

# THE TIMELINESS OF ANNUAL REPORTS IN BAHRAIN AND THE UNITED ARAB EMIRATES: AN EMPIRICAL COMPARATIVE STUDY

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## ABSTRACT

*The main purpose of this study is to examine empirically the determinants of audit delay in two developing countries, the UAE and Bahrain. This study utilizes a sample of 83 firms using the accounting and market data available for 2004. The sample firms are all listed in either the UAE or Bahraini Stock Markets. Cross-sectional regression analysis is employed to test the hypotheses of the study. The results of this study show that four variables (profitability, debt ratio, sector type, and dividend payout ratio) examined in Bahrain appear to have a strong influence on the timeliness of annual reports (audit delay). However, another three variables (audit type, firm size, and price earnings ratio) are found to have a weak effect on the audit delay. In the UAE, the study concludes that two variables (debt ratio and audit type) appear to have a strong influence on audit delay, while the other variables were found not to have a significant effect on it. These results may help users of financial information to assess the impact of such variables on improving the timeliness of annual reports.*

**JEL:** M4, M41, M42

**Keywords:** audit delay, United Arab Emirates, Bahrain, timeliness, annual reports, firm size, sector type, audit type, debt ratio, profitability, price earnings ratio, dividend payout ratio

## INTRODUCTION

The term 'timeliness', in relation to financial reporting, is an important qualitative characteristic of accounting information, and it may affect whether the information is useful to those who read financial statements. Its importance has been stressed in the Statement of Financial Accounting (SFAC 2, FASB 1976, in Delaney, Epstein, Adler, & Foran, 1997). The timeliness of audited corporate annual financial reports is considered to be a critical and important factor affecting the usefulness of information made available to external users (Almosa et al., 2007).

The accounting profession has recognized that the timeliness of reports is an important characteristic of financial accounting information for the users of accounting information, and for regulatory and professional agencies (Soltani, 2002). Karim et al., (2005) found that audit delays could be reduced by effective regulatory change. Timeliness requires that information be made available to users as rapidly as possible (Carslaw and Caplan, 1991) and before it loses its ability to influence decision-makers (Delaney et al., 1997, p. 24, US GAAP).

It is recognized in the literature that the shorter the time between a company's financial year-end to the date of the auditor's report, the more benefit can be obtained from the audited financial statements (Courtis, 1976; Gilling, 1977; Davies and Whittred, 1980; Abdulla, 1996). However, it is not acceptable to publish financial statements unless a certified public accountant first audits them. It has been argued that the time lag in publishing the audit report is a critical factor in emerging and newly developed capital markets where the audited financial statements in the annual report are the only reliable source of information available to investors (Leventis et al., 2005). The usefulness of the information conveyed in the financial statements will diminish as the time lag increases. Many studies have investigated the

relationship between audit delay and a range of company characteristics (Davies and Whittred, 1980; Ashton, Willingham and Elliot, 1987; Ashton, Graul and Newton, 1989; Newton and Ashton, 1989; Carslow and Kaplan, 1991; Courteau and Zéghal, 1999/2000).

The main purpose of this study is to examine empirically the determinants of audit delay in the two developing countries (Bahrain and the UAE). This study contributes to the literature, first, by conducting a comparative study of two countries in the Gulf. According to the knowledge of the researchers, there are few studies about timeliness of financial reporting in developing countries. This encouraged the authors to conduct this comparative research in the region. In addition, the study can greatly assist policy makers in the UAE and Bahrain by promoting better management practices, effective control and accounting systems, stringent monitoring, and effective regulatory mechanisms. The empirical results of this study show that four variables (profitability, debt ratio, sector type, and dividend payout ratio) examined in Bahrain appear to have a strong influence on the timeliness of annual reports (audit delay). In the UAE, the study concludes that two variables (debt ratio and audit type) appear to have a strong influence on audit delay.

The remainder of this paper is divided into five sections. A brief review of the economic background is presented in Section 2. Section 3 discusses the main contributions in the relevant literature and the theoretical background. Section 4 presents the methodology of the empirical research, including data and main measures. Section 5 summarizes the empirical results. The last section offers a summary of the research and conclusions.

## **ECONOMIC BACKGROUND**

This study was conducted in the United Arab Emirates (UAE) and the Kingdom of Bahrain. The UAE is a developing country situated in the Western region of Asia, which has an open economy with a high per capita income and a sizable annual trade surplus. It borders the Gulf of Oman, the Arabian Gulf, the Sultanate of Oman, and the Kingdom of Saudi Arabia. It is composed of seven Emirates, namely Abu Dhabi, Dubai, Sharjah, Ras Al-Khaimah, Ajman, Umm Al-Qaiwain, and Fujairah. Its economic philosophy is based on the adoption of a market economy and liberalization of trade, which makes it capable of adopting its own local laws in line with those of its international counterparts (Aljifri, and Khasharmeh, 2006).

There are three main regulatory authorities in the UAE corporate sector: the Ministry of Economy and Planning, the Central Bank, and the Emirates Securities and Commodities Authority (ESCA). The corporate compulsory disclosure requirements state that each listed company must prepare income statements, balance sheets, statements of cash flow, statements of changes in equity, and notes to accounts. In addition, the Accountants and Auditors Association is the body representing the accounting profession in the country. However, this association has not issued any national standards as it has no official role in regulating the profession. The conclusion from this is that the accounting profession is not well organized locally and UAE firms and auditors comply with International Financial Reporting Standards. In 1999, the Central Bank issued Circular No. 20/1999 which requires all banks and financial institutions to adopt International Accounting Standards (IAS). Since then, all firms prepare their financial statements in accordance with IAS or IFRS.

Bahrain, like the UAE, is a developing country situated in the Western region of Asia, which has an open economy with a high per capita income and a sizable annual trade surplus. Accounting policies in Bahrain are regulated by various laws: Bahrain Monetary Agency Law No. 23, 1973; Commercial Companies Law No. 28, 1975; Bahrain Stock Exchange Law No. 4, 1987; Commerce Law No. 7, 1987; the Auditors Law No. 26, 1996; the Labor Law for the Private Sector No. 1976; the Bankruptcy and Composition Law, No. 11, 1987; the Insurance Companies and Organizations Law No. 17, 1987, amended in 1996;

Commercial Agency Law No. 10, 1992, amended by Decree No. 8, 1994; the Commercial Companies Law No. 21, 2001 and the Central Bank of Bahrain (CBB) issued by Decree No. 61, 2006. The commercial laws require that each listed company must prepare income statements, balance sheets, statements of cash flow, statements of changes in equity, and notes to accounts.

Most of the principal types of business entities in Bahrain are governed by the Law of Commercial Companies, Decree 28 of 1975, as amended. This decree contains the law relating to companies, partnerships and branches. In addition, Ministerial Order 25 of 1977 created a specific entity known as 'the exempt company', an offshore company introduced in order to encourage foreign companies to locate their regional headquarters in Bahrain. In line with Bahrain's goal of being the regional financial center, many of the offshore entities are banking units and investment banks.

In order to establish a joint-stock company, limited liability company, or partnership in Bahrain, at least 51 percent of the capital must be owned by Bahraini nationals. The laws and regulations governing the establishment of offshore exempt companies and offshore banking companies significantly relax the usual restrictions against foreign ownership. Currently, listed companies in Bahrain are required to publish quarterly reports, in addition to annual reports, within three months from the financial year-end. There is now improved investor awareness of the importance of corporate reports, as more intellectual investors have become active in the stock market (Al-Ajmi, 2008). In 1996, the Central Bank of Bahrain (CBB), formerly the Bahraini Monetary Agency, decided that banks needed to comply with the International Accounting Standards. Subsequently, the Ministry of Industry and Commerce expanded this requirement to cover non-Banks as well. In December 2003, the CBB, the market regulator, issued disclosure requirements for all listed companies.

