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## Article

# Industry expertise on audit committee and audit report timeliness

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## ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

# Industry expertise on audit committee and audit report timeliness

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**Abstract:** Motivated mainly by streams of research that suggest industry expertise of audit committee (AC) is the best-qualification for directors, and that evidence on the value of this expertise is limited. This study examines whether AC financial expertise is associated with audit report timeliness and mainly explores the effect of AC industry expertise on audit report timeliness by supporting AC financial expertise. The study used a sample from a unique setting and pooled regression analysis, and the study reveals that AC financial expertise is not associated with reducing audit report delay. More significantly, it documents that a reduction delay in audit reporting, improving audit timeliness, is more apparent when the members' industry expertise level enhances AC's financial expertise members. This study also records that AC members with financial expertise and industry expertise are strongly associated with decreasing the audit report delay. Financial expertise is associated with a shorter audit report delay in the subgroup of industry expertise. Overall, this

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### PUBLIC INTEREST STATEMENT

The present study contributes to the public interest in industry expertise on audit committee and audit report timeliness. The study is an extension of previous literature by investigating whether a composite measure of industry expertise and financial expertise affect the audit report delay. The study results provide support for notion and public interest to significant extent. The study results reveal that reduction in audit report delay is not associated with audit committee financial expertise. The study significantly associates a reduction in audit report delay and improvement in audit timeliness to industry expertise which in turn improves the financial expertise of audit committee. The study results are significant as financial markets currently request companies and external auditors to produce timely information reporting, reducing the deadlines of disclosure in order to support the quality and transparency of financial information, restoring the investors' confidence in the capital markets.

study highlights the added value of industry expertise with financial expertise in improving audit committees' effectiveness in the context of timely reporting.

**Subjects:** Business, Management and Accounting; Accounting; Auditing; Financial Accounting; Corporate Governance

**Keywords:** audit committee; industry expertise; financial expertise; audit report timeliness; audit risk and effort

## 1. Introduction

Well-known series of scandals and collapses of the early 2000s in the USA and Europe have motivated regulators and professionals to reform corporate governance regimes; to enhance the quality of financial reporting and confidence of investors in capital markets. For instance, in the USA has set strict legislation such as the Sarbanes-Oxley Act (2002), Cadbury Report in the UK, and the Program of Corporate Law Economic Reform 9 in Australia. One of the reforms' primary focuses was to strengthen the function of audit committee (AC) as a key mechanism of governance responsible for monitoring the quality of financial reporting, audit processes, and internal control devices (Baatwah et al., 2019b; Beasley et al., 2009). As a result of this responsibility, AC is considered a critical mechanism in the overall corporate governance composition (Blue Ribbon Committee (BRC), 1999) and the legislations requested that audit committees have at least one member having financial expertise. Such reforms were established across more developed economies and run by majority emerging economies, such as Oman.

Since financial expertise is related to the audit committee, researchers and academics have been stimulated to investigate AC's effectiveness. Results indicate that the quality and timeliness of financial reporting is more influenced by AC members who have financial expertise (e.g., DeFond et al., 2005; Abernathy et al., 2014; Salleh et al., 2017; Baatwah et al., 2019b; Raweh et al., 2019), related rules of industry expertise on the AC nevertheless are not yet available, and research in this field is scarce. ACs may lack this type of expertise to grasp and observe complex accounting or auditing issues in industry-specific properly; which may appear ACs falling short in their performance (Cohen et al., 2014). Cohen et al. (2014) and Wang et al. (2015) emphasized that the members of ACs with practical expertise in management and industry experience usually consider the best qualified, as compared to their counterparts with a background in accounting or financial knowledge. Equally, Deloitte Development (2012) reported that, given the responsibility of ACs in addressing the risks of financial reports and accounting and dealing with them, it is logical most members possess backgrounds in accounting, finance, or legal; however, it recommended that ACs should include expertise in industry or specialists to address any complexities of the company.

Prior research confirmed that directors' industry expertise strongly supports the monitoring duties of AC and ensures high-quality financial reporting with the efficiency of overseeing the audit outcomes (Cohen et al., 2014; Salleh & Stewart, 2012; Wang et al., 2015). Therefore, they suggested that researchers consider industry expertise to understand the quality of audit committees better. Evidence from previous studies indicates that industry expertise is a vital driver to the effectiveness of ACs in monitoring the process of financial reporting (Bédard & Gendron, 2010; Cohen et al., 2014), and strengthening internal audit efficiency that contributes to minimized efforts of external auditors; achieving their tasks on time (Alzeban, 2015), therefore, producing higher quality financial reporting (Cohen et al., 2014). This suggests that industry expertise constitutes one critical input to the effectiveness of AC. Despite calls upon by academics and practitioners for research related to industry expertise in internal governance effectiveness (e.g., audit committee) (Bédard & Gendron, 2010; Cohen et al., 2014; Wang et al., 2015), to date, research has received little attention and is still in its infancy (Cohen et al., 2014; Faleye et al., 2018). This study aims to narrow this gap and extends the literature by examining whether audit committees' effectiveness is associated with industry expertise in affecting auditors' behavior in the context of audit report timeliness in an emerging economy such as Oman.

Timeliness of information is an essential bit of its relevance and quality since its benefit on the influence on making decisions relies on how speedily it is got (Abdillah et al., 2019; Al-Ebel et al., 2020). As a result, most bodies of setting accounting standards such as Sarbanes-Oxley Act (2002) and International Accounting Standards Board (2010) require the dissemination of relevant information for users in the shortest time possible before it loses its capacity to influence decisions. However, the primary determinant of timely financial information is the time taken by external auditors to check and certify this information (Abernathy et al., 2017; Durand, 2019; Ettredge et al., 2006). Indeed, the accomplishment time of audits relies on evaluating business risks and the effort needed to remove such risks and then certify accounting information quality and produce it (Al-Ebel et al., 2020; Bamber et al., 1993; Ghafran & Yasmin, 2018). If an auditor's assessment results in high risks of the client, she/he should extend the scope of audit tests and procedures and debate with the audit committee and management on the found issues. And so auditor takes a long time in auditing and delays the audit report's issuance (Habib & Bhuiyan, 2011; Raweh et al., 2019). Delay of an audit report is related to less relevant accounting information, increased asymmetric information and uncertainty in investment decisions (Durand, 2019; Ghafran & Yasmin, 2018; Owusu-Ansah & Leventis, 2006), and negative reactions on capital market (Abdillah et al., 2019; Bamber et al., 1993). It also jeopardizes accounting information's value and quality by not delivering timely information for investors (Chan et al., 2016).

