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Empirical Paper

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A study on audit report timeliness: The Macedonian Stock Exchange

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Abstract: Financial statements reflect important information about the entity's financial position, operating performance, and cash flows and must be made available in a timely fashion to all interested factions to stimulate opportune business judgments.

Ergo, this paper examines the association of the audited annual report delay with eight entity and audit firm attributes.

The sample includes 396 observations of 99 nonfinancial firms listed on the Macedonian Stock Exchange (MSE) for the period 2014–2017. The regression results designate a statistically significant relationship between the audit opinion, company liquidity, size, and industry with the audit opinion lag. Moreover, the publication period ranges from 43 days to 374 days suggesting that timeliness may be a significant concern for Macedonian entities regarding financial reporting policy.

This is the first study to thoroughly assess the relationship between entity, auditor characteristics, and audit report timeliness on the developing Macedonian market.

Keywords: audit opinion, annual reports, company size, financial indicators, Macedonian Stock Exchange, timeliness

JEL Classification: M41, M42

1 Introduction

The financial statements reflect important information about the firm's operating results, financial condition, and cash flows. The financial data communicated in these statements need to be made available in a timely fashion to all constituents to enable them to bring fundamental business judgments. Even so, the timely publication of the annual report, and in that context the financial statements, can be stalled by multiple factors.

Having in mind the above-stated, this article will consider the reasons for the delayed publication of the audit report or more specifically the “factors of delay” in financial reporting, which as a domino effect is transferred to the deadlines in which the auditors have to complete the agreed audit and assurance engagements with clients. The 2014–2017 data from the Macedonian Stock Exchange (MSE) show that it takes 117.5 days on average to publish the audit report. Hence, listed Macedonian companies need, on average, approximately 4 months after the end of the accounting year to prepare the annual financial statements in final form and to publish the audited reports. According to the same 4-year database covering 369 financial statements of listed nonfinancial corporations, the minimum period for financial statement publication is

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43 days, while the upper limit is 374 days. The lack of publication timeliness is a serious phenomenon in the Republic of North Macedonia, and the failure to take appropriate measures to reduce this time interval is not adequately addressed by the Macedonian authorities.

The usefulness of publishing financial statements for the purpose of supervising business activities, strengthening investment decisions, and ensuring the transparency of business operations of enterprises has been accepted by many North Macedonian professional and regulatory bodies such as the Institute of Accountants and Authorized Accountants, the Institute of Certified Auditors, the Council for Advancement and Oversight of the Audit, the State Audit Office, and the Ministry of Finance. Carslaw and Kaplan [1991] point out that business choices based on financial statement particulars can be called into question in terms of relevance given the timeliness of their publication. Hence, published information may lose its value-in-use if it is published outside the prescribed time frame. Prompt reporting is instrumental in the rapid and resourceful execution of securities trading as well as to shaping the prices of traded instruments [Owusu-Ansah, 2000]. In addition, untimely or late financial report publication intensifies the investment decisions ambiguities [Ashton et al., 1987].

Due to the lag, shareholders may decide to invest without appropriate confirmation and classification of facts by relying on informal information sources that can communicate erroneous and incomplete data and misinform investors in their decision-making process. Furthermore, the lengthier the time frame between the official fiscal year-end and the annual report dissemination date, the greater the chances of leakage of confidential information to select stakeholders [Abdulla, 1996].

The formalization of corporate reporting through stock exchanges and financial communication systems as transmission mediums has highlighted the importance of timely disclosures in accounting and auditing. Regulatory bodies, financial information users, and professional accountants acknowledge timeliness as a vital information quality feature [Zeghal, 1984]. Hence, the publication of financial statements in a timely manner has attracted major attention not only from scholars in the field of accounting but also from regulators [Leventis et al., 2005]. This research analyzes corporate reporting timeliness that may be compromised by lags in publishing audited financial statements. Numerous previous empirical studies consider that the delay of the audit is considered as the greatest determinant of the prompt disclosure of enterprise results [Givoly and Palmon, 1982; Chambers and Penman, 1984; Sinclair and Young, 1991; Kinney and McDaniel, 1993; Han and Wild, 1997].

The financial statement timeliness is closely related to the opportune execution of audit procedures [Leventis et al., 2005]. Prior to the disclosure of their financial statements, public entities need to go through a process of checking the reliability of financial statements by external auditors to determine the accurateness of the communicated data. Entities cannot disclose their financial results before auditors complete their annual report examination. However, submitting the report to independent auditors, conducting the audit, and communicating the correction of substantial misstatement in the financial reports often become a lengthy process that may delay the act of publishing the report. The audit lag is calculated as the additional time required to examine the annual accounts and is measured as the period between the completion of the fiscal year until the audit opinion disclosure date. Developing countries are known for the lack of financial information beyond the data published in the financial statements. Consequently, users rely to a great extent on the annual report. Hence, the auditor's willingness to perform quality audits makes evident the key function of timeliness as a factor in the process of disclosing data necessary for making quality business decisions.

In this regard, the findings in this article will help to identify whether MSE-listed entities publish the audit reports within the established legal deadline to determine the existing barriers to timely publication of the audit report and to supplement existing research in multiple manners. This study considers the multivariate association between the timeliness of the audit opinion and multiple explanatory variables for nonfinancial entities listed on the MSE for the period 2014–2017.

By analyzing the audit delay from multiple perspectives, it will be possible to make a relevant comparison of corporate reporting and annual account audit with experiences in Europe. Upon completing this research, future financial reporting reforms and measures will have an empirical basis and comparability

with European practices and will be able to better respond to contemporary challenges. The fiscal year-end corresponds to the calendar year-end, December 31. Hence, the starting date of the obligation to measure the deadline for audit opinion dissemination in this paper is December 31. The audit delay determinants encompass the size of the enterprise; the industry in which the enterprise operates (i.e., manufacturing vs. nonmanufacturing); financial indicators such as profitability, liquidity, and solvency; and determinants related to the external auditor—size of the audit firm and the audit opinion type.

The content of this study is organized as follows. Section 1 elaborates the relevance of the research problem, the subject, the purpose of this paper as well as the methodology that will be applied in the research. Section 2 reviews the legislation and audit milieu that set the background for the Macedonian capital market development. Section 3 focuses on a review of the existing literature and research in the field, leading to the development of the hypotheses and the specification of the research. The research design is elaborated in Section 4, followed by an overview of research results in Section 5. Section 6 concludes the discussion, not disregarding research limitations and opportunities for future work in the field.

2 Background of the study

2.1 Professional financial reporting regulations

The International Accounting Standards (IAS) were the first worldwide accounting principles delivered by the International Accounting Standards Committee (IASC), established in 1973. The main objective then, as it is today, was to facilitate business comparisons across the borders while increasing financial reporting trustworthiness and promoting investments.

The globally adopted reporting standards promote transparency allowing financial statement users to make informed investment decisions. In this regard, some authors even emphasize that IAS contribute to a more stable world. Moreover, the conformity with these unique standards reduces the reporting and governance expenses for internationally dispersed entities whose subsidiaries operate in multiple legislation milieus. As the International Accounting Standards Board (IASB) took over IASC's role, significant progress has been made toward the goal of setting universal international accounting principles of undisputable quality.