## **THEORITICAL BACKGROUND AND LITERATURE REVIEW**

In emerging economies the provision of timely information in corporate reports assumes greater importance, since other non-financial statement sources such as media releases, news conferences and financial analysts' forecasts are not well developed and the regulatory bodies are not as effective as in Western developed countries (Wallace, 1993). Users of financial information should be able to reach information they need in a timely manner in order that they can make reasonable decisions. Within this context, the timing of information is at least as important as its content for financial information users. In addition, stock values of publicly held companies are assumed to be based on such disclosed information. Disclosure of financial results, which are important indicators of a firm's performance, is a determining factor of firm value formed in the market (Dogan et. al., 2007).

Timing of the disclosure of financial information is also important for preventing trading activities of insiders, unofficial disclosure of news and market rumors (Ansah, 2000). As compared with developed markets, protective measures and sanctions regarding prevention of trading activities can be inadequate in emerging markets. Companies in emerging markets disclose less information. Consequently, the timing of financial reporting should be expressly designed to minimize such activities, which damage the efficacy of the market in emerging contexts (Leventis and Weetman, 2004).

Many studies have been conducted to identify the determinants of audit delay. Dyer and McHugh (1975) studied three company characteristics (company size, the year-end closing date, and profitability) as major explanatory factors of audit delay. The study revealed that only company size had an impact upon audit delay. Others have argued that some explanatory variables such as extraordinary items, changes in accounting techniques, audit firm size and audit opinion are important variables to be taken into account (Davies and Whitted, 1980).

Ashton, Willingham and Elliott (1987) examined 14 corporate attributes. They found that audit delay is significantly longer for companies with qualified audit opinions, that operate in the industrial sector, are publicly traded, have a fiscal year-end other than December 31, have poorer internal controls, use less complex technology for data-processing or have a relatively greater amount of audit work performed after the year-end.

Newton and Ashton (1989) examined the relationship between audit delay and audit technology. They found that firms using structured audit approaches have greater mean delay than firms using unstructured approaches. Ashton et al. (1989) examined the relationships between some company attributes and audit delay over six years (1977-1982) for 465 Canadian public companies. They found that the variables (client industry, type of audit opinion, presence of extraordinary items, loss for the year) were significant for at least four of the six years, and three other variables (log of total assets; fiscal-year-end and audit firm) had consistent signs across the six years.

Ng and Tai (1994) conducted an empirical study to examine the relationship between audit delay and ten company attributes of listed companies in Hong Kong for the years 1990 and 1991. The results showed that the log of turnover and the degree of diversification were significantly related to audit delay in both years. However, they found changes in EPS to be significant in 1990 and significant for reporting extraordinary items in 1991.

Abdulla (1996) empirically examined the association between the time lags in disclosure and five corporate attributes of 26 Bahraini companies. The study showed a significant negative relationship between timeliness of publication and the firm's profitability, dividend distributed and size, and a non-significant relationship between timeliness and industry membership. Jaggi and Tshi (1999) empirically examined the association between the audit report lag, auditor business risk, and audit firm technology for Hong Kong companies. The results show that there is a positive association between the audit report lag and the financial risk index for Hong Kong companies, suggesting that companies that are financially weak are associated with longer audit delays. The results also showed that companies audited by audit firms using a structured audit approach have longer audit delays.

In his 2000 study, Owusu-Ansah investigated empirically the timeliness of annual reporting by 47 non-financial companies listed on the Zimbabwe Stock Exchange. The results identified company size, profitability and company age as statistically significant predictors of the differences in the timeliness of annual reports issued by the sample companies. In addition, the results indicated that audit reporting lead-time is significantly associated with the timeliness with which sample companies release their preliminary annual earnings announcements, but not with the timeliness of the audited annual reports. Soltani (2002) examined the timeliness of corporate and audit reports in the French context, using data from French listed companies for each year in the period 1986-1995. He found empirical evidence of an improvement in timeliness of corporate and audit reporting. His study also showed that the existence of a qualified audit tends to lengthen the delay.

Leventis, Weetman , and Caramanis (2005) examined the audit report lag of companies listed on the Athens Stock Exchange at the time of Greece's transition from an emerging market to a newly developed capital market. The study found a statistically significant association between audit report lag and the type of auditor, audit fees, number of remarks in the audit report, the presence of extraordinary items, and an expectation of uncertainty in the audit report. The results suggest that audit report lag is reduced by appointing an international audit firm or paying a premium audit fee.

Russ (2005) conducted a study to test the theory that earnings management takes time. The study also aimed to examine the question of market recognition of earnings management. The results of the study suggest a positive relationship between earnings management and the time of filing annual reports.

Dogan, Coskun, and Celik (2007) examined the relationship between a set of explanatory variables (such as good or bad news, financial risk, size and industry) and the timing of annual reports released in companies listed on the Istanbul Stock Exchange (ISE). They found that timeliness in reporting by ISE listed companies is influenced by their profitability. Good news firms (measured by ROE and ROA) release their annual reports earlier than bad news firms. They also found that the timing of annual report releases is affected significantly by company size, increased financial risk, and the timing policy of previous years.

Almosa and Alabbas (2007) investigated the determinants of audit delay for listed joint stock companies in Saudi Arabia. Annual reports for the years 2003–2006 were examined in the study. Multiple regression analysis was applied to model audit delay as a function of many explanatory variables. These variables included company attributes such as corporate size, company profitability and industry sector and auditor attributes such as type of audit firm, and type of audit opinion. The study found that audit delay was positively associated with total assets and negatively associated with income. In the Saudi context, Aljabr (2007), mentioned in Almosa and Alabbas (2007), empirically examined the relationship between the timing of the financial information announcements and some attributes of joint stock companies over the period 2001-2005. The results showed that a firm's debt leverage was negatively associated with the timing of information release.

Al-Ajmi (2008) investigated the timeliness of annual reports of an unbalanced panel of 231 firms-years of financial and non-financial companies listed on the Bahrain Stock Exchange. The study aimed to identify the determinants of the timeliness of Bahraini annual reports during the period 1999-2006. Specifically, it tested the relationship between auditors' and auditees' specific characteristics, including corporate governance, with respect to both the timeliness of annual reports and the audit delay. The study found that the determinants of timeliness of annual reporting are company size, profitability, and leverage. No evidence was found to support the effect of auditor type.

Conover, Miller and Szakmary (2008) examined financial reporting lags, the incidence of late filing, and the relationship between reporting lags, firm performance and the degree of capital market scrutiny. Their study focuses upon whether the incidence of late filing, and the relationship between reporting days and other variables, differs systematically between common law and code law countries. They found that timely filing is less frequent in code law countries. Poor firm performance and longer reporting lags are more strongly linked in common law countries. They also found that whereas greater capital market scrutiny and more timely filing are related, there is less support for a relationship between the level of debt financing and timely filing in code law countries.

Bonsón-Ponte, Escobar-Rodríguez and Borrero-Domínguez (2008) examined the factors that determine delays in the signing of audit reports. According to their definition, the delays are measured as a function of the number of days that elapse from the closure of the accounting period until the date when the audit report is signed. The study was conducted in Spain, in 105 companies of the Spanish market, from 2002 to 2005. The results demonstrate that sectors that are subject to regulatory pressure, such as the financial and energy sectors, and the size of company relative the average for its sector, reduce audit delay. Variables such as audit firm, qualifications or regulatory change show no significant relationship with audit delay in the Spanish context.

Previous studies in developing countries have considered only firms from one country at the time. The comparative feature of the present study derives from the desire to add an interesting dimension to the literature by conducting a study in developing countries (comparing the UAE and Bahrain). The authors believe this may distinguish the present study from previous studies. Such comparison is considered a useful factor as investing decisions that are becoming more global as financial markets integrate.

## METHODOLOGY

This section describes the sample selection and discusses the development of the hypotheses. It includes two subsections: Sample of study and Hypotheses development.

