The impact of the audit committee on the timeliness of the annual financial reports in Jordanian companies listed in the Amman Stock Exchange

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Abstract: The study examined the impact of the audit committee on the timeliness of the annual financial reports in Jordanian companies listed in the Amman Stock Exchange. The study used correlational research design. The data which collected from the published annual financial reports of 172 companies listed in Jordan for the duration between 2014 and 2016. The result showed that there is a positive and significant relationship between audit committee (audit committee independence, audit committee meeting and audit committee size) and timeliness of financial reports. In addition, there is a positive role for the audit committee to oversee the preparation and publication of financial reports. The study hereby recommend that companies to disclose the annual financial reports in legal time as this has become necessary in view of their impact on investor decisions. And continue to study this type of research for other financial periods.

Keywords: audit committee; audit committee independence; ACI; audit committee meeting; ACM; audit committee size; ACS; timeliness of financial reports; TFRs.

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1 Introduction

The purpose of financial reports is to fulfil the demands of decision makers, and relevantly, in the context of financial reporting, timeliness is regarded as an information attribute. In order to achieve timeliness, financial reports need to be accessible on time to advice decision making. Financial reports therefore need to be issued as soon as possible following the completion of the accounting period, and according to Ibadin et al. (2012), such issuance of financial reporting allows user to gain maximal usage. In fact, among the crucial determinants of financial reports is timeliness of financial statements (Turel, 2010).

Notwithstanding one's choice to regard timeliness as an accounting objective or as an attribute of beneficial accounting information, the disclosure regulations and a significant portion of the accounting literature both clearly embrace the concept of timeliness in order to assure usefulness of financial statements (Turel, 2010). In fact, a capital market needs timely financial reporting in order to function well. Appositely, it is crucial that users of financial information could obtain the needed information in time especially when they need to make or anticipate decision (Al-Tahat, 2015).

Accordingly, for users of financial information, timing of information is almost as crucial as its content, and in Hashim et al. (2013), the authors reported that for users of information, timing of financial reporting is a crucial harmonising factor of accounting information. Relevantly, Aktas and Kargin (2011) found that the delay in the issuance of financial statements causes increase in the uncertainty related to investment decisions. Similarly, Yim (2010) stated that longer delay decreases the information's content and relevancy. It is therefore important for organisations to strike a balance between the relative values of timely reporting and the reliability of information that financial statements furnish.

On the other hand, Aljifri and Khasharmeh (2010) it was suggested that the audit committee may impact audit timeliness but the prophesied relationship was not tested by the authors. Further, in Bédard and Gendron (2010), the authors thoroughly reviewed the literature related to audit committee and financial reporting, and concluded the inconclusiveness of the link between audit committee and timeliness of financial reporting. Hence, this study attempts to examine the impact of audit committee on the timeliness of the annual financial reports in the Jordanian companies listed on the Amman Stock Exchange (ASE) for the 2014–2016 period.

2 Problem statement

Reporting timeliness is a noteworthy issue, considering that it has linkage to corporate transparency, which started to gain significance after the outbreak of financial crisis in 1997. Hence, understanding how crucial it is to have timely reporting, the Accounting Standards Board indicated that failure in releasing financial statements to the public within a judicious time period from the end of a company's financial year would compromise the usefulness of the statements. Nonetheless, as reported in Al-Shwiyat (2013), in the context of Jordan, the ASE listed companies had financial reporting delay of 111 days from the end of the fiscal year. In fact, industrial companies, as opposed to their counterparts in other sectors, require additional time to issue public reports.

According to the problem statement have the development of three research questions are addressed in this study as below:

1 What is the relationship between independence of audit committee and timeliness of the annual financial reports?

2 What is the relationship between size of audit committee and timeliness of the annual financial reports?

3 What is the relationship between audit committee meeting (ACM) and timeliness of the annual financial reports?

By having the research questions addressed, this study accomplishes four primary research objectives, as follows:

1 To investigate the relationship between independence of audit committee and timeliness of the annual financial reports.

2 To examine the relationship between size of audit committee and timeliness of the annual financial reports.

3 To investigate the relationship between ACM and timeliness of the annual financial reports.

3 Literature review

The current section presents the review of literature related to the investigated issue. Furthermore, empirical studies in the area, particularly on the research problems examined by other scholars, were also included.

3.1 Timeliness of the annual financial reports

Within the context of financial reporting, timeliness improves financial information in terms of usefulness. For audited financial reports, timeliness is regarded as critical and important determinant that affects the expediency of financial information for outside users (Aljifri and Khasharmeh, 2010). In this regard, the lag of audit report which encompasses the amount of days from fiscal year end to the date of the issuance of the audit report, or inordinate audit lag, will compromise the quality of financial reporting owing to the failure in furnishing information to investors in a timely manner. As mentioned in Mohammad-Nor et al. (2010), delayed disclosure of an auditor's opinion on the accurate and reasonable understanding towards financial information furnished by the management, aggravates the information asymmetry while also increasing the uncertainty in making decisions towards an investment.