The International Financial Reporting Standards (IFRS) have since been embraced by the European Union, leaving the United States, Japan, and China as the only major non-IFRS-mandated capital markets. As of July 2020, 166 states call for the implementation of IFRS for domestic publicly listed enterprises [IFRS, n.d.]. The American Accounting Standards Board—The Financial Accounting Standards Board (FASB) and the IASB are working together to advance and converge IFRS and the US Generally Accepted Accounting Principles (US GAAP). Nevertheless, even though the IASB and FASB jointly issue accounting standards, the process of coming together is still ongoing, partly due to the enacting of the Dodd-Frank Wall Street Reform and the Consumer Protection Act and its intricateness.

In North Macedonia, the IAS were introduced in 2004 with the adoption of the Rulebook on accounting [2015]. Article 469 stipulates that every large and medium-sized entity, the entities determined by law, entities performing banking activities, insurance activities, entities listed on the stock exchange, and entities whose financial reports form part of the consolidated statements of the aforementioned entities need to comply with the IFRS published in the “Official Gazette of the Republic of Macedonia”. The Amendment to the Rulebook on Accounting determines the differences between the accounting standards that refer to large enterprises and the standards for small- and medium-sized entities (SMEs). Following the implementation of the amendments to the Law on Trade Companies [2019], mandatory use of IAS for SMEs is introduced in North Macedonia. The IFRS for SMEs are completely independent standards whose use is expected to provide higher quality in financial reporting and also to simplify bookkeeping operations in small and medium firms.

2.2 Legal framework for auditing

In the Republic of North Macedonia, the Law on Audit [2015] regulates the role and status of the audit activity. The law states that there is a statutory and contractual audit. Statutory audit means mandatory examination, procedures, checks, and assurances on the annual accounts and/or financial statements or consolidated financial statements performed in conformity with the law, IFAC's International Standards on Auditing, and other relevant publications of IFAC that are accepted and published in the Republic of North Macedonia to express an opinion, conclusion, or assurance regarding their veracity, impartiality, and compliance with the reporting standards.

The law also determines who can perform the audit, i.e., only a person holding a certificate issued by the Institute of Certified Auditors of North Macedonia and registered in the Registry of Certified Auditors. The law also defines the audit company as an entity registered in accordance with the Law on Trade Companies and the Registry of Audit companies and holding a license to operate from the Audit Promotion and Supervision Council.

In addition to the certificate issued by the Institute of Certified Auditors to professionals in the audit business, other conditions regulated by law are required. That is, a license for certified auditor is issued to a person who has obtained the auditor certificate and has at least 3 years of experience in auditing, of which 2 years under the supervision of a certified auditor. In this regard, the law does not allow a person who does not have the status of certified auditor and who is not a member of the Institute to perform auditing services in North Macedonia or to present himself/herself as a certified auditor or use any label or description that will create the impression that the person is a certified auditor.

The amendments to the Law on Audit [2015] were issued within the time frame covered by this study (i.e., 2014–2017) but have no effect on the study results before and after the new Law issue date. Namely, the amendments do not affect the legally prescribed time limit for the publication of the annual report of entities listed on the MSE as this is within the scope of the Law on securities [2005]. That is, the legally prescribed time limit for listed entities is 4 months [Law on securities, 2005].

2.3 The role and purpose of auditing financial statements

When deciding where to invest, investors seek confidence and security in the potential allocation of their funds, i.e., they want stability and profitability in the realization of their business decisions. That is why the role of the auditor is invaluable for the business world. In that context, the key beneficiaries of the audited financial statements are the company managers, who evaluate company performance; the shareholders who, based on the audit report, make decisions about their investment in the company; banks in terms of liquidity of the enterprise, i.e., whether to extend financial support or not; the tax authorities in determining the tax liabilities; and other state institutions in terms of whether or not to undertake certain activities to control the enterprise scope of operations. Also, beneficiaries of the audit report are workers and trade unions in terms of negotiations with the company to increase or decrease wages, or change the number of employees. Audit reports are subject to elaboration by economic analysts in relation to statistical analyses for the purpose of adopting better economic policies. Hence, it can be concluded that the role of the external auditor is very important because the audit opinion refers to a wider range of users and whereby the negative consequences of an unreliable report may be consequential for the entire business world. These consequences were experienced in the past with the collapse of Enron, WorldCom, Tyco, Parmalat, Lehman Brothers, and, more recently, the Wirecard scandal.

The primary task of the auditor is to give assurance regarding the financial statements. Namely, the purpose of the annual account audit is to allow the auditor to assess whether the financial statements are prepared, from a material point of view, in compliance with the pertinent reporting legislation [Bozinovska-Lazarevska, 2011, p. 8]. In this regard, the auditor provides an answer and assurance to multiple financial statement users that the information is presented objectively and truthfully. Or, while accounting aims to

identify, record, measure, classify, and summarize the business events and transactions of the enterprise for the purpose of enabling the management to compile and present the financial reports, the independent auditor checks and confirms the veracity and objectivity of the presented data based on the collected evidence.

The American Accounting Association (AAA) defines an audit as a “systematic process of collecting and assessing proof related to reports of economic events and results in to verify the compatibility between existing operating statements and pre-established criteria and to distribute the conclusions to stakeholders” [Bozinovska-Lazarevska, 2011, p. 4]. According to the International Federation of Accounting (IFAC), “the purpose of the audit is to increase the reliance of users in the presented financial information” [Bozinovska-Lazarevska, 2011, p. 5]. The audit opinion is important because it is a bridge of trust that connects companies and users of financial statements.

3 Hypotheses

Independent audit is an external corporate governance instrument that serves to reduce the asymmetry of information as well as to minimize conflicts between the owners and managers of the company. This mechanism strengthens confidence in the financial statements and is considered an important tool that assures owners that managers do not act only for personal gain and interest because the external audit forms and discloses an independent opinion on the quality of information prepared by managers. In essence, the external auditor is an agent whose role is determined by a contract that may also have its own interests, so the auditor’s independence can be challenged. Consequently, the auditor should be independent of the company’s management because based on the close cooperation with them the auditor should collect information to produce an unbiased opinion.

In North Macedonia, corporate financial statements should be made available to various stakeholders who are in need of attested information and who also have their own interests. Principles are regulatory instruments for establishing regulations and inspiring confidence. The Macedonian Audit Law has an undisputable role in guaranteeing the independence of the auditor. In this context, it is important to examine the determinants that have an impact on the timeliness of the publication of the audit opinion in our country.

Previous models analyzing the timeliness of the audit report have shown the effect of several financial and nonfinancial variables on the period needed to publish an audit opinion. The initial focus originated from the North American markets [Givoly and Palmon, 1982; Ashton et al., 1987; Newton and Ashton, 1989; Bamber et al., 1993; Schwartz and Soo, 1996; Henderson and Kaplan, 2000; Knechel and Payne, 2001; USA: Behn et al., 2006; Canada: Lee et al., 2008]. Some of the studies are aimed at researching the audit delay in European markets [Soltani, 2002; Owusu-Ansah and Leventis, 2006] but are also set in a wider global context [Davies and Whittred, 1980; Carslaw and Kaplan, 1991; Ng and Tai, 1994; Hossain and Taylor, 1998; Ahmad and Kamarudin, 2003; Karim et al., 2006; Afify, 2009].