The motivation for this study as follows. First, based on the extant literature and to our knowledge, little focus has been given to the role of audit committee industry expertise in accounting and auditing literature (e.g., Cohen et al., 2014; Wang et al., 2015). These researchers have examined whether industry experts enhance audit committee monitoring effectiveness on the quality of financial reporting proxies. However, this research concentrated on data from the USA, where the legal and institutional environments are very strict. And they found positive findings that suggest industry experts considerably support the efficiency of committees to perform their monitoring responsibilities on supervising the process of financial reporting and external audit works, hence increasing quality financial reporting. This presumes that industry experts convey the quality of financial reporting and internal controls for external auditors, hence, auditors can depend on AC industry experts and minimize the assessment of risk and demanded tests, time, and effort. Cohen et al. (2014) also assert that the combined expertise of both industry and accounting or financial improves AC effectiveness in monitoring the process of financial reporting better than accounting expertise alone. Nonetheless, for a setting different from the USA, the empirical question as to whether AC members with industry expertise can produce reports in a timely manner in contexts featured by concentrated structures of ownership, weak legal systems of shareholders' protection and longer delays of reporting; for instance, emerging economies including GCC. Thus, this study expands the previous research by examining the influence of interaction between industry expertise and financial expertise in audit committee on audit report timeliness, positing that AC members with industry expertise can minimize the time and procedures of audit because they have the ability to preserve higher-quality financial reporting and support internal controls devices, reducing audit risks.

Second, the evidence in this research depends on one of emerging economies in which timely providing of audited financial reporting is a great interest issue for users compared to other economies because in this setting these reports are the sole credible source for available information to the public (Abernathy et al., 2017), as other news outlets and financial intermediaries in such markets are undeveloped and legal environment is not effective compared with the developed markets (Abernathy et al., 2017; Baatwah et al., 2015; Raweh et al., 2019). However, companies in emerging economies still delay the dissemination of audited annual reports to the public (Baatwah et al., 2016; Raweh et al., 2019; Wan-Hussin & Bamahros, 2013).

Finally, previous literature has recognized that financial expertise is the most significant in AC effectiveness (Baatwah et al., 2019b; Bédard & Gendron, 2010; DeZoort et al., 2002). It is confirmed that financial experts in the AC support to remediate weakness in the internal control system in

time, which in turn lead to mitigate management misconduct in earnings manipulation, increasing the quality of financial reporting (Goh, 2009; Krishnan et al., 2011), also they contribute to demand higher-quality audit (Salleh et al., 2017). It is only recently, little empirical studies have examined whether AC financial expertise is related to audit report timeliness (Abernathy et al., 2014; Mohamad-Nor et al., 2010; Nelson & Shukeri, 2011; Raweh et al., 2019; Salleh et al., 2017; Sultana et al., 2015; Wan-Hussin & Bamahros, 2013). This previous research assumed that financial expertise on audit committee would promote the timeliness of audit reporting since lower accounting misstatements in annual reports, reducing audit risks, therefore less audit task. However, these studies produced inconsistent results and most of them failed to find a significant relationship. Consequently, this study extends this stream of research by investigating whether financial expertise influences AC members' efficiency and thus audit risks and effort.

The current research is significant due to the majority of equity markets at present request companies and external auditors to produce timely information reporting, reducing the deadlines of disclosure in order to support the quality and transparency of financial information, restoring the investors' confidence in the capital markets. For instance, In the USA, the Security Exchange Commission (SEC) shortened filing deadline of annual reports from 90 days to 60 days after the end of financial year, especially for large accelerated filers. This new regulatory demand for filing reports affirms the relevance of timely disclosure and it affects the benefit and quality of information in decision-making (Abernathy et al., 2017). This decrease puts pressure on auditors and companies in meeting this new disclosure deadline (Abernathy et al., 2017; Ettredge et al., 2006). Consequently, auditors who are under relatively higher pressure to conduct audits promptly should reassess how to gather data effectively and efficiently about risks concerning a particular client and plan the work needed.

This study tests its hypotheses using data of 305 observations from the Omani capital market, auditors may suffer pressure to meet the timeframe of the disclosure; the 60-day. This research finds that AC members' financial expertise not related to shorter delays in audit reporting from pooled regression analysis. Earlier studies regarding AC financial or accounting expertise have not considered how AC industry expertise motivates AC members' financial expertise in improving the timeliness of audit reporting. This study thus presents findings related to the importance of industry expertise in enhancing AC's financial experts, increasing monitoring quality on the process of financial reporting and lower audit risk, which lead to reduction delays of audit reports.

This study provides many contributions. First, it enriches auditing and accounting literature, particularly the literature of timeliness of reporting in terms of discussing and studying the importance of audit committee industry expertise on timely reporting. To the researchers' knowledge, this study provides the first evidence examining how industry expertise affects the relationship between financial expertise and audit report timeliness. It is found that industry expertise is a significant characteristic that supports other AC characteristics, such as financial expertise, to strengthen AC and external auditors' efficiency to complete audit work in a shorter time, hence improving the timeliness of audited annual reporting. Second, at an extensive level, this study further contributes to extend the limited empirical evidence that has examined the effect of industry expertise on financial reporting quality proxies and complements it (e.g., Cohen et al., 2014; Wang et al., 2015) by investigating the consequences of AC industry expertise on audit report timeliness; as a specific proxy of audit risk and effort. Third, it contributes to present further evidence on the influence of AC financial expertise on timely audit reporting in developing markets like GCC markets, as these societies lack this research in this area. And the results revealed no relationship between AC financial experts and the timeliness of audit reporting; which thus needs further research. Finally, this research also has practical implications for auditors, management of companies, regulators, and investors who are interested in timely reporting.



The rest of this research is organized as follows. The next section presents the background of the study and previous research as well develops the hypotheses. Then, the research design, main findings and additional analyses are discussed. Finally, concludes the study.