### Sample of study

The sample for this study covers the listed Bahraini and UAE companies for the year 2004. The total number of available annual reports published by companies listed on the Bahrain Stock Exchange Market was 34. Of these, 32 companies were included in the study (i.e., 94 percent of the population). Similarly, 51 companies from the United Arab Emirates Stock Exchange Market were reviewed (i.e., 82 percent of the population). The audit delay for each of the sample companies was taken from their annual report. The balance sheet date represents the year and date for which the financial reports were prepared. The date of audit reports was obtained from the auditors' reports shown in the balance sheets. The time lag has been calculated as the interval, in days, between the balance sheet date and the date of the auditor's report (Newton and Ashton, 1989; Carslaw and Kaplan, 1991; Bamber et al., 1993; and Lawrence and Glover, 1998; Ettredge, Li and Sun, 2005). The data relating to company attributes were extracted from their annual reports.

### Hypotheses development

The current study examines a number of factors, which have featured in the literature as likely to affect audit delay for Bahraini and UAE listed companies for the year 2004. For the purpose of this study, audit delay is defined as the length of time from a company's fiscal year-end to the date of the auditor's report. It is argued that the length of an audit is recognized as the single-most important determinant affecting the timing of earnings announcements (Givoly and Palmon, 1982; Whittred, 1980; and Carslaw and Kaplan, 1991). Thus, understanding the determinants of audit delay may provide some insights into audit efficiency, and possibly our understanding of market reactions to earnings releases (Bamber et al., 1993; Ashton et al., 1989).

A model of audit delay is developed consisting of seven explanatory variables. Multivariate analysis is used to evaluate the effects of the explanatory variables upon audit delay. The model of audit delay is developed based on a previous model used by Ashton et al. (1989), and Carslow and Kaplan (1991).

A backward regression analysis was used to test the hypotheses of this study. The regression model is:

$$TDS = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9$$

where:

$X_1$  = Debt equity ratio

$X_2$  = 1, for big four,  $X_2$  = 0, otherwise

$X_3$  = 1, for Insurance firms,  $X_3$  = 0, otherwise

$X_4$  = 1, for Service firms,  $X_4$  = 0, otherwise

$X_5$  = 1, for Industrial firms,  $X_5$  = 0, otherwise

$X_6$  = Natural logarithm of the company's assets

$X_7$  = Price earnings ratio

$X_8$  = Profitability

$X_9$  = Dividend payout ratio

Table 1: Proposed Relationships between the Explanatory Variables and Audit Delay

| Explanatory Variable  | Explanation  | Expected signs                 |
|-----------------------|--|--------------------------------|
| Company size          | Total assets of company                                      | Negative                       |
| Sector type           | Banks; Insurance; Industrial; Service (including hotels)     | Negative/positive <sup>1</sup> |
| Audit type            | Big four assigned 1; otherwise 0.                            | Negative                       |
| Debt ratio            | The proportion of debt to total assets                       | Negative                       |
| Profitability         | Net income by net sales                                      | Negative                       |
| Dividend payout ratio | Dividend per share as a percentage of the earnings per share | Positive                       |
| Price earnings ratio  | Market per share divided by earnings per share               | Negative                       |

*This table shows the explanatory variables used in the model of this study with explanations of how they were measured and their expected signs*  
<sup>1</sup>*Since financial firms are more regulated than non-financial firms, it is assumed that they make their annual reports available to the public in a short time compared to non-financial firms.*

The expected signs of the explanatory variables shown in Table 1 represent a consensus among studies in the literature review. The following presents a discussion of the underlying rationale behind the hypothesized relationship between each of the independent variables used in this study and audit delay. In this study, we develop hypotheses about the association between the level of audit delay and seven firm characteristics, which might affect disclosure decisions of UAE companies. These characteristics are firm size, sector type, audit type, debt ratio, profitability, price earnings ratio, and dividend payout ratio.

### Firm Size

The majority of the previous studies have used total assets as a measure of company size (Courtis, 1976; Gilling, 1977; Davies and Whittred, 1980; Garsombke, 1981; Ashton et al., 1989; Newton and Ashton, 1989; Carlsaw and Kaplan, 1991; Abdulla, 1996 and Leventis et al. 2005). Very few studies have used turnover as a measure of size (Chan; Ezzamel; and Gwilliam; 1993). In this study, total assets refer to the sum of current assets, fixed assets, investments and advances and intangible assets.

In most of these studies, there is found a negative relationship between audit delay and the company size. Several factors may account for this relationship. Large companies tend to have strong internal systems with the consequence that auditors spend less time in conducting compliance and substantive tests (Owusu-Ansah, 2000). Carlsaw and Kaplan (1991, p. 23) pointed out that, "*larger companies may have stronger internal controls, which in turn should reduce the propensity for financial statement errors to occur and enable auditors to rely on controls more extensively and to perform more interim work. Also, larger companies may be able to exert greater pressures on the auditor to start and complete the audit in a timely fashion*". Furthermore, larger companies have more resources to pay relatively higher audit fees and are able to settle the fees soon after the company's year-end. They also have more accounting staff and sophisticated accounting information systems that result in more timely annual reports (Owusu-Ansah, 2000). In addition, large companies tend to be followed by a relatively large number of financial analysts who usually rely on the timely release of financial reports to confirm and revise their expectations of companies' present and future economic prospects (Owusu-Ansah, 2000). Finally, management of larger companies may have incentives to reduce both audit delay and reported delay since they may be monitored more closely by investors, trade unions and regulatory agencies, and thus face greater external pressure to report early (Dyer and McHugh, 1975). Thus, it is likely that the audit-reporting lag of larger companies is less than that of smaller ones.

However, other studies found that company size does not appear to have any bearing on audit delay (Karim and Ahmed, 2005). Based on the above discussion, the following hypothesis is developed:

*H1: There is a significant negative association between firm size and the audit report delay.*

### Sector Type

This study classifies the companies into financial and non-financial industries based on Bahrain Stock Exchange and the UAE Stock Exchange classifications. In this study, and based on the classifications of Ashton et al., (1989) and Carslaw and Kaplan (1991), financial companies are coded one and others are coded zero. Audit delay for financial service companies is expected to be shorter than for non-financial companies because financial service companies have little or no inventory. The argument is that the lower the level of inventory in relation to other assets, the lower the audit delay (Ahmed and Kamarudin, 2003). The hypothesis to be tested is as follows:

*H2: The audit report delay differs significantly among firms in the four sectors.*

### Audit Type

Auditors are classified into two groups: Big four and non-Big-four (Ahmed and Kamarudin, 2003). The Big-four refers to KPMG Peat Marwick, Ernst and Young, Pricewaterhouse Corporation and Deloitte & Touche. It is expected that the audit delay for Big-four firms will be less than the audit delay for other firms (Carslaw and Kaplan, 1991 and Leventis et al. 2005). This may be due to the fact that the large firms are assumed to be able to audit more efficiently and effectively and have greater flexibility in scheduling the audits so that they can be completed on time (Carslaw and Kaplan, 1991).

Ashton, Willingham and Elliott (1987, p.602) pointed out that *"It may be reasonable to expect that larger audit firms would complete audits on a more timely basis because of their experience ... Large firms may be able to audit such companies more efficiently than small audit firms"*. However, other studies found that companies associated with international firms in Bangladesh have longer audit delays (Imam, Ahmed and Khan, 2001). In the current study, auditors are classified into two groups: international auditing firms, including the Big-four and domestic audit firms. International auditing firms are assigned a value of 1, and others are assigned zero. The hypothesis to be tested is as follows:

*H3: The audit report delay of firms engaging with one of the Big four is significantly less than that of firms engaging with other auditing firms.*

### Debt Ratio

The proportion of total liabilities to total assets is expected to relate positively to audit delay. According to (Carslaw and Kaplan, 1991), a high ratio of debt to total assets will increase a company's likelihood of failure and may raise in the auditor's mind additional concerns that the financial statements may be less reliable than normal. Further, the audit of debt may take a longer time than the audit of equity (Ansah, 2000: 244). However, other studies found that a firm's debt ratio was negatively associated with the timing of information release (Aljabr, 2007, Deloof and Weet, 2003). In the current study, total liabilities refer to the sum of current liabilities and long-term liabilities. The hypothesis to be tested is as follows:

*H4: Audit report delay for firms with high debt ratios is significantly less than those of firms with low debt ratios.*

### Profitability

Many researchers have discussed this variable as a factor related to bad or good news (Bamber et al., 1993; Abdulla, 1996). In some reviews of the literature, it is found that there is a positive relationship with audit delay (Dyer and McHugh, 1975; Carslaw and Kaplan, 1991; Bamber et al., 1993, Almosa and Alabbas 2007), while other studies found a negative relationship (Abdulla, 1996).



