THE EFFECT OF AUDIT FIRM AND FIRM PERFORMANCE ON THE TIMELINESS OF THE FINANCIAL REPORT: A CASE OF VIETNAMESE STOCK MARKET

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Abstract

In this study we focus on the effect of audit firm, firm performance on the timeliness of financial report of companies listed on Vietnamese Stock Market. The data was collected from 100 companies with largest market capitalization and high liquidity on Ho Chi Minh City Stock Exchange (HOSE) in 2014. The timeliness of financial report is known as the timeliness of independent audit activity, measured by the number of days from the end of accounting year to the date of signing the audit report. Our study shows that the audit firm and firm performance measured by ROE index positively affect the timeliness of financial report. On the other hand, the firm performance measured by ROA index negatively affects the timeliness of finanical report of listed companies. Besides, it is also showed that the firm's size and the firm's debt ratio also have the relationship with the timeliness of financial report of listed companies.

Key words: timeliness, firm performance, audit firms, financial reporting, listed company.

JEL Code: M41, M42, G32.

Introduction

Financial report is one of the most useful information sources for investors, lenders and other creditors in making decisions (IASB 2010, p.OB2). Especially, the financial reports audited by the Big-4 audit firms (Deloitte, KPMG, EY and PWC), that are guaranteed by the perennial reputation and commitment to the quality of audit services (Frankel et al. 2002, Hope et al., 2013). The information from the financial report can reflect the financial health and the nature of a business. Using this information the investors can estimate, analyze and decide to invest effectively. In order to ensure the stock-market to operate in a fair, transparent, and effective way the financial report of each firm must be open, explicit, full, true and timely. *In which, timeliness* is one of the qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented (IASB, FASB 2010, QC21). Within this study, authors focus on the timeliness aspect in the financial report publishing after the audit, in the other word, the timeliness of audit report. The timeliness of financial report is also considered as one of the efficient competitive factors in business that a firm should pay attention to. It's cleary that a timely financial report of a firm can attract attention of investors and more or less it creates goodwill of financial report users. There are many researches showing the importance of timeliness in qualifying the financial report. Timeliness in an important tool in financial information as it recieved attentions from the accounting regulators and listing authorities worldwide (Abdelsalam & Street, 2007). The timeliness of financial report can reduce the risk of insider trading, information leaks, and rumors on the stock market (Owusu-Ansah, 2000). Al-Ajmi (2008) suggests that the information on financial report should be published in short periods of time, otherwise some values may be lost. Especially, for the developing economies (for example, Vietnam) the timely financial report supply of listed companies is very important, because of the fact that sources of information such as newspapers, conferences, specialists in analyzing, forecasting,...are under the appropriate development level (Karim & Ahmed, 2005).

Because of the above reasons, in recent years, factors affecting the timeliness of financial report have attracted the attention of local and international researchers. These factors have been considered under various conditions, regular factors such as the audit firm for the listed companies (Big 4 audit firms or Non - Big 4 audit firms), the size of audit firm, and factors related to firm characteristics management are also widely used.

In this paper, the authors study the effect of audit firms (Big 4 audit firms or Non - Big 4 audit firms) and the firm performance (measured by acounting values with ROE and ROA indexes) on the timeliness of financial report of firms listed on the stock market (SM) in Vietnam.

Our study contributes to the financial reporting and corporate governance literature by providing empirical evidence of the impact of audit firm and firm performance on the timeliness of financial report. Our results suggest that the audit firm’s reputation and firm performance measured by ROE index positively affect the timeliness of financial report.

The remainder of the paper is organized as follows. The next section provides the literature review and development of hypotheses. This is followed by a discussion of the research method and data. We then present the empirical results, followed by a summary of our findings and conclusions.

1 Literature review and hypotheses development

Akle (2011) investigated the relationship between the timeliness of corporate financial reporting and corporate governance for companies listed on Egyptian stock exchange during the period from 1998 to 2007. The results showed that Egyptian publiclylisted firms have taken less timeliness to publish their annual financial reporting since application corporate governance principals, the average of days lag between the end of the financial year and the publication of annual reporting has decreased from 134 days in 1998 to 72 days in 2007.