## **2. Background, literature review and hypotheses development**

### **2.1. Institutional background for the research setting**

Oman adopts advanced regulatory frameworks, harmonious with those of more developed markets for example, the US and the UK (Al-Ebel et al., 2020; Al-Yahyaee et al., 2010) to ensure the effective performance of the Muscat Security Market (MSM). These structures of regulatory may force extra loads on companies and auditors in Oman. For instance, following the Commercial Companies Law, all companies listed and their external auditors are requested to apply international standards; such as IFRS and IAS, when preparing audited financial reports. They are further requested to file these reports within 2 months of the date of fiscal year-end.

Furthermore, Omani laws state that external auditors shall be rotated within four consecutive years, they are also banned from supplies non-audit services to preserve their independence. Additionally, in 2002 listed companies were required to implement the articles stipulated in the Omani Code of Corporate Governance (CG) which rules aspects related to the compositions, functions, and relationships amongst the board of directors, audit committee, management, stakeholders and auditors, this code is the first code in the Arab region and emerging economies. The Omani code considers AC is an important mechanism for effective governance, as well as requires the AC have to be charged for assessing the efficiency and adequacy of internal controls systems, overseeing and controlling the process of financial reporting and external auditor. The AC is also required to occupy by non-executive directors and a majority of whom should be independent. Moreover, the AC shall include at least three members, with at least one of them has to have accounting/finance expertise. It is also required to hold at least four meetings annually (Baatwah et al., 2015; Raweh et al., 2019). Overall, the study setting is closely fits the aims of the study.

### **2.2. Theoretical literature review**

As a result of the separation between management and ownership in modern businesses, interests conflicts between owners (principals) and managers (agents) are expected, creating information asymmetry issue; resulting from the ability of managers to access and use the information for their own interest and take this chance to practice moral hazard against the owners' interests (Jensen & Meckling, 1976). This situation enforces owners and managers to establish control mechanisms to alleviate such conflicts. Agency theory claims that sound monitoring systems are one of the most critical solutions to reduce agency conflict, hence increasing the reliability and quality of financial information (Jensen & Meckling, 1976). From the view of agency theory, audit committee is an essential monitoring mechanism in the general corporate governance structure over corporate activities (Fama & Jensen, 1983; Islam et al., 2010). The audit committee, through its monitoring role over the process of financial reporting and disclosure with supporting the devices of internal controls, it monitors agent practices effectively and assists the principal to overcome the problem of information asymmetry leading to reduced agency costs (Abbott et al., 2004; Fama & Jensen, 1983; Oussii & Taktak, 2018). Agency theory also advocates that the presence of a variety of expertise supports the committee in boosting internal controls and guaranteeing the efficiency of the external auditor's performance and financial reporting quality (Cohen et al., 2008; Fama & Jensen, 1983; Oussii & Taktak, 2018). Experienced directors thus are expected to mitigate agency issues and minimize audit business risks. Agency theory literature affirms that sound audit committee as an internal governance reduces audit risks and effort to prepare audit reporting, encouraging to publish audited financial reporting in a timely manner (Abernathy et al., 2017; Ghafran & Yasmin, 2018; Sultana et al., 2015). The current study extends previous literature by investigating how audit committee expertise contributes to lowering the agency issue. Specifically, it examines the influence of audit committee expertise in both industry and financial on the timing of audit reporting, in which timely information relieves asymmetric information and agency

conflicts, which results in increased trust in capital markets (Abernathy et al., 2017; Al-Ebel et al., 2020).

### **2.3. Empirical literature review and hypotheses development**

Prior empirical literature indicates that the audit committee's duties cannot be easily discharged unless these committees have independent directors with relevant expertise (Cohen et al., 2014; Knechel et al., 2012; Qasim, 2018; Salleh et al., 2017). Directors with expertise and independence contribute to enhancing the power of internal controls on management and demand higher audit quality to improve reporting quality (Fama & Jensen, 1983). Kalbers and Fogarty (1993), Tanyi and Smith (2015), and Baatwah et al. (2019b) asserted that audit committee expertise reinforces the power of the audit committee and, in turn, provides financial reporting quality because this power restricts management power on various processes of financial reporting. Al-Shaer et al. (2017), on the other hand, argue that high-quality and quantity of accounting disclosure and environmental disclosures can be accomplished through directors with extensive knowledge and experience in finance and other filed. Empirical evidence has provided that directors who have a diversity of expertise in industry or other specializations, such as accounting; auditing, finance reduce earnings management, limit opportunistic behavior of managers (Cohen et al., 2014; Wang et al., 2015) and increase the power of internal audit function, hence contributing clearly to reduced audit risk and increased the trust on reporting quality, consequently, timely completion audit work (Alzeban, 2015).

Accordingly, this study focuses on how audit committee relevant expertise (i.e., financial and industry in specific) affect audit report timeliness. As concern to financial expertise, previous investigations showed the significant positive impact of audit committee financial expertise on the quality of financial reporting issues (e.g., Abbott et al., 2004; Dhaliwal et al., 2010; Krishnan & Visvanathan, 2008). It is also revealed that high rates of the AC financial experts significantly associated with limiting audit risk and increase to demand for high audit quality (Yatim et al., 2006), and lower earnings management (He & Yang, 2014).

Since financial experts of the audit committee can understand and read accounting numbers and prevent frauds professionally (Al-Shaer et al., 2017), financial expertise is associated with lower errors in accounts, whether intentional or unintentional (Dhaliwal et al., 2010), minimized audit risk, and effort (Al-Shaer et al., 2017). it can mitigate disputes between auditor and client (Salleh & Stewart, 2012), the timeliness of audit reporting is improved. To support this argument, Abernathy et al. (2014), in the US, found that a high percentage of members with financial expertise in the audit committee supports timelier audit reports, leading to improving the timeliness of financial reporting. Sultana et al. (2015) showed that financial experts in the AC are significantly related to shortened delays in audit reports for Australian companies. Baatwah et al. (2015), Oussii and Taktak (2018), and Raweh et al. (2019) also found that audit committees' financial expertise significantly contributed to reduced audit reports lag. Contrary these results, empirical evidence from Malaysia such as, Mohamad-Nor et al. (2010), Nelson and Shukeri (2011), Wan-Hussin and Bamahros (2013), and Salleh et al. (2017) and from Oman Baatwah et al. (2019a) and Raweh et al. (2021) failed to found association between AC financial expertise and audit report delay. Based on the preceding discussions, this study poses the following hypothesis:

