The Impact of Financial Distress on the Relationship between Managerial Ability and Audit Report Timeliness Evidence from Companies Listed on the Egyptian Stock Exchange

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Abstract:

Purpose – This study aims to test if there is a relation between managerial ability and audit report timeliness, as well as the relation between managerial ability and audit report timeliness conditioned on financial distress. The study was conducted on companies listed on the Egyptian Stock Exchange (EGX 100 Index).

Design/methodology/approach – Sample includes 65 companies (325) firm-year observations from non-financial companies listed on the Egyptian Stock Exchange (EGX 100 Index), during the period from 2016 to 2020. And the research hypothesis was tested using a multi-linear Regression model based on panel data.

Findings – The results show that there is a negative and significant relation between managerial ability and audit report timeliness, meaning the greater the managerial ability, the lower the timing of issuing the audit report, which leads to speed up the issuance of the report. The results also show that the negative relation between managerial ability and audit report timeliness is weaker because it is financially distressed. These findings are

robust to an alternative measure of managerial ability, audit report timeliness, and sensitivity analysis.
Originality/value –The findings of the study are not only extended to the extant theoretical literature concerning the managerial ability in emerging capital market of Egypt, but also help users of financial reports and audit reports to determine the factors affecting the timing of releasing the auditor's report, and determining the economic value of the information contained in these reports to make informed decisions. It also provides useful information for regulators about companies' motives for delaying the auditors' report.
Keywords: Managerial ability – Financial Distress- Audit Report Timeliness.

أثر التعثر المالى على العلاقة بين الكفاءة الادارية وتوقيت إصدار تقرير المراجعة دليل من الشركات المسجلة فى البورصة المصرية

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ملخص :

الغرض - تهدف هذه الدراسة إلى اختبار العلاقة بين القدرة الإدارية وتوقيت إصدار تقارير المراجعة ، كما تهدف الى اختبار أثر التعثر المالى على توقيت إصدار تقرير المراجعة . وقد إجريت الدراسة على الشركات المقيدة بالبورصة المصرية (مؤشر EGX 100)
المنهجية - إجريت الدراسة على عينة مكونة من ٦٥ شركة من الشركات غير المالية المدرجة في البورصة المصرية تتضمن (٣٢٥) مشاهدة شركة – سنة ، فى الفترة من (٢٠١٦-٢٠٢٠) وتم اختبار فرضين البحث باستخدام نموذج الانحدار المتعدد.
النتائج - أشارت النتائج الى وجود علاقة سلبية ومعنوية بين القدرة الإدارية وتوقيت إصدار تقرير المراجع ، مما يعني أنه كلما زادت القدرة الإدارية ، انخفض توقيت إصدار تقرير المراجعة ، مما يؤدي إلى سرعة إصدار التقرير. كما أشارت النتائج

أيضًا أن العلاقة السلبية بين القدرة الإدارية وتوقيت إصدار تقرير المراجع أضعف فى حالة التعثر المالى. وقد قام الباحث بتأكيد نتائج الدراسة باستخدام مجموعة من الاختبارات الإضافية، وتحليل الحساسية.
الأصالة /الاضافة- لا تعمل نتائج الدراسة على توسيع الأدبيات النظرية الموجودة فيما يتعلق بالقدرة الإدارية في سوق رأس المال في مصر فحسب، بل تساعد أيضًا مستخدمي التقارير المالية وتقارير المراجعة على تحديد العوامل التي تؤثر على توقيت إصدار تقرير المراجع وذلك من خلال تحديد أثر الكفاءة الادارية والتعثر المالى على توقيت إصدار تقرير المراجعة ، وتحديد القيمة الاقتصادية للمعلومات الواردة في هذه التقارير. كما توفر معلومات مفيدة للمنظمين حول دوافع الشركات لتأخير تقرير المراجع مما يؤثر على تقييم المخاطر للمراجعيين أثناء إجراءات المراجعة.
الكلمات المفتاحية: القدرة الإدارية – التعثر المالى - توقيت إصدار تقرير المراجع.

Introduction :

Providing information that helps external users in making decisions is one of the important objectives of corporate financial reports, however, this information must be provided within a short period of time after the reporting period ends, or the report will lose some of its economic value (Al-Ajmi, 2008), with timeliness being one of the most important characteristics that supports the qualitative characteristics that must be available in financial reports.

