

Timeliness in financial reporting in emerging markets: investigating the effect of joint audits

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Abstract

Purpose – This study examines joint audits’ impact on financial statement timeliness in emerging markets in Kuwait.

Design/methodology/approach – We use a sample of nonfinancial firms listed on the Kuwait Stock Exchange from 2000 to 2020.

Findings – We find that joint audits are significantly negatively associated with financial statements’ timeliness. This suggests that firms employing two auditors (joint audits) issue their financial statements in relatively shorter periods. Our results are robust and consistent with our initial findings, even after assessing the impacts of the Big 4, profitability and firm size on them.

Practical implications – The findings show that mandating joint audits decreases audit report lag (ARL). We recommend that regulators and policymakers consider the potential implications of removing mandated joint audits, such as longer ARL.

Originality/value – This study contributes to the limited literature on joint audits and timeliness by exploring their relationship in the context of listed nonfinancial firms in an emerging market. The findings contribute to the ongoing debate about the costs and benefits of joint audits by showing the improvement of financial reporting timeliness. Our findings assist regulators and policymakers in determining whether to implement or abolish joint audits.

Keywords Joint audit, Audit report lag, Audit regulation, Timeliness of financial reporting, Kuwait, Emerging markets

Paper type Research paper

Introduction

Investors and market participants primarily depend on the information companies provide to make investment decisions. The International Financial Reporting Standards (IFRS, 2010, p. 25) state, “If financial information is useful, it must be relevant and faithfully represents what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely, and understandable.” It is crucial that decision-makers receive such information in a timely manner; otherwise, the information’s usefulness may be reduced (IASB, 2014; dan Fitriany, 2013). A company’s financial statements and reports are its main



sources of financial information. Delivering these statements to market participants in a timely fashion is essential for retaining their relevance and importance (Abdillah *et al.*, 2019).

Delays in releasing these reports and statements can increase information asymmetry (Kothari, 2001; Owusu-Ansah and Leventis, 2006), investment decision uncertainty (Ashton *et al.*, 1989; Owusu-Ansah and Leventis, 2006), the likelihood of rumors, information leaks, and insider trading in capital markets (Owusu-Ansah, 2000), reduce the financial reports' relevance (Whitworth and Lambert, 2014), investor confidence in earnings announcements (Marshall *et al.*, 2019), and impose additional costs on the auditor (Simunic, 1980). Companies' timeliness in publishing audited financial reports and statements is an attribute of financial reporting quality (Abdullah, 2007; Afify, 2009; Ika and Ghazali, 2012) and is essential for a well-functioning capital market (Owusu-Ansah and Leventis, 2006). Therefore, regulators worldwide pay considerable attention to improving the timeliness of financial reports and statements (Abernathy *et al.*, 2017; Leventis *et al.*, 2005).

A firm cannot issue financial statements before an audit is complete, so their release depends on the audit process's completion (Abdillah *et al.*, 2019). The audit report lag (ARL) is the period from a firm's fiscal year-end to the auditor's signature date [1]. Auditor characteristics impact financial statements' timeliness, and many researchers have examined the auditor-specific factors influencing timeliness. For instance, prior studies have examined the impact of industry specialists and nonspecialist auditors (Abdillah *et al.*, 2019; Habib and Bhuiyan, 2011), Big 4 auditors and non-Big 4 auditors (Afify, 2009; Al-Ajmi, 2008; Alfraih, 2016; Leventis *et al.*, 2005; Owusu-Ansah and Leventis, 2006; Schmidt and Wilkins, 2013), audit tenure (Abdillah *et al.*, 2019; Durand, 2019; Lee *et al.*, 2009), audit fees (Leventis *et al.*, 2005), non-audit services (Durand, 2019; Lee *et al.*, 2009), and audit opinion (Durand, 2019; Leventis *et al.*, 2005). However, the literature is inconsistent about the relationship between ARL and audit characteristics (Abernathy *et al.*, 2017). One critical yet understudied auditor-specific factor is how joint audits impact and influence financial statement timeliness. A joint audit occurs when two independent auditors from different auditing firms collaborate to audit a company's financial statements and issue and sign a single audit report.