#### **H1: Audit committee financial expertise is associated with shorter audit report delay.**

Although there is empirical evidence on the association between AC financial expertise and audit report timeliness, to the best of researchers' knowledge, previous literature is broadly silent on the role of industry expertise. Therefore, one major objective of this study is exploring the moderating role of industry expertise on the relationship between financial expertise and timely audit reporting. Prior researchers have argued the effect of the relevance and diversity of expertise on the



effectiveness of outputs. Individuals without relevant experience require considerably more time to reach effective outcomes (Day & Lord, 1992; Faleye et al., 2018). It is explained that the most positive influence of the effectiveness of audit committees over accruals quality is defined by the incorporation of accounting and non-accounting experts together on committees (Dhaliwal et al., 2010). According to Bédard and Gendron (2010), risk assessment and industry experience are essential functions of audit committees, and hiring the right experts on the committees is an animated input to committees' effectiveness. Prior research confirms that industry expertise is critical for independent directors, and directors with accounting expertise to fulfill their oversight responsibility on financial reporting because an important part of a company's financial reporting practice is managed by processes and economic circumstances specific to its industry (Cohen et al., 2014; Salleh & Stewart, 2012; Wang et al., 2015). Industry expertise also limits the internal information asymmetry since it provides a deeper understanding of the risk and the company's industry. It further promotes directors' connections with principal industry actors, and, in turn, increases their access to relevant information about the nature of the industry and its risk (Faleye et al., 2018).

The audit literature also proves the value of auditors' industry expertise in improving audit quality and financial reporting quality. Research indicates that auditors with industry expertise have a better understanding of the client's business, enabling them to discover mistakes and misrepresentations speedily, especially in complex audit processes than non-industry expertise auditors (Chin & Chi, 2009; Goodwin & Wu, 2014). They perform audit tasks in a short time due to their expertise (Abidin & Ahmad-Zaluki, 2012; Raweh et al., 2021), overall enhance their timely audit reporting ability (Abidin & Ahmad-Zaluki, 2012; Habib & Bhuiyan, 2011; Raweh et al., 2021). These researchers have proven that auditors' industry expertise is associated with audit quality. Furthermore, financial analysts classified companies with auditors who possess industry-specialization have higher disclosure quality than companies with non-specialist auditors (Dunn & Mayhew, 2004). To support this argument, Gul et al. (2009) presented evidence revealing that specialist auditors in the industry significantly decrease discretionary accruals and increase firms' earnings quality even if their tenure engagement with clients is short compared to non-specialists. They concluded that the higher quality earnings may not be linked with auditor tenure, whether short or long, per se, but rather because the auditor's experience with the client's industry could influence the auditor's skill in detecting breaches and report them.

However, the research on the value of industry experts on the audit committee is rare. Faleye et al. (2018) report that directors' industry expertise is more important to support a firm's value and development. They used data from the USA companies, finding that industry experts on the board are significantly associated with a large increase in research and development investments and an increase in obtaining patents. Their results imply that directors' industry expertise reduces the earnings risks in such investments. Most relevant to this study, Cohen et al. (2014) document that industry experts on ACs contribute to higher quality financial reporting by significantly reducing financial restatements and increasing audit task quality. They also found that the presence of combined expertise of both industry and accounting in ACs leads to improve the monitoring effectiveness of ACs on the process of financial reporting and to lower the likelihood of restatement and earnings management, also support oversight on external audit work resulting in a higher level of audit fees and limit non-audit services. Wang et al. (2015) show that industry expert directors of ACs significantly curtail earnings management and occurrence misstatements in financial reporting. They clarify that independent directors with the industry expertise of compensation committees are associated with reduced excess CEO pay. Alzeban (2015) proves that the quality of internal audit function is significantly enhanced when the ACs' members have expertise in both industry and auditing, supporting external auditors to reduced audit time and effort. Accordingly, industry experts on the audit committee are expected to produce an active role in supporting the effective monitoring of AC financial experts on financial reports, reducing audit risks, and completing audit tasks in a short time, which improves audit report timeliness.

In the previous part, we noted that the influence of financial expertise on timely audit reporting is not clear and mixed. In an emerging economy such as Oman, which features high concentrated ownership and a weak legal environment to protect shareholders' rights, these adversely affect the effectiveness of internal governance mechanisms and corporate control. (Young et al., 2008). Therefore, AC financial expertise may not sufficiently control the managers' opportunistic behavior from intentional or unintentional errors and signaling high audit risks. To support this argument, empirical evidence from GCC reveals that key vital mechanisms for the effectiveness of AC are the independence of directors and extensive expertise in both finance and industry that ensure the high quality of financial reporting and protecting shareholders' rights (Qasim, 2018). Here, this study examines whether industry expertise on ACs enhances the financial experts to shorten audit report delay. This is because the value of relevant multi expertise will increase ACs' directors' ability to effectively monitor the reporting process and reduce audit riskiness, strengthening confidence in the quality of reports, thus requiring fewer audit tests and less effort. This is consistent with Cohen et al. (2014), who reported that companies that have AC members with experience in the industry combined with financial expertise are associated with high-quality earnings and high-quality audits compared to companies with financial experts solely.

In short, the time of audit task completion should be associated with the quality of financial reporting and control systems or low the anticipated audit risks through industry experts who will support financial experts in achieving that, enabling the finalization of the audit report and signing it in a shorter time. Thus, this study tests the following hypothesis:

**H2: The association between financial expertise and shorter audit report delay will be stronger by industry expertise.**

### 3. Research design

#### 3.1. Data and sample

This research sample comprises all the listed companies on the MSM from 2013 to 2017, containing 595 client year-observations, on average 119 companies. The companies listed on the MSM are categorized into three sectors of industry: service, industrial and financial. 2013 is chosen as the initial year of the sample because of the amendments done pre-2013 to some objects of the Omani Code of CG. This period can guarantee better compliance and effective enforcement of the

**Table 1. Description of the sample**

Sample selection	Distribution of industry			
	Industrial	Service	Financial	Total
Total number of observations of companies listed on the MSM from 2013–2017	210	190	195	595
Less: Observations of financial companies	-	-	(195)	(195)
Less: Observations with incomplete data	(55)	(40)	-	(95)
Final sample (observations) used in the analysis	155	150	0	305

provisions in the code by Omani companies. Based on past studies, 195 observations of financial listed firms are eliminated because they are ruled by strict regulations and have different accounting structures. Also, 95 observations with incomplete data for some variables are removed, leaving 305 client year-observations as the final sample. The sample is distributed into two sectors: industrial and service. A description of the sample is shown in [Table 1](#).