Numerous variables have been applied in previous research not only to study their statistically significant correlation with the audit opinion delay but also to interpret the variations in the time period required for the preparation and publication of audited annual accounts by listed companies. Among the independent variables that are subject to study, the characteristics of the audited company dominate, but no lesser importance is given to the elements of corporate governance as well as the characteristics of the auditing company.

This article analyzes the relationship between the period required to publish the audit report (referred to as the timeliness, audit delay, or audit report lag) and the subsequent financial variables: profitability, current year loss, liquidity, and indebtedness as well as the following nonfinancial variables: size and sector of the enterprise under analysis and the size of the audit company. In the remainder of this section, we will present the variables that are subject of interest of this research in the context of the existing literature to define the hypotheses that will be empirically tested in this article.

3.1 Dependent variable: Timeliness of the audit report

According to Indriyani and Supriyati [2012], timeliness is the time required to conduct an external audit of the annual accounts. That period is expressed as the number of days necessary for the publication of the audit opinion calculated from the accounting year-end until the publication date of the external audit report. Delays in the audit report lead to a reduction in the quality of the information communicated in the financial reports which increases the uncertainty of decisions based on the disclosed data. In his 2011 paper, Akle points out that timeliness means that financial reports ought to be disclosed when users rely on them to form opinions because information usefulness declines if it is not at one's disposal when necessary. Several US studies argue that delayed earnings' releases have an unfavorable impact on stock prices [Chambers and Penman, 1984; Kross and Schroeder, 1984], thus inducing stakeholders to rely on other sources for information on company performance and triggering information leakages [Brown et al., 2011]. This feature becomes even more imperative in developing economies. Concurrently, Aktas and Kargin [2011] define timeliness as the days that elapse between the fiscal year-end and the date when listed entities disclose their annual report in compliance with legal regulations.

The time required to conduct an audit from the closing date of the books to the audit opinion issue date is called the “audit delay” according to Davies and Whittred [1980]. Dyer and McHugh [1975] define the audit lag as the period between the fiscal year-end and the audit report issue day. Iskandar and Trisnawati [2010] claim that the length of time needed to complete the audit—the timeliness of the audit opinion—will affect the time needed to publish the annual report. This study measures the timeliness as the days between 31 December, the legally set fiscal year-end in North Macedonia, and the annual report publication date, whereby the legally prescribed time limit is 4 months [Law on securities, 2005].

Timeliness depends on factors related to both the auditor and the audited company such as the time needed to prepare the financial statements, the board of directors decision to publish the financial statements, regulatory requirements for a minimum period between the Annual General Meeting date, and the reporting date as well as other factors related to the availability of a date or place for the Annual General Meeting [Ahmed and Karim, 2005]. According to Karim et al. [2006], the timeliness of the financial statements is influenced by two types of determinants—external determinants (like regulation, competition) and internal determinants (such as company features), and consists of three groups: audit procedure time frame, opinion publication time frame, and overall timeliness.

Wiwik [2006] argues that delays in the financial statements disclosure are very harmful for shareholders because they lead to market information asymmetry, thus leading to insider trading and innuendos that affect the stability of financial markets.

3.2 Independent variables

3.2.1 Liquidity

Liquidity is an indicator used to measure an entity's ability to service its short-term debt [Reimers, 2011]. This indicator is based on a comparison between short-term resources, i.e., assets, and short-term debt. This relationship reveals a number of internal perspectives on the entity's current financial competence as well as its ability to remain financially viable in the event of problems. Dura [2017] states that companies with an elevated liquidity have a curtailed failure risk when it comes to repaying current debts. The elevated liquidity indicates that the enterprise has solid operating results and can be expected to submit its audited financial statements on time. In their 2011 study, Al-Ghanem and Hegazy detected an inverse correlation between liquidity and audit duration. Therefore, we can formulate this hypothesis:

H1: Companies with a higher liquidity complete the audit earlier than firms with lower liquidity.

Liquidity in this research is measured by the current ratio (CR). This indicator measures the extent to which an entity's short-term assets can pay off its current liabilities and is calculated as the ratio between short-term assets and short-term liabilities. Higher values indicate that the firm is capable of paying its current debts in a timely fashion.

3.2.2 Solvency

The growth of indebtedness leads to an increase in the financial risk to which the company is exposed [Lianto and Kusuma, 2010]. Increasing indebtedness incentivize the enterprise to issue its audited financial statements to its financiers as soon as possible [Abdulla, 1996]. In this regard, solvency ratios have been examined empirically by a number of scholars to assess whether solvency has anything to do with the delay in the preparation of audit opinions.

Still, researchers like Abdulla [1996] and Carslaw and Kaplan [1991] did not find a statistically significant relationship between the debt-to-equity coefficient and audit timeliness. One can argue that the liaison between audit timeliness and company indebtedness is equivocal. Indebted entities are induced to complete an audit to facilitate operational oversight by lenders and to apply remedial measures where needed [Abdulla, 1996]. Moreover, the early publication of audited financial statements leads to faster assurance of equity owners on the stability of the company, thus lowering risk premiums and the required rate of return on equity (ROE) investments.

Alternatively, there is a possibility that companies with poor leverage may want to cover up the risk and thus postpone the dissemination of the audited annual report. That is, indebted companies may have an incentive to prolong the audit and/or manipulate the results [Mitra et al., 2009]. Hence the ensuing hypothesis:

H2: Companies with higher indebtedness complete their audit earlier than companies with lower indebtedness.

In previous studies, several solvency measures have been used, such as the ratio between debt and assets, total debt, and the debt-to-equity coefficient. In this paper, the ratio of total liabilities vs. total assets is used as a tool for measuring long-term solvency.

3.2.3 Profitability

Profitability is a gauge of a company's future sustainability whereby a deterioration in this indicator may upsurge the likelihood of liquidation [Chan and Walter, 1996] and widen the collision between owners and management as owners may take it as a sign of company mismanagement. At the same time, risky companies are subject to more thorough observation [Chan and Walter, 1996], which augments the likelihood of identifying inaccuracies. Besides, a decline in profitability increases the likelihood that owners may sue an external auditor due to reduced profitability and the lurking menace of financial sustainability disturbances. In such circumstances, the likelihood of auditors issuing a qualified or modified opinion to avoid court proceedings increases [Chan and Walter, 1996].

Numerous scholars detected the existence of an association between profitability and external audit timeliness. Yendrawati and Mahendra [2018] and Carslaw and Kaplan [1991] established an inverse correlation between profitability and audit delay, while Courtis [1976] and Dyer and McHugh [1975] detected a direct correlation.