Joint audits became a controversial topic in the last decade, when some regulators and countries (developing and developed) began mandating or voluntarily requiring joint audits (e.g. Algeria, Saudi Arabia, Tunisia, and the United Kingdom), while others (e.g. Canada, Denmark, South Africa, and Kuwait) terminated their joint audit mandates (ICAEW, 2019). A consensus among academics, regulators, and policymakers on joint audits' costs and benefits is needed (Al-Hadi *et al.*, 2017; IFAC, 2020; Ratzinger-Sakel *et al.*, 2013). Therefore, there is an urgent need for research on the impact of joint audits on audit and financial reporting quality (e.g. the timeliness of publishing audited financial reports and statements), including whether joint audits are essential to audit and financial reporting quality—particularly whether such an investigation would be useful for stakeholders, such as regulators and policymakers (Abdullah, 2007; Afify, 2009; Ika and Ghazali, 2012).

Prior studies in joint audit literature have examined joint auditing's impact on audit costs (André *et al.*, 2016; Audoussert-Coulier, 2015; Ittonen and Trønnnes, 2015; Thinggaard and Kiertzner, 2008), audit market concentrations (Holm and Thinggaard, 2014), and earnings management (e.g. Holm and Thinggaard, 2018; Quick and Schmidt, 2018; Van der Zahn and Tebourbi, 2023; Zerni *et al.*, 2012), but their findings provide mixed results (ICAEW, 2019; IFAC, 2020; Lesage *et al.*, 2017). The literature is also limited regarding joint audits' impact on audited financial reports' timeliness (Alfraih, 2016; Van der Zahn, 2023).

Most ARL and joint audit literature focuses on developed markets rather than emerging ones (Alfraih, 2016; Al-Hadi *et al.*, 2017; Mathuva *et al.*, 2019; Velte, 2017). Audit delay is a critical issue in emerging capital markets since audited financial statements are the only reliable source of information for investors (Abernathy *et al.*, 2017; Leventis *et al.*, 2005). Research shows significant variability among countries' financial reporting timelines and ARLs (Khoufi and Khoufi, 2018), with minimal relevant research in Middle Eastern and Arab countries (Hassan, 2016).

This study fills these gaps by examining joint audits' impact on financial statements' timeliness in Kuwait, an emerging market, using a sample of firms listed on the Kuwait Stock Exchange (KSE) from 2000 to 2020. The results show that joint audits are negatively associated with financial statement timeliness, as measured by ARL, suggesting that they result in timely financial reporting. We also assessed the impact of the Big 4, profitability, and firm size on our findings. Our outcomes are robust and consistent with our initial findings.

This paper is organized as follows. We initially provide an overview of Kuwait's financial and audit markets, followed by a literature review to build the hypothesis. Next, we explain the data and research design of this study before presenting and discussing the results. Finally, we conclude the study.

Auditing in Kuwait

Kuwait is an ideal case for studying financial reporting and audit quality. The country mandated joint audits in 1995, making it a pioneer in this practice (Holm and Thinggaard, 2018). Unlike most countries that require joint audits for specific industries (IFAC, 2020), Kuwait mandates them for all listed companies. However, no regulatory body, including the Capital Markets Authority (CMA), has specified joint audit implementation practices or procedures.

In December 2019, Kuwait's stock exchange, one of the oldest in the Middle East (Al-Sayegh and Azhar, 2018), was privatized and renamed Boursa Kuwait (CMA, 2019). This makes it the first privately owned stock market in the region. It was added to the MSCI Emerging Markets Index in 2019 and to FTSE Russell's Emerging Markets Index in 2017 (CMA, 2019). Kuwait adopted IFRS and International Accounting Standards in 1991, making it among the first countries to adopt these standards in the world. The government requires companies to issue financial reports within 90 days of year-end to enhance reliability and corporate image (Alfraih, 2016). Listed companies must publish audited annual financial statements within this timeframe; noncompliance leads to immediate trading suspension (Article 1-16-1, Executive Bylaws Module Twelve, 2022).