Iyoha (2012) examined the effect of organisation attributes on the timeliness of monetary reviews in Nigeria primarily based on a sample of sixty one companies' annual reviews for the years 1999–2008. The information was analysed and results estimated the usage of ordinary least square (OLS) regression which used to be complimented with the panel statistics estimation technique. The findings disclose that the age of employer is the major business enterprise attribute that influences the ordinary nice of timeliness of monetary reports in Nigeria. It used to be also determined that there is a giant distinction in the timeliness of monetary reporting amongst industrial sectors in Nigeria. The banking area is discovered to be timelier in monetary reporting. Though the consequences advise that rules are not adequate to make sure that the first-rate of economic reports are timely in Nigeria, reporting lag can also on the other hand be reduced by the existence and strict enforcement of rules and regulations of regulatory bodies.

Vuran and Adiloğlu (2013) examined the relationship between the timeliness of corporate financial reporting and accounting and auditing related ten variables. In this study firstly timeliness of economic statements is calculated via subtracting the allowable publication date which is requiring through ISE from the guide date of financial statements.

Rahmawati (2013) examined the statistics content and the determinants of the timeliness of Indonesian manufacturing organisations during the duration 2003–2008. The foremost goal of this find out about is to test whether there is an affiliation between timeliness of monetary reporting and statistics content material and how business enterprise characteristics, such as 'company' size, 'company' profitability, 'company' capital structure, complexity of two operations and audit elements affect timeliness of financial reporting in an rising market, Indonesian inventory exchange.

By using Al-Tahat (2015) has been examines the timeliness of annual economic reviews posted by using organisations listed on the ASE. This learn about determines whether or not a company's complies with the JSC requirement by announcing its annual record within the three-month allowable period. In addition, these find out about finding out the association between timeliness and attributes of groups (namely size, profitability, growth, age, leverage, and audit company size). An analysis of 235 annual economic reports ended on 31 December 2013. Ninety-nine groups stated inside an allowable reporting lag of three month. The study additionally gives evidence that there is a huge affiliation between profitability, growth, and audit company dimension and timeliness, and the affiliation is in the hypothesised direction. No good sized association was evidenced between the timeliness and size, age and leverage of company.

3.2 Independence of audit committee

The impact of audit committee characteristics in restatement was recently studied. In a relevant study by Abbott et al. (2004), it was reported that an audit committee that demonstrates independency, conducts at least four meetings in a year, and contains a minimum of one financially knowledgeable member, has negative link to the incidence of restatement during the 1991–1998 period. In the majority of past works, their focal point was the independence of members of audit committee. As indicated by SEC (2003), the assurance of improved financial reporting is a common expectation towards the independent audit committee directors. Also, the expectation is largely supported by the prevailing empirical evidence (Abbott et al., 2000; Beasley et al., 2000). In this regard, Abbott et al. (2000) in particular, have reported a negative link between the incidence of earnings restatement and audit committee, which comprises merely independent directors.

For companies, Turley and Zaman (2004) indicated the possibility of demonstrating the indirect benefits gained from adopting audit committees through the characteristics of audit committee including independence, denoting the inclination of company towards adopting audit committees in governance structures. Having insiders joining the audit committee can potentially imply the compliance with the internationally virtuous corporate governance practice, while in fact, it assures the retention of control towards the doings of the audit committee. For an audit committee that lacks independence, it may denote a symbolic response towards the concerns regarding corporate governance. On the other hand, Nimer et al. (2012) documented that, the results of the multiple regressions indicated that there is no significant relationship between audit committees' effectiveness factors and dividend payout policies in 63 listed Jordanian firms.

3.3 Size of audit committee

The size of audit committee, that is the number of members it has, denotes the resources that are accessible to this committee. As reported in Mohammad-Nor et al. (2010), it is likely that the possible problems in the process of financial reporting will be discovered and resolved with bigger audit committee, providing that a bigger committee will increase the accessible resources to the audit committee and leads to better oversight.

Soliman and Regab (2013) observed that the measurement of the audit committee has an insignificant relationship with salary management in a bad direction. Also Chandrasegaram et al. (2013) confirm the impact of audit committee the size, independence and its meetings among 153 public listed Malaysian groups for the duration of 2011. The result shows a poor relationship between the dimension of the audit committee and salary management. Similarly, studied the affiliation of audit committee and accounting manipulation. The effects finding confirmed that audit committees' the size had a bad big relationship with the degree of salary management. Alves (2011) also studied the association between board characteristics and salary management. The end result confirmed that the size of the audit committee was once negatively related to profits management. Similarly, Soliman and Regab (2013) and Chandrasegaram et al. (2013) observed audit committee the measurement had terrible relationship with earnings management.

