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Corporate governance and audit report timeliness: Evidence from Kuwait

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The purpose of this study is to empirically investigate the impact of corporate governance mechanisms, among other variables, on audit report lag (ARL) for a sample of 97 companies listed on the Kuwait Stock Market (KSE) in 2020. Audit report lag is measured as the number of days between the date of the financial year end and the date of the audit report. The descriptive statistics indicate that there is considerable variation in the ARL between the sample companies, ranging from 13 to 121 days, with an average of 69 days. A multivariate regression model was employed to examine the association between ARL and corporate governance proxies, namely: board size, board meetings, board financial expertise, non-executive directors, and institutional ownership. The results indicate that companies whose boards have considerable financial expertise are associated with lower audit delay. For other (control) variables, the results indicate that profitability, company size, type of audit opinion, and industry type are found to have a significant impact on the timeliness of financial reporting. More profitable and larger companies were found to issue their audited financial reports faster. Moreover, financial institutions show a shorter lag in releasing their annual report than other sectors, and companies which seek qualified opinions have longer ARLs. Finally, in order to improve the timeliness of annual reports of companies listed on the market, the study suggests the adoption of eXtensible Business Reporting Language (XBRL). There is convincing evidence to suggest that the use of XBRL results in timelier stock market filing and shorter ARL.

Keywords *Audit report lag, KSE, corporate governance, timeliness*

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Introduction

There are several sources of information that can be utilized by investors in making investment decisions. Examples of such sources are corporate annual reports, stockbrokers' advice, newspapers and magazines, prospectuses, and personal visits to companies. Among these, annual reports are considered the most important source of information about companies. Compared with other sources of information, annual reports are viewed as being more comprehensive, containing the outcomes of the activities that firms have implemented according to their strategic plan and performance program (Zeytinoğlu, 2021). In addition, as information in developing countries is relatively limited, annual reports in these countries become unquestionably an important source of information (Kaaroud *et al*., 2020). Furthermore, Afify (2009) indicated that, in such countries, information has a longer time lag, compared with that of developed countries.

Previous studies conducted on the timeliness of annual reports' information found that audit report lag (ARL) is the most important determinant of whether reports are issued in a timely manners (Afify, 2009; Sultana *et al.*, 2015). Since the audit report represents the communication method through which the auditor's opinion is communicated to the users of accounting information, delaying the issuance of the audit report affects the quality of accounting information by affecting the appropriate timing of this information (Wiyantoro and Usman, 2018; Mutiara *et al*., 2018). However, due to the presence of fraud and financial manipulation cases, stakeholders' interest in the auditor's report has increased because of its importance in giving credibility to the information contained in the financial statements (Wiyantoro and Usman, 2018). This essentially explains why audit report lag has drawn extensive consideration from researchers, regulatory agencies, professional bodies, and users of accounting information (Lajmi and Yab, 2021).

The importance of audit lag as a major determinant of the timeliness of audited financial statements has motivated researchers to conduct many studies in both developed and developing countries. However, it should be observed that most of the studies on the topic have been conducted in the context of developing countries. Thus, the current study investigates the topic based on Kuwaiti data. It is also observed that there is a shortage of studies that have examined the impact of corporate governance mechanisms on audit delay in developing countries, particularly Kuwait. Therefore, the current study is expected to fill the gap in the literature concerning this matter.

The objectives of this study are to examine both the extent of ARL and the impact of several variables, particularly corporate governance mechanisms, in explaining variations in audit ARL for a sample of companies listed on the Kuwait Stock Exchange (KSE) for the year 2020.

The current study contributes to the literature in several ways. First, most studies addressing the determinants of ARL have been conducted in the context of developed countries; thus, the

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current study assists us to understand this issue in the context of a developing country, Kuwait. As stated by Joshi *et al*. (2007: 85), "More studies on developing countries are needed to provide a research base…" Second, the study adds to the literature on the determinants of ARL, by providing empirical results using data from companies listed in an emerging market, the KSE. Finally, the study is expected to provide useful feedback to listed companies and the regulatory agencies about the extent of ARL and the variables associated with ARL's increase or decrease. In this regard, the current study takes into consideration the fact that recent years have witnessed the emergence of corporate governance (CG) guidelines, as a major change in the KSE companies' environment, and this has led to KSE companies now being obliged to comply with these guidelines. As such, this project may provide an ideal opportunity to understand the extent to which ARL might have been affected by CG practices/mechanisms. In other words, this project could illustrate how ARL responds to the CG guidelines and board composition (best practices).