In the last decade, Kuwait has implemented significant reforms, such as establishing the CMA in 2010, issuing corporate governance codes in 2013 and 2016, and updating company law in 2016 (CMA, 2015). Beginning in 2016, under the new company law (Article No. 227), the government shifted from mandatory to voluntary joint audits, 21 years after their initial implementation. This transition positions Kuwait as an ideal setting to explore the impact of joint audits on the timeliness of financial statements. By comparing pre- and post-mandatory joint audits, this study answers the question, "Are two pairs of eyes better than one?"

Literature review and hypothesis development

The IASB (2014) emphasized that useful financial information is easily understandable, timely, verifiable, and comparable. Financial data's timely availability is crucial for decision-making—the shorter the time between a company's financial year-end and financial statement release, the more valuable the information (Khasharmeh and Aljifri, 2010). Delays in releasing these reports and statements can increase information asymmetry (Kothari, 2001; Owusu-Ansah and Leventis, 2006), a common phenomenon in principal-agent theory. Issuing financial statements quickly decreases information asymmetry by limiting insider trading and rumors.

ARL is a useful proxy for providing insight into audit efficiency and financial usefulness (Abernathy *et al.*, 2017; Habib and Bhuiyan, 2011; Habib *et al.*, 2019; IASB, 2016) and is often considered the most critical determinant of financial reporting timeliness (Abbott *et al.*, 2012). Investors favor short ARLs for quick investment decisions (Habib and Bhuiyan, 2011). Researchers have explored the factors that affect ARL related to auditor and/or audit engagement characteristics (e.g. audit tenure, auditing season, auditor affiliation, and audit

opinion), corporate governance characteristics (e.g. board characteristics, audit committee characteristics, CEO duality, and ownership structure), and firm-specific characteristics (e.g. organizational complexity, profitability, and leverage) (Abernathy *et al.*, 2017; Habib *et al.*, 2019). However, the studies provide mixed findings.

As financial reporting publication depends on the audit process completion (Abdillah *et al.*, 2019), auditor factors are crucial in impacting ARL. The literature has examined the impact of auditors as industry specialists versus non-specialists, Big 4 auditors, non-Big 4 auditors, audit tenure, audit fees, non-audit services, and audit opinions. Industry-specialist auditors are likely to become familiar with a client's business operations and develop industry-specific knowledge more quickly than nonspecialists (Habib and Bhuiyan, 2011; Habib *et al.*, 2019). Studies (e.g. Abidin and Ahmad-Zaluki, 2012; Habib and Bhuiyan, 2011; Rusmin and Evans, 2017) have shown that industry-specialist auditors decrease ARL, suggesting that as auditors gain industry expertise and experience, their productivity and timeliness increase. However, Abdillah *et al.* (2019), Khoufi and Khoufi (2018), and Durand (2019) found that industry specialist auditors did not significantly influence ARL in the Indonesian Stock Exchange.

Studies have examined the ARL and auditor tenure relationship. Some argue that ARL increases the first time an auditor works with a firm because they require time to familiarize themselves with the client (Abernathy *et al.*, 2017; Habib *et al.*, 2019). Some scholars have reported a negative audit tenure and ARL relationship (e.g. Dao and Pham, 2014; Durand, 2019; Habib *et al.*, 2019; Wan-ussin and Bamahros, 2013; Lee *et al.*, 2009; Wiyantoro and Usman, 2018), Abdillah *et al.* (2019) found that audit tenure does not affect ARL.

Auditors' opinions can affect ARL. These opinions—particularly qualified opinions—are not typically issued until an auditor has accomplished additional audit procedures that demand time, effort, and a long audit period. Auditors need additional time to issue qualified opinions, resulting in a longer ARL. There are significant positive relationships between ARL and going-concern and qualified/modified opinions (Durand, 2019; Habib *et al.*, 2019; Khoufi and Khoufi, 2018; Owusu-Ansah and Leventis, 2006).

