AUDIT REPORT DELAY: DOES DIRECTORS' BUSYNESS MATTER?

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Abstract

Fich and Shivdasani (2006) argue that active boards of directors with many external members have poor corporate governance. According to Al-Ajmi (2008), the primary source of information for shareholders in developing countries is financial reporting. This study aims at investigating the connection between director busyness and timely financial reporting. The sample includes 510 non-financial Saudi companies listed on the Saudi Stock Exchange (*Tadawul*). This study uses the busyness hypothesis, rooted in the agency theory, to explain the relationship between board busyness and audit report delay. The ordinary-least square (OLS) regression result showed a positive correlation between busy directors and timely reporting. This finding indicates that the delay in issuing the audit report is likely to increase if there is a high degree of director busyness. Not many studies have focused on the connection between busy directors and timely reporting in the context of Saudi Arabia. Listed companies, external auditors, the Saudi Stock Exchange, and policymakers should give careful consideration to this study's findings because of the interesting results showing the negative effects of busy directors on the timeliness of financial reporting.

Keywords: Busy Directors, Timeliness of Reporting, Saudi Arabia

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1. INTRODUCTION

When it comes to the stock market, timely public disclosure of corporate financial information is essential because it serves as a key source of information for shareholders. Investors benefit from timely reporting because it minimizes the amount of uncertainty surrounding investment decisions and the uneven distribution of financial data among market participants (Jaggi & Tsui, 1999; Ashton et al., 1989; Ika et al., 2012; Owusu-Ansah, 2000). Financial reporting is the main information source for shareholders in developing economies, according to Al-Ajmi (2008). They contend that longer audit report gaps in earlier research are related to more pertinent accounting information, adverse market reactions, more information asymmetry, undesirable future implications, and audit client retention (Sultana et al., 2015; Bamber et al., 1993; Baatwah et al., 2019; Chan et al., 2016; Mande & Son, 2011). Timely financial reporting is crucial because potential investors and shareholders depend on the financial reports when deciding whether to keep being stakeholders or investors in a firm. Shareholders and potential shareholders would suffer as a result of the release of the audit reports' which would delay their share transactions, including the sale of existing shares and the purchase of new shares (Ng & Tai, 1994).

According to Habib and Bhuiyan (2011), it is feasible to better understand the time efficiency of audit tasks by looking at the variables that determine how long it takes to compile an audit report. Numerous empirical studies on the audit report lag factors have been conducted in developing and developed countries (Mohammed et al., 2018; Azubike & Aggreh, 2014; Modugu et al., 2012; Iyoha, 2012). One of the attributes and responsibilities of the board of directors is one that frequently does not get the adequate amount of attention it deserves. The board of directors is a component of governance (Beasley, 1996). The directors' board of a corporation is in charge of overseeing operations and giving top management guidance (Mace, 1979). The directors' board of the company is monitoring its strategy, which is that management is dedicated to accomplishing organizational goals (Waked & Aljaaidi, 2021; Sharma et al., 2021; Aljaaidi, Alothman, & Bagais, 2021; Aljaaidi, Alothman, Sharma, et al., 2021; Kamardin et al., 2014; Chou & Feng, 2019). Multiple directorships, which are defined as a board member sitting on multiple boards or other external appointments, are a significant component of the directors' board (Kamardin et al., 2014; Chou & Feng, 2019).

Fich and Shivdasani (2006) assert that companies with active boards of directors, where most external directors hold a number of directorships, exhibit poor corporate governance. In order to retain a high degree of commitment to their responsibilities on the board of one company, directors should not hold multiple directorships (Mohd et al., 2016). Directors who are not entirely dedicated to their company are unsuccessful at carrying out their duties for cost management, claim Lee and Isa (2015). According to Shamsudin et al. (2018), directors who held numerous directorships and had a background in many industries were unable to implement management directives. Fernández-Méndez and Pathan (2023) found that Diversity of gender in both the board of directors and the audit committee has a positive influence on the level of effort required for the audit as well as the outcomes drawn from the audit process.