This study is organized as follows. Section 2 provides a review of the literature relevant to this study and its related theoretical background. Section 3 sets up the research hypotheses, while Section 4 describes the methodology employed by the study. Section 5 reports on the study's main results. Finally, Section 6 summarizes the study and presents its conclusions and implications.

Kuwait Context

Economically, Kuwait is a relatively open economy, and oil exports will continue to drive Kuwait's growth dynamics. Economic growth is forecast to rebound to a moderate 2.4% in 2021, before ramping up to an average 3.2% in 2022-23 (as published on the World Bank website, 2021). Formally opened in August 1983, the KSE is considered to be a relatively young stock market among others. A noticeable increase in the volume and value of shares traded, the number of share dealings, the number of listed companies, and the increased profits of listed companies has been observed over the years, and this has worked to increase local and foreign investments. The growth in the KSE over the past years has created more interest from governmental bodies to develop the accounting and auditing profession, the business environment of Kuwait, and commercial company and investment laws in order to grow capital inflows by attracting greater local and foreign capital to invest in the KSE. On the other hand, the expansion of the KSE and attracting the attention of investors requires several factors: market participants to demand improving timeliness and reliable information provided on the stock market and companies as sources of information and shareholders' protection.

In early 2010, following approval by the National Assembly, the Kuwaiti legislator enacted a law leading to the establishment of a Capital Markets Authority (CMA). The CMA aims to regulate securities' activities, based on principles of fairness and transparency, and to promote fair disclosure in operating and transactions. It issued Module 15 of the Capital Market Authority's (CMA) Executive Bylaws regarding CG rules, complying with

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international best practices, which includes a set of 13 chapters, applying to companies listed on the KSE. The Code of Corporate Governance (CCG) came into force in June 2016.

CG rules stipulate that the number of board meetings shall not be less than six per fiscal year, instead of the minimum four board meetings yearly based on the Old Law of Commercial Companies (LCC) No. 15 of 1960 (as amended). With respect to the composition of corporate boards, CG rules require that KSE-listed companies should have an appropriate structure that matches the size and nature of the company's activity. Moreover, when forming the board of directors, the diversity of academic certificates and practical experience and specialized skills among directors should be taken into consideration; this contributes to enhancing efficiency in the process of decision-making. The board should consist of a sufficient number of directors to allow the necessary number of board committees required by the CCG framework to be formed. These requirements are considered the application of the best practice of CG, and they provide an ideal chance to assess the effect of CG mechanisms on the audit report lag.

Regarding financial statements and company accounts, the company shall have a fiscal year of no less than twelve months, the beginning and end of which shall be determined by the company's contract. The New Law of Commercial Companies (LCC) No. 1 of 2016 and the New Law of Practicing the Profession of Auditing No. 103 of 2019 govern the preparation of the audited financial statements of listed companies. Under LCC No. 1 of 2016, the Kuwaiti legislator gives the company's shareholders the right to choose and appoint at least one external auditor for their company and to determine their audit fees during the company's general meeting or grant the authority of the board of directors to do so.

The LCC also requires listed companies to submit their annual audit financial statements to the Ministry of Commerce and Industry (MCI) and distribute them to shareholders. More specifically, they should submit their annual audited financial statements to the MCI within 90 days of the close of the financial year. Furthermore, the legislative regulations of other regulatory and monitoring bodies (the CMA and the Central Bank of Kuwait (CBK)) have the same requirement.

Regulatory and monitoring bodies obligate KSE-listed companies to apply International Financial Reporting Standards (IFRS) when preparing financial statements. They also obligate auditing firms to comply with international auditing standards (IAS) and other regulations when auditing the financial statements of companies. KSE-listed companies should choose an auditor who is licensed by the CMA.