Companies reporting a profit for the period are expected to minimize audit delay. There are several reasons that explain why this variable should be negatively associated with audit delay. First, profitability is considered an indication of good or bad news resulting from the year's operations (Ashton et al., 1987). If the company experiences losses, management might wish to delay the corporate annual report in order to escape the effects of its 'bad news'. Second, a company with a loss may ask the auditor to schedule the start of the audit later than usual, while companies with 'good news' would be expected to ask the auditor to start audit engagement early to release their audited financial statements quickly (Hossain and Taylor, 1998). Based on the above discussion, the following hypothesis is developed:

*H5: Audit report delay for firms with high profitability is significantly less than those of firms with low profitability.*

#### Price Earnings Ratio

The presence of a high price earnings ratio has been considered a significant factor in the probability of having a good market reaction. The price earnings ratio (P/E) is a standard means by which to show how a company's earnings relate to its stock price. The higher the P/E ratio, the more earnings growth investors are expecting and the higher premium they will be willing to pay for that anticipated growth. The P/E ratio is considered one of the most widely watched measures of both the stock market as whole and individual stocks. Previous research has found that the market reacts to annual report filings (Asthana et al., 2001), and in the case of late annual filings, the market reacts negatively (Griffin, 2003). Alford et al. (1994) found that are small and/or financially troubled tend to file late. Typically, those firms are also experiencing negative market adjusted stock returns. Givoly and Palmon (1982) found that bad news reporting was delayed and the market reaction to the bad news was reduced by the duration of the delay. Bad news is defined as earnings being lower than expected.

The P/E is expected to have a negative relationship with the audit delay since the timeliness of annual reports is affected by good news (Dogan; Coskun and Celik, 2007). This depends, of course, on firms and the public considering a high price earnings ratio as good news, which is the case in developing countries like UAE and Bahrain. However, this variable has not been used widely in empirical research into the timeliness of annual reports. Based on the above discussion, the following hypothesis is developed:

*H6: Audit report delay for firms with a high price earnings ratio is significantly less than for firms with a low price earnings ratio.*

#### Dividend Payout

The dividend payout ratio is the fraction of net income a firm pays to its stockholders in dividends. The dividend payout ratio is a proxy for cash flow measurement used by investors to determine if a company is generating an adequate level of cash flow to ensure a continued stream of dividends to them. It is also a measurement of the amount of current income paid out in dividends rather than retained by the business. This ratio is useful in projecting the growth of a company as well. Its inverse, the retention ratio (the amount not paid out to stockholders in the form of dividends), can help project a company's growth. If the dividend payout ratio is low, this means that the company pays a low dividend to stockholders. It can be assumed that the firm's management believes that profits are better spent reinvesting them in the firms activities rather than making a cash payout to shareholders. In fact, a majority of corporations have elected to pay out less of their earnings as dividends, perhaps because corporate rates of return on reinvested capital are higher, but it could also be that dividends are doubly taxed in some jurisdictions. However, other investors seek high current income and limited capital growth, and thus they prefer companies with high dividend payout ratio.

It is argued that paying out more dividends exposes firms to more monitoring (Easterbrook, 1984). Thus, based on the above discussion, a positive association between dividend payout ratio and audit delay is expected. Payout ratio is calculated as the dividend per share as a percentage of the earnings per share (Bohren and Odegaard, 2003). The hypothesis to be tested is as follows:

*H7: There is a positive association between the firm's dividend payout ratio and audit delay.*

## RESULTS AND DISCUSSION

This section discusses the empirical methods used to examine the research hypotheses of the study and reports the results. It covers two statistical methods: a descriptive analysis and a regression analysis.

### Descriptive Analysis

Table 2 reports the minimum, maximum, mean and standard deviation for the continuous variables in the sample data set for Bahrain. It provides some information about delay in publishing the audit report, which ranges from 24 to 82 days and has a mean of 51.71 days and a standard deviation of 15.15. A broad range of variation is evident in the sample. The assets (logarithm of total assets) range from 8 to 16 with a mean of 11.27 and a standard deviation of 1.84. The profitability ranges from 0.00 to 0.29 with a mean of 0.06 and a standard deviation of 0.07, while the price earnings ratio ranges from 1.42 to 30.46 with a mean of 13.44 and standard deviation of 6.19. For the dividend payout ratio, the results reveal a range from 0.00 to 0.19 with a mean of 0.02 and a standard deviation of 0.03. The debt ratio ranges from 0.03 to 0.85 with a mean of 0.41 and a standard deviation of 0.34. Table 2 also shows that 44 percent of the firms in the sample are banks, 16 percent insurance firms, 6 percent industrial firms and 34 percent service firms.

Table 2: Descriptive Statistics (Bahrain)

| Description                   | N  | Minimum | Maximum | Mean  | Std. Deviation |
|-------------------------------|----|---------|---------|-------|----------------|
| Days required for publication | 32 | 24.00   | 82.00   | 51.71 | 15.15          |
| Firm size                     | 32 | 8       | 16      | 11.27 | 1.84           |
| Profitability                 | 32 | 00.     | 29.     | 06.   | 07.            |
| Price earnings ratio          | 32 | 1.42    | 30.46   | 13.44 | 6.19           |
| Dividend payout ratio         | 32 | 00.     | 19.     | 02.   | 03.            |
| Debt ratio                    | 32 | 03.     | 85.     | 41.   | 34.            |

  

| Description                      | N  | Number | Percentage |
|----------------------------------|----|--------|------------|
| Banks (X <sub>4</sub> )          | 32 | 14     | 44%        |
| Insurance firms                  | 32 | 5      | 16%        |
| Industrial firms                 | 32 | 2      | 6%         |
| Service firms (including hotels) | 32 | 11     | 34%        |

*This table provides descriptive analysis for the continuous variables and the dummy variables. It shows minimum, maximum, mean, and standard deviation for each continuous variable. It represents a summary of data for the Bahrain sample. The number of the companies used in this study is also included. Size is measured by the natural logarithm of total assets in the regression model used in this study.*

The minimum, maximum, mean and standard deviations for the continuous variables in the sample data set for UAE are reported in Table 3. Information about the delay in publishing the audit report ranges from 10 days to 100 with a mean of 43.50 and a standard deviation of 24.15, with a broad range of variation evident in the sample. The range of the assets (logarithm of total assets) is from 18 to 25 with a mean of 21.27 and a standard deviation of 1.65. The profitability ranges from 0.01 to 0.66 with a mean of 0.33 and a standard deviation of 0.17, while the price earnings ratio ranges from 6.02 to 143.79 with a mean of 24.72 and standard deviation of 20.96. The results for the dividend payout ratio reveal that it

ranges from 0.00 to 1.17 with a mean of 0.28 and a standard deviation of 0.26. This is an interesting result in the sense that the maximum value of the dividend payout ratio (1.17) is 10 percent of that firm’s paid up capital. This gives an indication of how much the sample firms can pay as dividends to their shareholders. The debt ratio ranges from 0.04 to 0.91 with a mean of 0.46 and a standard deviation of 0.30. Table 3 also shows that 29 percent of the firms in the sample are banks, 31 percent insurance firms, 10 percent industrial firms and 10 percent service firms.