There is a paucity of research that specifically or generally examined the connection between directors' busyness and audit report delays in Saudi Arabia. This research fills the gap by linking the presence of directors' busyness and a delay in the audit reports in Saudi Arabia. This study advances our knowledge of corporate governance and auditing in two different ways. First, the study examines the relationship between interlocking directors and the timeliness of reporting in Saudi Arabia, with a prediction that busy directors have a negative effect on reporting timelessness. Despite having this knowledge, very little research has been done on the topic, particularly in Saudi Arabia. This study's goal is to fill a gap in the existing auditing and corporate governance literature. Second, this study may be useful to policymakers, listed companies, external auditors, the Saudi Stock Exchange (*Tadawul*), and other parties. They would be fully aware of how the overlapping responsibilities of directors impact financial statement accuracy. The attempts to protect shareholder value may be jeopardized if this has an impact on the directors' capacity to monitor operations and provide management with advice.

The structure of this paper is as follows. Section 2 reviews the relevant literature and develops the hypothesis. Section 3 analyses the research design that has been used to show the data collection, sample, and model. Section 4 addresses the empirical results reported by this study. The final Section 5 concludes the study.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Due to the demand for accurate financial information from stakeholders, external audits serve a critical monitoring role in governance (DeFond et al., 2000; Allen et al., 2006; Ashbaugh & Warfield, 2003). According to Afify (2009), Newton and Ashton (1989), financial reporting is seen as a major indicator of successful outcomes. Therefore, it is the duty of auditors to provide accurate audit reports. Timely audit reports are crucial since many organizations rely on them for their financial report declaration (Bamber et al., 1993). According to Habib and Bhuiyan (2011), an understanding of the variables influencing the report of audit lag would result in an understanding of the timeliness of audit initiatives. Numerous empirical studies on the factors influencing the report of audits have been conducted in developing and developed countries (Modugu et al., 2012; Mohammed et al., 2018; Iyoha, 2012; Azubike & Aggreh, 2014). When analyzing the characteristics of a board of directors, the busyness of board members in particular gets little consideration.

According to the business-hypothesis, busy directors don't have enough time to complete their monitoring duties (Fich & Shivdasani, 2006; Core et al., 1999; Morck et al., 1988). According to Kutubi et al. (2021), directors won't be able to reach agreements across the several boardrooms they sit on. They are unable to attend every board meeting as a result, which results in frequent absenteeism (Min & Chizema, 2018; Chiranga & Chiwira, 2014; Jiraporn et al., 2009). Researchers have discovered a connection between organizations with external directors that hold numerous directorships and poor corporate governance (Fich & Shivdasani, 2006). Companies that interact with other businesses with dubious reputations may likewise be subject to the penalties associated with dubious practices. Additionally, companies with ties to other companies that have been accused of financial reporting fraud run the risk of having their reputations damaged (Kang, 2008). Busyness doesn't always stop bad behavior; instead, it changes how people see it. Essentially, a director network implanted with busy directors could become more devoted to its elite network than its boards (Burris, 1992).

Directors on several boards may be impacted by the network's ideas and aspirations (Koenig & Gogel, 1981; Windolf & Beyer, 1996). "Busy directors" may have higher costs since they serve on multiple boards (Core et al., 1999). There is a perception that active directors don't give their boards much time or attention (Li & Ang, 2000). They prioritize creating a sense of community at work over-performing their director duties. Directors that are interlocked share information and techniques, including both successful and unsuccessful ones. For instance, options backdating can be spread through the busyness of directors (Bizjak et al., 2009; Armstrong & Larcker, 2009).

According to Kamardin and Haron (2011), directors who were given greater strategic responsibility were less competent at managing management. Furthermore, Beasley (1996) found that an external director's chances of fraud increase if they hold more directorships simultaneously. Tanyi and Smith (2015) also documented a high correlation between the number of audit committee chairman roles held by the audit committee chairman and other audit committee positions requiring financial competence. Numerous empirical studies have demonstrated that directors who are busy with other boardrooms negatively impact the performance of the company (Core et al., 1999; Sarkar & Sarkar, 2009; Haniffa & Hudaib, 2006; Saleh et al., 2020; Lee & Isa, 2015; Ahn et al., 2010; Andres et al., 2013; Jackling & Johl, 2009; O'Sullivan, 2009; Jiraporn et al., 2008). Additionally, certain studies reported a link between the busyness of partners and the quality of audits (Gul et al., 2017; Singh et al., 2022; Sundgren & Svanström, 2014).