This study uses many sources to collect the data for the variables of the study. Data related to characteristics of external auditors and the proxy for timeliness (audit report delay) is collected from audit reports. Data of AC characteristics and BOSZ is extracted from CG reports, and financial information from audited financial statements for the listed companies in the MSM.

### 3.2. Measure of audit report timeliness (dependent variable)

Following previous research (e.g., Bamber et al., 1993; Habib et al., 2019), this study uses audit report delay as a proxy for audit report timeliness, which refers to the number of days elapsed between the fiscal year-end and the date of an audit report (ARD). Hence, less delay in the number of days indicates greater timeliness.

### 3.3. Measures of the primary variables

The independent variable is audit committee financial expertise (ACFX), which identifies as the proportion of directors with qualifications and experience in accounting or auditing (e.g., CPA, CFO, chief accounting officer or controller) (Abernathy et al., 2014; Krishnan & Visvanathan, 2008). Audit committee industry expertise (ACIX) as a moderator variable is measured as the ratio of directors with industry expertise (directors who have been engaged for four years or more on the audit committee) to the total number of audit committee directors (Cohen et al., 2014).

This study controlled several variables to control the omitted variables' influence and enhance the study models' predictive ability (Knechel & Sharma, 2012). Such variables were employed in prior literature on audit report delay, as have been shown to affect the audit report delay (Al-Ebel

**Table 2. Variable definitions**

Variable	Definitions
ARD	The number of days between the date of year-end and the date of signing audit report.
ACFX	The ratio of directors with accounting or auditing expertise on the AC
ACIX	The ratio of directors with industry expertise on the AC
ACSZ	The number of directors on the AC
ACI	Dummy variable equals "1" if all AC directors are independent, "0" otherwise
ACM	The number of AC meetings in a year.
BOS	The number of directors on the board
ADFSZ	Dummy variable equals "1" if the external auditor is one of the Big 4 audit firms, "0" otherwise
ADT	The number of consecutive years the external auditor has continued with client
ADFE	The natural logarithm of audit fees
OWC	The proportion of shares owned by major shareholders ( $\geq 10\%$ ).
LNSZ	The natural logarithm of total assets
ROA	The proportion of net income to total assets
INFX	Indicators for industry fixed effects
YFX	Indicators for years fixed effects.

et al., 2020; Bamber et al., 1993; Habib et al., 2019; Raweh et al., 2019; Wan-Hussin & Bamahros, 2013). Some variables are related to corporate governance; audit committee size (ACSZ), independence (ACI), meetings (ACM), and board size (BOSZ). Respectively, these variables are measured by the number of members on the committee; assign “1” if all committee members are independent and “0” otherwise; the number of meetings held annually; and the board’s number of directors. Other variables include auditor characteristics; type of external auditor (BIG 4), equal to 1 if the auditor is one of the Big 4 audit firms and 0 otherwise; auditor tenure (ADT), identified as the number of consecutive years the external auditor has continued with client and audit fees (AFEE), measured by the natural logarithm of audit fees. Table 2 demonstrates the whole definitions of the study variables.

Further, this study control variables are related to the firm characteristics and risk such as ownership concentration (OWC) measured by the major shareholders holding  $\geq 10\%$ , firm size (LNSZ), and measure it by the natural logarithm of total assets and firm performance (return on assets -ROA) which is measured by the proportion of net income to total assets. Finally, this study controls the fixed effects of industry (INFX) and year (YFX). It follows the research to foresee the relationship among these control variables and audit report delay.

### 3.4. Empirical model

Following previous studies (for example, Baatwah et al., 2019a; Bamber et al., 1993; Knechel & Sharma, 2012), this study runs pooled OLS regressions to test its hypotheses. This study conducts regression analysis with robust standard error to correct the potential influence of heteroscedasticity and autocorrelation. This study’s main interest is to examine the positive effect of industry expertise

**Table 3. Summary statistics - Panel A: Descriptive statistics**

variable	Mean	SD	Median	P25	P75
ARD	50.45	11.27	51.00	44.50	57.00
ACFX	0.27	0.24	0.25	0.00	0.33
ACIX	0.60	0.33	0.67	0.33	1.00
ACSZ	3.47	0.68	3.00	3.00	4.00
ACI	0.57	0.50	1.00	0.00	1.00
ACM	4.79	1.47	5.00	4.00	5.00
BOS	7.38	1.54	7.00	6.50	9.00
BIG4	0.66	0.48	1.00	0.00	1.00
ADT	2.27	1.10	2.00	1.00	3.00
ADFE	9.03	0.83	8.97	8.52	9.28
OWC	58.33	21.27	60.82	44.80	74.00
LNSZ	17.24	1.61	17.28	16.10	18.30
ROA	0.06	0.08	0.06	0.03	0.11

**Panel B: Mean differences of ARD based on the main variables groups**

Variable	ACFX	ACIX	ACFX*ACIX
G1	49.75	50.10	49.17
G2	51.82	52.77	52.13
Diff	-2.07	-2.67	-2.96
T-value	-1.32	-1.21	-2.00**

\*\*<0.05

G1 is an indicator of the group if firms have ACFX, ACIX, or ACFX and ACIX, which is represented in the interaction variables ACFX\*ACIX; G2 is an indicator of the group if firms have not ACFX, ACIX or only have ACFX represented in ACFX\*ACIX.