In Jordan, Alkhatib & Marji (2012) used sample includes 137 firms listed on the Jordanian Stock Exchangeto report the results of an empirical investigation of factors that affect the timeliness of audit report in Jordan and the findings showed that for the services sector profitability ratio, type of audit firm, and company size were negatively correlated with audit timeliness, where leverage was the only variable that has a significant correlation. Comparatively, the results for the industrial sector showed that profitability ratio, type of audit firm, company size and leverage were all negatively correlated with audit timeliness. In terms of contribution, this paper is considered original in significance and it is considered among the first to examine audit reports timeliness in Jordan.

Other study of Vuran & Adiloğlu (2013) examined the relationship between the the timeliness of corporate financial reporting and accounting and auditing related variables of listed non financial companies in Istanbul Stock Exchange for the year 2009 by using chi-square analysis for both consolidated and seperate audited financial statements and they found that, for seperate audited financial statements timeliness of the financial statements are related with the sign of net income, sign of ROA, and the current ratio and the audit opinion, for consolidated audited financial statements, timeliness of the financial statements are related with the sign of total equity/ total assets and cash flow from operations/interest expense.

In 2013, Schmidt & Wilkins suggested that both auditor and audit committee expertise are associated with the timely disclosure of restatement details whether auditor quality and audit committee expertise are associated with improved financial reporting timeliness as measured by the duration of a financial statement restatement's "dark period".

Abernathy et al. (2014) investigated the association between audit committee (AC) members' financial expertise and financial reporting timeliness, and extend the discussion by investigating how the source of accounting expertise (e.g., public accounting or CFO) differentially influencesfinancial reporting timeliness. They predicted and found that AC accountingfinancial expertise is associated with timelier accounting information. Further, we find that accounting expertise gained from public accounting experience is associated with timelier financial reporting. However, accounting expertise gained from CFO experience is not. They also find that AC chairs (ACCs) with accounting expertise from public accounting experience are significantly associated with timelierfinancial reporting while ACCs with CFO-sourced accounting expertise are not.

In Malaysian, Ahmad et al. (2016) suggest that the appointment of industry specialist auditors to undertake auditing work under full MFRS convergence improves financial reporting timeliness.

In Vietnam, empirical studies on the financial report timeliness of listed firms on stock market in Vietnam have attracted the attention of many researchers in recent years. Nguyen T. H. Nga & Nguyen K. Nam (2016) showed that the firm's size affected positively on the timelinese of financial report but the ROE index affected negatively on it.

Basing on the above results, authors test the relationship between audit firm and the firm performance to the timeliness of financial report on Vietnamese stock market.

H1: The companies was audited by the Big four audit firms, the publishment time of financial report was reduced.

H2: The higher the ROE index of listed firms is, the shorter time it takes to publish the financial report.

The authors also estimate the independent variables representing the firm performance – ROA, and the ROA index can also reflect the firm performance. This indicator provides investors information on profits generated from investment (or assets). The assets of a firm are formed from borrowing capital and equity. Both capitals are used to finance the firm's activities. The effect of turning investment capital into profit is expressed through ROA.

H3: The higher the ROA index of listed firms is, the shorter time it takes to publish the financial report.

2 Methodology

2.1 Definitions of variables

Measurement of independent variable, dependent variable and control variables is below:

Tab.1: Definitions of variables

Variables	Description	Definition
Independent Variables		

Variables	Description	Definition
Timeliness	Timeliness	Number of days from the end of the accounting year to the date of signing on the financial report
Dependent Variables		
ROA	Return on Assets	The ratio of Return on total Assets
ROE	Return on Equity	The ratio of Return on total Equity
BIG4	Audit firm	1, If a BIG 4 is the audit firm, and otherwise 0 (Big 4 Audit Companies: PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst &Young, KPMG)
Control Variables		
SIZE	Firm size	The natural logarithm of total Assets in year i
DEBT	The ratio of debt	The total liabilities on Equity in year i

Source: Author's reference

2.2 Regression model

The regression model is formed as following:

$$\mathbf{Timeliness_i = B_0 + B_1(BIG4) + B_2(ROE)_i + B_3(ROA)_i + B_4(SIZE)_i + B_5(DEBT)_I + \varepsilon}$$