Multiple factors contribute to the inverse relationship between this variable and audit timeliness. To begin with, profitability can be considered as an indicator of whether positive or unfavorable news is being reported about a firm's annual operating activities [Ashton et al., 1987]. When reporting a loss, management may be inclined to delay the publication of the company's annual financial statements to circumvent the inconvenience of communicating unfavorable news. It is argued that an entity reporting

a loss may require the audit firm to prolong the audit start date [Carslaw and Kaplan, 1991]. Then again, profitable entities may want to conduct an independent audit as soon as convenient to disclose their annual reports and rapidly share the encouraging news. Consequently, it is likely that if the company's profitability is significant, executives will rush to issue the annual financial statements to enjoy the benefits of sharing the favorable news. Furthermore, one may argue that the auditors could conduct the audit procedures more carefully in case of a negative financial bottom line in case they believe that the negative result increases the odds of fraud or that it would jeopardize the company's survival [Carslaw and Kaplan, 1991].

Consequently, the next hypothesis is formulated:

H3: There is an inverse correlation between profitability and the time needed for publishing an audit opinion.

Laitinen and Laitinen [1998] apply ROE and return on assets (ROA) as measures for profitability. ROE is used in this research as a tool for profitability analysis.

3.2.4 Loss in the current year

Loss is a measure of financial well-being, so it is to be expected that this indicator has an impact on the audit opinion. The current-year loss is an indicator of financial risk.

A number of scholars have used profitability as a predictor of the prolongation of the period for conducting audits and forming audit opinions [Ashton et al., 1987; Carslaw and Kaplan, 1991; Bamber et al., 1993; Almosa and Alabbas, 2008]. These authors claim that companies with a favorable financial result for the period under review are expected to avoid delays in publishing the audit report as opposed to companies that make a loss. Profitable companies encourage the audit firm to promptly finalize the audit work so that they can announce the positive news on their operating results to the general public as soon as possible [Hossain and Taylor, 1998].

These arguments lead to the definition of the next hypothesis:

H4: There is a positive correlation between the current year loss and the time required to disclose the audit report.

The current year loss is presented in this paper as a dummy variable where the corporations that show a loss for the period are marked with 1, while the entities showing profits are assigned a value of 0.

3.2.5 Company size

Multiple studies detected a significant correlation between firm size and audit lag in developed and emerging economies alike [Gilling, 1977; Davies and Whittred, 1980; Garssombke, 1981; Newton and Ashton, 1989; Carslaw and Kaplan, 1991; Afify, 2009]. Most studies are based on the sum of assets as an indicator of entity size. There is an inverse correlation between the time until the audit opinion is disclosed and the size of the company as verified by a majority of empirical researches. Yet, scholars such as Givoly and Palman [1982] do not find a significant association between company size and the timeliness of the audit report.

Numerous reasons may explain why entity size is inversely correlated to audit timeliness. To begin with, the bigger the entity, the more stakeholders have a vested interest in its operations [Abdulla, 1996]. The management of larger companies is stimulated to conduct the audit faster because their results and financial situation are closely monitored by regulators, investors, and trade unions, facing a large external pressure for the prompt publication of results. At the same time, bigger entities are capable of putting more pressure on the audit firms to conduct the audit in a timely fashion [Carslaw and Kaplan, 1991]. Hence there is a perception that larger companies can establish robust internal controls that can lessen the disposition

for mistakes in financial statements by allowing the auditor to lean on existing internal control mechanisms [Carslaw and Kaplan, 1991]. Furthermore, larger entities dedicate more financial means for audit services, which encourages the audit firm to schedule an audit immediately after the end of the fiscal year-end. So, it is more likely that the audit of big entities will be completed earlier than the audit of smaller companies. We can thus formulate the following hypothesis:

H5: Companies with larger assets complete the audit earlier than firms with lower assets.

In this paper, we will apply the natural logarithm of total assets represented by the symbol LnASSETS as a proxy for entity size.

3.2.6 Audit firm size

Multiple researches investigate the relationship between audit firm characteristics represented by the size or international affiliation of the auditor and the time required to prepare and publish the audit opinion. Big audit firms (i.e., international audit companies) are more susceptible to have a more powerful motive to conduct audit engagement in a timely manner to safeguard their international reputation. If not, they could lose their existing client portfolio.

The audit delay of internationally networked auditing firms is expected to be shorter than the delay of audits performed by smaller audit companies since they have more capacity and experience, can perform audits more efficiently, and have more flexibility in engagement timeline planning [Gilling, 1977; Ashton et al., 1987; Carslaw and Kaplan, 1991]. Moreover, large audit companies have a larger employee body so they are capable of completing their audit assignments faster than local auditors.

While Gilling [1977] detected that audit timeliness and auditor size have a significant positive association, Carslaw and Kaplan [1991] and Davies and Whittred [1980] did not detect a significant association between these two variables.

In this paper, audit firms are classified into two categories—international auditors represented by the Big4 (PricewaterhouseCoopers, Deloitte, Ernst & Young, KPMG) and domestic auditors. The domestic audit companies in North Macedonia are registered as limited liability entities or single-member limited liability entities and are ergo smaller in size.

Considering the aforementioned, this study will test the next hypothesis:

H6: Companies that hire larger audit firms finalize the audit of their accounts earlier than entities that hire small audit firms.

In this research, the audit firm size is presented as a dummy variable where international audit firms are denoted by 1, while domestic audit firms are assigned a value of 0.

3.2.7 Type of audit opinion

A few scholars have identified the audit report qualifications as one of the determinants that might lead to longer audits [Ashton et al., 1987; Newton and Ashton, 1989; Carslaw and Kaplan, 1991; Ahmad and Kamarudin, 2003; Bonsón-Ponte et al., 2008]. ISA 705 states that a qualified opinion is issued when the external auditor determines that errors in the financial reports, individually or collectively, are substantial but not prevalent, or when the auditor cannot gather adequate audit facts to form an opinion and therefore reaches a conclusion that the potential effects of undetected errors may be significant but not ubiquitous.

It is generally considered that the qualified opinion reflects a negative attitude toward the financial operations of the company and the company needs a longer time to see through the publication of the audited accounts and to comply with the auditor, which delays the audit activities [Francis, 1984;

Behn et al., 2001; Che-Ahmad and Abidin, 2009]. In addition, Bamber et al. [1993] claim that the auditor will not immediately issue a qualified opinion until he or she has devoted considerable time and attention to forming such an opinion. Namely, the auditors are expected to continue testing if they suspect irregularities as they may want to protect themselves from litigation. Hence, we formulate the subsequent hypothesis:

H7: There is a positive correlation between the qualified audit opinion and the time required to disclose the auditor report.

In this paper, the qualified audit opinion is presented as a dummy variable with a value of 1 and comprehends a qualified opinion, adverse opinion, and disclaimer of opinion. The absence of qualifications (i.e., the publication of an unqualified report with or without emphasis of matter and paragraphs on other legal and regulatory requirements) is assigned a value of 0.

