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The Relationship Of Audit Report Delay, Auditor competency, Audit Committee size and Meetings With respect to Financial Performance Among Listed Companies In Sultanate Of Oman*

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Abstract:

This study aims at investigating the relationship of audit report delay, auditor competency, audit committee size and audit committee meetings with financial performance (ROA) among listed companies in Sultanate of Oman for the year 2013. The final sample in this study consists of 71 companies. The OLS regression shows that audit report delay is associated negatively with financial performance. Moreover, audit committee meetings are positively associated with financial performance. The results of this are of importance to policy-makers at the country and company levels in terms of issues related to financial performance. Further, the additional evidence provided by this study could be used as a support for the extant empirical research and supporting theory and by the future research to understand more about financial performance issues in Sultanate of Oman in particular and in other Arab countries in general.

Keywords*: audit report delay, auditor competency, audit committee size and meetings, financial Performance, Oman.*

علاقة تأخر اصدار تقرير مراجع الحسابات الخارجي، ونوعية مراجع الحسابات الخارجي، وحجم واجتماعات لجنة المراجعة مع الاداء المالي للشركات المساهمة المسجلة في سوق مسقط للأوراق المالية

ملخص:

تناولت هذه الدراسة اختبار علاقة تأخر اصدار تقرير مراجع الحسابات الخارجي، ونوع المراجع الخارجي، وحجم واجتماعات لجنة المراجعة مع الاداء المالي للشركات المساهمة المسجلة في سوق مسقط للأوراق المالية لعام 2013م. تمثلت العينة النهائية لهذا البحث من 71 شركة مسجلة. أوضحت النتائج النهائية لتحليل انحدار المربعات الصغرى الاعتيادي وجود علاقة عكسية ذات دلالة احصائية بين تأخر اصدار تقرير مراجع الحسابات الخارجي والاداء المالي للشركات العمانية. أي: كلما تأخر مراجع الحسابات الخارجي في اصدار تقرير المراجعة كلما انعكس ذلك سلبياً على اداء الشركات المالي. كما أوضحت نتاج الدراسة ايضاً وجود علاقة طردية ذات دلالة احصائية بين اجتماعات لجنة المراجعة والاداء المالي للشركات. أي: كلما زادت كفاءة لجنة المراجعة من خلال الاجتماعات المتكررة كلما تحسن اداء الشركات المالي. الجدير بالذكر هو ان نتائج هذه الدراسة تمثل مدخلات مهمة لصانعي السياسات على مستوى الدولة وعلى مستوى الشركات المساهمة في سلطنة عمان فيما يتعلق بقضايا الاداء المالي. حيث تقدم هذه الدراسة دليل تطبيقي جديد في بيئة جديدة لم تدرس من قبل والذي يمكن الاستفادة منه في دعم الدراسات السابقة والنظرية المتنبئة وكما يمكن ايضاً استخدامه من قبل الدراسات المستقبلية في تعميق فهم قضايا الاداء المالي في بيئة الاعمال العمانية بشكل خاص وفي بقية دول الوطن العربي بشكل عام.

الكلمات الدالة: تأخر اصدار تقرير مراجع الحسابات الخارجي، ونوعية المراجع الخارجي، وحجم واجتماعات لجنة المراجعة، والاداء المالي، وسلطنة عمان.

1. Introduction

The issue of financial performance has been given an attention after the crises of the Asian, Russian Federation, and Brazil financial crisis that started in 1997, and the failing of some companies in the United States such as Enron, Xerox, Worldcom, and Parmalat, and the Saudi Stock Exchange (Tadawul) crash in early 2006. Moreover, the separation and conflicts of interest between shareholders and managers in companies may lead to agency problems (Fama & Jensen, 1983; Jensen & Meckling, 1976). Importantly, solving the problems emerging from the crises and aligning shareholder and management interests, or reducing conflicts of interest, corporate governance has been well-documented that, will, consequently, lead to enhancing financial performance (Al-Abbas, 2008; Al-Hamidy, 2010; Al-Hussain, 2009; Al-Moataz & Basfar, 2010; Al-Twaijry, 2007).

