



## Impact of Audit Report Lag, Institutional Ownership and Board Characteristics on Financial Performance

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### Abstract

The present study's main objective is to assess the impact of audit report lag, institutional ownership, and board characteristics on the financial performance of listed firms on the Tehran Stock Exchange.

126 firms were assessed for this study during 2013-2017. To assess the firm performance, two criteria of ROE and ROA were used, and Audit Report Lag is measured via the number of days between the end of the firm's fiscal year and the audit report's date.

Results show that audit report lag has a negative and significant relationship with ROA and ROE. A decrease in the number of days spent by independent auditors for signing annual reports would probably enhance firm performance. Moreover, board independence and board size have a negative impact on firm performance. In contrast, institutional ownership has a positive effect on firm performance, and the gender diversity of board members does not affect firm performance.

Reporting lag is more related to patterns and dominant norms in the industry than analyzed firms' features. Besides, Governance characteristics like Institutional Ownership and Board Characteristics are of great importance for creating economic sustainability in developing countries. In the emergent markets and developing countries, like Iran with a specific ownership structure, governmental policies, culture, and more importantly, corporate governance system and which is faced with economic sanctions and its dominant norms can be different from that of the other countries, the impact of audit report lag and governance characteristics may be different on financial performance. Also, due to the global nature of the economy and the possibility of investing in each global capital market, performing this research and its results are necessary for facilitating decision-making during investing in Iranian firm stocks, which are a reason for conducting this paper.

**Keywords:** Audit Report Lag, Institutional Ownership, Board Characteristics, Financial Performance

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## 1. Introduction

Information timeliness is one aspect of relatedness, which means that before losing the effectiveness of decisions, the information should be available to decision-makers. Otherwise, it would be of no use for future actions (IASB). Lack of timeliness can affect related information. For example, the usefulness of firm reports may be associated with the lag in presenting reports. By increasing the lag, financial information will become less significant in the decision-making process (Atiase et al., 1989). Moreover, due to the growth and development of economic firms and more commercial deals, making a decision asks for related and timely information based on which one would allocate limited resources in an optimum trend. Hence, timely information contributes to market efficiency and would cause transparency, backing investors, and risk mitigation that finally enhances the quality of financial reporting and performance (Al-Ajmi, 2008).

On the other hand, since the firm's surrounding environment has changed, the features of corporate governance changes, as well, and the board of directors is the final element in charge of implementing corporate governance (Fuller and Jensen, 2003). Hence, it can be argued that different characteristics of corporate governance and the board contribute to financial reporting and firm performance.

Financial reporting timeliness is the main factor of the emergent and developed markets. Audited financial statements in the annual report are the only trusted information source available to the users (Azubike & Aggreh, 2014). In addition to an adverse effect of inappropriate corporate governance policies on firm credit and reputation within a financial community (McGee & Yuan, 2011), financial reporting lag also has a negative effect on firm reputation. It would cause the firm not to attract the capital successfully (Agyei-Mensah, 2018), which is a reason for assessing the impact of financial reporting lag (FRL) and corporate governance features on firms' financial performance in this paper.

Previous studies on the relationship between timely reporting, corporate governance, and firm performance have shown undeniable results. Bijalwan and Madan (2013) declare that corporate governance policies, transparency, and information disclosure are associated positively with firm performance. On the other hand, Hassan et al. (2008) state that there is no relationship between transparency (especially about timely reporting and amount of information disclosure) and firm performance in Malaysian firms. Further, according to Agyei-Mensah (2018), financial reporting lag is associated negatively with firm performance. When firms' financial performance is high, it is less likely to disclose the condition early to the people.

Corporate governance is of great importance for creating economic sustainability in developing countries (Matama, 2008). It is an essential factor in developing financial markets and firm value, especially in the emergent markets (La Porta et al., 1997, 1998, 2000). Since in the emergent markets and developing countries, like Iran, which is faced with economic sanctions and its dominant norms (especially corporate governance topics) can be different from that of the other countries, the impact of corporate governance features and FRL may be different on financial performance. For example, the results of studies of Bebchuk et al. (2004) and Klapper and Love (2004) indicate that better corporate governance enhances performance, while Eisenberg et al. (1998) show that there is a negative relationship between corporate governance and firm performance.