It is important to distinguish between a qualified audit opinion and a modified opinion. The audit report may contain modifications either by applying an explanatory paragraph (emphasis of matter) or by issuing a qualified audit opinion (with or without emphasis of matter and report on other legal and regulatory requirements). At the same time, ISA 706 defines complementary information reported by the auditor to attract the scrutiny of readers/users to a particular issue. This issue is adequately presented in the financial statements—but it is so vital to the comprehension of the annual report that it is required to be emphasized in the auditor's report in a separate paragraph after the audit opinion—or it is not disclosed in the financial reports but handles issues important for grasping the audit, the duties of the auditor, or the auditor's opinion. In case of the former, the auditor publishes an additional paragraph emphasizing the issue, while in the case of the latter, the auditor publishes a paragraph covering other legal and regulatory requirements. In this research, these two kinds of paragraphs are called explanatory paragraphs. Explanatory paragraphs do not qualify the auditor's opinion but modify the contents of the report by appending an additional paragraph. In line with the above, the author of this paper considers that the opinion is modified not only with an explanatory paragraph but also with a qualified opinion, adverse opinion, and disclaimer of opinion.

3.2.8 Company sector

Empirical papers to date have used the sector/industry as an explanatory variable for audit timeliness. Thus, while one sector dwells on elaborate production processes, other sectors are simpler. For the purposes of analysis, the studies so far generally classify the industries in two segments: financial segment, such as banks, insurance companies, and other financial entities, and nonfinancial segment. In this context, Hossain and Taylor [2008] use a dichotomous variable to analyze the impact of the industry to which the firm belongs on audit opinion timeliness (affiliation or non-affiliation to the financial industry).

The application of various accounting tools, valuation techniques, and disclosure policies adequate to the business may cause delays in the annual report and also in the audit of composite industries. Accordingly, audit procedures can take longer in entities with complex production operations. On the contrary, the audit activities take less time for financial companies given their minimal inventory and long-term assets [Bamber et al., 1993]. Inventories are complex to revise in contrast to financial assets and often lead to considerable inaccuracies. Thus, financial entity audits are expected to be faster than audits of nonfinancial entities [Newton and Ashton, 1989; Carslaw and Kaplan, 1991; Bamber et al., 1993]. Having in mind the operating intricacies involved, audit completion has also been investigated from the perspective of manufacturing vs. nonmanufacturing entities [Türel, 2010; Hossain and Taylor, 2020], whereby Türel (2010) finds an increase in reporting lag in the case of manufacturing entities. Consequently, the following hypothesis can be formulated:

H8: The period required for disclosure of the audit report is longer for manufacturing companies compared to nonmanufacturing companies.

The economic sector of the analyzed companies in this paper is presented as a dummy variable where the companies whose main activity is production are marked with 1, while the companies operating in other sectors (trade, nonfinancial services) are assigned a value of 0. The financial companies listed on the MSE are excluded from the sample due to differences in the regulations to which they are subject to.

4 Research design

4.1 Model

For this research, the authors define a linear regression model to assess the influence of explanatory variables on audit report timeliness (Model 1). Namely, in Model 1 the dependent variable LAG is the time period required for publishing the audit report. Variable LAG is calculated and expressed as the days from the accounting year-end for which the audit opinion is published till the opinion disclosure date.

Model 1:

$$\text{LAG} = \alpha + \beta_1 \text{CR} + \beta_2 \text{LEVER} + \beta_3 \text{ROE} + \beta_4 \text{LOSS} + \beta_5 \text{LnASSETS} + \beta_6 \text{BIG4} + \beta_7 \text{QAR} + \beta_8 \text{MANUF} + n \quad (1)$$

where LAG—is a dependent variable, the timeliness of the audit opinion (in days), α —constant, CR—dependent variable, liquidity, represented by current ratio (ratio between short-term assets and short-term liabilities), LEVER—dependent variable, indebtedness represented as the ratio between liabilities and assets, ROE—dependent variable, profitability represented as ROE—ratio between net profit and total equity, LOSS—dependent variable, loss in the current year represented as a dichotomous variable with a value of 1 in case of current year loss and 0 otherwise, LnASSETS—explanatory variable, company size represented as natural logarithm of total assets, BIG4—dependent dichotomous variable with value 1 in the case of the four major international auditing firms (Deloitte, KPMG, PricewaterhouseCoop, Ernst & Young) and 0 otherwise, QAR—explanatory dichotomous variable with value 1 in case of a modified opinion or a prominent issue that affects the audit opinion (qualified opinion, adverse opinion or disclaimer of opinion) and 0 otherwise, MANUF—dependent dichotomous variable which is assigned the value 1 in case of a listed company with production as basic activity and 0 for service companies and companies in retail and wholesale, β_1 – β_8 —regression coefficients of the explanatory variables; and ε —random error.

For the purposes of this research, we will transform the absolute value of assets into a natural logarithm of assets to better satisfy the assumption of an approximately linear relationship between variables modeled after authors such as Moalla [2017].

4.2 Description of the sample and data collection method

In this paper, the emphasis is on nonfinancial companies listed on the MSE. In that regard, the sample includes all publicly traded companies that publish their financial reports and audit opinions on the official website of MSE's electronic reporting system (<https://www.seinet.com.mk>). Data on total assets, liquidity, solvency, current-period loss, and sector were extracted from the financial reports of the companies. The identity of the auditor, the auditor opinion, and the publication date are part of the audit opinion which is published together with the annual report of the companies.

We assessed 99 enterprises over a 4-year period, from 2014 to 2017. This sample encompasses all publicly listed nonfinancial entities with available audited consolidated financial statements and a final audit opinion. The Macedonian financial market is incipient. During the selected period, the companies are subject to IFRS and the audit is compliant with IFAC's ISAs. Like most previous surveys, financial entities are eliminated from the sample as they abide by separate financial reporting rules. Table 1 illustrates the sample and the selection procedure.

5 Research results

5.1 Descriptive statistics

The descriptive analysis of the dependent and the explanatory variables is presented in Tables 2 and 3.

Table 2 indicates that for 47% of the overall sample, a modified opinion was issued, which means a qualified opinion, adverse opinion, or disclaimer. Moreover, there is an unfavorable change in the audit opinions and a slight transition in favor of a modified opinion over the years. This claim is supported by

Table 1. Sample and selection procedure

	Listed entities
Listed entities	109
Banks	–8
Insurance entities	–2
Nonfinancial entities	99
Observation period in number of years	4
Total number of observations	396
Observations with incomplete data	–10
Incomplete observations: delisted entities	–17
Total observations with complete data	369

Table 2. Audit opinions during the observation period

Year	Unqualified audit opinion		Unqualified audit opinion with paragraph(s) for emphasis of matter and other legal or regulatory requirements		Modified opinion	
	No.	%	No.	%	No.	%
2014	46	46.9	10	10.2	42	42.9
2015	45	49.5	5	5.5	41	45.1
2016	37	40.2	10	10.9	45	48.9
2017	34	38.6	10	11.4	44	50.0
Total	162	43.9	35	9.5	172	46.6

Table 3. Descriptive statistics, explanatory variables

		Minimum	Maximum	Mean	SD	Total number	
<i>Dependent variable</i>							
Lag		43	374	117.50	40.146	369	
<i>Explanatory variables</i>							
LnASSETS		8	17	13.21	1.488	369	
CR		0.00	74.60	3.9517	7.65888	369	
Lever		0.00	180.87	1.6973	12.87412	369	
ROE		−2.38	1.75	0.0078	0.30137	369	
		<i>n</i>	<i>%</i>		<i>n</i>	<i>%</i>	<i>Total number</i>
Current-year loss	Loss	108	29	Profit	261	71	369
Audit firm size	BIG4	42	11.4	Non-BIG4	327	88.6	369
Company sector	Manufacturing	57	57.6	Non-manufacturing	42	42.4	99

CR, current ratio; ROE, return on equity.

descriptive statistics which indicate that unlike 2014 when 47% of the total 98 audit reports were unqualified, their share drops to 39% of the total 88 published opinions for 2017. These findings are similar in terms of modification rate to Tunisia as an emerging economy but are far worse than the rates of developed countries [Moalla, 2017].