Corporate governance has been incrementally the focus of regulators, investors, lenders and other stakeholders in the today's business market. The corporate governance structure concerns about distributing rights and responsibilities among different participants in the company such as board of directors, managers, shareholders and other stakeholders, and spelling out the rules and procedures regarding making decisions on company's affairs. In the same line, corporate governance also provides the framework through which the

company can be guided to set its objectives, attain those objectives, and monitor performance. Therefore, companies that are practicing good corporate governance can be described as companies having well-defined and protected shareholder rights, a solid control environment, high levels of transparency and disclosure, and an empowered board. More important is that the interest of the company and those of shareholders are well aligned (Hawkamah & IFC, 2008). Corruption practices that occurred in some international companies, such as Enron, Arthur Andersen, WorldCom, and Adelphia scandals have put corporate governance under investigation. Kawaura (2004) finds that the ineffective governance structure is responsible for the crisis of Japanese banks in the 1990s. Agency theory proposes a divergence in managerial and owners' interests occur when there is a separation of ownership and control (Jensen & Meckling, 1976).

It is well-documented that audit report is considered as one of the key determinants influencing the timeliness of earning announcement (Givoly and Palmon, 1982; Ashton, Willingham and Elliott, 1987). Further, Chahine and Tohme (2009) indicate that the regulatory bodies in emerging economies are not as effective as those in Western developed countries. This situation creates an increasing amount of importance to the audit report delay in countries where other non-financial statements such as news conferences, media releases and financial analysts' forecasts are not well-developed (Khasharmeh and Aljifri, 2010). In particular, since strategic decisions are made based on the audit report, delaying the issuance of such report may influence inversely the firm value. The association between auditor type and firm performance has been proposed by agency theory and information suppression hypothesis (Jensen & Meckling, 1976; Fama & Jensen, 1983). It is suggested that the higher audit quality may control opportunistic management behaviors, reduce agency costs and, consequently, increase the firm value in the marketplace (Grayson, 1999). In consistent with this conjunction, Aljifiri and Moustafa (2007) find empirically a significant positive relationship between auditor type and financial performance.

The attentions of regulatory authorities as well as academics are increasingly dedicated in recent times towards audit committees (Abbott & Parker, 2000; Lennox & Park, 2007; Wolnizer, 1995). This is because audit committees are now being observed to be effective handles in operating corporate governance employed in the corporate governance models of Japan-German and Anglo-Saxon (Karim & Zijl, 2008). The audit committees perform an essential responsibility of monitoring in order to ensure corporate accountability and financial reports quality (Klein 1998; Birkett, 1986). The literatures at international level have been synthesized by Wolnizer (1995) with the claim that the supervisory role of audit committee be basically one, accounting and financial reporting; two, auditors and auditing; and three, corporate governance. An audit committee implementation is seen as an important stage ensuring the high quality of corporate governance standards (Cadbury et al, 1992). The presence of an efficient audit committee as a mechanism of improved corporate governance practices is expected to enhance overall management supervision, and decreases information asymmetry issues; consequently, improve the performance of firms (Chen et al, 2008a,b).

This study will contribute to extending empirical research into audit report delay, auditor type, audit committee size and meetings and financial performance in Sultanate of Oman, which is a special case, one hallmark of which is an institutional framework that clearly differs from that of its Anglo-Saxon counterparts. It may not, in fact, be wise to extrapolate empirical evidence from Anglo- Saxon markets to Sultanate of Oman for several reasons: (1) Sultanate of Oman has intervened heavily in linking legal origins and financial arrangements. It is still suffering from a lack of equity among investors. (2) The current corporate governance frameworks of Sultanate of Oman does not meet the threshold sought by international investors (AL Majlis, The GCC Board Directors Institute, 2009). (3) Recently, however, Sultanate of Oman has

adopted and developed large-scale economic and market policies and strategies that convert them to market-oriented economies. In this case, these issues may have an influence on the quality of auditing and audit committee in Sultanate of Oman, and agency problems are more likely to arise between majority and minority shareholders.