Literature Review

A large number of studies have been conducted to determine the effect of corporate governance, among other variables, on the timeliness of ARL (e.g., Bamber *et al*., 1993; Afify, 2009; Mohamad-Nor *et al.*, 2010; Kaaroud *et al.*, 2020; Nouraldeen *et al.*, 2021; Zeytinoğlu, 2021). Bamber *et al*. (1993) state that more than 70 per cent of all companies

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wait for the audit report before the release of their earnings announcement. This explains the importance of the timeliness of audit reports in determining the timing of information releases. In a UK study, Abdelsalam and Street (2007) observed that board experience and independence seemed to contribute to timelier corporate reporting.

In Malaysia, Abdullah (2006) found that separation of the chairman of the board and the Chief Executive Officer (CEO) positions, independence of the board, higher profitability, and lower leverage were correlated with lower ARL, but audit committee independence was not found a to be significant factor in determining ARL. In another Malaysian study, Mohamad-Nor *et al.* (2010) found that having a large and vital audit committee reduces the ARL. However, the independence and expertise of the audit committee did not significantly affect ARL. In Indonesia, on the other hand, Ika and Ghazali (2012) found that audit committee effectiveness was related to shorter ARL. In their study, Abernathy *et al.* (2014) found that, for US companies, financial expertise in the audit committee was associated with timelier ARL. In another study, Schmidt and Wilkins (2013) found that financial expertise among the audit committee and being audited by the Big 4 contributed to timelier financial reporting.

In Egypt, Afify (2009) investigated the extent of ARL and examined the impact of corporate governance characteristics on ARL. He reported that, on average, it takes a listed company approximately two months to receive its ARL. The results of regression analysis indicated that board independence, duality of CEO, and existence of an audit committee significantly affect ARL, But, on the other hand, ownership concentration had an insignificant effect on ARL. Mohamad-Nor *et al.* (2010) investigated the ARL for a sample of Malaysian listed companies; the results of the study showed that a large and vital audit committee reduces the ARL. However, the independence and expertise of the audit committee did not significantly affect ARL. A study by Kaaroud *et al.* (2020) revealed that audit committee expertise and meeting have a significant negative impact on ARL. However, the study did not find that both board independence and audit committee size had a significant impact on ARL. Furthermore, the results of Nouraldeen *et al.* (2021) show a significant relationship between audit report lag and each of the variables, firm size, leverage, board independence, board diligence, audit committee independence and audit committee diligence.

Using a sample of companies listed on the FTSE 350 database, Nehme *et al.* (2015) empirically examined the effect of CG characteristics on ARL. Regarding the CG mechanisms, the study findings show that a larger board size with diverse backgrounds and intellectual resources decreases the audit delay.

In the Gulf Cooperation Council (GCC) countries, Almuzaiqer *et al*. (2018) examined the timeliness of financial reporting in the United Arab Emirates (UAE); their findings revealed that ARL is influenced by the variable, profitability, while other company characteristics (company size, industry type, and auditor type) were found to have an insignificant relationship with ARL. In a regional and comparative study, Khasharmeh and Aljifri (2010)

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investigated the determinates of ARL in two developing countries, the UAE and Bahrain. In Bahrain, their results showed that profitability, debt ratio, and sector type were indicators of a strong impact on the timeliness of corporate annual reports. However, audit type and company size appeared to have a weak influence on the audit delay. On the other hand, in the UAE, the study indicated that debt ratio and audit type appeared to be predictor variables.

Alsmady (2018) investigated audit delay determinants among 68 Jordanian listed companies over the period 2011–2015 and showed that the age and size of the company have a negative effect on audit delay, while foreign ownership has a positive effect.

In the Turkish markets, Aksoy *et al.* (2021) explored the impact of ownership structure and board composition on the annual financial reporting timeliness of non-financial companies listed on Borsa Istanbul. The results indicated that companies with a high level of institutional ownership and women board membership file annual reports earlier. Also, profitable companies file their accounts faster. However, companies with less institutional ownership and those that obtain qualified audit opinions are more likely to file late.

