities. Therefore, it is expected that the ratio of gross property, machinery and equipment is negatively related to the investment opportunities (Saghafi and Motamedi Fazel, 2011).

According to the results of main hypothesis testing based on the existence of the significant negative relationship between investment opportunity of companies and the delay in the auditing report, it is recommended that investors before making any decision (such as deciding to invest in which company) should analyze the investment opportunities of company in previous years through the ratios presented in this study and should select companies that have better ratios.

According to the results obtained in this study, the following suggestions are presented as follows:

- Comparative comparison of delay in the auditing report in the capital market of Iran and other countries as well as the relationship of delay in auditing report with approval of new regulations in a more on time reporting.
- Investigating the relationship between the delay in the auditing report and efficiency indicators of capital market.
- Conducting this study with other criteria including the ratio of dividends to stock price.
- Examining the regression relationship of the study for various industries separately.
- Investigating the relationship between the effectiveness of internal auditing with the delay in the auditing report.

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