This study investigates the variation in the level of audit report delay, auditor type, audit committee size and meetings and how such variation could influence the degree of financial performance in Sultanate of Oman. The findings of this study should be of interest to policymakers in Sultanate of Oman as well as to those emerging markets in the Middle East because of the similarities in the institutional and cultural environments and in the corporate ownership structure of firms (La Porta & Lopezde-silanes, 1999). The results may also be of interest to other researchers who are investigating the characteristics of firms in the quality of auditing and the formation and effectiveness of audit committee. In addition, the results of this study will hopefully motivate further inquiries into why the audit report delay, auditor type and the effectiveness of audit committee varies the degree of firm values.

The remainder of the paper is organized as follows. Section 2 discusses the literature review and development of hypotheses. Section 3 describes the data collection and research design. The results and discussions have been highlighted in section 4. And, the final section provides conclusions and implications.

2. Literature review and development of hypotheses

Audit report is considered as one of the key determinants influencing the timeliness of earning announcement (Givoly and Palmon, 1982; Ashton, Willingham and Elliott, 1987). It is well-established that audit information is transferred to the market via audit reports (Dopuch, Holthausen and Leftwich, 1986; Lai, Cheuk and Hom, 2005) which, consequently, could create a market reaction (Chambers and Penman, 1984). Afify (2009) documents that audit report delay may indicate to audit efficiency. Further, the relevancy and reliability of financial information could be reflected by the timeliness of financial reports. Importantly, the relevancy of financial information may become less with the passage of time (Lawrence and Glover, 1998; McGee and Tarangelo, 2008). Prickett (2002) and Kulzick (2004) report that the timeliness of financial reports could identify the degree of transparency of financial information and good practices of corporate governance (McGee and Yuan, 2008). Chahine and Tohme (2009) indicate that the regulatory bodies in emerging economies are not as effective as those in Western developed countries. This situation creates an increasing amount of importance to the audit report delay in countries where other non-financial statements such as news conferences, media releases and financial analysts' forecasts are not well-developed (Khasharmeh and Aljifri, 2010). In particular, since strategic decisions are made based on the audit report, delaying the issuance of such report may influence inversely the firm value. Based on the above discussions, this study argues that there is a negative association between audit report delay and financial performance. There is a paucity of studies linking audit report delay with financial performance in the literature review of the financial performance. Thus, the expected sign for the effect of audit report delay on financial performance in the context of Sultanate of Oman is negative. The testable hypothesis of financial performance is stated in a direct form:

H_1: Ceteris paribus, there is a negative association between audit report delay and financial performance.

The association between auditor type and firm performance has been proposed by agency theory and information suppression hypothesis (Jensen & Meckling, 1976; Fama & Jensen, 1983). It is suggested that the higher audit quality may control opportunistic management behaviors, reduce agency costs and, consequently, increase the firm value in the marketplace (Grayson, 1999). In consistent with this conjunction, Aljifiri and Moustafa (2007) find empirically a significant positive relationship between auditor type and financial performance.

Thus, the expected sign for the effect of external auditor type on financial performance in the context of Sultanate of Oman is positive. The testable hypothesis of financial performance is stated in a direct form:

H_2: Ceteris paribus, there is a positive association between auditor type and financial performance.

It is required by the Omani code of corporate governance that listed companies on Muscat Financial Market should have an audit committee with at least three individual members. This is because the presence of an audit committee may indicate to effective monitoring and control which, in turn, may lead to an improvement in the firm value. It is well reported that the presence of an adequate members on the audit committee may influence the availability of resources, efficiency, a decrease in companies risk premium and the potential for wrongdoing and the enhancement in the financial reporting (Al-Ghamdi, 2012; Anderson et al., 2004, Archambeault & DeZoort, 2001; Kalbers & Fogarty, 1993; Kiger & Scheiner, 1997; Yatim et al., 2006). It has been reported empirically by Archambeault and DeZoort (2001) that audit committee size is negatively associated with suspect auditor change. Further, Anderson et al. (2004) and Yatim et al. (2006) find that the size of audit committee and board is associated negatively with debt costs. Raghunandan and Rama (2007) find a significantly positive association between audit committee size and financial performance. Therefore, we expect a significantly positive association between audit committee size and financial performance.

H3: Ceteris paribus, there is a positive association between audit committee size and firm performance.