Where: $\text{Timeliness}_{\mathbf{i}}$= firm i's Timeliness;

$(ROE)_i$ and $(ROA)_i$: firm i's performance

2.3 Sample and data

In order to estimate, analyze, and study the effect of audit firms, firm performance on the timeliness of financial report of firms listed on the Vietnamese stock market, the authors use data from 100 firms with largest market capitalization and high liquidity on Ho Chi Minh city stock exchange (HOSE) in 2014, which are published in financial reports, audit reports in HOSE websites and websites of stock firms. From the regression results, the authors analyze, estimate and come to the conclusion of the effect of audit firms, firm performance on the timeliness of financial report. It's obviously that the 2014 data is rather close to the time of starting the study, so the result can show the tendency of financial report timeliness of listed firms correctly.

3 Results and discussion

Table 2 showed data of firm performance, firm size and debt ratio of firms in 2014 (ROA, ROE, SIZE, DEBT) that we obtained from firms' annual reports, financial statements. It can be seen that the min values of ROE, ROA was -1.07, -0.34, and -0.22, respectively, indicating that although these are the firms in Top 100 whose stocks have the highest trading values in ranking, certain firms still suffered from losses in the fiscal year 2014. The company published financial report the earliest is 12 days and the latest is 97 days from the end of the accounting year to the date of signing audit report.

Tab.2: Descriptive Statistics

		Timeliness	ROE	ROA	SIZE	DEBT
N	Valid	100	100	100	100	100
	Missing	0	0	0	0	0
Mean		71.26	0.1313	0.0727	29.0899	28.1992
Std. Deviation		19.16363	0.14429	0.06413	1.42851	1.76478
Minimum		12	-1.07	-0.22	27	24.76
Maximum		97	0.33	0.25	34.12	34.04

Source: Authors‘ calculation

Correlation coefficient of variables is described in Table 3. It can be confirmed that as using the regression model, it will be less likely to encounter the phenomenon of multicollinearity. For a more secure test, we also re-tested by using coefficient of VIF (Variance Inflation Factor) when running the regression and the results revealed no phenomena of multicollinearity (VIF < 5).

Tab.3: Correlations

		TIMELINESS	ROE	ROA	SIZE	DEBT	BIG4
Timeliness	Pearson Correlation	1	-0.023	-.231*	.320**	.287**	.428**
	Sig. (2-tailed)		0.817	0.021	0.001	0.004	0
	N	100	100	100	100	100	100
ROE	Pearson Correlation	-0.023	1	.795**	-0.124	-0.149	-0.058
	Sig. (2-tailed)	0.817		0	0.219	0.14	0.566
	N	100	100	100	100	100	100
ROA	Pearson Correlation	-.231*	.795**	1	-.355**	-.447**	-0.095
	Sig. (2-tailed)	0.021	0		0	0	0.345
	N	100	100	100	100	100	100
SIZE	Pearson Correlation	.320**	-0.124	-.355**	1	.957**	.292**
	Sig. (2-tailed)	0.001	0.219	0		0	0.003
	N	100	100	100	100	100	100
DEBT	Pearson Correlation	.287**	-0.149	-.447**	.957**	1	.282**
	Sig. (2-tailed)	0.004	0.14	0	0		0.004
	N	100	100	100	100	100	100
BIG4	Pearson Correlation	.428**	-0.058	-0.095	.292**	.282**	1
	Sig. (2-tailed)	0	0.566	0.345	0.003	0.004	
	N	100	100	100	100	100	100

Source: Authors’ calculation

Tables 4 present regression results to test hypothesis H1 to H3 in this study with dependent variable of timliness (Timeliness) and independent variable of audit firms (BIG4), ROA and ROE. The control variables are firm’s debt (DEBT) and firm’s size (SIZE). The regression results showed that significant values of DEBT, BIG4, ROE, ROA, SIZE are lower than 0.05, so these variables have statistical meaning with the timeliness of financial report at the level of 5% and 10%, as following:

+ Sig. (BIG4) = 0.000, so audit firms positively affect the timeliness of financial report 5% and 10% significant level. It means that if listed firm is audited by Big 4 audit firm , it will take more time to publish financial report, thus, hypothesis H1 in this study is rejected.

