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DETERMINANTS OF AUDIT REPORT TIMELINESS IN SAUDI ARABIA: EVIDENCE FROM SELECTED QUOTED COMPANIES

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ABSTRACT

The timeliness of audit report had impact on securities prices of listed companies. The understanding of determinants of factors that influence timeliness delivery of audit report is import for Saudi Arabian listed companies since its influenced security prices. This study was invested factors that can impact on timeliness of audit reports for 15 firms quoted in Saudi Stock Exchange (TADAWUL) between 2010 and 2014. The data was collected from annual report and accounts. The collected data were analysed using relevant diagnostic tests, Pearson correlation matrix and simple, multiple regression test. The result suggested that there was an impact of profitability as measured by ROA and EPS on timeliness of audit report. In additions, there also an impact of operation complexity toward timeliness of audit report. There also impact of firm size as measured by (total assets) on timeliness of audit report. Besides, there was impact of internal factors such as ROA, EPS, operation complexity, firm size and total assets toward timeliness of audit report.

INTRODUCTION

Financial statement is structured statement set that represent entity financial position and performance which provide an explanation equity changes statement. Meanwhile, the financial statement was purpose to offer information regarding financial position, performance and cash flow activities of an entity to assess the accounting users especially economic decision makers.

Meanwhile, financial audit is provided proper and reasonable assurance over the accurate of financial statement. The audit was purposed to offer reasonable

assurance to avoid excessive time and cost in audit performance which outweigh any benefit that derived from enhance assurance, Absolute assurance is also impossible to guarantee in most cases due to inherent limitation of audit process.

The financial accounts provide a diversity and wide range of information that benefit to various users of financial reporting for instance such as investors, lenders, creditors, customers and debtors, employees, government, analysts and general public.

Several studies on relationship between efficiency of an audit committee and submission of audited financial statement. Ika et al. (2012) found correlation between audit committee effectiveness and timeliness of reporting to Indonesian Stock Exchange (IDX) [1]. The result also suggested that audit committee effectiveness is likely to reduce the financial reporting lead-time. In additions, Nelson et al. (2011) had found audit report timeliness is influenced by audit committee size, auditor type, audit opinion and firm profitability in Malaysia [2].

Saeed Battwah et al. (2015) had conducted study on demographic characteristics of managers played significant role in performing their duties in financial reporting in companies. This study indicated CEO tenures and CEOs with financial expertise was correlated with timely audit reports [3].

Furthermore, McGee et al. (2012) indicated that timeliness of financial reporting among attributes of good corporate governance identified by OECD and World Bank [4]. Ezat et al. (2008) found companies typically in the service sector were large and had high liquidity rate, high proportion of independent directors, large number of board directors and high free float disclose more timely information on corporate internet reporting (CIR) [5].

In Nigeria, listed companies take approximately four months on average beyond their balance sheet date before final audited account presentation to the shareholders [6]. Meanwhile, Iyoha (2012) mentioned company age also affected overall timeliness of financial reports quality in Nigeria [7]. Lee et al. (2008) stated audit report lag is negatively correlated with non-audit fees paid to incumbent auditors in South Korea [8].

The study aimed to improve understanding of timeliness of audit report and contemporary issues within Saudi companies to encourage practitioners to adopt contemporary practices of timeliness of audit report by highlighting the important of timing issues and providing competitive advantage in the open market.

METHODOLOGY

The study was used explanatory study which investigate causal relationship between variables. The study population was 5 companies listed in Saudi Stock Exchange (TADAWUL). The samples consisted 15 public listed companies in TADAWUL which had good representation of quoted companies in Saudi Arabia. The audited financial report of quoted companies was collected between year 2010 and 2014. The data was analysed using both

descriptive and inferential statistics. The descriptive method described information related to the companies, audit firm size and profitability. The collected data were analysed using relevant diagnostic tests, Pearson correlation matrix and simple, multiple regression test. In this study, there were five variables used included V1: ROA, V2: operation complexity, V3:EPS, V4: firm size and V5: timeliness of audit report.

RESULT AND DISCUSSION

The data was analysed using statistical software and techniques.