**Table 4. Correlation matrix**

Variables	ARD	ACFX	ACIX	ACSZ	ACI	ACM	BOS	BIG4	ADT	ADFE	OWC	LNSZ	ROA
ARD	1												
ACFX	-0.03	1											
ACIX	-0.07	-0.12	1										
ACSZ	0.16*	-0.19*	0.21*	1									
ACI	0.03	0.10	-0.12	-0.01	1								
ACM	0.08	-0.09	0.18*	0.17*	0.09	1							
BOS	-0.05	-0.17*	0.06	0.26*	0.08	0.08	1						
BIG4	0.03	-0.11	-0.01	0.09	0.01	0.21*	0.15*	1					
ADT	0.06	-0.05	-0.07	0.02	0.05	-0.05	-0.05	-0.10	1				
ADFE	0.12	0.06	0.03	0.03	0.11	0.28*	0.24*	0.44*	-0.07	1			
OWC	-0.08	-0.04	-0.07	-0.02	-0.01	-0.14	-0.12	-0.14*	0.00	-0.19*	1		
LNSZ	-0.03	-0.02	0.04	-0.05	-0.13*	0.26*	0.39*	0.50*	-0.09	0.76*	-0.14*	1	
ROA	-0.34*	0.06	0.02	-0.10	-0.03	0.03	0.03	0.06	-0.13	0.04	-0.03	0.27*	1.00

\* <0.05

**Table 5. Regression results**

Variable	ARD			
	(1)		(2)	
	Coef.	t-statistics	Coef.	t-statistics
ACFX	−1.65	−0.93	−4.94	−1.26
ACIX	−4.57	−2.05**	−6.07	−2.03**
ACFX*ACIX			−1.55	−1.94**
OWC	−0.04	−2.04**	−0.05	−2.11**
ACSZ	2.67	2.63***	2.61	2.55**
ACI	−0.36	−0.34	−0.27	−0.24
ACM	0.34	0.82	0.37	0.88
BOS	−0.84	−2.18**	−0.78	−1.79*
BIG4	−0.50	−0.39	−0.55	−0.44
ADT	0.21	0.78	0.19	0.71
ADFE	2.32	2.47**	2.09	1.83*
LNSZ	−0.15	−0.20	−0.08	−0.1
ROA	−43.08	−4.25***	−43.16	−4.25***
_cons	34.42	5.83***	36.12	5.52***
INFX	Yes		Yes	
YFX	Yes		Yes	
R-squared	0.19		0.19	
Wald chi2	1173.70		7965.68	
P-value	0.00		0.00	
Max VIF	3.51		3.58	
N	305		305	

\*\*\*p <.01, \*\* p <.05, \* p <.1

on financial expertise in reducing audit reporting delay and boosting timely reporting represented in Equation (2). Equation (1) is the basis for Equation (2), which also examines the direct relationship between financial expertise and audit report delay, and produces further supporting evidence for the recent studies (for example, Abernathy et al., 2014; Raweh et al., 2019). The following equations are formulated from the Research Model depicted in the Figure in appendix A

$$ARD = \beta_0 + \beta_1 ACFX_{it} + \beta_2 ACIX_{it} + \beta_3 ACSZ_{it} + \beta_4 ACI_{it} + \beta_5 ACM_{it} + \beta_6 BOS_{it} + \beta_7 ADFSZ_{it} + \beta_8 ADT_{it} + \beta_9 ADFE_{it} + \beta_{10} OWC_{it} + \beta_{11} LNSZ_{it} + \beta_{12} ROA_{it} + INFX + YFX + \varepsilon_{it} \quad (1)$$

$$ARD = \beta_0 + \beta_1 ACFX_{it} + \beta_2 ACIX_{it} + \beta_3 ACFX_{it} * ACIX_{it} + \beta_4 ACSZ_{it} + \beta_5 ACI_{it} + \beta_6 ACM_{it} + \beta_7 BOS_{it} + \beta_8 ADFSZ_{it} + \beta_9 ADT_{it} + \beta_{10} ADFE_{it} + \beta_{11} OWC_{it} + \beta_{12} LNSZ_{it} + \beta_{13} ROA_{it} + INFX + YFX + \varepsilon_{it}. \quad (2)$$

#### 4. Results

##### 4.1. Descriptive statistics and univariate analysis

Table 3 introduces the descriptive statistics results for the study variables and the test of the mean difference. For brevity, this study discusses the results concerning the interest variables, while the control variables' statistics can be extracted from the table. As shown in Panel A, the mean (median) of ARD is 50 (51) days, suggesting that external auditors of sample companies complete their audit tasks within 50 days, which indicates that a large number of Omani companies are prepared their audited annual reports over the timeframe of disclosure of 60 days. For ACFX and



ACIX, it is observed that the means are 27 and 60%, respectively. These results suggest that 27% of the AC members in the sampled companies have financial expertise, while two-thirds of members have industry expertise. Panel B presents the mean difference of ARD based on the groups of the independent variables. This research organizes two groups as whether the companies have the AC members with financial expertise or industry expertise or interaction both groups of ACFX and ACIX (G1), and “0” otherwise (G2). The results show that, despite no significant differences in the means of ARD for ACFX and ACIX groups, the ARD for companies with expertise directors in financial or industry on audit committees is less than those without expertise directors on the audit committees. As for the interaction variables group of ACFX\*ACIX, the mean of ARD for companies with both ACFX and ACIX is significantly shorter than those without ACIX.

Table 4 shows the analysis of the correlation matrix. Focusing on the main variables, the analysis reveals that the correlation coefficients between ARD and ACFX and between ARD and ACIX are negative and low (0.03) and (0.07), respectively. Also, the correlations between ARD and some variables (i.e., ACSZ and ROA) are marginally significant. The highest correlation coefficient is 0.76 between company size (LNSZ) and audit fee (ADFE) from the correlation analysis. This suggests that a lack of multicollinearity issue (Gujarati & Porter, 2009). This study also checked for multicollinearity issues by a variance inflation factor (VIF). As presented in Table 5 for regression results across all columns, the values of VIF less than 10, again signifying no multicollinearity problem (Gujarati & Porter, 2009).

#### 4.2. Regressions results

Table 5 presents the results for the main models for the current study. Column (1) shows results for the ARD in which ACFX and ACIX are the main explanatory variables, while column (2) reports findings for the interaction regression (interaction between ACFX and ACIX). Overall, the study models are highly significant ( $p < 0.001$ ) with the predictive value of 19%, implying that the two models are fit and explain the variability in audit report delay (ARD).