3.4 Audit committee meeting

The purpose of audit committee is to assure consistent communication between external auditors, internal auditors and the board. Here, the committee would have meeting with the auditors on a regular basis. During the meetings, the financial statements, audit procedures, and also the internal accounting systems and controls are reviewed (Habbash, 2010). Meetings frequency denotes how devoted an active audit committee is in resolving any direct issues and in presenting a better review and oversight situation. These will consequently ease the detection of errors in financial statements.

In a review carried out on the related past works, it appears that the majority that focused on ACM and financial reporting quality discovered no significant connections between the constructs. Contrariwise, Li et al. (2008) and Xie et al. (2003) found that audit committee and timeliness of financial reports (TFRs) have linkage to one another. Further, the meeting frequency of audit committee appears to be positively linked to the level of corporate disclosure (Li et al., 2008). Also, according Emeh and Appah (2013) has been examines the impact of audit committee and timelines of monetary reports for thirty five firms quoted in the Nigerian Stock Exchange (NSE) for the duration 2007–2011. The data for this find out about were collected from the annual reports and accounts. The accumulated facts have been analysed the use of relevant diagnostic tests, pooled least square and granger causality test. The result suggests that audit committee independence (ACI) is appreciably associated to the TFRs; audit committee assembly (ACM) is not substantially associated to timeliness of economic reports; audit committee knowledge (ACE) is substantially related to the timeliness of economic reviews and audit committee size (ACS) is now not significantly related to the timeliness of economic reports. On the basis of the empirical result, the paper made conclusions and recommendations for tremendous and efficient audit committee traits to meet the 21st century complex company environment.

4 Research methodology

This study has opted the use of quantitative approach in determining the link between audit committee and the timeliness of the annual financial reports among the ASE listed Jordanian companies, Jordanian companies were selected because of the lack of studies on this situation in Jordan. With respect to the data, they were furnished by the annual report published by the ASE listed Jordanian companies for the duration between 2014 and 2016. The historic particulars on the sampled firms were furnished by the ASE Fact Book for the duration between 2014 and 2016 which were analysed through STATA.

Therefore, the hypothesis below is proposed:

1 There is a positive relationship between independence of audit committee and timeliness of the annual financial reports.

2 There is a positive relationship between size of audit committee and timeliness of the annual financial reports.

3 There is a positive relationship between ACM and timeliness of the annual financial reports.

5 Statistical techniques

As explained in Zikmund et al. (2009), research design encompasses the master plan that presents the details regarding the methods and procedures to be employed during the gathering and analysis of the information required. Similarly, it consists of a framework that eases the planning of actions to be carried out in the research project. Accordingly, the present study employs the quantitative approach in the determination of the linkage between characteristics of the audit committee and timeliness of the annual financial reports.

Annual reports are the instruments chosen for data gathering. In particular, annual reports published by companies provide the data regarding characteristics of the audit committee and timeliness of the annual financial reports. For analysis purposes, this study used Statistical Package for the Social Sciences (STATA).

The sample of this study all comprises the ASE listed companies excluding banks owing to the difference in terms of private law. There are 197 companies that satisfy the study requirement. However, following the exclusion of the newly listed companies in 2014, 2015 and 2016, the number is reduced to 172. The exclusion is factored by the fact that the newly listed companies for those years (2014, 2015 and 2016) do not have the data required in this study, that is, the continuous data from 2014 to 2016.

5.1 Variables measurement

5.1.1 Dependent variable

- TFRs – Timeliness is gauged by reporting time lag, and for the context of this study, the financial reporting time lag denotes how many days have passed between a firm's financial year-end and the date of the initial release of its annual reports to the public.

5.1.2 Independent variable

- ACI – The construct of ACI denotes the fraction of the independent non-executive directors joining audit committee.
- ACM – This construct will be awarded with the score of '1' if four meetings or more are held during the financial year.
- ACS – This construct denotes the number of members present in the audit committee.

This study proposes a model for the examination of the association between the independent variables represented by ACI, ACM and ACS, and the dependent variable represented by TFRs. The model is as expressed below:

$$TFR = \beta_0 + \beta_1 \ ACI_{i,t} + \beta_2 \ ACM_{i,t} + \beta_3 \ ACS_{i,t} + \varepsilon_i .$$

where i = 1, …, N; t = 1, …, T.

TFR Timeliness of financial reports (dependent variable).