Jensen and Meckling (1976) and Shleifer and Vishny (1997) indicate that audit committee members hold frequent meetings as necessary to review investment efforts and mitigate potential agency problems. Several prior studies in different disciplines indicate to the importance of audit committee meetings. For instance, Abdul Rahman & Mohamed Al (2006) and Xie et al. (2003) report that audit committee meetings impact inversely on the earnings management. Abbott et al. (2000) and Beasley et al. (2000) document that audit committee meetings influence negatively fraudulent financial reporting. In the same vein, audit committee meetings is found to have a significantly negative association with financial reporting problems and misstatements. Anderson et al. (2004) report that the frequency of audit committee meetings in negatively linked with debt costs. Based on the above discussion, we expect a significantly positive association between audit committee meetings and financial performance.

H4: Ceteris paribus, there is a positive association between audit committee meetings and firm performance.

3. Data collection and research design

3.1 Sample selection and data collection

The population of interest comprises all manufacturing and service companies listed on Muscat Financial Market for the year 2013. This selection is the most recent test period for which data were available. Further, the boom of the Sultanate of Oman clearly emerged in early 2005 (Chahine & Tohme, 2009). A cross-sectional review of audit reports of the sample companies listed on the Muscat Financial Market was undertaken. Samples selected depicted in Table 1.

Table 1
Sample Selection in 2013

Total Observations	
Total listed manufacturing and service companies	87 company
Outliers	(6)
Missing and incomplete data	(10)
Final sample	71

The financial performance model used in this study is adapted from prior studies to accommodate the auditing and financial performance in Omani setting. We include two profound control variables which have been empirically evidenced to be associated with financial performance. These variables are firm size (*FSIZE*) and firm financial leverage (*LEV*).

In terms of firm size (*FSIZE*) and financial performance, it is indicated that larger firms are more effective than smaller ones that is because of the skills of staff, economies of scale, and market power (Helmich, 1977; Kumar, 2004). By the same way of token, Haniffa and Hudaib (2006) indicate that larger organizations have more analysts available who are centered on the performance of the firm and, as such, are under greater pressure to perform well. In addition, Pfeffer and Salancik (1978) document that the environment they work in is more influenced by larger firms than smaller ones. This situation creates an access to larger resources and fundamental constituencies in order to involve outside consultants for support in enabling the succession planning. Aljifri and Moustafa (2007), Kumar (2004) finds a positive link between financial performance and firm size. Thus, the expected sign for the effect of firm size on financial performance is positive.

As for the association of firm financial leverage (*LEV*) with financial performance, Agency theory conjectures that debt financing is more effective than equity (Jensen & Meckling, 1976). It is believed that it controls managers' incentive from wasting free cash flows and, consequently, it enhances the managers' motivation in improving the financial performance (Myers, 1990). Furthermore, debt financing applies aggressive market monitoring on managers actions. For instance, Grossman and Hart (1982) document that debt financing makes managers aware of consuming fewer perks and become more efficient to avoid bankruptcy; the loss of control as well as loss of reputation. In contrary, Stiglitz and Weiss (1981) predict that as a firm is financed with large debts, it is more likely that its equity holders with limited liability may prefer to undertake highly risky projects and this might inverse with the financial performance. Previous studies on financial performance have resulted in contradictory results. For example, Dowen (1995), McConnell and Servaes (1995), Short and Keasey (1999), Weir et al. (2002), Haniffa and Hudaib (2006) and Aljifri and Moustafa (2007) report a significant negative relationship between financial leverage and financial performance. However, Hurdle (1974) documents a positive association of the leverage with financial performance. Therefore, the expected sign for the effect of leverage on financial performance is negative based on the direction of the extant research.

3.2 Regression model and definition of variables

The economic model is used to develop a model of financial performance. The variables proposed for inclusion in the model capture differences in the costs of agency relationships. The dependent variable is a continuous measurement. To estimate this model, Multivariate Analysis is applied using OLS regression because the dependent variable is a continuous nature. Therefore, a pooled OLS regression analysis is used to estimate the associations proposed in the hypotheses. The functional equation of the pooled OLS model is utilized to determine the extent of the influence of each of the independent variables on the financial performance:

$$FIN_PERFORMANCE = \beta 0 + \beta 1\ REPORT_DELAY + \beta 2\ AUD_TYPE + \beta 3\ AC_SIZE + \beta 4\ AC_MEET + CONTROL\ VARIABLES + e \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where the dependent variable is:

FIN_PERFORMANCE	**= Return on Assets**
Where the independent variables are:	
REPORT_DELAY	= a number of calendar days from fiscal year- end to the date of the auditor's report,
AUD_TYPE	= "1" if an auditor is a Big 4, "0" others,
AC_SIZE	= the number of members on the committee,
AC_MEET	= the number of meetings held by the committee during the year,
Control variables	
FSIZE	= $\log_{10}$ of the total assets,
LEV	= total debt to total assets,
e	error term.