According to Kutubi et al. (2021), directors who hold several directorships tend to put off acknowledging loan loss provisions. According to Sarkar and Sarkar (2009), as internal directors become more involved in other directorships, the stock market reacts negatively. Also, according to Shivdasani and Yermak (1999) the existence of a connection between CEO engagement in the recruitment of directors and the appointment of directors who are busy. The CEO's engagement raises the possibility that directors with multiple directorships may apply for and accept additional board posts. Additionally, Core et al. (1999) contend that CEOs are able to receive exorbitant pay when external directors hold numerous board positions.

Baatour et al. (2017) found a positive correlation between having a number of directorships and managing real earnings in Saudi Arabia. Alsheikh and Alsheikh (2023) conducted research to determine the relationship between the busyness of audit committee members and the busyness of audit committee chairmen and the amount of time that elapses before audit reports are completed at Saudi companies. They came to the conclusion that the busyness of the audit committee members as well as the busyness of the chairs of the audit committee has a positive and significant impact on the delay in the audit report. Thus, this study proposes that the average number of additional directorships held by board members should be correlated with the time required to issue an audit report. As a result, the hypothesis that we develop is as follows:

H1: Audit report delay is related positively to the busyness of the board members.

3. RESEARCH DESIGN

3.1. Data and source

This study's research design is cross-sectional. The data were collected from the annual and management reports of Saudi corporations that are publicly traded. Data on corporate governance and company characteristics were taken from the companies' annual and management reports. The sample for this study consists of 510 non-financial companies that were listed on the Saudi Stock Exchange (*Tadawul*) between 2012 and 2019. Table 1 depicts the samples selected:

Table 1. Selection of sample

	Total observations
Total observations	523
Discarded observations (outliers, missing and incomplete data)	(13)
Final sample	510

3.2. The model

In this study, descriptive statistics are used to describe the timeliness of reporting (*TIMREP*), the busyness of directors (*BDIR*), and the control variables, namely: audit committee financial expertise (*ACFIN*), audit committee meetings (*ACMEET*), audit committee independence (*ACIND*), audit quality (*AQ*), firm size (*FSIZE*), firm performance (*PERF*), and leverage (*LEV*). Among the variables, a linear relationship is estimated using the ordinary-least square (OLS) regression as follows:

$$TIMREP = \beta_0 + \beta_1 BDIR + \beta_2 ACIND + \beta_3 ACMEET + \beta_4 ACFIN + \beta_5 AQ + \beta_6 FSIZE + \beta_7 PERF + \beta_8 LEV + \varepsilon \quad (1)$$

where, the variables are presented in the table below.

Table 2. Description of variables

Variables	***Measurements***
Dependent variable	
TIMREP	The days' number between the financial year-end date and the audit report date.
Hypothesized variable	
BDIR	The ratio of the number of directors on the board to the directors' total number on the board indicates the directors' percentage on the board of the company that holds one extra directorship in other companies.
Control variables	
ACIND	Share of independent directors in the audit committee.
ACMEET	The meetings' number held by the audit committee during the year.
ACFIN	The directors' proportion on the audit committee with accounting and/or finance expertise.
AQ	Dummy variable, "1" if the auditor is one of the Big 4 audit firms, "0" otherwise.
FSIZE	Natural logarithm of total assets.
PERF	Firm performance as measured by ROA.
LEV	Leverage ratio (total-debt-to-total-assets) that defines how much debt a company owns compared to its assets.
ε	Error term.

The timeliness of reporting model in this study is an extension of the previous studies (Stewart & Cairney, 2019; Soltani, 2002; Aljaaidi, Bagais & AlAbdullatif, 2021; Omer et al., 2020; Aljaaidi et al., 2019; Ahmad & Kamarudin, 2003; Mathuva et al., 2019; Mohamad-Nor et al., 2010; Abdillah et al., 2019; Che-Ahmad & Abidin, 2008; Oussii & Taktak, 2018; Habib & Muhammadi, 2018; Khoufi & Khoufi, 2018; Farag, 2017; Meckfessel & Sellers; 2017; Lee et al., 2008; Ocak & Özden, 2018; Akingunola et al., 2018; Hashim & Abdul Rahman, 2011; Afify, 2009; Beasley et al., 2009; El-Bannany, 2008; Leventis et al., 2005; Henderson & Kaplan, 2000; Hossain & Taylor, 1998).