Some studies have attempted to determine whether an auditor being Big 4 impacts ARL. Big 4 firms have more resources, such as advanced technology and technical experts, and are likely to accomplish audits faster (Owusu-Ansah and Leventis, 2006) than small local ones (Hassan, 2016). Several studies (e.g. Ghafran and Yasmin, 2018; Habib *et al.*, 2019; Hassan, 2016; Leventis *et al.*, 2005; Owusu-Ansah and Leventis, 2006; Rusmin and Evans, 2017; Schmidt and Wilkins, 2013) have shown that companies that use the Big 4 have shorter ARLs. Afify (2009), Hassan (2016), and Shin *et al.* (2017) found a positive relationship between the Big 4 and ARD, but others found no such relationship (Abdillah *et al.*, 2019; Al-Ajmi, 2008).

A joint audit may influence ARL (Van der Zahn, 2023). Joint audits are vigorously debated, but the empirical evidence from studies has been inconclusive, and there is no consensus on their usefulness (Al-Hadi *et al.*, 2017; IFAC, 2020; Ratzinger-Sakel *et al.*, 2013). This study attempts to resolve this joint audit dispute by exploring how said audits affect ARL.

To our knowledge, only Alfraih (2016) and Van der Zahn (2023) have explored the joint audit–ARL relationship. Alfraih (2016) used data from firms listed on the Kuwait stock exchange in 2013 and found that companies utilizing a Big 4–Big 4 joint audit pair had considerably shorter ARLs. However, this study covered only one fiscal year and examined the ARL where joint audits were required for all listed firms. This study does not compare ARLs when firms conduct joint audits and then change to single audits.

Van der Zahn (2023) explored how abolishing joint audit requirements in Kuwait impacted ARL and found that changing to single audits caused a significant increase. This study's data were nonfinancial firms listed on KSE from 2015 to 2019. The data covering only four years could imply that the findings are time sensitive (Van der Zahn, 2023). Additionally, the study only used data from one year before the joint audit requirements were abolished (2015), which may provide incomplete findings. Using data from a longer timeframe may indicate whether the findings of this study hold long-term validity.

Our study explores how joint audit regulations impact ARL before and after the regulations were abolished in 2016 using data from 2000 to 2020. The process for and issuance of reports in a joint audit may require more time than in a single audit because the auditors must meet before signing the report. However, joint audits' ARLs may be shorter because auditors can divide the work by branches, business units, geographical locations, subsidiaries, or financial statement elements (i.e. assets, liabilities, cash flow, revenue, and expenses) or on any other basis. We propose the following hypothesis:

H1. ARL is negatively associated with firms that employ joint audits.

Data and research design

Definitions of the sample and variables

Sample selection. Our sample included all publicly listed companies on KSE from 2000 to 2020, excluding the banking and financial services sectors [2]. Specifically, the sample included 102 listed nonfinancial firms. Despite limited data availability in Kuwait, our sample covered 20 years. We manually collected data from 2000 to 2012 and downloaded data from 2013 to 2020 from the Boursa website (the Kuwait Stock Exchange's official website). After combining these datasets, we generated one of the most extensive collections of information available on the Kuwaiti market. We extracted financial information, auditor names, and audit report dates from the companies' financial statements. Our sample initially included 2,555 company-year observations; however, after data refinement and excluding missing observations and outliers, our analysis covered 788 company-year observations. Table 1 presents a comprehensive overview of the sample selection process.

Audit report lag (ARL) and joint audit variables. We calculated the ARL variable by counting the days between the dates of companies' financial year-end and auditors' reports. The Joint variable is a dichotomous variable that takes a value of 1 if a company's auditor report includes two auditors' names and 0 otherwise.

Control variables. In addition to our test variables, we included control variables. Prior studies have established a negative relationship between firm size, as measured by total assets, and ARL (Habib and Bhuiyan, 2011; Meckfessel and Sellers, 2017; Shin et al., 2017; Swanson and Zhang, 2018). Size is the natural log of a firm's total assets.