Most of the remarks made by the auditors in the context of qualifications are related to customer receivables and investments available for sale. Namely, it is common practice for companies to show old receivable balances in the balance sheet without making a proper value adjustment in accordance with the requirements defined in IAS 39 Financial Instruments: Recognition and Measurement. As a consequence, there is an overestimation of receivables from customers and the financial result of the companies concerned. Furthermore, as per IAS 39 Financial Instruments, Recognition and Measurement, entities need to estimate the fair value of available-for-sale investments at the financial statement date according to their market price. In the absence of such an objective assessment and given the presentation of these securities at cost, there is an inadequate estimation of their value leading to an incorrect financial position and financial result.

Some of the companies in the examined sample recognize assets on which they do not have ownership, which would reduce the total assets and the capital that the companies show in the balance sheet for the period. In other companies, the auditor concludes that current liabilities exceed short-term assets, which calls into question the liquidity of the company. Also, several companies do not generate income from their core business activities but from other (one-time) income sources, primarily from the sale of tangible and intangible company assets, as well as revenues from the collection of written-off receivables, which calls into question the capability of the company to continue as a going concern.

Qualifications are oftentimes related to the lack of an estimate of the net realizable value of inventory. As a result, the firm does not present inventory at a lower than cost and net realizable value, which deviates from the requirements of IAS 2 Inventories. Thus, the financial result as well as the financial condition for the year that are presented in the annual accounts of these companies are overestimated.

In some of the modified opinions, the audit firm states that they are appointed after the inventory count date which is conducted at the very beginning of the new fiscal year or that the auditor has been excluded from the stock-taking all together. Thus, the auditor is not able to determine the initial amount of inventory. Because the initial inventories affect profit and cash flows, the auditor is unable to determine whether adjustments to the stated financial result and cash flows from operations are necessary.

Table 3 indicates that the average time required for preparation and publication of the audit report is 1175 days or almost 4 months, which is in accordance with the legally prescribed time frame of 4 months from the calendar year-end [Law on securities, 2005]. A total of 162 reports from the overall sample were published with a delay, i.e. 43.9% of the analyzed reports took more than the legally prescribed 4 months to realize the audit and to disseminate the final product. For the publication of 8 of the indicated 162 reports, the preparation period takes over 6 months showing a noticeable delay. For 7 of the 8 disputed reports, a modification of opinion was issued, namely a qualified, an adverse opinion, or a disclaimer. Only one opinion is positive but contains a modification by applying an explanatory paragraph (emphasis of question). At the same time, Toplifikacija AD Skopje, one of the eight companies with a significant deviation in the deadline for publishing the audit opinion, is included in the empirical analysis only for the period 2014–2016 as a result of open bankruptcy proceedings against the company after a court hearing held on November 2, 2018.

Furthermore, Table 3 shows that ROE has an average value of 0.8%, which indicates a low average profitability of the analyzed firms, especially compared to other developing countries such as Tunisia, where the same parameter reaches double-digit values [Moalla, 2017]. In the global practice, investors often consider a ROE close to the S&P 500 average of 14% as an acceptable ratio, with values <10% considered unattractive. Logically, the values (high or low ROE rates) differ significantly from one industry to another, and the comparison will be more significant when this indicator is used to estimate companies belonging to similar sectors. In our case, negative values were observed in 86 out of 369 analyzed annual reports. The ROE values range from –238% to 175%, which indicate a large range in the ratio. The mean value of ROE

and indebtedness highlights the financial risks and hardships of companies in North Macedonia and may interpret the audit lag.

5.2 Testing the model assumptions

Multiple linear regression relies on several key assumptions that needed to be tested. Primarily, a normal distribution of the dependent variable values is expected. The verification was done with the help of the Kolmogorov-Smirnov and Shapiro-Wilk tests. We observed an absence of normal distribution in the dependent variable because both tests determined that Sig. <5%. Since the normality assumption is not met, then the statistical base used in the linear regression should contain >20 observations for each independent variable. In our case, the additional requirement is satisfied given the fact that the database contains a total of 369 competent observations, which is well above the established threshold of 160 observations (i.e., over 20 observations for each of the eight explanatory variables).

Furthermore, there needs to be a linear relationship between dependent and explanatory variables. X-Y diagrams can show whether there is a linear or curvilinear relationship. The scatter plot test results are shown in Figure 1.

We notice that the assumption is not fulfilled in the part of the y-axis where five values, i.e., observations come out of the upper limit value (i.e., +3).

The individual inspection of the identified deviations indicates that this is not an error in the data but observations in which there is an obvious excess in the mean value of the independent variable—number of days necessary to conduct the audit. The financial statements of the companies reveal difficulties in terms of profitability, decline in sales revenues, and/or loss, which, together with the prominent views of the auditors, explain the pronounced delay in publishing the audited annual accounts of the three companies concerned.

Additional statistical analysis is necessary because data with large deviations can impair the regression accurateness and results. Cook's distance (commonly known as Cook's D) weights the effect of eliminating a case. There are different opinions as to which limit values should be used to mark points of pronounced impact. The diverse attitudes usually converge around a maximum limit value of 1, which is observed in our sample given the fact that both the upper and lower values of Cook's D are far <1 [Statistics Solutions, 2019]. As a result of these additional tests, we can conclude that the deviations in our statistical sample are quite acceptable, especially given the fact that we are not discussing errors but realistically explainable case values.

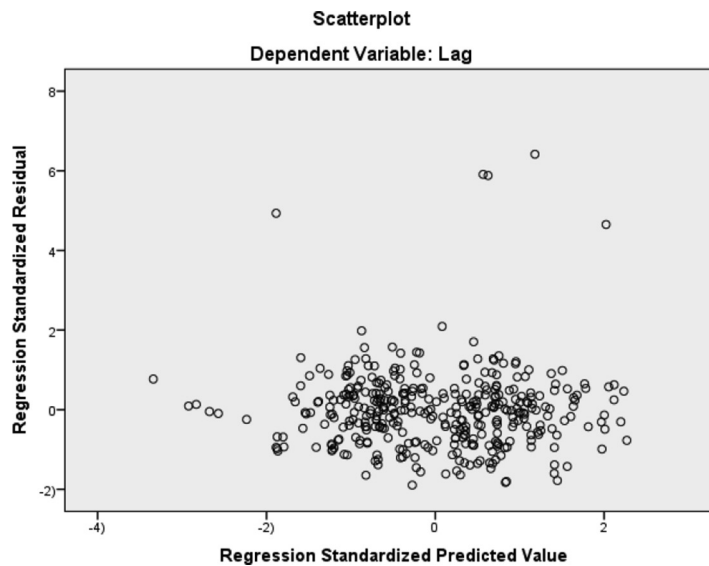


Figure 1. Testing of the linear relationship between dependent and independent variables.

