Available online at
www.icas.my

International Conference on Accounting Studies (ICAS) 2016
15-18 August 2016, Langkawi, Kedah, Malaysia

Timeliness of Financial Reporting: Evidence from UAE

Mohammed Ali Hussein Al-Muzaiqer, Maslina Ahmad*, Fatima Abdul Hamid

Department of Accounting, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia

Abstract

The objective of this study is to examine the extent of audit report lag (ARL) in the United Arab Emirates (UAE). The ARL is well defined in the literature as the number of days between the date of the financial year end and the date of the audit report. The data of the study consists of 298 observations from listed companies on the UAE capital markets; Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM), for three years from 2011 to 2013. Based on the sample data analyzed, the results show that listed companies in the UAE took on average of 60 days to announce their audited financial reports in 2011, 57 days in 2012 and 75 days in 2013, which are within the allowable period required by the regulators in UAE. Even though the overall result seems favorable, it is only based on 87%, 89% and 63% of companies whose annual reports are available on the websites of ADX and DFM for 2011, 2012 and 2013 respectively. These results perhaps indicate a low compliance of reporting requirements among listed companies in UAE. Since both markets can be considered new (established in 2000), monitoring of reporting requirement may not be as stringent as the established markets. As timely information release is necessary for effective investment decisions and a well-functioning financial market, the respective regulators should make it compulsory for the listed companies to announce their financial reports on the market's website on a timely basis and ensure that proper monitoring activities are in place.

Keywords: Audit report lag, financial reporting timeliness, UAE

1. INTRODUCTION

Corporate reporting has long been recognised as an essential channel that offers information to help investors make economic decisions. For this information to have economic value, it needs to be made available to users on a timely basis; otherwise, its usefulness is reduced. Soltani (2002) points out that the annual report's timeliness is an important characteristic of financial accounting information for users of accounting information. Therefore, timely release of corporate financial reports is one of the qualitative characteristics of financial reporting (International Accounting Standards Board, 2010). Companies need to deliver reliable, relevant and timely information to investors and creditors to help them make relevant and appropriate investment decisions (Nelson & Shukeri, 2011; Imhoff, 2003).

Timely reporting is even more essential in emerging markets because financial reporting is the only reliable source of information for stakeholders. The release of financial information in these markets has a longer time lag and the information made public is limited (Owusu-Ansah & Leventis, 2006; Afify, 2009). Also, it has been

*Corresponding author. Tel.: +0-603-61964662; Fax: +0-603-61964609
E-mail: maslina@iium.edu.my

pointed out that providing timely information in developing economies is likely to be more important since the regulatory bodies in developing countries are not as efficient as in these countries (Nelson & Shukeri, 2011).

Since financial statements need to be audited, timely reporting is affected by audit timeliness. In fact, according to Owusu-Ansah (2000) and Leventis et al. (2005), audit timeliness is the most influential factor in the timing of earnings announcements and the timeliness of financial statements. This is because over 70 percent of companies do not announce earnings until the annual audit report date (Bamber et al., 1993). Thus, any delay in the audit report could lead to a postponement of earnings announcements which would directly cause a delay in corporate financial statements. Delays in the audit report are measured by ARL. ARL is well-defined in the research literature as the number of days between the date of the audit report and an organization's fiscal year end (Davies & Whittred, 1980; Ashton et al., 1989; Carslaw & Kaplan, 1991; Leventis et al., 2005).

Since financial reports are a valuable reference for stakeholders, their timeliness is essential for effective investment decisions. Currently, most global capital markets attract international investors, and audited financial statements are demanded by these groups of stakeholders. This phenomenon is more crucial in countries such as the UAE, as its security markets are young. Therefore, the current study attempts to examine the extent of ARL using data from emerging capital markets namely, Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM). The ADX and DFM were established in 2000, and both are regulated and licensed by the Securities and Commodities Authority (SCA) of the UAE. The ADX requires companies to publish their audited annual financial statements within 90 days of the end of the financial year, whereas DFM requires companies to publish their audited annual financial statements within 120 days of the end of the financial year. Since both markets are considerably new, the timeliness of financial reporting among the listed companies is still uncertain. Since there is no prior evidence on ARL in UAE, whether there is a problem with ARL cannot be determined, and this study aims to provide the evidence.