Some studies have found a negative relationship between Big 4 audits and ARL (Ghafran and Yasmin, 2018; Habib et al., 2019; Hassan, 2016; Leventis et al., 2005; Owusu-Ansah and Leventis, 2006; Rusmin and Evans, 2017). Big4 is a dichotomous variable that takes a value of 1 if either of a company's auditors is a Big 4 audit firm (EY, Deloitte, KPMG, and PWC), and 0 otherwise.

Researchers (e.g. Durand, 2019; Habib et al., 2019; Khoufi and Khoufi, 2018; Owusu-Ansah and Leventis, 2006) have found a positive relationship between a firm receiving a

Table 1. Sample selection

Description	Sample size
Total population collected for the study (2000-2021)	2,555
(-) Missing data for leverage variable	(995)
(-) Missing data for ARL variable	(368)
(-) Missing data for qualified variable	(169)
(-) Missing data for joint variable	(149)
(-) Missing data for size variable	(16)
(-) Missing data for big4 variable	(10)
(-) Missing miscellaneous data from the sample	(60)
Total	788

Source(s): Table created by authors

qualified opinion and ARL. *Qualified* is a dichotomous variable that takes a value of 1 if an auditor has issued a qualified opinion to a firm in their auditor report and 0 otherwise.

Finally, previous studies have found that a firm's leverage has a positive relationship with ARL (Haw *et al.*, 2003; Knechel and Sharma, 2012; Shin *et al.*, 2017). *Leverage*, a firm's leverage ratio, is calculated by dividing its total liabilities by its total assets. All control variables were collected from the companies' financial statements.

Table 2 describes the variables.

Model

Based on the previously discussed ARL and joint auditor literature, we analyzed the ARL and joint auditor relationship by estimating the previously defined variables in the following equation using ordinary least squares:

$$ARL_{j,t} = \beta_0 + \beta_1 Joint_{j,t} + \beta_2 Size_{j,t} + \beta_3 Big4_{j,t} + \beta_4 Qualified_{j,t} + \beta_5 Leverage_{j,t} + \varepsilon_{j,t} \quad (1)$$

Results and discussion

Descriptive statistics

Table 3 shows the dataset's descriptive statistics as an overview of the dependent and explanatory variables. The observed descriptive statistics included the number of observations, mean, standard deviation, minimum, and maximum. As Table 2 shows, ARL has a mean of approximately 71 days, with a minimum and maximum of 10 and 258 days, respectively, indicating that the companies in this dataset publish audited financial reports at approximately 71 days. The 258-day maximum observed is attributable to the COVID-19 pandemic's effects on companies' financial results reporting. Overall, the dataset had relatively high variation.

Table 2. Description of variables

Variable	Description
ARL	The number of days between the firm's fiscal year end and the issuance of the auditor's report date
Joint	A dichotomous variable that takes the value of 1 if the firm has two auditors (joint audit), and 0 otherwise
Size	The natural log of total assets
Big4	A dichotomous variable that takes the value of one if either of the company's auditors' is one of the Big 4 audit firms, and 0 otherwise
Qualified	A dichotomous variable that takes the value of 1 if the firm has been issued a qualified opinion on their auditor's report
Leverage	Firm's leverage ratio calculated by dividing the firm's total debt by its total assets

Source(s): Table created by authors

Table 3. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ARL	788	70.749	26.133	10	258
Joint	788	0.565	0.496	0	1
Size	788	18.23	1.415	14.711	22.315
Big4	788	0.538	0.499	0	1
Qualified	788	0.135	0.341	0	1
Leverage	788	0.211	0.192	0	0.73

Source(s): Table created by authors

Table 3 shows that most firms in the sample (56.5%) perform joint audits, as evident from the results of the *Joint* variable. There are differences between the minimum and maximum firm *Size*, with an 18.23 mean. This difference is not concerning because using the natural logarithm of total assets in the regression equation eliminated this issue when testing our hypothesis. Most firms (53.8%) had a Big 4 firm auditing their financial reports, regardless of whether the audit was joint, as shown by the variable *Big4*. Approximately 13.5% of the observations had qualified opinions in their audited annual reports. The average leverage ratio was about 21.1%; the least-leveraged firm had a value of zero, and the most-leveraged one had a value of 73%. The main conclusion is that, overall, the variables were not skewed based on the differences in their mean, minimum, and maximum values.

