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Audit Delay in Local Authorities: An Exploratory Study in Kedah, Perak and Kelantan

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Abstract. Timelines is an important qualitative attribute of financial statement. The issuance of Governmental Accounting Standards Board (GASB)'s states that for financial reports to be useful, they must be issued soon enough after the reported events to affect decisions. Therefore, this paper investigates the determinants that influence the audit delay of those local authorities in Malaysia. Besides that, to examine the accounts preparation delays and trend of audit delays of local authorities. The sample comprises three local authorities which are Kedah, Perak and Kelantan during the period 2007 – 2010. The research was conducted by using secondary data which is Auditor General Report and Financial Management Performance of the departments or agencies. The number of days between the date of the financial statement and the date of auditors' report is used to measure the audit delay. The results of this study indicated that Kedah, Perak and Kelantan state local authorities are still lagging in the financial statements preparation and certification. Continual improvements are needed to ensure accounts are preparation and auditing purposes are timely. This will finally improve the public perception on the government's accountability in dealing with public funds.

Keyword: Audit Delay, Financial Reporting, Local Authorities, Timelines

1. Introduction

Financial reporting should be seen as a part of the process of accountability whereby the public is informed of significant updated information based on the economic events occurred in the last financial year as promptly as possible. In Malaysia, the process of getting the financial information from any local authority will take time. This is because the users have to wait until the financial accounts are published in the official government gazettes. As a result, there is a possibility of lack of interest in the financial accounts of local authorities as any potential issues fade with the passage of time (Tayib et al., 1999). If the reporting is overly late or inexplicable, it will lose its relevance. Audit delay refers to the length of time from the auditee's fiscal year-end to the audit report date. Therefore, the local authorities have to take the responsibility to ensure their financial reports are in a timely manner because they are accountable to the public at large. This is very important because it allows the users to evaluate the capability of local authorities in managing their affairs and resources efficiently and effectively.

Based on the literature, there has been an extensive research concerning the audit delay done on the private sectors but very little is known about the local authorities especially the Malaysian local authorities. Thus, it is our interest to come out with the current study concerning the audit delays among local authorities in Malaysia. This study enriches the existing literature on Public Sector Accounting study in Malaysia. The aim of this study is to examine the accounts preparation delays and trend of audit delays of local authorities in Malaysia. Such examination is important since the audit literature has identified the timeliness of financial report as one of the important determinants that enhance the relevance of the information for decision making. Meanwhile, this study also aims to investigate the length of time taken to prepare and certify the annual financial statements in Malaysia. This study contributes to the Government Audit and Public Sector Accounting literature by looking at the pattern of audit delay for the period under study. It provides

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supporting evidence on whether the financial reports provided by the local authorities to the interested users are really relevance for decision making on the public fund management.

The remainder of the paper is organized as follows. First, it discusses on previous research findings based on the literature review. Next, it describes on research design in conducting the study. It further provides the results of the analysis and discussion. The final concludes and provides suggestions for future research.

2. Literature Review

The substantial body of literature regarding ‘audit timing’ or the period between the end of the fiscal year and the date of the audit report, that has developed in the corporate sector is not matched in the government sector. Timeliness in financial reporting enhances the usefulness of the financial information. The timeliness of audited financial reports is considered to be critical and significant determinant impacting the usefulness of financial information made available to external users (Almosa et al., 2007; Aljifri and Khasharmeh, 2010). The accounting profession has recognized that the timeliness of financial reports is a crucial characteristic of financial accounting information for the users, and for regulatory and professional agencies (Soltani, 2002). Nevertheless, there is no exceptional for public sector organizations to provide the timeliness financial information to the public. The timeliness of financial reporting is also the most frequent and common concern expressed to the Governmental Accounting Standards Board (GASB) by the users of state and local government financial reports. The usefulness of the financial information will diminish as the time lag increases. The GASB identifies timeliness as one of the six qualitative characteristics that financial information is expected to possess if it is to communicate effectively, along with relevance, reliability, understandability, comparability, and consistency (Concepts Statement No. 1, Objectives of Financial Reporting, paragraphs 62-68).

Most recently, Merrit Research Services (2010) published averages for issuers of municipal bonds in its database, covering fiscal years 2007-2009. Average audit timing for general purpose governments is between 168 days to 178 days which was found to be a month or more longer than for many types of special-purpose governments which ranges from 110 days for tool roads to 152 days for school districts and airports. Little, if any, literature existed until recently on the topic of how users of governmental financial information view timeliness. Robbins and Simonsen (2010) found that 70 percent of respondents considered audited financial statement received within 9 months to be completely useful. On the other hand, 89 percent identified as no longer useful audited financial statements received after 10 months. In another study, Pane and Jensen (2002) found that the mean audit delay is 100 days for 410 municipalities in the U.S. Additionally, McLelland and Giroux (2000) found that the mean audit delay is 124 days among the 209 U.S. cities councils.

3. Research Design

The purposive sampling was employed which covered the local authorities in Kedah, Kelantan and Perak. The reason why those local authorities are chosen is because they are reported as those who are badly performed in submitting the statement of accounts to the Auditor General Office as reported in the Auditor General Report 2008. The data for the 4-year period from 2007 until 2010 were collected from the State Auditor General Report.

There are four operational variables which comprise of one dependent variable and one independent variable as describe in **Table1**.