This paper is organised as follows: the following section presents the background of ADX and DFM; then, review of the literature is presented; next, the research methods are discussed; then, the results of the study are presented and the final section provides a conclusion with a discussion of the implications of the research.

2. ABU DHABI SECURITIES EXCHANGE (ADX) AND DUBAI FINANCIAL MARKET (DFM)

The UAE started dealing in securities in the early 1960s when several companies were incorporated in the country. At that time, securities were traded through a brokerage or specialised non-licensed firms. However, as there were no securities markets, there was no proper regulation or monitoring of these companies. As a result, there was an urgent need to regulate the stock market to ensure the integrity of transactions and to protect investors. For this purpose, Federal Law No. 4 was enacted in 2000. This law warranted the establishment of the SCA of the UAE. Consequently, ADX and DFM were established in the same year. The following Table 1 shows the main requirements of the listed companies in ADX and DFM.

Table 1. Requirements for Listed Companies in ADX and DFM

	DFM	ADX
1	The company must be registered at the Ministry of Economy and Planning	The company issuing the securities should be fully compliant with the provisions of Federal Law No-8 of 1984 Regarding Commercial Companies and amendments to it.
2	The paid up capital should not be less than 35 percent of Shareholders' Equity, or not less than AED 25 million, whichever is higher.	The paid up capital may not be less than 50 percent of the stockholders' equity, which may not be less than AED 20 million.
3	The company has to prove that it holds an ordinary general meeting at least once a year.	The company has to demonstrate that it holds an ordinary general meeting at least once a year.
4	The company should undertake to publish financial accounts in the daily UAE media before its stocks traded in the market.	The company should publish its financial results in the daily media before its shares traded on the market.
5	The company has to provide and publish audited reports within 120 days of the end of the financial year. The company's financial statements should contain the interim financial statements	Listed companies are committed to providing the market with annual reports, within 90 days of the end of the financial year and quarterly statements within 30 days of the end of the quarter
6	The financial statements of the company should contain the annual report for the last two financial years before the submitting of the listing application attached to the board's report and a report from the auditor of the company.	-

ADX and DFM (2016)

The aim of ADX and DFM is to serve the interests of the national economy by providing an opportunity to invest funds and savings in securities. These exchanges also guarantee the accuracy and safety of transactions and promote the interaction of the forces of supply and demand to protect investors, set prices, and to strengthen the foundations of proper handling of securities. They also aim to tighten control over trading in securities to ensure the safety of actions and procedures, and to create investment awareness to make sure that savings are channelled to productive sectors. Both ADX and DFM are regulated and licensed by the SCA.

3. SELECTED LITERATURE REVIEW

Timeliness is one of the qualitative characteristics of accounting information. Information loses its value if it is not available when it is needed. Timeliness implies making information available to decision-makers before it loses its ability to affect decisions (International Accounting Standards Board, 2010). Therefore, the more promptly the information can be delivered to users of financial statements, the more relevant it is to the process of decision-making. According to the International Accounting Standards Board (2010), timeliness is a desirable characteristic. Davies and Whittred (1980) argue that the timeliness of financial reporting has two dimensions. First, it refers to the time between the date of financial year-end and the date of the auditor's report. Second, it relates to the frequency of reporting, whether financial statements are issued annually, quarterly, or semi-annually.