Correlation analysis

Table 4 shows the pairwise correlation test results. Joint audits were significantly and negatively correlated with the ARL of audited annual financial reports ($p = 0.00$), providing preliminary H1 support. According to Table 3, ARL seemed significantly correlated with the control variables. A significant relationship observed between the independent variables could indicate multicollinearity. However, a variance inflation factor test ruled out multicollinearity when all values were below 1.63.

Empirical results

Table 5 shows the regression analysis results and all the variables' influences on ARL. Each variable had a significant relationship with ARL (R-squared = 0.217), indicating that ARL has a significant negative relationship with *Joint* and supporting H1. This shows that joint audits reduce the time required for companies to issue annual financial reports by five days on average—mainly because of the work distribution among the auditors. The results illustrate a significantly negative relationship between ARL and firm size for the control variables, showing that large firms take less time to release their annual financial reports than small ones.

This finding is consistent with Bamber *et al.* (1993), who suggested that company size creates incentives to report in a timely manner. Investors and regulators pressure large companies to release audited financial reports on time (Mitra *et al.*, 2015), and such companies pressure auditors to complete their work rapidly to meet investors' and regulators' demands (Dao and Pham, 2014). Firms with Big 4 auditors reduce their ARLs by an average of almost nine days. Additionally, firms with audits containing qualified opinions issue financial reports an average of 22 days later than firms without them. The results also show that a higher leverage ratio increases ARL by an average of 34 days.

Table 4. Pairwise correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) ARL	1.000					
(2) Joint	−0.096*** (0.008)	1.000				
(3) Size	−0.144*** (0.000)	−0.061*** (0.000)	1.000			
(4) Big4	−0.202*** (0.000)	0.097*** (0.000)	−0.027 (0.196)	1.000		
(5) Qualified	0.252*** (0.000)	−0.067** (0.019)	0.054* (0.076)	−0.004 (0.878)	1.000	
(6) Leverage	0.091** (0.011)	−0.062* (0.078)	0.534*** (0.000)	0.009 (0.799)	0.012 (0.743)	1.000

Note(s): *** $p < 0.01$, ** $p < 0.05$ and * $p < 0.1$

Source(s): Table created by authors

Table 5. Regression analysis results

ARL	Coef.	St. Err.	t-value	p-value	[95% conf	Interval]	Sig
Joint	−5.113	1.687	−3.03	0.003	−8.424	−1.802	***
Size	−5.725	0.721	−7.94	0	−7.14	−4.309	***
Big4	−8.995	1.725	−5.21	0	−12.382	−5.608	***
Qualified	22.243	2.43	9.15	0	17.473	27.014	***
Leverage	34.05	5.22	6.52	0	23.804	44.296	***
Constant	172.644	12.416	13.90	0	148.271	197.017	***
Mean dependent var		70.749		SD dependent var		26.133	
R-squared		0.217		Number of observations		788	
F-test		43.424		Prob > F		0.000	
Akaike crit. (AIC)		7196.955		Bayesian crit. (BIC)		7224.972	
Note(s): *** $p < 0.01$, ** $p < 0.05$ and * $p < 0.1$							
Source(s): Table created by authors							

Robustness tests and additional analyses

We tested the model's robustness using the Hausman test. The results give a chi-squared statistic and p -value of 14.50 and 0.0127, respectively. There is strong evidence to reject the null hypothesis and conclude that the fixed-effects model is more appropriate than the random-effects model. The difference between the two models' coefficients is systematic, not from sampling variations. We ran the model using fixed effects; as Table 6 shows, the results were robust and significant between *ARL* and *Joint*.