In Kuwait, Alfraih (2016) examined the effect of corporate governance mechanisms on audit delay in companies listed on the Kuwait Stock Exchange (KSE) in 2013. The results of the study indicated a wide range in audit delay among the companies, ranging from 7 to 159 days. The study reported a reduction in audit delay when the audit was conducted by Big 4 firms. It was also found that companies with larger boards, a greater number of independent directors, and separate CEO–chairman roles are more likely to produce timely financial statements.

The current study extends Alfraih's (2016) study, by addressing the introduction of a New Law of Commercial Companies (LCC) No. 1 of 2016 and the New Law of Practicing the Profession of Auditing No. 103 of 2019, which govern the preparation of the audited financial statements of listed companies and with respect to the application of the CG code, which came into force in 2016, and its impact on the composition of company boards. In addition, the current study incorporates new corporate governance mechanisms (board financial expertise, board size, percentage of non-executive directors on the board, board meetings), among other variables.

Research Methodology

Population, Sample, and Data Collection

This population of this study consists of all the companies listed on the KSE for the year 2020, a total of 171 companies. The sample selection process is based on the following criteria. Ten companies with different financial years, not ending on 31 December, were excluded, since this would cause inconsistent data collection and might affect the statistics' results. This exclusion is consistent with prior literature, which indicates that the financial period has an influence on audit reporting (Leventis et al., 2005). A further six companies had

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to be removed, since they were voluntarily delisted from the KSE, while nine companies were eliminated because they had been delisted from the KSE. Then, 49 companies whose annual reports were unavailable and companies lacking some data of interest had to be eliminated. Therefore, the final sample contained 97 companies, representing about 57 per cent of the total population. The sample companies are distributed into five sectors: financial institutes (18 per cent), investment (24 per cent), real estate (24 per cent), manufacturing (14 per cent), and services (20 per cent). The data has been manually collected from the annual reports which were available on companies' websites and the official website of the KSE (www.kse.com.kw).

The Regression Model

Building on multivariate analysis, the regression model is:

$$ARL = \beta_0 + \beta_1 BSIZE + \beta_2 BMEET + \beta_3 BEXP + \beta_4 NEXE + \beta_5 IOR + \beta_6 AUDS + \beta_7 AGE + \beta_8 LEV + \beta_9 ROA + \beta_{10} SIZE + \beta_{11} COMP + \beta_{12} AUDOP + \beta_{13} FI + \beta_{14} INV + \beta_{15} RE + \beta_{16} MANU + \beta_{17} SERV + e$$

The independent variables include seven categorical variables; these are represented by dummy variables in regression. Thus, five dummy variables are used for industry type, one variable is omitted when running the regression, to avoid perfect multicollinearity. There is one variable for the audit firm size (Big 4 or others), one variable for auditor's opinion (unqualified or others). In addition, ten variables are continuous variables: four variables describing the board characteristics, six variables for institutional ownership ratio, company age, leverage, profitability indicator, size, and complexity. Table (1) provides information about the variables, their abbreviations, and their measurements.

Table 1: Variables of the study and their measurements

Variable	Abbreviation	Measurement
Dependent variable		
Audit report lag	ARL	The number of days between the financial year-end and the day the auditor's report is signed.
Independent variable		
Board size	BSIZE	The total number of directors on the board.
No. of board meetings	BMEET	Frequency of board meetings held during the financial year.
Board financial expertise	BEXP	The proportion of board directors with financial expertise.
Non-executive directors	NEXE	The proportion of non-