In this paper, the impact of timely reporting and corporate governance features on firm performance is studied using the accounting information. Firm performance is measured using two accounting ratios: return on assets (ROA) and return on equity (ROE). Higher ROA and ROE show that corporate governance mechanism is more effective (Misha and Kapil, 2017). Moreover, accounting-based scales are of high

priority in assessing corporate governance because they reflect management capability in increasing value to the firm (Agyei-Menash, 2018).

Conducting this study is crucial in a developing country like Iran with a specific ownership structure, economic status, legal system, governmental policies, culture, and, more importantly, the corporate governance system. Besides, due to the global nature of the economy and the possibility of investing in each global capital market, performing this research and its results are necessary to facilitate decision-making during investing in Iranian firm stocks.

In the following sections, first, theoretical principles, the study's literature, and hypothesis development are described. The third section is about the research method, which includes the type of study and statistical population. The fourth section talks about data analysis and research findings, and the last section is on discussion and conclusion.

## 2. Theoretical Principles and Literature Review

### 2.1. Audit report lag and firm performance

Due to the information relatedness and effectiveness in decisions of external users of financial information, timely reporting of firms is an essential qualitative factor and a significant financial accounting component, so report usefulness may have a negative relationship with reporting lag (Agyei-Menash, 2018). The more the number of days the firm spent on publishing annual reports, the less profitable the information is in financial reporting (Al-Ajmi, 2008). On the other hand, if firms have fewer days for delivering their annual reports, the information would have higher usefulness. Hence, financial reporting lag is a determining factor in financial information usefulness available to external accounting information (Alkhatib and Marji, 2012). Nelson and Shukeri (2011) posit that losing firms, compared with profitable firms, have a longer lag in presenting audit reports. Bijalwan and Madan (2013) declare that corporate governance, transparency (timeliness), and information disclosure are associated with firm performance. On the other hand, Hassan et al. (2008) concluded that there is no relationship between transparency (especially about timely reporting and level of information disclosure) and firm performance in Malaysian firms.

Gabriel (2012) states that audit committee sessions positively correlate with financial reporting quality and timeliness. This means that the frequency of audit committee sessions could considerably cause timely reporting of audited financial statements. Moreover, Sharinah et al. (2014) conclude that audit committee sessions and committee member independence and audit committee are associated with financial reporting timeliness in Nigeria.

Moreover, it is expected from ownership concentration to affect the reporting timeliness. However, the studies that associate the block ownership with financial reporting timeliness are scarce (Agyei-Menash, 2018). Abdelsalam and Street (2007) conclude that block ownership causes less timeliness of financial reporting. Further, Ezat and El-Masry (2008) state a significant relationship between ownership structure and financial reporting timeliness.

Although firms are willing to the late disclosure of bad news and the amount of market reaction to early and late notices is different, reporting lag is more related to patterns and dominant norms in the industry than analyzed features (Givoly & Palmon, 1982). Hence, reporting lag is studied concerning the ownership structure, economic condition, legal system, governmental policies, culture, and specific corporate governance system of listed firms on the Tehran Stock Exchange.

Regarding the present theoretical principles, the first hypothesis is as follows:

H<sub>1</sub>: Audit report lag has a significant *impact on* firm performance.

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## 2.2. Institutional ownership, board characteristics, and firm performance

Corporate governance mechanisms are a tool for improving agency problems. Among these mechanisms, the board's supervisory role is a significant component in corporate governance, and its effectiveness is determined concerning the board size, composition, and independence (John and Senbet, 1998). The previous studies show that managers are willing to affect investors' understanding through timely disclosure of accounting reports and show the behaviors based on the early presentation of good news and late presentation of bad news (e.g., Givoly and Palmon, 1982; Chamber and Penman, 1984). Regarding the organization environment change and board responsibility in implementing corporate governance (Fuller and Jensen, 2003) and due to the effectiveness of corporate governance policies in firm reputation and credit (McGee and Yuan, 2011), different characteristics of the board can contribute to the manner of absorbing capital and consequently firm performance. Hence, according to the previous studies and the present study's objectives, four corporate governance features, including board size, board independence, board gender diversity, and institutional ownership, were selected.