The results in column (1) reveal that the coefficient of ACFX is negative but not significant with ARD (coefficient =  $-1.65$ ,  $t$ -statistics =  $-0.93$ ), which means that the AC members with financial expertise are not associated with timely audit reporting. This result supports our assumption that AC financial expertise is not effective in monitoring the process of financial reporting and assessing the internal control system in Omani Companies. Hence, it needs more relevant expertise to support AC effectiveness to improve audit report timeliness. This result is consistent with previous studies (e.g., Baatwah et al., 2019a; Raweh et al., 2021; Salleh et al., 2017; Wan-Hussin & Bamahros, 2013). It also supports the view that the financial or accounting expertise of the AC members is less likely to be adequate to support high-quality financial reports and effective control regimes. This may occur from a lack of experience in management practices and industry knowledge which can empower these members to guarantee high-quality reports and controls, and reducing audit risks (Alzeban, 2015; Cohen et al., 2014). Therefore, the results indicated that financial expertise has no effect on audit report delay. Whereas, the findings also showed that ACIX has a significant negative association with ARD at the 5% level (coefficient =  $-4.57$ ,  $t$ -statistics  $-2.05$ ), suggesting that the AC members with industry expertise are related to shorter the delay of audit reporting. This result supports the view that the industry experts on the audit committee strengthen the monitoring effectiveness of audit committee and limit the financial irregularities in financial reports and audit risk, which increase the confidence of external auditors in the quality of financial information and internal control system (Cohen et al., 2014; Wang et al., 2015). This confidence helps auditors complete audit tasks quickly, increasing the timeliness of audit reporting.

Interestingly, as shown in column (2) presents that the coefficient of the interaction between AC financial expertise and AC industry expertise (ACFX\*ACIX) is negative and significant at the 5% level (coefficient =  $-1.55$ ,  $t$ -statistics =  $-1.94$ ) with ARD, suggesting that industry expertise on the audit committee enhances the effectiveness of financial expertise in reducing the delay in audit

reporting. In other words, this implies that members of AC who have financial expertise enhance the timeliness of audit reporting by cutting audit delay when they hold industry expertise. Thus, H2 is supported. This result supports the argument that AC directors with industry expertise as well as financial expertise play a vital role in increasing the quality of financial reporting (Cohen et al., 2014; Qasim, 2018; Salleh & Stewart, 2012) and internal audit function, hence limiting audit risk and supporting the performance of external auditors in minimizing audit tests and effort (Alzeban, 2015), which leads to reduced audit report delay. It is also consistent with suggestions that AC members with industry knowledge play the main role in the auditor–management negotiation process and resolving the conflicts between them through their work as a link between the CFO and audit partner (Salleh & Stewart, 2012), and their ability to understand and address company or industry complexities (Cohen et al., 2014; Deloitte Development, 2012).

This finding is also consistent with the agency theory that assumes directors' expertise is a critical control mechanism reinforces the monitoring function of AC to support internal controls, and reduces audit risk and effort of audit work (Cohen et al., 2008; Fama & Jensen, 1983). This result is relatively consistent with those of Cohen et al. (2014) and Wang et al. (2015) whom all found that the existence of directors on the audit committee with both expertise in industry and accounting or finance strongly contribute to reinforce the effectiveness of the committee monitoring better than those with only financial expertise by restricting earnings management, monitoring external auditor effectively and increasing financial reporting quality.

This study extends and complements Cohen et al. (2014) and Wang et al. (2015) by recording that the audit committee directors with only financial expertise do not encourage to provide timely audit reporting, while if these directors also have industry expertise can shorten the delay in audit reports and achieve timely reporting. Thus, this study supports the growing importance of industry expertise on the audit committee in increasing the committee's monitoring role effectively over the process of financial reporting and auditing procedures (Alzeban, 2015; Cohen et al., 2014; Wang et al., 2015). Overall, the findings are aligned with the assumption that the combination of industry and accounting expertise on the audit committee minimizes the need for more audits and promotes the auditor's trust in the quality of financial reporting, resulting in shorter audit report delay.

In terms of control variables, the results of most cases are consistent with previous studies (e.g., Al-Ebel et al., 2020; Baatwah et al., 2019a; Habib et al., 2019; Raweh et al., 2019; Wan-Hussin & Bamahros, 2013). As reported in Table 5 across all columns (1) and (2), the concentrated ownership (OWNC), board size (BOS), and firm performance (ROA) are significantly and negatively associated with ARD, signifying that firms with concentrated ownership, large boards and profitable have shorter delays in audit reports. This study also observes that there are positive and significant coefficients for audit committee size (ACSZ) and audit fees (ADFE) with ARD, suggesting that firms with high audit fees and large size of the audit committee lead to longer delays in audit reports. While, it shows that AC independence (ACI), AC meetings (ACM), type of external auditor (BIG 4), auditor tenure (ADT), and firm size (LNSZ) have insignificant relationships with ARD. This indicates that such variables are not important forecasters of ARD in the current study.

## 5.2 | Additional analysis

### 4.2.1. Composite measure of industry expertise and financial expertise

To shed more light on how industry expertise can enhance AC members' financial expertise and hence reflects in improving the timeliness of audit reporting, this study conducts analysis for an aggregate measure of industry expertise and financial expertise. Previous literature (see for example, Baatwah et al., 2019b; Bédard & Gendron, 2010; Krishnan & Visvanathan, 2008; Krishnan et al., 2011; Tanyi & Smith, 2015) reports that experts on the audit committee are related to higher quality financial statements. This higher quality in financial statements is a consequence of improvements in the internal controls systems and financial reporting environments. Moreover,

material weakness in the control structure on financial reporting contributes to untimely provide of audit reports due to auditors believe companies having this weakness are risky companies, and, thereby, they execute extra substantive tests to limit the risk of material misstatements in financial reporting (Ettredge et al., 2006; Munsif et al., 2012). This suggests that members with expertise in both industry and financial or accounting on the AC may influence audit report timeliness when they significantly contribute to the quality of pre-audited financial reports.

In the same vein, prior scholars proved that ACIX and ACFX at the aggregate level considerably support the monitoring effectiveness of the audit committee over the process of financial reporting and strengthens the internal control systems, which in turn limiting the business risk and hence supporting the external auditors to complete audits in early time (e.g., Alzeaban, 2015; Cohen et al., 2014). These scholars concluded that financial expertise and industry knowledge for directors complement each other in reducing agency costs and preserving the investors' rights through constraining manipulating earnings and enhancing the higher quality of audited financial reports.