4. EMPIRICAL RESULTS

4.1. Descriptive statistics

Table 3 shows the dependent and independent variables' descriptive statistics. These statistics show the sample variables' mean, standard deviation, minimum, and maximum.

Table 3 shows that there is a substantial amount of variance across the sample companies. The *TIMREP*'s average was 52.26 and the mean value of *BDIR* was 0.6221. The average value of *ACIND* was 0.4933 and *ACMEET*'s mean was 5.565. The mean of *ACFIN* was 0.590 and *FSIZE*'s average was 15,222,056,519.5882. The *PERF*'s means was 0.044 and the average *LEV* was 0.378. Concerning the *AQ*, the number of companies that were audited by the Big 4 audit firms was 278 (55%) whereas the number of companies audited by non-Big 4 audit firms was 232 (45%).

Table 3. Statistics description

Variables	*Minimum*	*Maximum*	*Mean*	*Std. deviation*
Panel A: Continuous variables				
TIMREP	7	211	52.26	22.026
BDIR	0.00	1.00	0.6221	0.269
ACIND	0.00	1.00	0.4933	0.266
ACMEET	1	17	5.565	1.965
ACFIN	0.20	1.00	0.590	0.255
FSIZE	74,735,430.00	340,041,000,000.00	15,222,056,519.5882	44,082,520,540.27622
PERF	-0.51	0.39	0.044	0.091
LEV	0.01	0.94	0.378	0.226
Panel B: Binary variable				
AQ	Big 4	non-Big 4		
Frequency	278	232		
Percent	55%	45%		

4.2. Multicollinearity

One method that is frequently used to assess how much the influence of any one variable can be predicted based on the effects of the other factors is known as the variance inflation factor (VIF). Since the independent variable is highly correlated, the VIF's value of more than 10 suggests a multicollinearity problem.

In this study, Table 4 illustrates that the VIF values for the independent variables are less than 10, so multicollinearity is not a problem.

Table 4. Variance inflation factor

Variables	*VIF*
BDIR	1.285
ACIND	1.131
ACMEET	1.052
ACFIN	1.219
AQ	1.373
FSIZE	1.850
PERF	1.583
LEV	1.726

Table 5. Correlation matrix

Variables	*TIMREP*	*BDIR*	*ACIND*	*ACMEET*	*ACFIN*	*AQ*	*FSIZE*	*PERF*	*LEV*
TIMREP	1	0.166	0.021	0.080	0.297	-0.114	-0.105	-0.390	0.190
BDIR		1	-0.097	0.017	0.245	0.232	0.352	-0.019	0.275
ACIND			1	-0.099	-0.169	-0.054	-0.243	-0.051	-0.057
ACMEET				1	0.155	0.067	0.016	-0.022	-0.033
ACFIN					1	-0.003	-0.065	-0.164	0.132
AQ						1	0.476	0.250	0.217
FSIZE							1	0.158	0.434
PERF								1	-0.408
LEV									1

Note: Correlation is significant at the 0.01 level (2-tailed), and correlation is significant at the 0.05 level (2-tailed).

4.3. Analysis of correlation

Correlation analysis is the statistical tool used to find connections between variables that are both dependent and independent.

The relationship between the busyness of directors *TIMREP*, timeliness of reporting *BDIR*, and control variables are shown in Table 5. As depicted by Table 5, the busyness of directors' variable as a test variable is associated significantly and positively with reporting timeliness in 5% (0.166). The result supports the busyness hypothesis.

Multicollinearity can occur when the independent variables are 0.90 or higher, according to Tabachnick and Fidell (2019). The correlation matrices show no multicollinearity in Table 5. No independent variable correlates over 0.90. Each variable has a 0.476 or lower correlation.