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		executive directors on the board.
Institutional shareholding %	IOR	The percentage of shares owned by institutional investors.
Auditor size	AUDS	Dummy variable that equals 1 if the auditor is Big 4, and 0 otherwise.
Control variable		
Company age	AGE	Measured from the date of company incorporation.
Leverage	LEV	The ratio of total liabilities to total assets.
Return on assets	ROA	The ratio of the net income divided to the total assets of the company.
Company size –Transformed	SIZE	The natural logarithm of total assets at the end of the financial year.
Complexity –Transformed	COMP	The square root of the number of consolidated subsidiaries, associates and joint ventures.
Type of audit opinion	AUDOP	Dummy variable that equals 1 if the audit opinion is qualified, and 0 otherwise.
Financial institutions	FIN	Dummy variable that equals 1 for firms in the financial institutions category, and 0 otherwise.
Investment	INV	Dummy variable that equals 1 for firms in the investment category, and 0 otherwise.
Real estate	RE	Dummy variable that equals 1 for firms in the real estate category, and 0 otherwise.
Manufacturing	MANU	Dummy variable that equals 1 for firms in the manufacturing category, and 0 otherwise.
Services	SER	Dummy variable that equals 1 for firms in the services category, and 0 otherwise.

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Results and Discussion

Descriptive Analysis

Table (2) provides information regarding ARL by the sample data for the KSE companies in 2020. As seen, the ARL ranges from 13 to 121 days and has a mean of 69.11 days (standard deviation (SD) of 23.61) with a median of 75 days. Table (3) displays the frequency distribution of ARL. It indicates that 24% of companies release their audited financial statements within 50 days of the close of the accounting period. It also shows that 70% of the KSE companies release their audit financial statements between 51 and 90 days after the end of the accounting period. Furthermore, 6% of the listed companies release their audited financial statements more than 90 days after the close of the accounting period. This result suggests a broad range of variation in the frequency distribution of audit delay among companies. This variation gives a good opportunity to explore the effect of board composition, as a part of CG mechanisms, on the timeliness of audit financial statements.

Table 2: Descriptive statistics for audit delay by days (dependent variable)

N	Mean	Median	SD	Minimum	Maximum	Skewness	Kurtosis
97	69.11	75	23.61	13	121	-.127	-.471

Table 3: Frequency distribution of audit delay by days

Audit delay range (in days)	No. of companies	%	Cumulative (%)
13-30	5	5	5
31-50	18	19	24
51-80	34	35	58
81-90	34	35	93
91 or above	6	6	100

Note: $N = 97$

Table (4) provides descriptive statistics for all independent continuous and dummy variables. Company age ranges from 7 to 61 years, with a mean of 35.28 years. Regarding the number of directors on the board of KSE-listed companies in 2020, this ranges from 5 to 12 members, with a mean of 6.97. The range concerning number of board meetings held during the financial year is from 4 to 20 meetings, with an average of 7.87. The descriptive statistics' results also indicate that the percentage of directors with financial expertise on boards ranges from 0.00 to 1.00, with a mean of .86. In addition, the mean percentage of non-executive directors is 69.10, ranging from 29 to 100 per cent. In terms of the percentage of institutional shareholding, this ranges from 3.00 to 96.84 per cent, averaging 39.85 per cent. The leverage (LEV) for the companies ranges from 0 to 94 per cent, averaging 48. Regarding the profitability variable (the return on assets), this has a mean of -2.67, ranging from -61 to 25 per cent. Moreover, company size varies noticeably, ranging from Kuwaiti Dinar (KD)

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6,415.853 million to KD 29,717.391 million, with a mean of KD 1,371.319 million. The employed measure of the complexity attribute is the number of consolidated subsidiaries, associates and joint ventures, and it has a mean of 2.31, ranging from 0.00 to 6.24.

The results for the company size and complexity variables reveal that these are non-normally distributed, and this violates the normality assumption. The company size is transformed with the natural logarithm to bring it closer to normality, while the complexity is corrected with the square root transformation.