Independent variable:

ACI audit committee independence

ACM audit committee meeting

ACS audit committee size.

5.2 Analysis and finding

A summary of the companies selected in this study is shown in Table 1, along with the industry composition. The result indicates that services sector represents the highest number of observations at 68, followed by financial sector (59) and industry sector (45).

Table 1 Summary of the distribution of sample companies by sector

Sector	*Number of companies*	*Percentage (%)*
Services sector	68	39.5%
Financial sector	59	34.3%
Industry sector	45	26.2%
Total samples	172	100.00

The summary of descriptive statistics for TFRs and audit committee (ACS, ACI and ACM) and corporate governance policies "the scores of every variable were averaged out for the three-year period (2014 to 2016).

Table 2 Descriptive statistics summary for timely and (N = 172)

Variable	*Obs*	*Mean*	*Std. dev.*	*Min*	*Max*
TFR	172	0.7816356	0.3015553	0	1
ACS	172	5.828975	1.939416	0.820313	9.630513
ACI	172	2.857651	1.559582	0	7.333333
ACM	172	1.00979	0.7167571	0	4

Table 2 presented the descriptive statistics for the variables under the study. The mean and median values for the dependent and independent variables do not show much dispersion from each other. Thus, the variables are evenly distributed across the sample size of the data.

5.3 Correlation analysis

The correlation between the variables was conducted to explore the strength of relationship between the variables. Table 3 represented the study model. It revealed that some of the variables have significant positive relationships and some insignificant relationship. Moreover, the results of correlations can be used to observe the multicollinearity problem among the variables. As shown in the Table 3 all correlation coefficient values between the variables are less than 0.9. Hair et al. (2010) recommended that the correlation coefficient values above 0.90 would be a revealing of multicollinearity problem. Therefore, this study showed that the collected data revealed no multicollinearity problems.

Table 3 Correlation analysis of study model

	TFR	*ACS*	*ACI*	*ACM*
TFR	1.00			
ACS	0.0860	1.00		
ACI	0.3272	–0.1158	1.00	
ACM	0.7353	0.0082	0.2864	1.00

Notes: TFR is timeliness of financial reports; ACS is audit committee size; ACI is audit committee independence; ACM is audit committee meeting.
PWCORR, TFR, ACS, ACI, ACM, star (0.05) sig.

5.4 Regression analysis

Table 4 showed the results of study model standardise regression analysis. The P-values are given in bracket. Moreover, the results indicated that the coefficients for ACS, ACI, ACM, and constant (C) are positive and significant at 1% and 5% level of significance. The signs of all the variables are line with the theoretical predictions. Additionally, positive relationship between ACS, ACI, ACM, and Comp 1% increased of ACS, ACI and ACM it will leads to 0.794%, 0.475% and 0.453%, increased of TFR in the Jordan respectively.

Table 4 Standardise regression analysis

Independent variables	*Coefficients*	*P-value*
ACS	0.794*	(0.001)
ACI	0.475*	(0.000)
ACM	0.453*	(0.000)
C	0.335*	(0.000)
Diagnostics test		
R^2	0.87	
Adjusted R^2	0.79	
Serial correlation	0.255	0.756
Normality	0.162	0.322
Hetrokedasticity	0.178	0.344

Notes: *Denotes rejection of the null hypothesis at 1% and 5% significance level.

6 Conclusions

The results presented in Table 4 showed significant positive effect of ACS, ACI and ACM on TFRs. These results indicated that ACI seems to influence positively on the disclosure of financial forward-looking information. More independent boards tend to provide more disclosure of forward-looking information about the activity of the company in legal time.

Theoretical arguments suggested that there is positive relationship between ACS and the TFRs by companies. Larger audit committee might feel a stronger pressure to release more information, but coordination problems make them less efficient to improve quality of forward-looking information.

In addition, audit committee by a higher proportion of ACM provide more financial forward-looking information. This kind of information has usually a quantitative nature, being financially verifiable, and hence, more valuable for investors. This information is extremely useful in capital markets to improve analysts' forecasts, and it directly contributes to improve transparency in markets and other associated benefits.

7 Contributions

This study is the first study of its kind in Jordan. Therefore, this study will help companies and audit committee members pay attention to the timing of financial reports. Also, this study will help researchers focus on this type of research, especially in the Jordanian business environment.

8 Recommendations

The results are recommended by this study:

1. Continue to study this type of research for other financial periods.
2. Pay attention to the timing of financial reports more to communicate financial information to users by the time they are allowed to take the investment decision.
3. Focus on the other audit committee characteristics and its impact on the financial reports.
4. Should that companies to disclose the annual financial reports in legal time as this has become necessary in view of their impact on investor decisions.

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