Table 3: Descriptive Statistics (UAE)

| Description                   | N  | Minimum | Maximum | Mean  | Std. Deviation |
|-------------------------------|----|---------|---------|-------|----------------|
| Days required for publication | 51 | 10.00   | 100.00  | 43.50 | 24.15          |
| Firm size                     | 51 | 18.00   | 25.00   | 21.27 | 1.65           |
| Profitability                 | 51 | 01.     | 66.     | 33.   | 17.            |
| Price earnings ratio          | 51 | 6.02    | 143.79  | 24.72 | 20.96          |
| Dividend payout ratio         | 51 | 00.     | 1.17    | 28.   | 26.            |
| Debt ratio                    | 51 | 04.     | 91.     | 46.   | 30.            |

  

| Description                      | N  | Number | Percentage |
|----------------------------------|----|--------|------------|
| Banks (X4)                       | 51 | 15     | 29%        |
| Insurance firms                  | 51 | 16     | 31%        |
| Industrial firms                 | 51 | 10     | 20%        |
| Service firms (including hotels) | 51 | 10     | 20%        |

*This table provides descriptive analysis of the continuous variables and the dummy variables. It shows minimum, maximum, mean, and standard deviation for each continuous variable. It represents a summary of data for the UAE sample. The number of the companies used in this study is also shown. Size is measured by the natural logarithm of total assets in the regression model used in this study.*

### Regression Analysis

Tolerance values are calculated using  $(1-R^2)$  for each variable and are presented in Tables 6 and 7. Since all values are more than 0.10, there is no issue of multi-collinearity between the independent variables (Menard, 1995). Alternatively, all of the variance inflation factors (VIF) for the independent variables are less than 10, suggesting that there is no multi-collinearity between these variables (Myers, 1990).

For Bahrain, the details of the backward elimination procedure for fitting the regression equation are provided in Table 4a. In Model 1, where all variables (except banks, the reference category) were included in the regression equation, adjusted  $R^2 = 0.32$ ,  $F = 3.39$ , and  $p\text{-value} = 0.011 < .05$ . A review of Model 2 shows that, after removing firm size from the equation, adjusted  $R^2 = 0.35$ ,  $F = 3.71$ ,  $p\text{-value} = 0.008 < .01$ . This indicates that removing firm size from the equation improved the values of adjusted  $R^2$  and  $F$ . For Model 3, after removing audit type, the values of adjusted  $R^2$  and  $F$  are increased to 0.37 and 4.11 respectively, with a  $p\text{-value} = 0.005 < .01$ . In Model 4, an increase in  $F$  value (4.54) and an increase in adjusted  $R^2$  (0.38) are evident after removing the price earnings ratio from the regression equation. For Model 5, after removing service vs. banks, adjusted  $R^2 = 0.38$ ,  $F = 5.27$ ,  $p\text{-value} = 0.002 < .01$ . In Model 6, adjusted  $R^2 = 0.33$ ,  $F = 6.03$ . The results suggest that more than one third of the variability in the timeliness of annual reports is predicted by the profitability, debt ratio, sector type (banks, insurance, and industry) and dividend payout ratio. This is a statistically significant contribution as indicated by the  $p\text{-value}$  of  $0.002 < .01$ .

The details of the backward stepwise elimination procedure for fitting the regression equation for the UAE are provided in Table 4b. Where all variables (except banks, the reference category) were included in the regression equation, as presented in Model 1, adjusted  $R^2 = 0.23$ ,  $F = 1.99$ , and  $p\text{-value} = 0.09 > .05$ . A review of Model 2 shows that adjusted  $R^2 = 0.26$ ,  $F = 2.35$ ,  $p\text{-value} = 0.05$  after removing service vs. banks from the equation, which improved the values of adjusted  $R^2$  and  $F$ . After removing the price

earnings ratio in Model 3, the values of adjusted  $R^2$  and F are increased to 0.29 and 2.79 respectively, with a p-value =  $0.03 < .05$ . In Model 4, a significant increment in F value (3.18) and an increase in adjusted  $R^2$  (0.30) are found after removing the firm size from the regression equation. For Model 5, adjusted  $R^2 = 0.29$ ,  $F = 3.46$ , p-value = 0.02 and for Model 6, adjusted  $R^2 = 0.30$ ,  $F = 4.15$ , p-value = 0.01. An adjusted  $R^2 = 0.27$ ,  $F = 4.64$ . The results reported in Model 7 suggest that almost one third of the variability in the timeliness of annual reports is predicted by the sector type (banks, insurance, and industry) and dividend payout ratio. This is a statistically significant contribution as indicated by the p-value of 0.01.

Table 4: Model Summary

| MODEL                   | R    | R SQUARE | ADJUSTED R SQ. | F     | P-VALUE |
|-------------------------|------|----------|----------------|-------|---------|
| <b>PANEL A: BAHRAIN</b> |      |          |                |       |         |
| 1 <sup>a</sup>          | 71.  | 50.      | 32.            | 3.387 | **011.  |
| 2 <sup>b</sup>          | 71.  | 50.      | 35.            | 3.707 | ***008. |
| 3 <sup>c</sup>          | 71.  | 50.      | 37.            | 4.108 | ***005. |
| 4 <sup>d</sup>          | (70. | 48.      | 38.            | 4.540 | ***004. |
| 5 <sup>e</sup>          | 68.  | 46.      | 38.            | 5.268 | ***002. |
| 6 <sup>f</sup>          | 63.  | 40.      | 33.            | 6.032 | ***002. |
| <b>PANEL B: UAE</b>     |      |          |                |       |         |
| 1 <sup>a</sup>          | .55  | .30      | .15            | 1.95  | .07*    |
| 2 <sup>b</sup>          | .55  | .30      | .17            | 2.24  | .04**   |
| 3 <sup>c</sup>          | .54  | .30      | .18            | 2.59  | .02**   |
| 4 <sup>d</sup>          | .54  | .29      | .19            | 2.96  | .02**   |
| 5 <sup>e</sup>          | .52  | .27      | .19            | 3.35  | .01**   |
| 6 <sup>f</sup>          | .51  | .26      | .19            | 4.01  | .007*** |
| 7 <sup>g</sup>          | .49  | .24      | .19            | 4.98  | .004*** |
| 8                       | .48  | .23      | .19            | 7.21  | .002*** |

This table shows the significant independent variables used in the model and which variables were removed as they did not make a statistically significant contribution to the performance of the model. After removing the non-significant variables, the contribution of the remaining predictors is reassessed. \*\*\* and \*\* indicate significance at the 1 and 5 percent levels respectively.

a Predictors: (Constant), Price Earnings ratio, Audit Type, Service vs. banks, Industry vs. banks, Dividend payout ratio, Debt ratio, Insurance vs. banks, Profitability, Firm size

b Predictors: (Constant), Price Earnings ratio, Audit Type, Service vs. banks, Industry vs. banks, Dividend payout ratio, Debt ratio, Insurance vs. banks, Profitability

c Predictors: (Constant), Price Earnings ratio, Service vs. banks, Industry vs. banks, Dividend payout ratio, Debt ratio, Insurance vs. banks, Profitability

d Predictors: (Constant), Service vs. banks, Industry vs. banks, Dividend payout ratio, Debt ratio, Insurance vs. banks, Profitability

e Predictors: (Constant), Industry vs. banks, Dividend payout ratio, Debt ratio, Insurance vs. banks, Profitability

f Predictors: (Constant), Dividend payout ratio, Debt ratio, Insurance vs. banks, Profitability

g Dependent Variable: Days required for publication

Regression coefficients and their p-values are presented in Table 5 which displays the contribution of the independent variables to the model by comparing models with and without each variable. For Bahrain, the results provide evidence that the four variables (profitability, debt ratio, sector type, and dividend payout ratio) have significant impact on audit report delay. The results reveal that the impact of profitability on the audit report delay is significant at  $p < 0.05$ . One possible explanation for the results presented in the table is that firms with high profitability would tend to disclose their financial information in a timely way in order to convey a positive message to stakeholders. This information usually includes plans and projects which could trigger strong reactions from the market. Regarding the debt ratio, the results indicate that firms with a high debt ratio are more likely to disclose their financial information in a short time compared to those with a high debt ratio. It is argued that firms with a high debt ratio are considered a much higher risk by lenders. Therefore, such companies would pay attention to the timeliness of financial statements to reduce their financial costs from their negotiated credit agreements.