Soltani (2002) claims that timeliness of financial reporting is considered as an essential characteristic of financial accounting information by the users of accounting information, the accounting profession, and regulatory and professional agencies. Some factors could result in the auditor taking more time in preparing the audit report; some of these factors have been identified in prior studies. These factors cover both audit-specific factors as well as company-specific factors. Audit-specific factors are those that are more likely to help the auditor achieve the audit assignment and issue the audit report promptly. These include audit fees, audit qualification, and auditor size (Davies and Whittred, 1980; Whittred, 1980; Ng and Tai, 1994; Owusu-Ansah, 2000). On the other hand, company-related factors are those that reduce the delay of the audit report and allow management to issue a more timely annual report. Among these factors are size of company, industry type, leverage and profitability (Dyer and McHugh, 1975; Carslaw and Kaplan, 1991; Ng and Tai, 1994; Al-Ajmi, 2008; El-Banany, 2008; Nelson and Shukeri, 2011; Alkhatib and Marji, 2012)

In the US, Ashton, et al. (1987) examined the effect of 14 companies and auditor factors on ARL using data from 488 companies. It was found that ARL is significantly longer for companies that (1) have a weak internal control system, (2) obtain qualified audit opinions, (3) are not financial service companies, (4) do not have December as their fiscal year-end, (5) do not use technology in data processing, (6) have a lot of audit work after year-end, and (7) are not publicly traded. Ashton et al. (1989) studied the association between audit delay and extraordinary items existence and busy season. Using a sample of 465 firms listed on the Toronto Stock Exchange from 1977 to 1982, the study found that firms in the service industries had shorter audit delays than firms in other industries. The existence of extraordinary items, regardless of whether they decreased or increased net income, is strongly related to longer ARL. Finally, the study points out that audits accomplished during the busy season had a shorter lag, whereas audits achieved during other months had long delays.

From a different perspective, Behn et al. (2006) surveyed 179 assurance partners of big audit firms in the US. Their findings reported that lack of sufficient personnel resources for audit firms and clients was the main hindrance towards the reduction of ARL. Focusing on the internal audit as a governance mechanism, Abbott et al. (2012) investigated the influence of internal audit assistance on external audit timeliness in the US. By using a sample of 134 companies, the study found a negative association between internal audit assistance and ARL. They also found that high degrees of coordination between the external auditor and the internal auditor can reduce ARL.

In a much recent study, Walker and Hay (2013) examined whether there is a relationship between ARL and the extent of non-audit services provided by a company's principal auditor by using data from annual reports of 290 companies listed on the New Zealand Stock Exchange. The study found evidence that providing non-audit services are related to a shorter ARL, but this does not happen in the year in which the services are delivered, it happens in the following period.

In the context of Malaysia, Che-Ahmad and Abidin (2001) investigated the association between auditor industry specialisation and auditor brand name on financial reporting lag. The study found that Big Six (now Big Four) audit firms take a shorter time to complete their audit engagements. The study, also found that the industry specialist auditor is not strong enough to influence the time taken to complete the audit assignment. Abidin and Ahmad-Zaluki (2012) suggests that industry specialist auditor is insignificant regarding producing a faster audit results than the non-specialist auditors.

Recent literature on ARL focuses on the influence of corporate governance mechanism (Ezat and El-Masry, 2008; Afify, 2009; Naimi et al., 2010; Nelson and Shukeri, 2011). In Arab countries, for example, Ezat and El-Masry (2008) study the key determinants of timeliness in corporate internet reporting on a sample of 50 companies listed on the Cairo and Alexandria Stock Exchanges. The results showed that companies with a large number of directors on the board and a high proportion of independent directors are more likely to release timely information on their websites. Afify (2009), using annual reports of 85 companies listed on the Egypt Stock Exchange, studied the impact of the duality of CEO, independence, ownership concentration, and the existence of an audit committee on ARL. This study found a link between corporate governance mechanisms and ARL. Using a sample of 628 annual reports, Naimi et al. (2010) examined the relationship between corporate governance and ARL in Malaysia using 2002 data. The findings showed that larger and more active audit committees have a negative association with ARL. However, the study failed to find evidence that audit committee expertise and independence have any association with ARL.