Table 4: Descriptive statistics for independent variables

Continuous variable	Mean	SD	Minimum	Maximum
Company age	35.28	15.10	7	61
Board size (BSIZE)	6.97	1.72	5	12
No. of board meetings	7.87	2.95	4	20
% of board with financial expertise	.86	.25132	0.00	1.00
% of non-executive directors	69.10	15.80	29.00	100.00
Institutional shareholding %	39.85	25.78	03.00	96.84
Leverage (LEV)	.4801	.26861	0.00	.94
Return on assets	-.0267	.10468	-.61	.25
Company size	1371319353.4227	4067761507.32627	6415853.00	29717391000.00
Company size – Transformed	8.2921	.78318	6.81	10.47
Complexity	7.28	8.10	0.00	39.00
Complexity-Transformed	2.31	1.40	0.00	6.24
Dummy variable			Yes	%
Auditor type			58	60.00
Type of audit opinion			12	12.50
Financial institutions			17	17.53
Investment			23	23.71
Real estate			23	23.71
Industry			14	14.43
Services			20	20.62

Note: $N = 97$

Table (4) also shows descriptive statistics for the dummy variables. The dummy variables are employed to represent the type of auditor (Big 4 or others) and audit opinion. It can be stated that 60 per cent of the KSE-listed companies included in the current empirical study are audited by Big 4 audit firms. Of the listed companies' sample, 12.5 per cent received a qualified opinion. Moreover, the 97 companies are classified into five categories: 17 (17.53

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per cent) are in the financial institutions sector, 23 (23.71) in the investment sector, 23 (23.71 per cent) in the real estate sector, 14 (14.43 per cent) are in the industry sector, and 20 (20.62 per cent) are in the services sector.

Multivariate Regression Analysis

Before discussing the results of the regression model, the model was checked for the the presence of multicollinearity between independent variables. This occurs when two or more exogenous variables are highly correlated, which makes it difficult to determine the individual contribution of each variable to the prediction of the dependent variable. One technique commonly used to detect multicollinearity is that of variance inflation factors (*VIF*). According to Pallant (2013), A *VIF* > 10 constitutes a potentially harmful degree of multicollinearity. As seen in the final column of Table (5), the results of *VIF* for the independent variables are less than 10, suggesting that the multicollinearity does not exist among the variables.

Table (5) provides the results of the multivariate regression analysis. As seen from the table, the model was highly significant (F = 4.361, p = .0000), with an adjusted R^2 of .359. Therefore, approximately 36% of the variation in ARL between the companies can be explained by the independent variables included in this model. As the table shows, except for the board financial expertise (BEXP) variable, which was significant, though at 10% with negative coefficient, the other variables employed in the model to reflect corporate governance were found to be insignificant. The negative coefficient of the BEXP variable suggests that the higher the percentage of the members of the board with financial expertise, the lower the ARL. This suggests that the existence of directors who have financial expertise on the board plays an important role in reducing ARL.

As for other variables, as seen, both the size of the company (as measured by the logarithm of total assets) and its profitability (as measured by return on assets (ROA)) are significant at the 1% and 5% levels, respectively, with negative coefficients, indicating that the larger the company and the higher its ROA, the timelier its audit report. Research results support the findings of past research conducted by Alfraih (2016) and Almuzaiqer *et al*. (2018). It can also be seen from the table that the LEV variable has a positive coefficient and is significant, though at the 10% level, suggesting that companies with higher levels of liabilities in their capital structure take more audit time compared with other companies. This contradicts the findings of Alfraih (2016), while it is consistent with evidence provided by Khasharmeh and Aljifri (2010). Furthermore, the type of auditor's opinion (AUDOP) variable was found significant at the 5% level with positive coefficient, indicating that companies that obtain qualified opinions have a longer lag. The result is inconsistent with findings documented by Alfraih (2016).

As for the industry types, as previously indicated according to KSE classification, the sample companies are allocated to five industry types (Financial, Investment, Real Estate, Service,

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and Manufacturing). The results reported in Table (5) indicate that companies classified in the financial industry have a negative and significant coefficient at the 5% level. This suggests that these companies have a shorter ARL compared with manufacturing type of industry, which was left out of the regression model, to avoid perfect multicollinearity.