4.4. Analysis of multivariate

To test the association between the hypothesized variable, busyness of directors *BDIR*, and reporting timeliness *TIMREP*, a multivariate analysis was carried out.

Table 6. Multivariate regression results

Variables	*Exp. sign*	*Coef.*	*t-value*	*Sig.*	*Tolerance*	*VIF*
Hypothesized variable						
BDIR	+	0.451	2.627	0.009***	0.778	1.285
Control variables						
ACIND		0.139	0.826	0.409	0.884	1.131
ACMEET		0.016	0.758	0.449	0.951	1.052
ACFIN		0.778	4.404	0.000***	0.820	1.219
AQ		-0.081	-.848	0.397	0.728	1.373
FSIZE		-0.087	-1.139	0.255	0.540	1.850
PERF		-3.014	-5.422	0.000***	0.632	1.583
LEV		0.297	1.227	0.221	0.579	1.726
Adjusted R^2 = 0.203 F-value = 15.488 p-value = 0.000						

*Note: Significance at 0.01***, 0.05** and 0.10* (one-tailed significance).*

Table 6 shows that the F-statistics are significant (F = 15.488, p-value < 0.0001), indicating the model can be interpreted as a whole. The adjusted R^2 value of 0.203 indicates that the independent variables can explain around 20.3% of the *TIMRP's* variation. Overall, this indicates a good fit for the *TIMREP* model.

As expected, the busyness of directors *BDIR* has a significant impact at the 1% level on the timeliness of reporting *TIMREP* (p-value = 0.009, one-tailed significance). This finding implies that the audit report will most likely be delayed as the directors become busier as a result of increased interconnection. The result of this study supports the busyness hypothesis rooted in agency theory. This finding is consistent with previous theoretical and empirical studies that have demonstrated that having many directorships results in poor governance (Fich & Shivdasani, 2006), missed meetings (Min & Chizema, 2018; Chiranga & Chiwira, 2014; Jiraporn et al., 2009), and poor audit quality (Singh et al., 2022; Gul et al., 2017; Sundgren & Svanström, 2014). Therefore, hypothesis *H1* is supported.

Two control variables were shown to significantly relate to the audit report delay. Unexpectedly, one of these is the audit committee's *ACFIN's* financial expertise, which declared that there was a significant and positive correlation between reporting timeliness and *TIMRP* at the 1% level (p-value = 0.000, one-tailed significance). The second variable, the firm's performance *PERF*, has a significant and inverse relationship with the reporting timeliness.

5. CONCLUSION

Empirical evidence has been shown in this study, which affirms the impact of the busyness of directors on the timeliness of reporting in a Saudi Arabian setting for the period 2012–2019. The final sample comprises 510 non-financial companies. Using the OLS regression, we find evidence that the busyness of directors increases the probability of delaying the issuance of an audit report. This finding suggests that using busy managers as an internal governance mechanism is a poor practice with poor consequences for monitoring and advising managers. This is due to a lack of time to carry out their responsibilities at each meeting, as well as frequent absences. As a result, Saudi companies should reconsider their directors' interconnected issues in a way that promotes timeliness in reporting.

In this study, limitations should be considered when analyzing the final results. First, in terms of the measurement of reporting timeliness, the study uses the audit report delay as a proxy for reporting timeliness. Future lines of research may use different audit quality proxies, such as earnings management, and/or audit quality, as proxies for reporting quality. Second, the study includes information on non-financial companies that were listed on the Saudi Stock Exchange (*Tadawul*) between 2012 and 2019. Future research could include longer years beyond 2019 as a longitudinal study. They may also employ various methodologies, such as interviews and surveys, to investigate the behavior of busy directors. In addition, they may use panel analysis instead of OLS regression. Other processes of internal government, such as directors' qualities and committee audits, as well as ownership structure, were not accounted for in this particular study but may be taken into consideration for inclusion in further research if the need arises. In addition to this, the interlocking directors are evaluated in terms of the board members. It's possible that a future line of inquiry may look at how members of the audit committee and CEOs interact with each other. In conclusion, this research is directed within Saudi Arabia's context. As a result, there is scope for further investigation to investigate the applicability of this study's methodology in further Gulf Cooperation Council (GCC) countries as well as in other Middle Eastern countries.

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