Table 5: The Effect of the Selected Variables on the Timeliness of Annual Reports (Bahrain)

| Model                 | Unstandardized |           | Standardized |        |         | Colinearity Stats |       |
|-----------------------|----------------|-----------|--------------|--------|---------|-------------------|-------|
|                       | B              | Std. Err. | Beta         | t      | Sig.    | Tolerance         | VIF   |
| (Constant)            | 44.459         | 22.686    |              | 1.96   | 0.064   |                   |       |
| Firm size             | 1.975          | 2.047     | 0.26         | 0.965  | 0.346   | 0.273             | 3.657 |
| Profitability         | -98.916        | 44.388    | -0.471       | -2.228 | .037**  | 0.443             | 2.256 |
| Debt ratio            | -26.426        | 12.261    | -0.579       | -2.155 | .044**  | 0.275             | 3.641 |
| Audit Type            | -5.095         | 4.71      | -0.165       | -1.082 | 0.292   | 0.85              | 1.176 |
| Insurance vs. banks   | 22.259         | 7.937     | 0.587        | 2.804  | .011**  | 0.453             | 2.209 |
| Service vs. banks     | 8.19           | 6.264     | 0.232        | 1.307  | 0.206   | 0.631             | 1.585 |
| Industry vs. banks    | 13.898         | 9.545     | 0.245        | 1.456  | 0.161   | 0.699             | 1.431 |
| Dividend payout ratio | 200.062        | 71.36     | 0.486        | 2.804  | .011**  | 0.66              | 1.515 |
| Price earnings ratio  | -0.489         | 0.459     | -0.21        | -1.065 | 0.3     | 0.511             | 1.958 |
| (Constant)            | 63.585         | 11.022    |              | 5.769  | 0       |                   |       |
| Profitability         | -98.548        | 44.314    | -0.469       | -2.224 | .037**  | 0.443             | 2.255 |
| Debt ratio            | -18.262        | 8.861     | -0.4         | -2.061 | .052*   | 0.524             | 1.908 |
| Audit Type            | -4.566         | 4.671     | -0.148       | -0.978 | 0.339   | 0.862             | 1.16  |
| Insurance vs. banks   | 19.028         | 7.185     | 0.501        | 2.648  | .015**  | 0.551             | 1.816 |
| Service vs. banks     | 6.964          | 6.124     | 0.197        | 1.137  | 0.268   | 0.658             | 1.52  |
| Industry vs. banks    | 12.39          | 9.4       | 0.219        | 1.318  | 0.202   | 0.718             | 1.393 |
| Dividend payout ratio | 223.208        | 67.099    | 0.542        | 3.327  | .003*** | 0.744             | 1.344 |
| Price earnings ratio  | -0.495         | 0.458     | -0.213       | -1.082 | 0.292   | 0.511             | 1.958 |
| (Constant)            | 61.686         | 10.838    |              | 5.691  | 0       |                   |       |
| Profitability         | -99.353        | 44.262    | -0.473       | -2.245 | .035**  | 0.444             | 2.255 |
| Debt ratio            | -19.855        | 8.701     | -0.435       | -2.282 | .033**  | 0.543             | 1.843 |
| Insurance vs. banks   | 19.366         | 7.169     | 0.51         | 2.701  | .013**  | 0.552             | 1.812 |
| Service vs. banks     | 6.839          | 6.117     | 0.193        | 1.118  | 0.276   | 0.658             | 1.519 |
| Industry vs. banks    | 10.172         | 9.113     | 0.179        | 1.116  | 0.276   | 0.762             | 1.311 |
| Dividend payout ratio | 211.07         | 65.874    | 0.512        | 3.204  | .004*** | 0.77              | 1.298 |
| Price earnings ratio  | -0.509         | 0.457     | -0.218       | -1.112 | 0.278   | 0.511             | 1.956 |
| (Constant)            | 51.221         | 5.403     |              | 9.481  | 0       |                   |       |
| Profitability         | -73.157        | 37.662    | -0.348       | -1.942 | .064*   | 0.619             | 1.616 |
| Debt ratio            | -18.233        | 8.622     | -0.399       | -2.115 | .045**  | 0.558             | 1.791 |
| Insurance vs. banks   | 24.006         | 5.859     | 0.633        | 4.097  | .000*** | 0.835             | 1.198 |
| Service vs. banks     | 5.946          | 6.095     | 0.168        | 0.976  | 0.339   | 0.67              | 1.493 |
| Industry vs. banks    | 12.723         | 8.865     | 0.224        | 1.435  | 0.165   | 0.814             | 1.228 |
| Dividend payout ratio | 221.22         | 65.572    | 0.537        | 3.374  | .003*** | 0.785             | 1.273 |
| (Constant)            | 52.231         | 5.297     |              | 9.86   | 0       |                   |       |
| Profitability         | -60.123        | 35.178    | -0.286       | -1.709 | 0.1     | 0.708             | 1.413 |
| Debt ratio            | -20.087        | 8.401     | -0.44        | -2.391 | .025**  | 0.587             | 1.704 |
| Insurance vs. banks   | 23.467         | 5.827     | 0.618        | 4.027  | .000*** | 0.842             | 1.187 |
| Industry vs. banks    | 11.045         | 8.688     | 0.195        | 1.271  | 0.216   | 0.846             | 1.182 |
| Dividend payout ratio | 228.462        | 65.086    | 0.555        | 3.51   | .002*** | 0.796             | 1.257 |
| (Constant)            | 55.201         | 4.813     |              | 11.47  | 0       |                   |       |
| Profitability         | -71.513        | 34.434    | -0.341       | -2.077 | .048**  | 0.757             | 1.321 |
| Debt ratio            | -23.804        | 7.972     | -0.521       | -2.986 | 0.006   | 0.668             | 1.498 |
| Insurance vs. banks   | 23.097         | 5.891     | 0.609        | 3.921  | 0.001   | 0.845             | 1.184 |
| Dividend payout ratio | 232.004        | 65.822    | 0.563        | 3.525  | 0.002   | 0.797             | 1.255 |

This table shows the significant independent variables used in the model and which variables were removed as they did not contribute to the performance of the model. After removing the non-significant variables, the contribution of the remaining predictors is then reassessed. \*\*\*, \*\*, and \* indicate significance at the 1, 5 and 10 percent levels respectively.

Likewise, they may disclose such information to reassure shareholders and reduce risk premiums in required rates of return on equity.

The results also show that the contribution of the dividend payout ratio ( $p < 0.05$ ) is statistically significant. Moreover, there is a significant difference between insurance and banking sectors ( $p < 0.01$ ), and a marginally significant difference between the industrial and banking sectors ( $p = 0.06$ ). The direction of the first coefficient (dividend payout) suggests that companies with high dividend payouts are more likely to have a longer audit delay compared to those with low dividend payouts. Bohren and Odegaard (2003) argued that dividends do not have the theoretically expected disciplining role. However, this result can be interpreted in different scenarios. It is argued that firms that have high payout ratios are more likely to use their opportunities to reinvest for future growth. In other words, the higher the payout ratio, the less the retained earnings, and hence, the lower the growth rate. This makes the process of approval and preparation of annual reports and audit take more time. Another argument is that the significant positive effect of the payout ratio on audit delay may expose firms to more monitoring (Easterbrook, 1984).