+ Sig. (ROE) = 0.001, so ROE positively affects the timeliness of financial report 5% and 10% significant level. It means that if listed firms have high ROE index, it will take more time to publish financial report, thus, hypothesis H2 in this study is rejected.

+ Sig. (ROA) = 0.000, so ROA nagatively affects the timeliness of financial report 5% and 10% significant level. It means that if listed firms have high ROA index, it will take less time to publish financial report, thus, hypothesis H3 in this study is accepted.

Tab. 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	.589[a]	.346	.312	15.89964

a. Predictors: (Constant), DEBT, BIG4, ROE, ROA, SIZE

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12594.174	5	2518.835	9.964	.000[a]
	Residual	23763.066	94	252.799		
	Total	36357.240	99			

a. Predictors: (Constant), DEBT, BIG4, ROE, ROA, SIZE

b. Dependent Variable: Timeliness

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4.290	39.609		-.108	.914
	ROE	74.037	24.798	.557	3.560	.001
	ROA	-220.051	53.736	-.736	-4.095	.000
	SIZE	12.721	4.213	.948	3.019	.003
	DEBT	-10.595	3.699	-.976	-2.864	.005
	BIG4	15.739	3.543	.388	4.442	.000

a. Dependent Variable: Timeliness

Source: Authors' calculation

In addition, in this study, authors also found that the control variable of DEBT has negative effect and the control variable of SIZE has positive effect with the timeliness of financial report because its significant value are less than 0.05.

Conclusion

In this paper, the authors study the effect of audit firms and firm performance on the timeliness of financial report of firms listed on the stock market (SM) in Vietnam using data from 100 companies in 2014. The regression analysis results show that the audit firms, the firm performance measured by ROE index positively affect the timeliness of financial report, the firm performance measured by ROA index negatively affects the the timeliness of financial report. Besides, it is also shown that the firm's size and its debt ratio have a reciprocal relationship to the timeliness of financial report. So it can be concluded that the listed firms that are audited by the Big-4 audit firms and having higher ROE index will take longer time to publish the financial report which means that timeliness of financial report is lower. This result is different from the study of Nguyen T. H. Nga & Nguyen K. Nam (2016). So we can see that despite the perennial reputation of Big-4 audit firms and their brand name associated with professional and quality, it does not mean that they will reduce the time of financial report publishment for their costumer. This result maybe due to the high quality requirement of the costumers and involved parties that makes the Big-4 audit firms be more careful, so they need more time to show their opinion to guarantee that the conclusions in the audit report are reliable and convincible when they are published. ROE and ROA are financial indexes representing for firm performance, but their relationship to the timeliness is contrary. The firm with high ROE index will take longer time to publish the financial report, while the firm with high ROA index will take shorter time to publish its financial report. In addition, despite using two variables the firm’s size and the firm’s debt ratio to control the regression model, the authors can also find out the relationship between these variables and the timeliness of the financial report. Unexpectedly, companies with high debt ratio should have published the financial report later than the companies with low debt ratio. So the debt ratio does not put pressure on companies in publishing their financial report because the high debt ratio is not always bad, it must be considered with other factors. This result also opens other way for investors to estimate the timely rate of financial report publishment of a firm when they look at the information on the audit report and finanical report. At the same time, it also helps the firm to have appropriate solution to publish the financial report on time. From the above research results, for companies to publish financial report on time, inside factors of the firm play important roles, so despite the outside factors like audit firm, the improvement of the profitability of the firm on the property will contribute to time reduction of financial report publishment.

Although this study provides some helpful information for companies to reduce their time for publishing the financial report, the size and variety of the chosen sample were not big enough to represent for all the companies listed on the stock market in Vietnam, the 2015 data was not collected because of the lack of time. Besides, the measurement method of financial report timeliness is improved and it can not estimate all the aspects of the timeliness. We will review more measurement methods. It can be based on the survey notes, or the measurement is made by counting the days from date of signing on the financial report to the date of its publishment, continue to enlarge the sample size and research time, simultaneous combination of many varibles representing the firm characteristics and management to estimate their effect on the timeliness of financial report to produce more helpful research results.

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