4. Results and discussions

4.1 Descriptive statistics and correlation analysis

Table 2 predicts the mean, standard deviation, minimum and maximum of each variable in the sample data set.

Table 2
Descriptive statistics (n = 71)

Panel A: A hypothesized variable (a continuous measure)				
Variables	**Mean**	**Std.Deviation**	**Minimum**	**Maximum**
REPORT_DELAY	49.437	11.036	16	88
AC-SIZE	3.63	0.779	3	7
AC_MEET	4.68	1.663	0	10
Control variables				
FSIZE	1127546 32.4085	4701531 99.49197	1549 05.00	388007 3957.00
LEV	0.421	0.293	.0003	1.613
Panel B: Dependent variable				
FIN_PERFORMANCE	0.059	0.109	-0.428	0.275
Panel C: A hypothesized variable (a dichotomous measure)			Big_4	Otherwise
AUD_TYPE			48 (67.6%)	23 (32.4%)

Table 2; panel A shows that there is a significant range of variation among the considered sample of this study. The range of report delay *REPORT_DELAY* is from 16 to 88 with a mean of 49.437 and a standard deviation of 11.036. The range of audit committee size *AC_SIZE* is from 3 to 7 with a mean of 3.63 and standard deviation of .779. As for the audit committee meetings *AC_MEET*, it ranges from 0 to 10. with a mean of 4.68 and standard deviation of 1.663. With respect to the control variables, firm size *FSIZE* ranges from O.R 154905.00 to O.R 3880073957.00 with a mean of O.R 112754632.4085 and standard deviation of O.R 470153199.49197.

The range of firm financial leverage *LEV* is from .0003 to 1.613 with a mean of .421 and standard deviation of .293. With regard to financial performance *FIN_PERFORMANCE* as the dependent variable, it ranges from -.428 to .275 with a mean of .059 and standard deviation of .109 as shown in panel B. As for auditor type *AUD_TYPE* as shown in panel C, the majority of the sample companies (67.6%) have been audited by Big_4 audit firms.

The Pearson correlations between the variables are presented in Table 3. Most of the coefficients of correlation are small and the highest correlation was between *FSIZE* and *AC_MEET*, indicating that larger firms held less audit committee meetings.

Table 3
Pearson Correlation Analysis results (n = 71)

	REPORT_DELAY	**AUD_TYPE**	**AC_SIZE**	**AC_MEET**	**FSIZE**	**LEV**
REPORT_DELAY	1.00					
AUD_TYPE	-.126	1.00				
AC_SIZE	-.048	.061	1.00			
AC_MEET	-.061	.065	.050	1.00		
FSIZE	.079	.133	-.109	-.251	1.00	
LEV	-.024	.021	.178	-.043	-.130	1

** Significant at 1 per cent level (2-tailed).*Significant at 5 per cent level (2-tailed).

The correlation matrix confirms that no multicollinearity exists between the variables as none of the variables correlates above 0.80 or 0.90 all variables have a correlation of less than 0.251 (Myers, 1990).

4.2 Regression results and discussions

Ordinary-Least Square (OLS) was used to evaluate the level of effect of the hypothesized variables, audit report delay, auditor type and audit committee size and meetings. Table 4 reports the estimated model coefficients, the associated significant test results, the adjusted R^2 and the F-values for the model. The F-value for model is statistically significant at the 1% level, indicating that the overall model can be interpreted. The adjusted R^2 is 26.3 %. The statistics show that this model has explained 26.3% of the total variance in the financial performance.