The next important condition is that of multivariate normality in all variables. Namely, multiple regression assumes that the residuals are normally distributed. The test results indicates that the multivariate normality condition values is met as is shown in Figure 2.

Furthermore, we need to verify that the multicollinearity is not present, which indicates an absence of correlation between the predictors. The Pearson correlation test results for Model 1 are displayed in Table 4.

Given the maximum recommended value of 0.7, i.e., >0.8 for severe multicollinearity between the predictors [Landau and Everitt, 2004, p. 116], multicollinearity issues are not detected. The highest value is 0.088 and refers to the correlation coefficient between the size of the audit company and the loss in the current year.

Aside from Pearson's correlation, the multicollinearity assumption was tested using variance inflation factor (VIF) analysis (see Table 6). According to the table, low values for VIF were found with a maximum value of 1.5 and a minimum value of 1.06 for the proposed model. VIF values of >10 are considered to indicate multicollinearity, whereas in feeble models, values exceeding 2.5 may raise concerns [Landau and Everitt, 2004, p. 116]. We conclude that the model contains no multicollinearity.

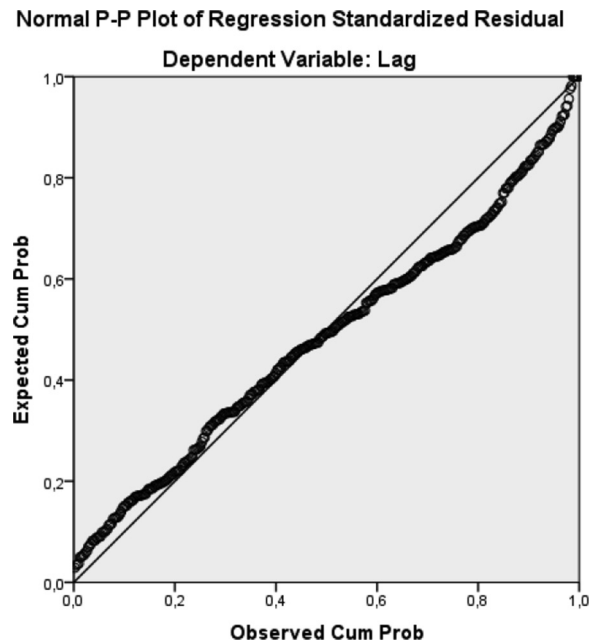


Figure 2. Testing the normal distribution of the error terms.

Table 4. Pearson's correlation

Pearson correlation	Lag	QAR	Big4	Loss	LnASSETS	CR	Lev	ROE	Manufacturing
Lag	1,000								
QAR	0.000*	1,000							
Big4	-0.031*	-0.095*	1,000						
Loss	0.000*	0.000*	0.088*	1,000					
LnASSETS	0.000*	-0.093*	0.000*	0.000*	1,000				
CR	0.000*	0.000*	0.000*	-0.092*	-0.059*	1,000			
Lev	0.075	-0.074	0.000*	0.000*	0.000*	-0.063*	1,000		
ROE	0.000*	-0.078	0.051*	0.000*	-0.002*	0.030*	0.016*	1,000	
Manufacturing	0.050	-0.097*	0.000*	0.000*	0.000*	0.000*	0.074	0.047*	1,000

Note: * Statistically significant at 5% significance level (bilaterally).

CR, current ratio; ROE, return on equity.

And finally, we checked for the fulfillment of the assumption of homoscedasticity. Figure 3 demonstrates that the residuals are equally distributed across the regression line [Statistics Solutions, 2019]:

5.3 Testing the linear regression model

Tables 5 and 6 provide data on the test results for our statistical sample.

According to the data in Table 5, we can clearly reject this null hypothesis ($F(8,360) = 9.451$, $p < 0.001$) and also reckon that at least one of the eight predictors is associated with the timeliness of the audit report. The R^2 result indicates that 17.4% of the audit delay variance can be accounted for by our model.

The results shown in Table 6 assert that the regression coefficients are different from zero, thus indicating that the model is significant.

According to the presented data, it takes an additional 22.07 days to publish the audit opinion in case of a modified opinion (i.e., qualified opinion, negative opinion and disclaimer). Furthermore, if the assurance procedures are executed by one of the four major international audit firms, it takes 1.9 days less to publish the opinion. If a company is showing a loss in the current year, 9.2 additional days are required to publish the audited annual account. At the same time, if the audited company is involved with production, additional 8.6 days are required for publishing the audit opinion.

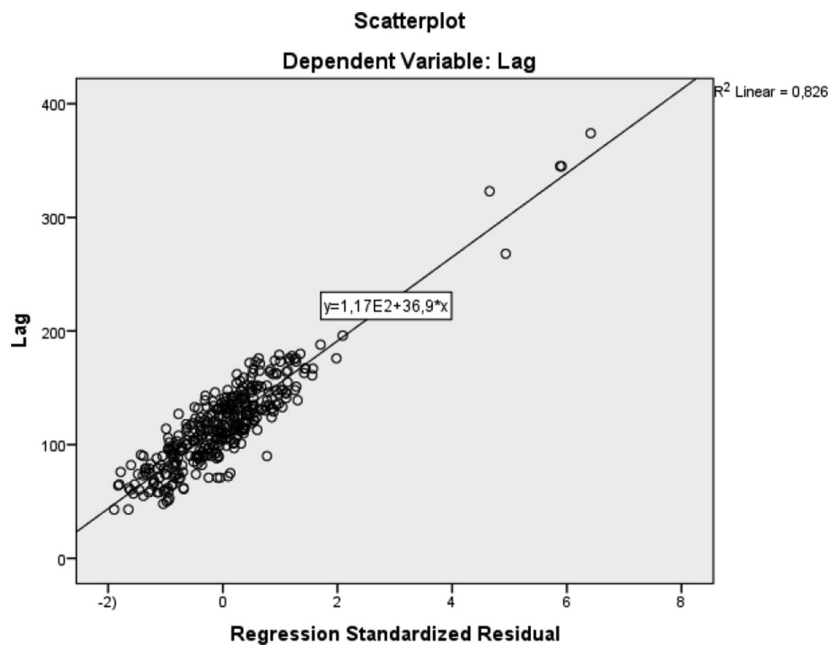


Figure 3. Testing of the homoscedasticity assumption.

Table 5. Model summary

Model	R	R^2	Adjusted R^2	Std. Error of the estimate	Change statistics					Durbin-Watson
					R^2 change	F change	df1	df2	Sig. F change	
1	0.417 ^a	0.174	0.155	36.900	0.174	9.451	8	360	0.000	1.120

^aPredictors: (Constant), Manufacturing, ROE, Leverage, CR, QAR, Big4, Loss, LnASSETS.

^bDependent Variable: Lag.

CR, current ratio; ROE, return on equity.