Nelson and Shukeri (2011) examined the influence of corporate governance characteristics on audit report timeliness of 719 companies listed on the Bursa Malaysia. They found that ARL had a negative relationship with the size of the audit committee. However, no association was found between audit report timeliness and other corporate governance characteristics examined. Apadore and Noor (2013) analysed the relationship between corporate governance features and ARL by using annual reports of 100 companies listed on the Bursa Malaysia. They also found that audit committee size has some influence on ARL. A recent study by Wan-Hussin and Bamahros (2013) investigates the relationship between internal audit function attributes and ARL by using annual reports of 432 publicly traded firms in Malaysia. The results showed a negative association between audit delay and costs incurred for the internal audit function and audit committee independence. The study, however, found that internal audit function has no significant relationship with ARL. In the context of Indonesia, Ika and Ghazali (2012) examined the relationship between audit committee effectiveness and ARL. By using annual reports of 211 companies listed on the Indonesian Stock Exchange, they found that audit committee effectiveness is negatively associated with ARL.

4. RESEARCH METHODOLOGY

The number of companies listed in the ADX and DFM is relatively small compared to capital markets in other countries. However, given that both markets are only 15 years old, the number is reasonable. In this study, data were collected from annual reports of listed companies on the ADX and DFM websites. In order to examine the ARL, the annual reports of 3 years (2011 to 2013) have been selected as it was the recent 3-year data at the time of data collection, as shown in Table 2.

Table 2. Number of Listed Companies and Companies that Issued Financial Statements on ADX and DFM Websites

	2011		**2012**		**2013**	
	No of companies	**Companies with F/S**	**No of companies**	**Companies with F/S**	**No of companies**	**Companies with F/S**
ADX	67	63	66	61	65	58
DFM	63	50	57	49	55	17
Total	130	113 (87%)	123	110 (89%)	120	75 (63%)

5. RESULTS AND DISCUSSION

Table 3 shows the mean ARL of all sampled companies listed on the two stock exchanges (ADX and DFM) in the UAE for 2011-2013 and the ARL of these companies based on the individual market. The table shows that overall ARL decreased from 2011 to 2013, from about 60 days to 51 days. Similar decreasing trends can also be observed based on separate market analysis, in which the mean ARL for ADX companies reduced from 58 days to 56 days from 2011 to 2012. A much better mean ARL performance can be seen for companies listed on DFM as it reduced from 62 days to 40 days from 2011 to 2013. However, it is important to note that these results are based on the information available on the ADX and DFM websites.

Table 3. Mean Audit Report Lag (ARL) of Listed Companies on ADX and DFM

	2011 (Days)	**2012 (Days)**	**2013 (Days)**
Number of Companies	113	110	75
ARL (both markets)	**59.81**	**56.95**	**51.40**
ARL (ADX)	58.48	57.33	55.77
ARL (DFM)	61.50	56.47	39.94
ARL by Sector:			
Banks	38.91	34.05	32.11
Insurance and service	61.78	62.30	56.77
Consumer Staples	74.25	55.63	55.33

Energy	73.50	71.50	78.50
Industrial	66.19	69.60	59.08
Real Estate	56.80	56.00	48.80
Telecom	71.60	71.00	84.00
Transportation	68.00	64.67	48.00

Based on industry, it is important to mention that the banking sector has the shortest ARL for the 3 years, and the consumer staples sector has the longest ARL for 2011. For 2012 and 2013, the energy industry and telco industry showed the longest ARL respectively. Except for energy and telco, the rest of the industries seemed to indicate improvement in terms of ARL.

Table 4 presents the frequency of overall ARL for 2011-2013 in ADX and DFM separately. It can be seen that the mean ARL for ADX for the three years is 57.24 days and for DFM is 56.08 days. The maximum lag for ADX and DFM are 181 and 156 days respectively, which means that there were companies in ADX and DFM that exceeded the specified time frame in issuing the financial statements, which is 90 days in ADX and 120 days in DFM.