Table 5: Results of regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	169.751	29.441		5.766	.000		
	BSIZE	.275	1.664	.020	.165	.869	.459	2.177
	BMEET	-.223	.783	-.028	-.285	.776	.696	1.437
	NEXE	3.902	14.188	.026	.275	.784	.741	1.349
	BEXP	-15.190	8.425	-.162	-1.803	.075	.830	1.205
	IOR	.095	.082	.104	1.153	.252	.828	1.208
	AGE	.069	.153	.044	.450	.654	.694	1.441
	SIZE	-12.149	4.179	-.403	-2.907	.005	.347	2.880
	ROA	-41.501	20.194	-.184	-2.055	.043	.833	1.201
	LEV	17.863	10.258	.203	1.741	.085	.490	2.041
	AUDS	-.513	4.485	-.011	-.114	.909	.761	1.314
	AUDOP	13.588	6.468	.191	2.101	.039	.812	1.232
	COMP	.162	.296	.056	.546	.587	.645	1.550
	FIN	-20.073	9.151	-.325	-2.194	.031	.304	3.287
	INV	-3.497	6.909	-.063	-.506	.614	.426	2.345
	RE	-6.542	6.787	-.118	-.964	.338	.442	2.263
	SER	-11.017	7.139	-.190	-1.543	.127	.441	2.265
Adj. R2		= 0.359	F	= 4.361	Sig. F	= 0.000		

Summary and Conclusions

This empirical study explores the effect of CG mechanisms, among other variables, on the extent of ARL among the KSE-listed companies in 2020. This context is crucial, as the past few years have witnessed the emergence of CG guidelines which are expected to affect the board structure and its committees. Consistent with the audit lag literature, ARL was measured by the number of days between the financial year-end and the day on which the

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auditor's report was signed. Five CG mechanisms are considered, namely: board size, number of board meetings, board financial expertise, board independence (non-executive directors), and institutional ownership. The study controls some variables for their potential influence on ARL. These are company age, leverage, profitability, company size, complexity, type of audit opinion, and industry type. A multivariate regression model was used to assess the strength of association between ARL and CG mechanisms. The sample comprises all KSE-listed companies in 2020 for which all necessary information is available.

The results show that there is considerable variation in the ARL between the sample companies. The shortest time is 13 days, ranging up to 121 days, with an average of 69 days. Descriptive statistics show that most companies listed on the KSE comply with the regulatory requirements that they should submit their audited financial statements within 90 days of the close of the financial year. Only six companies failed to meet the submission deadline requirements.

Among the six variables that relate to the CG mechanisms, the multivariate regression analysis indicates that only the board financial expertise variable is negatively and significantly related to ARL. The result supports the argument that the presence of directors with financial expertise on the board is associated with shorter ARL. This suggests that, in order to improve the timeliness of audit reports and, as a result, the timeliness of annual reports, companies listed on the KSE must be required to have a minimum percentage of board members with financial expertise.

In relation to the control variables, the results indicate that leverage, profitability, company size, type of audit opinion, and industry type have a significant impact on the timeliness of financial reporting.

It should be noted that more profitable and larger companies issue their audited financial reports faster. This finding is consistent with signaling theory, which indicates that companies with good news attempt to quickly publish their reports, compared with companies with bad news (e.g., loss) to deliver. Moreover, financial institutions have a shorter lag in releasing their annual report than other sectors.

The current KSE regulations require listed companies to submit their audited financial statements within 90 days of the close of the financial year. One suggestion to improve the timeliness of annual reports of the listed companies on the market is the adoption of eXtensible Business Reporting Language (XBRL). There is convincing evidence to suggest that the use of XBRL results in timelier stock market filing and shorter ARL (Amin *et al.*, 2018).

The findings of this study need to be interpreted cautiously, since, as with any research, this study is subject to some limitations. For instance, the present study does not include other CG mechanisms, such as the composition and the effectiveness of the audit committee, since the objective of the present study concentrates on the association between the structure of the

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corporate board and ARL. Another limitation is that the study covers financial reporting for a single year. Thus, limitations give a good opportunity to recommend future research streams, and it would be interesting to expand the scope and investigate the relationship between the audit committee variable and ARL. Moreover, future research could conduct a longitudinal study, to better understand a phenomenon such as ARL and its determinants, as well as tracking trends and changes in the phenomenon over the examined years.

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