Table 6. Linear regression coefficients

Model 1	Unstandardized coefficients		Standardized coefficients	T	Sig.	Correlations			Collinearity statistics	
	B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
(Constant)	147.424	21.435		6.878	0.000					
QAR	22.070	3.980	0.275	5.546	0.000	0.314	0.281	0.266	0.936	1.068
Big4	-1.934	7.062	-0.015	-0.274	0.784	-0.031	-0.014	-0.013	0.734	1.363
Loss	9.176	4.826	0.104	1.901	0.058	0.211	0.100	0.091	0.765	1.307
LnASSETS	-3.398	1.595	-0.126	-2.130	0.034	-0.167	-0.112	-0.102	0.656	1.523
CR	-0.733	0.258	-0.140	-2.839	0.005	-0.191	-0.148	-0.136	0.947	1.056
Leverage	0.123	0.165	0.040	0.747	0.456	0.075	0.039	0.036	0.820	1.220
ROE	-10.009	6.604	-0.075	-1.515	0.131	-0.118	-0.080	-0.073	0.934	1.071
Manuf	8.646	4.075	0.107	2.122	0.035	0.050	0.111	0.102	0.909	1.100

^aDependent Variable: Lag.

Note: the statistically significant associations between variables are marked in bolded letters.

CR, current ratio; ROE, return on equity; VIF, variance inflation factor.

Furthermore, the results indicate that it takes 3.4 days less to publish the audit report when the size of the audited company increases by one unit provided that all other variables in the model remain unchanged. At the same time, it takes 0.7 days less to publish the audit report when the liquidity of the audited company increases by one unit, 0.1 more days if indebtedness increase by one additional unit, and 10 days less by increasing the profitability by one additional unit (again, provided that all other variables in the model remain unchanged).

The outcome of the regression for Model 1 indicates a positive and statistically significant association between the qualification and timeliness of the audit opinion (Sig <5%). Companies where auditors publish modified opinions are financially riskier, and it is more likely that it will take longer to shape the assurance opinion. This result confirms H7 that there is a positive correlation between the qualified audit opinion and the time required to disclose the audit report and is consistent with the findings of Bonsón-Ponte et al. [2008], Carslaw and Kaplan [1991], and Che-Ahmad and Abidin [2009]. Also positive and statistically significant is the relationship between the timeliness and companies in the manufacturing industry (Sig <5%). This finding confirms H8 and is in line with the results of Türel [2010], who finds that reporting lag is considerably longer in manufacturing entities. Correspondingly, Bamber, Bamber and Schoderbek [1993] and Carslaw and Kaplan [1991] found that the audit duration is shorter for entities in the financial sector due to minimal inventory and long-term assets. Likewise, given that Sig <5%, we can accept H1. This finding is consistent with Al-Ghanem and Hegazy [2011] and confirms that a longer period of time is required for auditing companies with lower current liquidity ratios than those with higher liquidity.

The size of the audited company is negatively and significantly correlated with timeliness expressed in number of days (Sig <5%), which confirms H5 that companies with larger assets complete the audit earlier than smaller companies. This finding is in conformity with multiple existing analyses [Davies and Whittred, 1980; Garssombke, 1981; Newton and Ashton, 1989; Carslaw and Kaplan, 1991; Abdulla, 1996; Afify, 2009] and can be interpreted by the need of large listed companies to disclose credible and timely information in order to earn the trust of investors and other stakeholders.

This finding detects a lack of a statistically significant correlation between profitability (ROE) and audit timeliness, although the relationship between these two variables is negative. Namely, Table 3 shows that the nonfinancial companies listed on the MSE are not exceedingly lucrative so this variable does not contradistinguish timely and untimely reports and might explain the lack of association.

The results presented in Table 6 indicate a direct correlation between current period loss and the audit delay. However, this ratio is not statistically significant (Sig >5%). The above data indicate that

solvency difficulties do not lead to timeliness reduction but to an additional paragraph that emphasizes the issue. That is, the relationship between the two variables is positive (higher indebtedness leads to prolongation of the audit delay), but H2 is rejected due to the absence of a statistically significant correlation.

At the same time, in consistency with Carslaw and Kaplan [1991] and Davies and Whittred [1980], we cannot explain audit timeliness with audit quality (i.e., Big4 vs. other audit firms). Contrary to our expectations, the overall findings show that the auditor characteristics do not affect timeliness, while the characteristics of the audited company do. Although an inverse correlation is established between Big4 and the audit lag, H6 is rejected due to the absence of a statistically significant correlation (Sig >5%).

6 Concluding remarks

This study investigates the entity- and auditor-related predictor of audit delay by examining nonfinancial companies listed on the MSE for the period 2014–2017. By testing an eligible sample of 396 observations for 99 companies, we assess the date on which the auditor issued the opinion as corroboration of the time frame between the entity's fiscal year-end and the date when the audit firm disclosed the opinion. The main discoveries have an essential meaning for the duties of external auditors and enterprise operating management. First, contrary to studies from developed countries, listed nonfinancial companies in North Macedonia show a lower degree of profitability. Furthermore, we find no audit quality disparity between international and local audit firms as measured by the audit delay variable. Even though large international auditors may experience greater losses in litigation over a given audit which makes their reporting approach more moderate, our empirical examination indicates a lack of correlation between audit company size and audit timeliness.

Third, the results are generally not in favor of creditor protection—the traditionally important role of Macedonian accounting to protect the interests of bankers. The data indicate that the increase in indebtedness does not lead to a reduction of the audit report delay but usually with an additional paragraph to emphasize the issue. The relationship between the two variables is positive, indicating an extension of the deadline for publication of the opinion due to higher indebtedness. Nonetheless, this relationship lacks a statistically significant correlation. Hence, this study underlines that poor leverage, in itself, does not represent a safeguard mechanism in favor of timely financial reporting.

Unlike most previous research, this research contributes to the audit and financial reporting literature in developing Southeast Europe. This study has practical significance as the results may be of interest to external auditors who need to detect the drivers that impact the timeliness of the annual financial accounts, as well as to financial reporting constituents who make judgments on the basis of audit and annual reports.

We must point out that our research does contain limitations. Namely, the empirical data include modified audit opinions that take the form of qualified opinions, adverse opinions, and disclaimers. The modification of audit reports in the form of unqualified opinion with an emphasis of matter paragraph was not considered. These views were not analyzed separately in the regression model due to the fact that the audit opinion is not modified in relation to the issues raised. That is, the additional paragraph in these instances is added because the auditor wants to attract the attention of users through additional discussion on issues that, although adequately disclosed in the accounts, are fundamental to understanding the financial data or the audit itself. The analysis of such opinions, even with the application of qualitative research, can improve the existing knowledge in the field of audit literature and the quality of the auditors' opinion.

Furthermore, future studies may examine other variables regarding the relationship between the auditee and the auditor, such as joint audits, audit firm rotation, and audit tenure. It would also be appealing to assess the audit opinion in the context of the listed financial entities or even entities that are not listed on the MSE. The inclusion of unlisted entities and financial companies will enhance the quality of the findings and spur the applicability and generalization of the conclusions drawn.

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