

POST-AUDIT PROCEDURES IN INVESTMENT APPRAISAL: A STUDY OF AUSTRALIA AND SRI LANKA

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INTRODUCTION

The objective of firm has evolved in response to the corporate Social Responsibility (CSR) debate, which goes back to 1950s. The traditional theory of the firm over relied on the now disputed goal of maximizing shareholder wealth. Hettihewa (2016), in discussing this corporate shift in objectives, noted that the debate over whether firms should focus on producing economic goods and profits or serve an array of broader social goals. Bowen (1953) was part of a vanguard that shifted the Theory of the Firm to shareholder theory and from there to stakeholder theory (Freeman, 1994). The current Theory of the Firm posits that firms maximise their value by making decisions to maximize the wealth of their stakeholders (Frino, Hill, & Chen, 2013; Gervais, Heaton, & Odean, 2012; Graham, Harvey, & Puri, 2015). Post-audit a key input to achieving that goal, is the rational allocation of limited capital across a plethora of viable prospective investment. Post-audit refers to an analysis of the outcome of a capital budgeting investment. The results of this audit are then incorporated into future capital budgeting decisions, thereby improving the decision-making process (Graham, Harvey, & Puri, 2015). The effective allocation of scarce resources is a key part of long-term success. Arnold and Hatzopoulos (2000) suggest that the effective allocation of scarce resources can be best achieved through a capital budgeting process. Such a process will increase firm performance in making ethical investment decisions by assisting to confirm that a corporate strategy is followed; that all investment opportunities are considered and that unplanned/unjustified decision making is minimized. Prior studies on the practice of post-audit procedures in many countries have revealed that firms are progressively employing more and more refined post-audit process for making investment decisions (De Andrés, De Fuente, & San Martín, 2015; Farragher et al., 2001). This study focuses on the post-audit procedures in two countries at two different stages of economic development; developed and emerging economies. Australia is a typical example of a developed economy and albeit in the world arena it is often considered a small open economy, its business practices are well respected. Although Sri Lanka is an emerging economy it is still considered developing. Since the conclusion of the civil war in 2009, Sri Lanka has witnessed considerable economic progress despite some ongoing political issues. As a result, long-term investment has increased significantly, as have the range of post-audit process being used by firms. This study will compare the audit-process of both Australian and Sri Lankan firms in order to provide insights and evidence of the use of differing investment analysis to help managers determine the most appropriate practices that will help maximize firm wealth.

METHODOLOGY

The population of interest in this study is (initially) the 200 listed firms on the Australian Securities Exchange (ASX) from S&P/ASX200 and the 294 listed firms on the Colombo Stock Exchange (CSE), as at February 2016. In selecting the population, this study excludes financial, investment and securities sector firms because their unique financial attributes, intensity of regulation, and/or intensive use of leverage are likely to confound the outcomes being studied. Also, the risk of missing data was minimised by excluding firms that were not listed throughout the review period. After the eliminations, 150 Australian listed firms and 150 Sri Lankan listed firms remained in the population.

The questionnaire sought information on the post-audit procedures of the responding firms. A structured questionnaire survey was used to explore the post-audit procedures of Australian and Sri Lankan firms as an example of a developed and emerging market. The 45 and 73 returned questionnaires from, respectively, Australian and Sri Lankan firms give a response rate of 31.5 and 48.7 percent for, respectively, the Australian firms and Sri Lankan firms. These response rates compare favourably to other recent studies, e.g., Trahan and Gitman (1995) who obtained a 12 percent response rate in a questionnaire mailed to 700 CFOs; Hermes et al. (2007) who got 17 percent response rate for Dutch firms; and a 15 percent response rate for a questionnaire mailed to 250 Dutch and 150 Chinese CFOs.