The board of directors plays a significant role in corporate governance. According to the agency theory, one can claim that in larger boards, more people are evaluating and supervising management decisions, so the chance of the presence of agency problems is higher. This is because larger boards benefit from a variety of business expertise, which could lead to more effectiveness in supervision and, consequently, accountability and better disclosure of firms. Larger boards benefit from cumulative expertise and are more competent in performing duties (Akhtaruddin et al., 2009). Ezat and El-Masry (2008) state that larger boards improve the timeliness of financial statements. However, some studies show that larger boards cause communicational problems that lead to the decline of partnership and higher conflict of interests before reaching an agreement, and performance drop (Dimitropoulos and Asteriou, 2010). Ujunwa (2012) declares a negative relationship between board size and firm performance, while Nguyen et al. (2014) indicate that such a relationship is positive. However, the findings of a broad spectrum of studies are indicative of a negative relationship.

Unbounded managers are those affiliates who do not work in the firm. They are like a control mechanism with independent supervisory performance. The effect of independent managers on firm performance has different results. Luna and Tang (2007) conclude that independent managers enhance firm performance. Azeez (2015), however, figures out that the presence of people outside the organization in the board composition does not help the firm performance. Some others (like Adjoud et al., 2007; Erkens et al., 2010) reveal that independent managers have no significant impact on firm performance. According to Kelton and Yang (2008), a high percentage of independent managers on the board can intensify managerial opportunism supervision, lowering management's chance of not disclosing timely information. Hence, the board under the influence of unbounded independent managers deprive of management benefits is likely to strengthen firm compliance with information disclosure necessities that may finally lead to timely financial reporting. In general, available studies in the emergent markets on the impact of independent managers on firm performance have had different results.

The agency theory shows that a board with different ethnic and gender backgrounds can improve board independence and strengthen managerial supervision (Cabedo & Tirado, 2004; Elzahar & Hussainey, 2012). Studies related to gender diversity are based on the belief that women add different characteristics to the board, which causes the board to have better supervision on managerial decisions. On the other hand, gender diversity in a firm's managerial team bears some losses for the organization (Agyei-

Menash, 2018). Studies indicate that the relationship between board gender diversity and firm performance has had different results. Adams and Ferreira (2009) analyze women's board members' effect on corporate governance and American firms' performance. Results show that women board members make more supervision attempts, but their impact on firm performance is negative on average. Moreover, Darmadi (2013) declares that senior women managers have a negative association with ROA and Tobin's Q, and this shows that employing women does not lead to firm performance enhancement. However, Carter et al. (2003) state that firms with at least two women on the board, compared with firms with men members on the board, have better ROA and Tobin's Q. Besides, Eklund (2007) and Rose et al. (2009) conclude that the proportion of women on the board has no significant association with accounting and market performance.

Institutional investors are among crucial corporate governance mechanisms (Shleifer & Vishy, 1997), and regarding their considerable proportion in the firm, they are motivated enough for controlling management behavior (Jensen, 1993). Moreover, institutional investors play a significant role in aligning management interests with investors (Solomon, 2010). The current literature is not clear about the direction of the relationship between institutional ownership and firm performance. A part of the literature shows a positive and significant relationship, and the other part refers to the negative and significant relationship between institutional ownership and firm performance. For example, Cornett et al. (2007) state that there is a positive and meaningful relationship between institutional investors and return on operational turnover (as a criterion for firm performance), while the study of Bhattacharya & Graham (2007) reveal some evidence from a negative relationship between institutional ownership and firm performance.

Since the other objective of the present study is to assess the impact of corporate governance features on the financial performance of listed firms on the Tehran Stock Exchange, the following hypotheses are formulated based on the objective of the study and the proposed theoretical principles:

H<sub>2</sub>: Institutional ownership has a significant *impact on* firm performance.