Table 4
Pooled OLS regression (n = 71)

Variables	Expected sign	Coeff.	*t*	*p*-value	Tolerance	VIF
(Constant)			-1.650	0.104		
REPORT_DELAY	-	-0.265	-2.555	0.013	0.976	1.025
AUD_TYPE	+	-0.126	-1.100	0.275	0.802	1.246
AC_SIZE		0.018	0.167	0.868	0.917	1.090
AC_MEET		0.080	1.861	0.063	0.988	1.013
Control variables						
FSIZE		0.425	3.689	0.000	0.793	1.261
LEV		-0.317	-3.030	0.004	0.965	1.037
Adjusted R^2	26.3					
Model *F*-stat.	5.162					
P-value	0.000					

As illustrated by Table 4, the regression coefficient for *REPORT_DELAY* is negative (−.265) and statistically significant (p < 0.013), suggesting that audit report delay is associated negatively with financial performance in Sultanate of Oman. This result is consistent with the prediction of agency theory. It provides support for hypothesis H_1. This result indicates that the delay in the issuance of timely audit reports of Omani companies influence negatively their performance. With respect to the association of auditor type *AUD_TYPE* with financial performance in Omani companies, there is no relationship has been documented (t = -.1.100; p < 0.275). This result is inconsistent with the suggestion of agency theory. Moreover, this result does not give support for hypothesis H_2. This result may indicate to the fact that the audit function operated by both Big_4 and non-Big_4 audit firms are perceived identical since the difference in the type of audit firm has no impact on financial performance.

As for audit committee size *AC_SIZE* and financial performance, there is no association has been reported (t = 0.167; p < 0.868), given a suggestion that audit committee size does not influence the degree of financial performance. This result does not give support to the prediction of agency theory and, therefore, it does not provide a support for hypothesis H_3. This result may indicate to the substitution hypothesis in which the effectiveness of other audit committee characteristics may substitute the monitoring function over some other characteristics. With regard to the audit committee meetings *AC_MEET* with financial performance, the regression coefficient is positive (.080) and statistically significant (p < 0.063), indicating that audit committee meetings does influence the degree of Omani companies values. This result is consistent with the prediction of agency theory. It provides support for hypothesis H_4. This result explains that the activity of audit committee of Omani companies influence positively their performance.

5. Conclusions and implications

This study examines the association of audit report delay, auditor type and audit committee size and meetings with financial performance in Sultanate of Oman in 2013. The hypotheses of this study are based on the premise that audit report delay is negatively associated with financial performance. In addition, auditor type, audit committee size and meetings are positively related to financial performance. The results show that audit report delay is negatively associated with financial performance of Omani companies. This result gives a support to the agency perspective in the context of Oman. Further, the results of this study show that audit committee meetings are positively associated with financial performance among Omani companies. This means that the frequent the audit committee meets, the higher the financial performance increases. Therefore, the results of this study can be used as a piece of evidence adding to the current body of literature about Sultanate of Oman and similar markets. In addition, important implications of this finding relate to the issues of financial performance, auditing and corporate governance mechanisms.

Omani governments, stock market, companies and accounting and auditing regulators would gain some new insights from this study in terms of the understanding the association of audit report delay, auditor type, audit committee size and meetings with financial performance. The results of this study would benefit banks in the way that they can assess the creditworthiness of incorporating companies in Sultanate of Oman. Moreover, credit decisions made by lenders are determined based on information included in the financial statements. Therefore, financial performance issues are of the utmost important for any lending institution. Investors and financial analysts may depend on issues of the financial performance to interpret decisions related to bonds, bond rating, interest rate, and all other decisions related to investments in Sultanate of Oman. Accordingly, increased understanding and prediction of companies' events is important to this user group. Further, the results of this study will be of interest to the researchers and academic community due to a lack of formal research body addressing the issues of financial performance, auditing and corporate governance and, therefore, this study will provide with substantial information about issues in the market of Sultanate of Oman to count on, in the future, as premise data. Limitations of the study lie on the other internal corporate governance mechanisms (i.e., board of directors characteristics and ownership structures). Future line of research should put an effort to introduce these mechanisms. Further research should replicate this model to determine its validity in different contexts of Arab countries especially GCC region, in different time periods, and with different sample size. These limitations may motivate more future research in the Middle Eastern markets.

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