Table 4. Frequency of ARL (In Days) 2011-2013

	N	Minimum	Maximum	Mean
ADX	181	9	181	57.24
DFM	117	8	159	56.08

These results provide evidence that the ARL of companies in the UAE, on average, is shorter than that of other developing countries. For example, Afify (2009) reports that auditors take an average of 67 days to complete their audit work using data in Egypt, while Naimi et al. (2010) and Nelson and Shukeri (2011) reported average ARL of 100 days and 101 days respectively, in their studies conducted in Malaysia. Ika and Ghazali (2012) studied ARL in the Indonesian stock exchange for 2008 and reported that it takes the auditors 98 days to complete audited financial reports. However, as mentioned earlier, these results are based on 2011-2013 data from companies that issued their annual reports on ADX and DFM websites. The latest data for many listed companies were still unavailable at the time of data collection. Therefore, it can be considered that the results shown above are based on data from companies that are better (in terms of timely reporting) than those that still have not uploaded their financial reports on the markets' websites. These results will probably change if more data can be captured for analysis.

6. CONCLUSION

Financial reports are an important reference for stakeholders, and thus, their timeliness is essential to effective investment decisions. Currently, most global capital markets attract international investors, and audited financial statements are demanded by these groups of stakeholders. This phenomenon is more crucial in countries such as the UAE, as its security markets are young. Therefore, the objective of this study is to examine the extent of ARL in the UAE. The analysis of the sample data of listed companies in the UAE showed that auditors take on average of 60 days to announce their audited financial reports in 2011, 57 days in 2012 and 75 days in 2013, which are within the allowable period required by the regulators in UAE. These results also provide evidence that the ARL of companies in the UAE, on average, is shorter than that of other developing countries (Afify, 2009; Naimi et al., 2010; Nelson and Shukeri, 2011; Ika and Ghazali, 2012).

Even though the overall result seems favorable, it is only based on 87%, 89% and 63% of companies whose annual reports are available on the websites of ADX and DFM for 2011, 2012 and 2013 respectively. These results perhaps indicate a low compliance of reporting requirements among listed companies in UAE. Since both markets, ADX and DFM can be considered new (established in 2000), monitoring of reporting requirement may not be as stringent as the established markets. As timely information release is necessary for effective investment decisions and a well-functioning financial market, the respective regulators should make it compulsory for the listed companies to announce their corporate reports on the market's website on a timely basis and ensure that proper monitoring activities are in place. This study is not without limitations such as data collection method, limited sample size and statistical test used. Future research is recommended to overcome such limitations and extend this study to better understand the ARL practices in UAE.

REFERENCES

Abbott, L. J., Parker, S., & Peters, G. F. (2012). Internal audit assistance and external audit timeliness. *Auditing: A Journal of Practice & Theory, 31*(4), 3-20.

Abidin, A., & Ahmad-Zaluki, N. A. (2012). Auditor Industry Specialism and Reporting Timeliness. *Procedia - Social and Behavioral Sciences. 65*, 873-878.

Abu Dhabi Securities Exchange (ADX). (2016) https://www.adx.ae/English/Securities/Pages/Listed Companies.aspx

Afify, H. A. E. (2009). Determinants of audit report lag: Does implementing corporate governance have any impact? Empirical evidence from Egypt. *Journal of Applied Accounting Research*, *10*(1), 56-86.

Al-Ajmi, J. (2008). Audit and reporting delays: Evidence from an emerging market. *Advances in Accounting, 24*(2), 217-226.

Alkhatib, K., & Marji, Q. (2012). Audit reports timeliness: Empirical evidence from Jordan. *Procedia-Social and Behavioral Sciences,* 62, 1342-1349.

Apadore, K., & Noor, M. M. (2013). Determinants of Audit Report Lag and Corporate Governance in Malaysia. *International Journal of Business & Management*, *8*(15), 151-163.

Ashton, R. H., Graul, P. R., & Newton, J. D. (1989). Audit delay and the timeliness of corporate reporting*. *Contemporary Accounting Research*, *5*(2), 657-673.

Ashton, R. H., Willingham, J. J., and Elliott, R. K. (1987). An Empirical Analysis of Audit Delay. *Journal of Accounting Research*, *25*(2), 275 -292.