H<sub>3</sub>: Board member independence has a significant *impact on* firm performance.

H<sub>4</sub>: Board size has a significant *impact on* firm performance.

H<sub>5</sub>: Board gender diversity has a significant *impact on* firm performance.

### 3. Research Methodology

The statistical population of the present study includes all listed firms on the Tehran Stock Exchange with the following conditions:

- Their financial periods should be set on March;
- Selected firms should not be affiliated with investment, financial intermediaries, holdings, and banks; and,
- The required information should be presented for the period of study from 2013-2017.

According to the evaluations and by imposing the available population's abovesaid limitations, 126 firms were selected.

Model 1 is used for testing the hypotheses as follows:

$$\text{Performance}_{it} = \alpha + \beta_1 \text{ARL}_{it} + \beta_2 \text{IO}_{it} + \beta_3 \text{BI}_{3it} + \beta_4 \text{BS}_{it} + \beta_6 \text{BGD}_{it} + \beta_5 \text{LEV}_{it} + \beta_7 \text{LIQ}_{it} + \beta_7 \text{SIZE}_{it} + \beta_8 \text{IndustryDum}_{it} + \beta_9 \text{YearDum}_{it} + \varepsilon_{it}$$

Performance: firm performance. Accounting-based scales about corporate governance are a top priority because they reflect the management capability to add value to the firm (Agyei-Menash, 2018). In this paper, two accounting ratios, namely Return on Assets (ROA) and Return on Equity (ROE), are used, which are derived from

other studies, including Machek and Kubicek (2018). ROE shows how much return can be created by a firm with the invested money by shareholders. This criterion is one of the most important parameters for firm investors (Gupta and Sharma, 2014). Moreover, ROA is usually used to measure firm performance in corporate governance literature (Al-Matari et al., 2014).

ARL: Audit report lag. This variable is measured via the number of days between the firm's end of the financial year and the audit report date. Audit report date may not be exactly the day firms publish the financial information. Still, according to the studies of Agyei-Menash (2018), McGee (2007), and Leventis et al. (2005), audit report date has been used as a surrogate for date of release.

IO: institutional ownership that the percentage of institutional ownership is considered in this paper.

BI: board independence, which is the proportion of unbounded managers to total board members.

BS: board size, which is computed based on the firm board's natural logarithm's total number.

BGD: board gender diversity. Similar to the study of Abbott et al. (2012), in this paper, if at least one woman exists in board 1, otherwise, 0 will be assigned.

LEV: financial leverage, which is computed from none current debts to equity. Studies show different results about the relationship between financial leverage and firm performance. The positive effect on firm performance may be due to creditors' conducted supervision (Saidat et al., 2019).

LIQ: liquidity that, according to the studies of Arping and Sautner (2010) and Agyei-Menash (2018), is calculated based on current assets to current debts. The previous studies show that the amount of liquidity and profitability contributes negatively to the financial crisis (Parker et al., 2002; Wang and Deng, 2006). Financial leverage ratios and liquidity ratios are used to control a firm's financial status (Shahwan, 2015).

SIZE: the firm size that is computed based on the natural logarithm of total assets. Firm size is analyzed in several studies (Cassar & Holmes, 2003; Al-Matari et al., 2012). It is assumed that firm size is probably correlated positively with firm performance. Joh (2003) expresses that larger firms have probably better opportunities than smaller ones, a chance that can increase the firm value.

IndustryDum: dummy variable for controlling the industry effect.

YearDum: dummy variable for controlling the effect of changes during time.