The results reveal that only two sectors (insurance and banking) have a significant difference in their effect on the audit delay. It is surprising to find that the other sectors (service and industrial) do not differ significantly from the financial sector. This is because the banking sector, for example, is more regulated than other sectors and was expected to be significantly different in its effect on audit delay from other sectors. However, the results show that audit delay in the banking sector is significantly different (lower) than that in the insurance sector.

On the other hand, the variables firm size, audit type, and price earnings ratio are found not to have a significant impact on the timing of disclosure. This is in contrast to hypotheses (H1, H3, and H6) related to these variables. However, these results are consistent with a number of studies that find no significant association between these variables and timeliness of financial reporting. For example, Courtis (1976), Ahmed et al. (2003) and Bonson-Ponte, Escobar-Rodriguez and Borrero-Dominguez (2008) find non-significant relationships between the timeliness of financial reporting and auditor size. Givoly and Palman (1982) find no significant relationships between audit delay of financial reporting and company size. Carslaw and Kaplan (1991) and Abdulla (1996) find no significant relationships between audit delay of financial reporting and the debt–equity ratio. Other studies found that a firm's debt leverage was negatively associated with the timing of information release (Deloof and Weet, 2003, Aljabr, 2007, Conover M.C; Miller R.E. and Szakmary A. 2008). Almosa and Alabbas (2007) found no significant relationship between the profitability, sector type and the timeliness of financial reporting.

Regarding the UAE, the results indicate that firms with a high debt ratio are more likely to have a short audit delay. This is probably because such firms would prefer to share the relevant information with their creditors. It is argued that lenders consider firms with a high debt ratio as much higher risk. Therefore, in order to reduce their financial costs from negotiated credit agreements, such companies would tend to publish their annual report quickly. Likewise, they may disclose relevant information through their annual report to reassure shareholders and reduce risk premiums in required rates of return on equity. It is important to note that the association between the debt ratio and the timeline of financial reporting is still ambiguous.

Another significant variable found is the audit type ( $p < 0.05$ ). It is argued that the auditor can play an important role in improving a firm's overall reporting strategy (Hail, 2002). Empirical findings suggest that companies reviewed by larger audit firms provide higher quality financial statements, *ceteris paribus* (Becker *et al.*, 1998).

Table 6: The Effect of the Selected Variables on the Timeliness of Annual Reports (UAE)

|                       | Unstandardize |            |        | Colinearity Stats. |           |       |
|-----------------------|---------------|------------|--------|--------------------|-----------|-------|
|                       | B             | Std. Error | t      | .Sig               | Tolerance | VIF   |
| (Constant)            | 173.956       | 78.121     | 2.227  | .032               |           |       |
| Debt ratio            | -21.004       | 19.862     | -1.057 | .296               | .299      | 3.348 |
| Audit Type            | -18.794       | 10.760     | -1.747 | *.088              | .558      | 1.793 |
| Insurance vs. banks   | -13.721       | 14.467     | .948   | .348               | .226      | 4.426 |
| Service vs. banks     | -2.794        | 13.282     | .210   | .834               | .366      | 2.731 |
| Industry vs. banks    | -6.932        | 15.304     | .453   | .653               | .276      | 3.626 |
| Price earnings        | .273          | .212       | -1.287 | .205               | .525      | 1.906 |
| Firm size             | -3.849        | 3.454      | -1.114 | .272               | .320      | 3.128 |
| Dividend payout ratio | -11.806       | 15.412     | .766   | .448               | .667      | 1.500 |
| Profitability         | -45.094       | 30.460     | -1.480 | .146               | .561      | 1.784 |
| (Constant)            | 171.702       | 76.497     | 2.245  | .030               |           |       |
| Debt ratio            | -18.470       | 15.611     | -1.183 | .243               | .473      | 2.116 |
| Audit Type            | -19.085       | 10.549     | -1.809 | *.078              | .567      | 1.763 |
| Insurance vs. banks   | -11.782       | 11.023     | -1.069 | .291               | .380      | 2.630 |
| Industry vs. banks    | -5.283        | 12.992     | .407   | .686               | .374      | 2.675 |
| Price earnings        | .290          | .194       | -1.492 | .143               | .611      | 1.636 |
| Total Assets          | -3.842        | 3.414      | -1.125 | .267               | .320      | 3.128 |
| Dividend payout ratio | -10.640       | 14.217     | .748   | .458               | .765      | 1.306 |
| Profitability         | -46.404       | 29.475     | -1.574 | .123               | .585      | 1.709 |
| (Constant)            | 155.104       | 64.064     | 2.421  | .020               |           |       |
| Debt ratio            | -17.914       | 15.399     | -1.163 | .251               | .476      | 2.100 |
| Audit Type            | -16.741       | 8.749      | -1.914 | *.062              | .809      | 1.237 |
| Insurance vs. banks   | -9.125        | 8.790      | -1.038 | .305               | .586      | 1.705 |
| Price earnings        | .268          | .185       | -1.450 | .154               | .661      | 1.513 |
| Total Assets          | -3.289        | 3.102      | -1.060 | .295               | .380      | 2.633 |
| Dividend payout ratio | -10.496       | 14.074     | .746   | .460               | .766      | 1.306 |
| Profitability         | -44.998       | 28.986     | -1.552 | .128               | .593      | 1.686 |
| (Constant)            | 159.371       | 63.486     | 2.510  | .016               |           |       |
| Debt ratio            | -15.718       | 15.039     | -1.045 | .302               | .494      | 2.023 |
| Audit Type            | -16.213       | 8.676      | -1.869 | *.068              | .814      | 1.229 |
| Insurance vs. banks   | -8.821        | 8.737      | -1.010 | .318               | .588      | 1.702 |
| Price earnings        | .255          | .183       | -1.393 | .171               | .667      | 1.499 |
| Total Assets          | -3.780        | 3.016      | -1.253 | .217               | .398      | 2.515 |
| Profitability         | -37.767       | 27.178     | -1.390 | .172               | .668      | 1.497 |
| (Constant)            | 126.945       | 54.775     | 2.318  | .025               |           |       |
| Debt ratio            | -15.289       | 15.036     | -1.017 | .315               | .495      | 2.022 |
| Audit Type            | -19.094       | 8.196      | -2.330 | **024              | .913      | 1.096 |
| Price earnings        | .218          | .180       | -1.215 | .231               | .695      | 1.439 |
| Total Assets          | -2.326        | 2.651      | .877   | .385               | .515      | 1.942 |
| Profitability         | -38.143       | 27.181     | -1.403 | .167               | .668      | 1.497 |
| (Constant)            | 79.871        | 11.029     | 7.242  | .000               |           |       |
| Debt ratio            | -24.084       | 11.180     | -2.154 | **037              | .890      | 1.123 |
| Audit Type            | -19.814       | 8.134      | -2.436 | **019              | .922      | 1.085 |
| Price earnings        | .182          | .174       | -1.044 | .302               | .734      | 1.363 |
| Profitability         | -30.696       | 25.758     | -1.192 | .239               | .740      | 1.351 |
| (Constant)            | 74.079        | 9.540      | 7.765  | .000               |           |       |
| Debt ratio            | -27.338       | 10.747     | -2.544 | **014              | .965      | 1.036 |
| Audit Type            | -19.218       | 8.122      | -2.366 | **022              | .926      | 1.080 |
| Profitability y       | -17.959       | 22.704     | .791   | .433               | .955      | 1.048 |
| (Constant)            | 69.976        | 7.975      | 8.774  | .000               |           |       |
| Debt ratio            | -27.912       | 10.680     | -2.613 | **012              | .970      | 1.031 |
| Audit Type            | -17.860       | 7.907      | -2.259 | **028              | .970      | 1.031 |

This table shows the significant independent variables used in the model and which variables were removed as they did not contribute to the performance of the model. After removing the non-significant variables, the contribution of the remaining predictors is then reassessed. \*\*, and \* indicate significance at the 5 and 10 percent levels respectively.