Bamber, E. M., Bamber, L.S, & Schoderbek, M. P. (1993). Audit structure and other determinants of audit report lag: an empirical analysis. Auditing. *A Journal of Practice and Theory, 12*(1), 1–23.

Behn, B.K., Searcy, D.L., & Woodroof, J.B. (2006). A within the firm analysis of current and expected future audit lag determinants. *Journal of Information Systems, 20*(1), 65-86.

Carslaw, C., & Kaplan, S. (1991). An examination of audit delay: further evidence from New Zealand. *Accounting and Business Research, 22*(85), 21–32.

Che-Ahmad, A., & Abidin, S. (2001). Auditor Industry Specialisation, Brand Name Auditors, and Financial Reporting Lag. Working Paper, Universiti Utara Malaysia.

Davies, B., & Whittred, G. P. (1980). The Association Between Selected Corporate: Attributes and Timeliness in Corporate: Reporting: *Further Analysis. Abacus, 16*(1), 48-60.

Dubai Financial Market (DFM). (2016). http://www.dfm.ae/issuers/listed-securities

Dyer, J.C., & McHugh, A.J. (1975). The Timeliness of the Australian Annual Reports. *Journal of Accounting Research*, *13*(2), 204-19.

El-Banany, M. (2008). Factors Affecting Audit Report Lag In Banks: The Egyptian Case. *Corporate Ownership and Control, 5*(3), 54-61.

Ezat, A., & El-Masry, A. (2008). The impact of corporate governance on the timeliness of corporate internet reporting by Egyptian listed companies. *Managerial Finance*, *34*(12), 848-867.

Ika, S. R., & Ghazali, N. A. M. (2012). Audit committee effectiveness and timeliness of reporting: Indonesian evidence. *Managerial Auditing Journal, 27*(4), 403-424.

Imhoff, E. A. (2003). Accounting quality, auditing, and corporate governance. *Accounting Horizons*, 17, 117-128.

International Accounting Standards Board. (2010). *The Conceptual Framework for Financial Reporting 2010*. IFRS.

Leventis, S., Weetman, P., & Caramanis, C. (2005). Determinants of audit report lag: Some evidence from Athens stock exchange. *International Journal of Auditing, 9*(1), 45–58.

Naimi, M., Nor, M., Rohami, S., & Wan-Hussin, W. N. (2010). Corporate governance and audit report lag in Malaysia. *Asian Academy of Management Journal of Accounting and Finance, 6*(2), 57-84.

Nelson, S. P., & Shukeri, S. N. (2011). Corporate governance and audit report timeliness: evidence from Malaysia. *Research in Accounting in Emerging Economies*, 11, 109-127.

Ng, P. P., & Tai, B. Y. (1994). An empirical examination of the determinants of audit delays in Hong Kong. *The British Accounting Review, 26*(1), 43-59.

Owusu-Ansah, S. (2000). Timeliness of corporate financial reporting in emerging capital markets: Empirical evidence from the Zimbabwe Stock Exchange. *Accounting and Business Research, 30*(3), 241−254.

Owusu-Ansah, S., & Leventis, S. (2006). Timeliness of Corporate Annual Financial Reporting in Greece. *European Accounting Review, (15)*2, 273-287.

Soltani, B. (2002).Timeliness of corporate and audit reports: some empirical evidence in the French context. *The International Journal of Accounting*, *37*(2), 215-46.

Walker, A., & Hay, D. (2013). Non-audit services and knowledge spillovers: An investigation of the audit report lag. *Meditari Accountancy Research*, *21*(1), 32-51.

Wan-Hussin, W. N., & Bamahros, H. M. (2013). Do investment in, and the sourcing arrangement of the internal audit function affect audit delay? *Journal of Contemporary Accounting & Economics, 9*(1), 19-32.

Whittred, G. P. (1980). Audit qualification and the timeliness of corporate annual reports. *Accounting Review, 55*(4), 563-577.