**Table 1.** Descriptive statistics of the study

Variable	No. of observations	Minimum	Maximum	Mean	Standard deviation
ROA	630	-0.81	3.84	0.176	0.183
ROE	630	-0.812	2.891	0.282	0.482
ARL	630	21	124	78.12	28.248
IO	630	0	0.848	0.679	4.67
BI	630	0.274	0.867	0.621	2.38
BS	630	1.083	1.963	1.710	0.589
BGD	630	0	1	0.191	0.283
LEV	630	0.185	2.627	0.655	0.245
LIQ	630	0.283	4.852	1.3745	0.64472
SIZE	630	10.172	18.831	13.924	1.523

Resource: Research findings

#### 4. Research Findings

The descriptive statistics related to qualitative and quantitative variables are depicted

in Table 1. Evaluations show that the average return on assets and return on equity is 0.176 and 0.482. Besides, the number of days between the firm's financial year and the audit report date is 78 days, on average.

In the following, tests of stationary, linearity, normality of errors, and variance heterogeneity are presented. The stationary condition of variables is measured using Eviews Software and Levin, Lin, and Chu test method. Table 2 illustrates the results of this test.

**Table 2.** The results of the stationary condition of variables

Variable	Levin, Lin, and Chu test		Result
	Statistics	Sig.	
ROA	-14.2	0.000	H0 is rejected (variable is stationary)
ROE	-23.4	0.000	H0 is rejected (variable is stationary)
ARL	-5.1	0.000	H0 is rejected (variable is stationary)
IO	-42.1	0.000	H0 is rejected (variable is stationary)
BI	-9.5	0.000	H0 is rejected (variable is stationary)
BS	-4.46	0.000	H0 is rejected (variable is stationary)
BGD	-18.6	0.000	H0 is rejected (variable is stationary)
LEV	-4.42	0.000	H0 is rejected (variable is stationary)
LIQ	-6.1	0.000	H0 is rejected (variable is stationary)
SIZE	-3.8	0.000	H0 is rejected (variable is stationary)

Resource: Research findings

Table 2 shows that all probabilities are less than 5%, so the null hypothesis is rejected, and all variables are stationary. In the following, the Jarque-Bera test is used for analyzing error normality. This test's null hypothesis is for the normality of time series, so based on this test and its probability, the null hypothesis is accepted, which shows the normality of errors. Bartlett test is used to assess the fixation of error variance. The null hypothesis of this test is based on variance homogeneity. This test's probability value is more than 5%, so we can accept the null hypothesis concerning variance homogeneity. Moreover, the Chow test (selecting model using pooling and panel method) and Hausman test (selecting model with fixed or random effects) are used to estimate the model, computing the coefficients and parameters, and select the model. The obtained results from the two tests show model estimation based on the panel model with fixed effects. Table 3 shows the results of this test.

**Table 3.** The results of Chaw, Hausman, normality, and variance homogeneity

With the dependent variable of ROA			With the dependent variable of ROE		
Test	Sig.	Test result	Test	Sig.	Test result
Jarque-Bera	0.21	Normality of errors	Jarque-Bera	0.43	Normality of errors
Bartlett	0.24	Variance homogeneity	Bartlett	0.24	Variance homogeneity
F	0.00	The model with panel data method (Panel)	F	0.00	The model with panel data method (Panel)
$\chi^2$	0.04	Model with fixed effects	$\chi^2$	0.03	Model with fixed effects

Resource: Research findings

Finally, Table 4 shows the results of model estimation with fixed effects and related coefficients to each variable

**Table 4.** The results of model estimation with fixed effect and related coefficient to each variable

Variable	The model with the dependent variable of ROA				The model with the dependent variable of ROE			
	Coefficient	Sig.	Test of linearity		Coefficient	Sig.	Test of linearity	
			VIF	Tolerance			VIF	Tolerance
Constant	0.211	0.000	-	-	0.000	0.322	-	-
ARL	-0.35	0.000	1.340	0.746	0.000	-0.29	1.340	0.746
IO	0.24	0.001	1.445	0.692	0.002	0.2	1.445	0.692
BI	-0.15	0.014	1.120	0.893	0.023	-0.26	1.120	0.893
BS	-0.29	0.018	1.290	0.775	0.036	-0.37	1.290	0.775
BGD	0.25	0.056	1.495	0.669	0.061	0.42	1.495	0.669
LEV	-0.03	0.038	1.279	0.782	0.029	-0.06	1.279	0.782
LIQ	0.44	0.000	1.350	0.741	0.000	0.28	1.350	0.741
SIZE	0.33	0.048	1.202	0.832	0.039	0.24	1.202	0.832
Industry Dummy	Considered				Considered			
Year Dummy	Considered				Considered			
Coefficient of determination	0.59	-		0.47	-			
Durbin-Watson statistic	1.73	-		1.89	-			
F statistic	18.685	0.000		14.766	0.000			