RESULTS AND DISCUSSION

As per the table 1, ninety six and 89 percent of, respectively, Australian and Sri Lankan respondents strongly agree or agree that the post-audit is an important phase of long-term investment decision making. The Australian and Sri Lankan respondents strongly agree or agree by 89 percent that: The auditor discusses key results with the CFO during the progress of the review of decisions. Strongly agree or agree is the response by 67 and 85 percent of, respectively, Australian and Sri Lankan respondents to: The firm satisfies the purpose, scope, conduct, and results of the post completion audit. In terms of: the firm has regular and pre-agreed procedures for the post-audit, 65 and 72 percent of, respectively, Australian and Sri Lankan respondents strongly agree or agree. Strongly agree or agree is the response by 67 and 84 percent of, respectively, Australian and Sri Lankan respondents to: The results of post-audits assist to evaluate projects and to improve future forecasts. In the survey, 71 and 82 percent of, respectively, Australian and Sri Lankan respondents strongly agree or agree that: a post implementation audit provides useful feedback to investment appraisal. Strongly agree or agree is the response by 57 and 81 percent of, respectively, Australian and Sri Lankan respondents to: Audit information prompts management to consider a thorough review of the strategic plan. In terms of: Post-audits relate to the current long-term decisions support process of the implementation, 58 and 81 percent of, respectively, Australian and Sri Lankan respondents strongly agree or agree. The Australian and Sri Lankan respondents reviewed: Audits contribute to improvement of investment decision by analysing past rights and wrongs and, respectively, 67 and 80 percent strongly agree or agree. In their review of: post-audit conclusions and opinion are logical and well documented, 73 and 85 percent of, respectively, Australian and Sri Lankan respondents strongly agree or agree. In almost all areas of investment project post-audits, Sri Lankan firms appear to have more faith in their internal review process than Australian firms.

CONCLUSION

The cross-national differences that this study observed in the supplication of post-audit procedures suggest that significant differences in the Australian and Sri Lankan economies and cultures are driving the differences in post-audit practices. The Australian business environment being much more competitive than that of Sri Lanka is suggested in the greater concern of the Australian respondents for the risks faced by their firms than what was expressed by their Sri Lankan counterparts. The Australian respondents appear to be much less procedures and rules bound than their Sri Lankan counterparts. Another bit of evidence that Australia is more competitive than Sri Lanka is in the relatively high sophistication of Australian post-audit procedures.

Table 01: Results

No	Post-audit	Australia					Mean	Std
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree		
1	The post-audit is an important phase.	38	58	2	2	0	4.31	0.633
2	The auditor discusses key results with CFO during the progress of the review of decisions.	18	71	9	2	0	4.04	0.601
3	The firm satisfies the purpose, scope, conduct, and results of the post completion audit.	20	47	31	2	0	3.84	0.767
4	The firm has regular and pre-agreed procedures for the post-audit.	16	49	29	2	4	3.69	0.925
5	The results of post-audits assist to evaluate projects and to improve future forecasts.	9	58	22	7	4	3.60	0.915
6	A post implementation audit provides useful feedback to investment appraisal in your firm.	11	60	20	4	5	3.69	0.900
7	Audit information prompts management to consider a thorough review of the strategic plan.	13	44	36	7	0	3.64	0.802
8	Post-audits relate to the current long-term decisions support process of the implementation.	9	49	29	9	4	3.49	0.944
9	Audits contribute to improvement of investment decision by analysing past rights and wrongs.	16	51	20	4	9	3.60	1.095
10	Post-audit conclusions and opinion are logical and well documented.	13	60	27	0	0	3.87	0.625

No	Post-audit	Sri Lanka					Mean	Std
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree		
1	The post-audit is an important phase.	51	38	7	4	0	4.36	0.788
2	The auditor discusses key results with CFO during the progress of the review of decisions.	30	59	7	4	0	4.15	0.720
3	The firm satisfies the purpose, scope, conduct, and results of the post completion audit.	21	64	12	3	0	4.03	0.666
4	The firm has regular and pre-agreed procedures for the post-audit.	14	58	29	0	0	3.85	0.638
5	The results of post-audits assist to evaluate projects and to improve future forecasts.	15	69	16	0	0	3.99	0.565
6	A post implementation audit provides useful feedback to investment appraisal in your firm.	18	64	16	1	0	3.99	0.635
7	Audit information prompts management to consider a thorough review of the strategic plan.	23	58	15	4	0	4.00	0.745
8	Post-audits relate to the current long-term decisions support process of the implementation.	26	55	14	4	0	4.00	0.833
9	Audits contribute to improvement of investment decision by analysing past rights and wrongs.	16	64	16	3	0	3.95	0.664
10	Post-audit conclusions and opinion are logical and well documented.	18	67	14	1	0	4.01	0.612

Respondents are asked to rate on Likert scale of 1 (strongly disagree) to 5 (strongly agree). Researchers report the overall mean, standard deviation (Std) as well as the % of respondents that answered 1 (strongly disagree) to 5 (strongly agree).

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