Our primary analysis factored in *Big4* to control for its effects. However, we wanted to explore *Big4*'s impact on the primary relationship between *ARL* and *Joint*. We conducted an additional analysis after dividing our sample into Big 4 and non-Big 4 firms. Most companies belonged to the Big 4 sample, highlighting the significance of their presence in the market. To ensure statistical accuracy, we removed the *Big4* control variable from our model before re-doing the analysis. The results of this analysis, presented in Table 7, demonstrate that the relationship between *ARL* and *Joint* remains consistent with our primary analysis. However, the negative relationship between *ARL* and *Joint* is more significant in the Big 4 sample than in

Table 6. Robustness results

Regression using fixed effects							
ARL	Coef.	St. Err.	<i>t</i> -value	<i>p</i> -value	[95% conf	Interval]	Sig
Joint	−8.186	1.484	−5.52	0	−11.101	−5.272	***
Size	−1.934	2.898	−0.67	0.505	−7.625	3.756	
Big4	0.917	2.825	0.32	0.746	−4.63	6.465	
Qualified	16.306	2.851	5.72	0	10.708	21.904	***
Leverage	33.25	9.283	3.58	0	15.024	51.477	***
Constant	100.916	52.31	1.93	0.054	−1.792	203.624	*
Mean dependent var		70.749		SD dependent var		26.133	
<i>R</i> -squared		0.125		Number of observations		788	
F-test		19.529		Prob > F		0.000	
Akaike crit. (AIC)		6702.855		Bayesian crit. (BIC)		6730.872	
Note(s): *** <i>p</i> < 0.01, ** <i>p</i> < 0.05 and * <i>p</i> < 0.1							
Source(s): Table created by authors							

Table 7. Big 4 and non-big 4 results

ARL	Coef.	St. Err.	t-value	p-value	[95% conf	Interval]	Sig
<i>Panel A: big 4 sample</i>							
Joint	−8.472	2.104	−4.03	0	−12.607	−4.337	***
Size	−8.025	0.825	−9.73	0	−9.646	−6.404	***
Qualified	21.364	2.9	7.37	0	15.664	27.064	***
Leverage	22.063	6.463	3.41	0.001	9.36	34.767	***
Constant	210.909	14.715	14.33	0	181.985	239.833	***
Mean dependent var		64.915			SD dependent var		24.140
R-squared		0.265			Number of obs		424
F-test		37.690			Prob > F		0.000
Akaike crit. (AIC)		3781.883			Bayesian crit. (BIC)		3802.131
Note(s): *** $p < 0.01$, ** $p < 0.05$ and * $p < 0.1$							
ARL	Coef.	St. Err.	t-value	p-value	[95% conf	Interval]	Sig
<i>Panel B: non-big 4 sample</i>							
Joint	−1.441	2.649	−0.54	0.587	−6.651	3.768	
Size	−2.271	1.25	−1.82	0.07	−4.73	0.188	*
Qualified	25.234	4.027	6.27	0	17.315	33.153	***
Leverage	35.735	8.375	4.27	0	19.264	52.207	***
Constant	108.178	21.441	5.04	0	66.013	150.344	***
Mean dependent var		77.544			SD dependent var		26.748
R-squared		0.156			Number of obs		364
F-test		16.545			Prob > F		0.000
Akaike crit. (AIC)		3372.946			Bayesian crit. (BIC)		3392.432
Note(s): *** $p < 0.01$, ** $p < 0.05$ and * $p < 0.1$							
Source(s): Table created by authors							

the non-Big 4 one. Our study also highlights the importance of considering the presence of Big 4 firms in joint audits, given their significant impact on ARL reduction.

We also investigated whether profit or loss impacted our findings. We divided the sample into two groups, one comprising profitable firms and the other including firms that incurred losses. Our analysis’s [3] adjusted rerun had results that closely mirrored our initial findings. Table 8 details the profit and loss firm analysis, revealing that profitability does not affect the ARL and joint auditor relationship in our context.