Resource: Research findings

The results of Table 4 indicate that at the 5% error level, a unit increase in the variable of Audit report lag causes a decrease in firm performance indices of ROA and ROE by -0.35 and -0.29. In other words, the higher the Audit report lag, the less is the firm performance. Hence, the first hypothesis of the study is confirmed.

Moreover, at 5% error level, a unit increase in the institutional ownership variable increases firm performance indices of ROA and ROE by 0.24 and .02. In other words, the higher the institutional ownership, the higher is the firm performance. Hence, the second hypothesis of the study is confirmed.

A unit increase in board independence variable causes an increase in firm performance indices of ROA and ROE by -0.15 and -0.026. Regarding the significance of less than 0.05, we could say that higher board independence in the firm lowers the firm performance. So, the third hypothesis is confirmed.

The results of Table 4 show that a 5% error level, a unit increase in the variable of board size, causes a decrease in firm performance indices of ROA and ROE by -0.37 and -0.029. In other words, the larger the board size, the less is the firm performance. Hence, the fourth hypothesis of the study is confirmed.

On the other hand, although the coefficient of effectiveness of the variable of board gender diversity on firm performance variables of ROA and ROE is 0.25 and 0.42, respectively, since the level of significance for the effect of board gender diversity on firm performance is more than 0.05, the impact of board gender diversity on performance is not significant, so the fifth hypothesis is rejected.

The results of VIF test show that VIF is less than 10, so there is no multicollinearity. Moreover, the Durbin-Watson statistic for both models is 1.73 and 1.89, which is less than 2, so there is no autocorrelation problem. Besides, tolerance is variables is more than 0.2. A tolerance statistic of less than 0.2 indicates a potential multicollinearity problem, so this paper has no serious collinearity problems. In general, there is no problem with collinearity, multicollinearity, and autocorrelation. The coefficient of



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determination of 0.59 and 0.47 for both models is indicative of the high explanatory power of the model. The F statistic of less than 0.05 means the significance of the entire regression.

## 5. Discussion

Due to the information timely and its effectiveness in external users' decisions, timely reporting is an essential qualitative factor and a significant financial accounting component. Descriptive statistics reveal that during the study period, the mean audit report lag of firms is 78 days, which seems logical concerning the operating instructions of information disclosure of listed firms on the Tehran Stock Exchange. The results of regression analysis show that audit report lag has a negative and significant relationship with ROA and ROE, so decreasing the number of days spent by independent auditors for signing annual reports would probably lead to the enhancement of firm performance, which is in line with the results of Agyei-Menash (2018) and Dogan et al. (2007). Another interpretation from this condition is that in increasing the firm (good news), the firm is probably willing to disclose the information sooner. Firms with inappropriate financial performance also try to present their financial reports with more lag. Besides, we can conclude that firms with favorable financial performance usually have fewer problems cooperating with their auditors, so the duration of time for auditors' duties will decrease.

Moreover, corporate governance features, like board independence and board size, have a negative impact on firm performance, while institutional ownership has a positive effect on firm performance. The results of Darko et al. (2016) and Agyei-Menash (2018) show that board independence has a negative and significant effect on ROE. This result does not follow the agency theory because, based on this theory, independent managers have more effective supervision on management, increase profitability, and decrease management's opportunistic behavior that finally increases the firm performance. Although larger boards benefit from a variety of business expertise that leads to more effectiveness in supervision and better accountability and disclosure of firms (Akhtaruddin et al., 2009), on the other hand, larger boards cause some communication problems that lower the performance, participation, and conflict of interests before reaching an agreement (Dimitropoulos and Asteriou, 2010) that could be an argument for the result of the present study. The results of this paper are in line with that of Ujunwa (2012) and Eisenberg et al. (1998) but in conflict with that of Nguyen et al. (2014). Moreover, the results of Agyei-Menash (2018) show that the impact of board size on ROA and ROW is not significant. Also, the results of this study suggest that institutional ownership has a positive effect on firm performance, while the results of Agyei-Menash (2018) show no significant relationship. Institutional investors are an important corporate governance mechanism (Shleifer and Vishny, 1997). Since they have a considerable share in the firm, they are motivated to control the management behavior (Jensen, 1993), leading to firm performance growth.