Table 7: Comparison between the Two Countries in Terms of the Significant Variables and Hypotheses\*

| Variables           | Coefficients |         | P-value |        | Hypotheses    |               |
|---------------------|--------------|---------|---------|--------|---------------|---------------|
|                     | Bahrain      | UAE     | Bahrain | UAE    | Bahrain       | UAE           |
| Profitability       | -71.513      | -       | .048**  | -      | Supported     | Not Supported |
| Debt ratio          | -23.804      | -27.912 | .006*** | .012** | Supported     | Supported     |
| Insurance vs. banks | 23.097       | -       | .001*** | -      | Supported     | Not Supported |
| Div. payout ratio   | 232.004      | -       | .002*** | -      | Supported     | Not Supported |
| Audit Type          | -            | 17.860  | -       | .028** | Not Supported | Supported     |

*This table includes only the final significant variables in model No. 6 (Bahrain) and model No. 7 (UAE). The two variables of company size and price earnings ratio were found not to be significant and therefore their hypotheses were rejected. This table summarizes the independent variables found to have a significant effect on timeliness in the two countries. In addition, it reveals which hypotheses were supported and which hypotheses rejected. The significance levels used in this study are 1% and 5%. \*\*\* and \*\* indicate significance at the 1 and 5 percent levels respectively.*

In contrast with this, the variables firm size, sector type, profitability, price earnings ratio, and dividend payout ratio are found not to have a significant impact on the timeliness of financial reporting. This is in contrast with our hypotheses (H1, H3, H5, H6 and H7) related to these variables. However, these results are consistent with a number of studies which find no significant association between these variables and timeliness of financial reporting. For example, Courtis (1976), Ahmed et al. (2003), and Bonson-Ponte et al. (2008) find no significant relationships between the timeliness of financial reporting and audit type. Almosa and Alabbas (2007) find an no significant relationship between profitability, sector type and the timeliness of financial reporting.

## CONCLUSIONS

This study concludes that four variables (profitability, debt ratio, sector type, and dividends payout ratio) examined in Bahrain appear to have a strong influence on the timeliness of annual reports. The null hypotheses of no significant relationship between firm performance and the four variables (profitability, debt ratio, sector type, and dividends payout ratio) were rejected. However, another three variables (audit type, firm size, and price earnings ratio) are found to have little or no effect on the timeliness of annual reports (see Table 7).

It should be noted that the impact of profitability is significant at  $p < 0.05$ . Profitability is considered an indication of good or bad news resulting from the year's operations (Ashton et al., 1987). If the company experiences losses, management might wish to delay the corporate annual report in order to avoid the effect of its 'bad news'. The results show that the impact of debt ratio, sector type, and dividends payout ratio are significant at  $p < 0.01$ . This can be seen as evidence that companies with a high debt ratio show greater care in disclosing financial statements in a timely manner than companies with a low debt ratio. In addition, if the debt ratio is high, the possibility of company failure will increase and thus auditors will make a careful and long-term audit in order to minimize legal liability due to the increasing possibility of failure (Ansah, 2000). Regarding the effect of dividend payout ratios, it is argued that paying out more dividends forces the firm into the new issue market more frequently and so exposes it to more monitoring (Easterbrook, 1984). This may motivate firms to take more time in preparing their annual reports.

This study concludes that the audit delay in the banking sector is less than in other sectors because it is the most regulated sector. However, it is found that there is no significant difference in audit delay between the banking sector and the service and industrial sectors. Aljifri (2008) examines the effect of four variables (sector type, size, debt equity, and profitability) on the level of financial disclosure. He uses denominator-adjusted disclosure-indexes (using a list of 73 financial items). The extent of corporate disclosure is calculated and compared among firms and between sectors. Aljifri (2008) finds significant



differences in disclosing financial information between sectors. However, size, debt equity, and profitability are not found to have a significant association with the level of disclosure. This leads to an important conclusion - the factors that affect the level of accounting information disclosure may be different from those that affect financial statement timeliness.

The debt ratio, a common variable in the two countries, is shown to have a significant effect on the timeliness of financial statements. A possible explanation for this is the demand for a high-quality audit service from companies with a high debt ratio to satisfy the needs for long-term creditors and to remove suspicion of debt holders about wealth transfer (Chow, C.W 1982, Ashbaugh and Warfield, 2003).

In the UAE, the study also concludes that two variables (debt ratio and audit type) appear to affect the timeliness of annual reports (see Table 7). The null hypotheses of no significant relationship between the timeliness of annual reports and the two variables, debt ratio and audit type, were rejected. The results provide evidence that the two variables have significant impact on the timeliness of annual reports. The demands of highly geared companies for high quality audit may be similar to those with a high debt ratio (Chow, C.W 1982, Ashbaugh and Warfield, 2003). Regarding the audit type, a high-quality audit service results in decreasing the audit delay of corporate annual reports. This result is explained by the fact that large multi-national audit firms are expected to take less time to conduct audit work because they have more resources and use more qualified auditing staff. In addition, internationally affiliated firms would be more efficient as they employ superior audit technology (Leventis et al., 2005). It should be noted that the impact of debt ratio and audit type is significant at the  $p < 0.05$  level. However, another five variables (profitability, firm size, sector type, dividend payout ratio and price earnings ratio) are found to have little or no influence on the timeliness of annual reports.

The findings of this study seem to indicate differences between the two countries. Given that the two countries share similar social, political and economic environments, the source of such differences is probably the considerable range and differences in the means that exist in the variables used in this study (see Tables 2 and 3). This indicates that the UAE has a wide variety of firm size compared to that in Bahrain and consequently this variable can have an effect on the level of profitability and dividends payout ratio in the two countries. However, where the mean was close in the two countries (debt ratio), the findings were almost the same. The results show that the debt ratio variable has a negative relationship in both countries. Examining the findings closely, the influence of the profitability variable (for the UAE) has the same direction as that in Bahrain even though it is not significant in the former case. The sector type variable was found to have a significant effect in Bahrain but not in the UAE. This is probably because of the different variety of firm size that was found to exist in the two countries. The audit type was found to have a significant effect on timeliness because of the positive role of big firms in the UAE that supports financial and non-financial firms in the preparation of their annual report in a timely way. Regarding the dividend payout ratio variable, it is found to be significant for Bahrain and have a positive impact on audit delay, whereas it is found to have negative effect on audit delay, although not significant, in the UAE. This is because of the magnitude of dividends of firms in the UAE which motivate them to disclose such information in a timely way.

It is hoped that this study will improve the understanding of some of the variables that have an effect on the timeliness of annual reports. The study extends the literature to the effect of firm-specific variables on the timeliness of annual reports in Bahrain and the UAE. These results may help users of financial information to assess the impact of such variables on improving the timeliness of annual reports.

The authors conclude that policymakers in Bahrain and the UAE should develop legal and regulatory frameworks appropriate for Bahrain and the UAE business environments while remaining within the International Financial Reporting standards. It is expected that such developments will contribute to improved efficiency, effectiveness and governance in both the Bahrain and the UAE stock markets.

Certain limitations of this study must be recognized. First, the delay in publishing audit reports used in this study is measured in terms of days rather than man-hours spent on audit work. This may create a

measurement problem if an audit firm spends more than the usual intensity of work on an audit. Second, there could other factors, such as processes of administrative approval within the home office, which affect audit lag but have not been included in the model. Third, the results may be different if the number of company characteristics was increased or another set of variables were examined. This might make possible further improvement of the regression model used in this study. Finally, this study considers the annual reports for a single year. Further research could be undertaken to measure audit delay longitudinally to determine whether there is a trend in audit delay over time, and whether there are firm specific influences.

Future research should be conducted taking into consideration some important corporate governance variables such as structure of the audit committee, level of ownership concentration, the percentage of the outside board members (if differences exist), insider ownership, voting coalitions and product-market competition. Additional research might also be directed towards determination of the effect of timeliness of annual reports of Bahrain and UAE firms using larger samples and longer time series.

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