This study poses the question of whether the industry expertise and financial expertise of AC members in aggregate are related to a considerable reduction in audit risk and effort and, if so, whether this reduction is reflected on decreased audit report delay. Thus, we extend this research by examining whether a composite measure of industry expertise and financial expertise affect the audit report delay. Following Cohen et al. (2014), an aggregate measure of ACIX and ACFX is used, represented as an indicator variable equal to "1" if the firm has experienced members in both industry and financial on the audit committee, "0" otherwise. To explore this issue, we re-regress the main model of ARD (Equation 1) by using the aggregate approach of ACIX and ACFX as a test variable, labeled (ACIX-FX) after replacing ACFX and ACIX that show individually in Equation (1). Table 6 reports the results of this analysis. In column (1), it can be seen that the coefficient of ACIX-FX is negative and strongly significant at  $p < 0.01$  with ARD. This result indicates that industry experts with financial expertise on the audit committees are greatly associated with decrease delays in audit reports. These results confirm that industry expert directors on AC, besides financial expertise, reflect sound internal governance that implicitly delivers evidence of lower audit risk and less audit effort.

#### 4.2.2. Subsample analysis for industry expertise

With a view to check the robustness of the main results for industry expertise's moderating effect, this research segregates the full sample based on industry expertise into two groups, If the audit committee has industry experts and otherwise. As shown in Table 6, in column 2, ACFX is negatively and significantly correlated with ARD at  $p < 0.10$  for the industry expertise subgroup, while it is negative but insignificant with ARD for the non-industry expertise subgroup. These findings confirm the previous evidence that ACIX strengthens ACFX to shorten audit report delay, improving reporting timeliness.

### 5. Conclusion

This paper investigates the effect of AC financial experts and AC industry experts on audit report timeliness. Very few studies focused on the influence of audit committee industry expertise on AC's monitoring effectiveness in ensuring high quality of financial reports. This study concentrated on the moderating role of AC industry expertise on the relationship between AC financial expertise and audit report timeliness and attempted to fill the literature gap regarding AC industry expertise with timely reporting. By using data from a unique setting, this research finds that AC financial expertise is not associated with audit report timeliness (proxied by a shorter delay) in Omani companies. It also finds that industry experts in AC significantly strengthen financial experts to reduce delays in audit reports. Furthermore, in the additional analysis, it is observed that combination of industry expertise and financial expertise reduces the need for extra audit effort and time, leading to shortened delay in audit reporting. The study also splits the sample based on industry expertise; it shows that the negative relationship between AC financial expertise and audit report delay is more pronounced in the case of without industry experts on AC. These findings show that

**Table 6. Regression results for a composite measure of industry expertise and financial expertise and subsample of industry expertise**

Variable	(1)		(2)			
	Composite measure of ACIX and ACFX		ACIX = 1		Non-ACIX = 0	
	Coef.	t-statistics	Coef.	t-statistics	Coef.	t-statistics
ACIX-FX	-1.91	-3.45***				
ACFX			-0.12	-1.79*	-13.85	-1.45
OWC	-0.03	-1.86*	-0.04	-2.4*	-0.26	-1.89
ACSZ	2.81	3.83***	2.42	3.47**	2.70	1.07
ACI	-0.50	-0.53	-0.24	-0.17	9.46	2.03
ACM	0.21	0.54	1.03	3.99**	-2.64	-3.63**
BOS	-0.76	-2.38**	-0.60	-1.11	-1.17	-1.35
BIG4	-0.26	-0.27	-0.11	-0.05	-0.97	-0.28
ADT	0.27	0.79	0.49	1.83	0.45	0.21
ADFE	2.74	3.01***	2.23	2.15	-1.53	-0.21
LNSZ	-0.58	-0.83	-0.69	-0.77	-0.13	-0.08
ROA	-44.41	-4.81***	-37.28	-5.89***	-66.63	-2.12*
_cons	35.55	5.75***	34.63	5.82***	102.43	1.91
INFX	Yes		Yes		Yes	
YFX	Yes		Yes		Yes	
R-squared	0.19		0.18		0.39	
P-value	0.00		0.00		0.01	
N	305		265		40	

\*\*\*p <.01, \*\* p <.05, \* p <.1

industry experts on the audit committee can cope with the complex issues and effectively monitor the quality process of financial reporting. This will reduce audit riskiness, boosting external auditors to complete audits in a short time, issue audit reports in early time, and support publishing audited financial reporting for the public promptly.

Based on the results of this research, this research provides theoretical and practical contributions. First, it extends the audit report timeliness literature by presenting new evidence that financial expertise does not support timely audit reporting unless this feature is linked with industry expertise. This evidence is the first to connect industry expertise with audit report timeliness. Second, it extends the industry expertise literature by documenting that the industry expertise of AC directors linked with financial expertise positively influences auditors' action in the aspect of audit report timeliness better than those with only financial expertise. This research is the first to record these results. The findings suggest that auditors' evaluation of risks and efforts is affected more by industry expert directors' value, not at the AC's financial experts' level. Third, the findings of the study have implications for the management of companies, auditors and regulators. The results indicate that companies' management decisions regarding nominating directors on the audit committees should consider depth- experienced directors in multi filed (e.g., combining expertise in both industry and financial/accounting). This is better to improve the reliability and quality of financial information disclosed by a company. As for auditors, the findings suggest that external auditors can cope with the time pressure and meet disclosure deadlines by considering directors' financial expertise and industry expertise. Finally, the findings would also be beneficial for regulators in the Omani market to assess and develop cases that may further shorten delays in the disclosure timeframe. The findings suggest that companies and

auditors can provide financial information to timelier users without delay if the companies have industry-specialist directors. Thus, regulators can guarantee companies and auditors' ability to fulfill the new disclosure deadline in case the policies are enhanced by recommending companies to deem industry expertise besides the financial expertise of their directors.

## 6. Limitations and future research

This study has some limitations. First, this research used one measure of industry expertise. AC member who works on multiple companies with the same activity was not used as a measure of industry experts due to unavailable data. Thus, this study encourages future research to use this measure if can get it. Besides, some different internal governance characteristics can be used as control variables such as internal audit functions, whether investment or sourcing arrangements. Finally, although this paper's results could apply to many countries, we call to be careful in generalizing them to economies with different cultural and institutional contexts.

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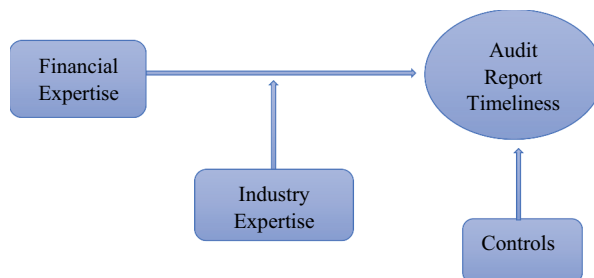


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## Appendix A



*Figure for research model*



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