The results of this paper show that the gender diversity of board members does not affect firm performance, which is in line with that of Rose (2007), Agyei-Menash (2018), and Eklund et al. (2009). Studies show that the relationship between board gender diversity and firm performance has yielded different results. The results of Adams and Ferreira (2009) express that women board members try harder for supervision, but their influence on firm performance is negative on average. Moreover, Darmadi (2013) states that employing women is not in line with firm performance. However, Carter et al. (2003) declare that firms with at least two women on their boards, compared with firms with men in their boards, have better performance. In Iran, according to Sepasi and Abdoli (2016), there is no evidence concerning the direct

impact of the presence of a woman on the board on firm value. Still, women on the board contribute to financial performance and affect the firm value. Moreover, this study shows that financial leverage contributes negatively to firm performance, but liquidity and firm size positively affect firm performance. Although Agrawal and Knoeber (1996) declare that financial leverage has a positive association with firm performance, this paper's results align with Andrade and Kaplan (1998). They argue that firms with higher financial leverage have worse performance than firms with lower financial leverage. Myers (1977) believes that higher levels of financial leverage may have a negative impact on firm performance due to the problem of not investing in the firm. This is while the increase of financial leverage hinders the firm capability to increase new debts. This result conforms to the studies. Furthermore, previous studies indicate that the amount of liquidity and profitability contribute negatively to the chance of financial crisis (Parker et al., 2006; Wang and Deng, 2002), and liquidity condition can be a criterion for appropriate firm performance. Besides, large firms probably have better opportunities than smaller ones that could increase the firm value (Joh, 2003).

## **6. Conclusion**

Reporting lag is more related to patterns and dominant norms in the industry than analyzed firms (Givoly & Palmon, 1982). Besides, Governance characteristics like Institutional Ownership and Board Characteristics are of great importance for creating the basis of economic sustainability in developing countries (Matama, 2008) and is an important factor in developing financial market, especially in the emergent markets (La Porta et al., 1997, 1998, 2000). In the emergent markets and developing countries, like Iran with a specific ownership structure, governmental policies, culture, and more importantly, corporate governance system and which is faced with economic sanctions and its dominant norms can be different from that of the other countries, the impact of audit report lag and governance characteristics may be different on financial performance. Due to the global nature of the economy and the possibility of investing in each global capital market, performing this research and its results are necessary to facilitate decision-making during investing in Iranian firm stocks. Hence, the topic of reporting lag and institutional ownership and board characteristics are studied concerning the ownership structure, economic condition, legal system, governmental policies, culture, and specific corporate governance system of listed firms on the Tehran Stock Exchange, and this study attempts to assess the impact of audit report lag, institutional ownership and board characteristics on financial performance.

According to the findings, timely reporting of firms is a significant factor. Firms that have no proper planning for their financial reporting are probably faced with problems in attracting capital. Besides, the present study some operating applications about firm managers, such that the presence of appropriate composition of board members can contribute significantly to firm performance. In this paper, only two criteria were used for measuring firm performance. However, utilizing other performance indices can contribute to the enrichment of the results of this paper. It is worth mentioning that firm performance is not merely limited to these two measurement criteria and other measurements, like net profit margin, Tobin's Q, economic value-added can be included, as well. Moreover, data collection has been limited to five years, so by extending the study's duration and using more comprehensive data, this paper's results can change.

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**Impact of  
Audit Report  
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