Table 1: Variables Measurements

Variables	**Measurement**
Dependent Variable	
Audit Delay	
• Account preparation delay	The length of time taken to prepare financial statements
• Delay in submission	The length of time taken to submit the financial statement to the AG Office.
• Date of certification	The length of time taken from the submission date to the date

	of audit certificate
Independent Variable Audit Opinion	Type of audit opinion, Unqualified opinion, Qualified opinion and Adverse opinion

4. Results

Table 2 shows the descriptive statistic results for selected samples annual report for the period of 2007 until 2010 in Kedah, Perak and Kelantan. The mean accounts preparation delay is 82.81 days with the minimum delays of 61 days. The longest delay is 113 days in Kedah and Kelantan. Based on the Bursa Malaysia rules, the minimum duration period of financial statement submission is six months to the Auditor General Department. In comparing the delays in other countries like USA is 62.5 days (Ashton et. al., 1987), Canada is 54 days (Newton and Ashton, 1989) and New Zealand is 87.7 days (Carslaw and Kaplan, 1991). However, the mean period of audit delay for Malaysian government seems to be longer. Previous studies by Ayoib, C.A. and Shamharir. A. (2008) indicated that the mean audit delay for Malaysian companies is 114 days.

The number of days between the date of the financial statement and the date of the auditor's report are used to measure the audit delay. Therefore, in terms of date of the auditor's certification indicated the average of the duration is 2.25 between 4 to 7 months after the submission of financial statement by state government. The lowest delay is Perak (2.00) followed by Kedah (2.24) and lastly Kelantan (2.51). The audited annual reports need to be submitted within 6 months. Besides, the measurement to determine the financial statement submission to the Auditor General Department is between 0 to 11 months, 11 to 12 months and more than 12 months. According to the Auditor General Report from year 2007 until 2010, the mean for all states government who have submitted the financial statement is between 11 to 12 months (2.43). From the result, the longest delay is Kelantan (3.00) which is more than 12 months. It is indicated by the Auditor General Report 2007 and 2008 that, the audit certification is done in more than six- month period.

In terms of audit opinion given by the auditors, it is pointed that the lowest ranking received the qualified opinion is Kedah (n=20) which is 16.53%, followed by Perak (n=36) with 28.35% and Kelantan (n=31) which is 34.4%. However, based on Auditor General Report in year 2009 and 2010 for Perak State Government, they had received the adverse audit opinion. It shows that, their performance of preparing the financial statement is not presented a true and fair view financial statements. The objective of the audit is to give an opinion whether the State Government financial statement for the year concerned shows a true and fair view. Besides, the audit opinion is viewed as bad news and thus slows down the audit process. Carslaw and Kaplan (1991) and Ashton et al., (1987) also included audit opinion as a function of audit delay investigation. The audit opinion for each State Government from year 2007 until 2010 is presented in **Table 3**.

To examine the relationship between audit delays and audit opinion, Chi-Square test was employed since it is useful for testing the association between categorical variables. As reported in **Table 4**, the results found the significant relationship between the delay in financial statement submission and the audit opinion for the state of Perak (p-value = 0.000). On the other hand, the finding shows insignificant relationships for Kedah (p-value =0.727) and Kelantan (p-value =0.087).

Table 2: Descriptive Statistics for Audit Delays

Variables		**Kedah (N=121)**		**Perak (N=127)**		**Kelantan (N=90)**		**Overall**
		Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	
<u>Dependent Variable:</u> Audit Delay	Accounts preparation delay	97.79	10.386	65.77	20.210	84.87	28.427	82.81
	Delay in Financial Statement submission	2.24	0.483	2.06	0.229	3.00	0.000	2.43
	Date of	2.24	0.429	2.00	0.00	2.51	0.503	2.25

	certification							
Independent Variables: Audit Opinion		0.17	0.373	0.30	0.493	0.34	0.478	0.27

Table 3: Results for Audit Opinions

Years	Kedah (N=121)		Perak (N=127)			Kelantan (N=90)	
	Unqualified	Qualified	Unqualified	Qualified	Adverse Audit	Unqualified	Qualified
2007	25	6	24	6	-	14	10
2008	31	7	22	13	-	13	9
2009	24	5	22	7	1	15	7
2010	21	2	23	8	1	17	5

Table 4: Results for Audit Delays from 2007 – 2010

Dependent/Independent variable	Kedah (N=121)	Perak (N=127)	Kelantan (N=90)
	Audit Opinion *P- value*	Audit Opinion *P -value*	Audit Opinion *P- value*
Accounts preparation delay	0.261	0.303	0.161
Delay submission Financial Statement	0.727	0.000	0.087
Date of certification	0.906	0.120	0.161

5. Conclusion

The results report that the mean of audit delays is more than 100 days which is between 11 to 12 months. This shows that the problem of timelines of the financial statement of state government is serious as compared to other countries like New Zealand which has the lower mean which is within 88 to 96 days only. Based on the Auditor General Report 2008 for Kedah and Perak State Government, they are financial statements for the year ended 2006 which are still in the process of auditing. In terms of audit opinion, the Perak State Government seems to have fair performance of its financial management as pointed by the highest number obtaining the qualified audit opinion in 2008 and 1 adverse audit in year 2009 and 2010 respectively. For future research avenues, a possibility is to examine other determinants like the size of the city and accountability index in assuring the audit delays. Future research also may consider which parties are liable for the audit delay, either on the hands of the preparers or auditors.

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