We explored the impact of firm size on our analysis in greater depth using an untabulated analysis. To do this, we introduced a dichotomous variable called *SizeSplit*, which had a value of 1 if the company size exceeded the average total assets size of the sample, and 0 otherwise. We then split the *SizeSplit* sample into two sub-samples (sub-sample *SizeSplit* = 0 and *SizeSplit* = 1) and reran the initial model for each sub-sample. The results align with our initial findings, showing that *ARL* and *Joint* are both significantly negatively associated in both sub-size categories.

Conclusion

This study examines joint audits’ impact on financial statement timeliness in Kuwait, an emerging market, using a sample of firms listed on the Kuwait Stock Exchange from 2000 to 2020. The results show that joint audits are negatively associated with financial statements’

Table 8. Profitable firms and loss firms samples results

ARL	Coef.	St. Err.	t-value	p-value	[95% conf	Interval]	Sig
<i>Panel A: profit firms sample</i>							
Joint	-5.396	1.603	-3.37	0.001	-8.541	-2.25	***
Size	-2.662	0.527	-5.05	0	-3.695	-1.628	***
Qualified	22.221	2.344	9.48	0	17.621	26.821	***
Big 4	-9.569	1.55	-6.17	0	-12.61	-6.528	***
Constant	124.621	9.598	12.98	0	105.787	143.455	***
Mean dependent var		69.847		SD dependent var		25.607	
R-squared		0.155		Number of obs		991	
F-test		45.263		Prob > F		0.000	
Akaike crit. (AIC)		9081.605		Bayesian crit. (BIC)		9106.099	
Note(s): *** $p < 0.01$, ** $p < 0.05$ and * $p < 0.1$							
ARL	Coef.	St. Err.	t-value	p-value	[95% conf	Interval]	Sig
<i>Panel B: loss firms sample</i>							
Joint	-6.25	27.665	-0.23	0.822	-61.212	48.713	
Size	3.777	2.492	1.52	0.133	-1.173	8.727	
Qualified	7.742	7.806	0.99	0.324	-7.766	23.25	
Big 4	0.727	5.715	0.13	0.899	-10.628	12.081	
Constant	19.971	52.559	0.38	0.705	-84.447	124.389	
Mean dependent var		82.189		SD dependent var		27.255	
R-squared		0.035		Number of obs		95	
F-test		0.818		Prob > F		0.517	
Akaike crit. (AIC)		903.197		Bayesian crit. (BIC)		915.966	
Note(s): *** $p < 0.01$, ** $p < 0.05$ and * $p < 0.1$							
Source(s): Table created by authors							

timeliness, as measured by the ARL, suggesting that joint audits lead to timely financial reporting. We also assessed the impact of the Big 4, profitability, and firm size on our findings. The results are robust and align with our initial conclusions.

The findings have several implications for regulators and policymakers. First, mandating joint audits leads to timely financial reporting. Second, regulators and policymakers should consider the potential implications of removing mandated joint audits, such as longer ARL. Third, regulators and policymakers should consider alternative methods to improve financial reporting quality, such as strengthening audit standards and increasing auditor independence. They should carefully consider mandated joint audits' costs and benefits before making decisions.

This study has several limitations. First, the results and analysis are based on an emerging capital market setting, although the international auditing and accounting standards applied to it are consistent with those developed countries implemented. Second, the sample size was relatively small; however, robustness tests confirmed our findings' significance and validity.

Future studies should investigate joint audits' impact on audit quality to determine whether potential ARL increases are offset by potential audit quality improvements. Researchers could also consider whether joint audits' benefits outweigh their costs. Finally, future studies could examine the market concentration of auditing firms and their relative competitiveness after the joint audit mandate was removed.

Notes

1. Existing papers on financial reporting use “audit report lag” and “timeliness of financial statements” interchangeably.
2. This is because the Central Bank of Kuwait still enforces joint audits for all banks in Kuwait.
3. Our initial examination found that 99.6% of the sampled firms were profitable, and the remaining firms (three observations) experienced losses. We were unable to run the model for the loss firms’ sample, but when we excluded the *Leverage* control variable, the loss firms sample increased (95 observations) and yielded results similar to our initial findings.

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Further reading

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