Table 1. Pearson Correlation Matrix of Variables

Variable	V1	V2	V3	V4	V5
V1	1				
V2	-0.216*	1			
V3	0.574**	-0.230**	1		
V4	0.294**	0.106	0.4123	1	
V5	0.240**	-0.344*	0.398**	0.340**	1

Based on Table 1, there was strength between study variables. In addition, there was no correlation higher between study variable which highest correlation value reached to 0.574** between V1 and V3.

Table 2. Descriptive Statistics

Variables	Min.	Max.	Mean	Std. deviation
ROA	-0.75	28.16	65.70	41.63
Operation complexity	2.00	105.00	18.00	20.55
EPS	-0.15	4.39	1.55	1.50
Firm size	6.26	9.08	7.28	0.56
Timeliness of audit report	47.00	198.00	100.76	26.19

Based on Table 2, ROA had mean of 65.70 with standard deviation of 41.63. The ROA minimum and maximum value were -0.75 and 28.16. For operation complexity had minimum and maximum of 2.00 and 105.00. In addition, the mean and standard deviation of operation complexity were 18 and 20.55. EPS had mean and standard deviation of 1.55 and 1.50.

Besides, the firm size had minimum and maximum of 6.26 and 9.08. Meanwhile, timeliness of audit report had mean and standard deviation of 100.76 and 26.19.

Table 3. Simple Regression Test for The Study Variables

Variable	V1	V2	V3	V4
p-value	0.003	0.000	0.000	0.000
t-value	3.004	5.284	-4.457	4.397
Coefficient	0.240	0.398	-0.344	0.340
R-square	0.057	0.159	0.118	0.116
Adjusted R square	0.051	0.153	0.112	0.110
F model	9.025	27.94	19.863	19.331

Based on Table 3, ROA had coefficients value was 0.240 which indicated presented of positive correlation between dependent and independent variables. Meanwhile, adjusted R square was 0.051 meant accuracy for dependent variable explanation via independent variable. The p-value was $0.003 < 0.05$ showed there was impact of ROA toward timeliness of audit report.

Meanwhile, EPS had coefficients value of 0.398 indicated positive correlation between dependent and independent variables. The adjusted R square was 0.159 meant the accuracy of dependent variable interpreting through independent variable. The p-value was 0.000 showed there was impact of EPS toward timeliness of audio report.

In additions, operation complexity had coefficient value of -0.344 which meant negative correlation between dependent and independent variables. The adjusted R was 0.112 and p-value was 0.000. The statistical result showed there was impact of operation complexity toward timeliness of audit report.

For firm size (total assets) had coefficient of 0.340 meant positive correlation between dependent and independent variables. The p-level was $0.000 < 0.05$ meant there was impact of firm size (total assets) toward timeliness of audit report.

Table 4. Multiple Regression Test for All Independent Variables

p-value	R	R square	Adjusted R square	Model F test
0.000	0.541	0.293	0.273	15.022

Based on Table 4, the p-value was $0.000 < 0.05$ meant there was statistically significant effect factors (ROA, EPS, operation complexity, firm size (total assets) toward timeliness of audit report. The adjusted R square was 0.273 meant extent accuracy of interpreting dependent variable (timeliness of audit report) through independent variable.

Table 5. Beta for All Independent Variables

Variable	Beta	Sig.
Constant	14.325	0.001
ROA	-0.101	0.047
EPS	15.628	0.016
Operation complexity	-0.358	0.000
Firm size	13.725	0.000

Based on multiple regression analysis, the equation model was represented effect of ROA, EPS, debt ratio and firm size (total assets) toward timeliness of audit report as below:

$$Y1 = 14.325 + 0.101(ROA) + 15.628(EPS) \pm 0.358 (OC) + 13.725 (firm\ size) + e$$

where, Y1 represented timeliness of audit report

ROA: return on assets

EPS: earning per share

OC: operation complexity

e: standard error

CONCLUSION

In conclusions, profitability influenced timeliness of audit reports which measured by ROA and EPS. Meanwhile, operation complexity also affected timeliness delivery of audit reports. Internal factors such as ROA, EPS, operation complexity firm size were impacted timeliness of audit report delivery.

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