Moreover, accounting standards-setting bodies around the world have addressed the timeliness of financial reports as achieving the highest critical quality of financial information, as the delay in publishing it may harm both the decision-makers and the concerned users (Brown et al., 2011). For example, the Financial Accounting Standards Board in 2010 referred to the availability of timely information as “a set of information available to decision-makers before it loses its ability to affect decisions” (FASB, 2010).

Sakka and Jarboui.(2016) also indicated that decision-makers choices are greatly affected by the timing of the information available to them, and timeliness can also be seen as a strategy to decrease information asymmetry by enhancing stock prices, lowering insider trading, leaks, and rumors in the market, and reduce the chance of spreading rumors about company's financial performance. According to the characteristic of appropriate timing, the audit report must be available before information in this report loses its power to affect decision-makers (Delaney et al.,1997), and in developing markets, financial reports are the primary source of information available to shareholders (Al-Ajmi, 2008), as a result, timely Publication of revised financial information is more appropriate in decision-making (Piot, 2008), and reduces information asymmetry among capital market stakeholders (Owusu-Ansah and Leventis, 2006), However, timely corporate financial information is dependent on the time it takes the external auditor to complete the audit process (Leventis et al., 2005; Van Beest et al., 2009), and therefore the external auditor is under pressure to issue the audit report as soon as possible.

This, and some studies have been interested in studying many factors related to the time it takes for the external auditor to release the audit report, for example, (Hassan, 2016; Hassan, 2018; Baatwah et al., 2015; Sultana et al., 2015; Ettredge et al., 2006). One of these factors is managerial efficiency. Abernathy et al .,(2018) showed that managers with high managerial efficiency compared to other managers are more effective in maintaining the systems and controls underpin the company’s financial information, and therefore, they are expected to produce

more and more timely financial disclosures, which affect the timing of the issuance of financial reports in general.
Demerjian et al., (2013) indicated that managerial efficiency is directly related to the quality of profits, and they concluded that managers with high managerial efficiency are more familiar and efficient with the economic and operating environment of the company, leading to better judgments and estimates of their own. Moreover, Plumlee and Yohn (2010) suggest that more efficient managers are better at understanding and applying standards, which increase management's trust in the company's internal disclosure system, and allowing companies to reveal earnings early, which may be reflected in the timing of issuing financial and audit reports. They indicated that managerial efficiency is negatively related to the delay of the audit report, and this was explained by the fact that managers with high managerial efficiency are more familiar with the company and industry, in addition to the judgments and estimates reached in the financial reporting process, and as a result, more efficient managers will be able to facilitate both financial reporting and audit reports processes which are effective and efficient.

In the same context Krishnan and Wang (2015); Salterio (2012) indicates that managerial efficiency can appear in reducing the delay of the audit report because the verification and confirmation of accounting information will be done on time, this due to communication between the auditor and management will be facilitated, which is essential for the audit process, as mentioned (Salterio, 2012) that the more managerial efficiency the more the amount of time needed to discuss, understand and evaluate

significant accounting policies and unusual transactions with the auditor is reduced, thereby reducing the delay in the audit report.

On the other hand, Sihombing and Hing,(2021) indicated that financial distress has no effect on the timing of publishing financial reports, (Savitria and Andreas,(2019) ;Julien (2014) provided evidence that financial difficulties were not able to affect the delay in submitting financial reports. In the same context, the study of Budiasih and Saputri (2014) indicated that financial distress does not have a significant impact on the speed of publishing financial reports. In contrast to these results, Mardyana (2014) suggest that financial distress can affect the timing of publishing financial reports to the public, and these results were confirmed by the study of Lukason (2019), it indicated that the possibility of bankruptcy directly affects the timing of publishing financial reports, in contrast to this, Sugita and Dwirandra (2017) found that financial distress inversely affects the delay of the audit report, and this is in line with the study of Savitri and Andreas (2019) which states that companies experiencing financial distress will not affect market reactions, and therefore, this will not prevent companies from publishing their financial reports in the right time. This contradicts the study of Khamisah et al., (2021) which indicates that financial default directly affects the delay in the audit report, as the study of Susanto (2018) indicated that the probability of financial default directly affects the delay in the audit report, and the study of Shinta, and Satyawan(2021) showed that financially distressed firms tend to delay the audit report, which is in line with the findings of Abdillah et al (2019), which state that the possibility of bankruptcy affects the delay in the audit report.

It is clear from the results of previous studies that the company's financial distress may constitute an incentive for managers with managerial competence to influence the timing of issuing the audit report.

In this study, the researcher extends the research by looking at whether the reported link between managerial skill and audit report timeliness when financial distress is factored in**.**

Based on that, the research problem can be formulated in the following questions.

- **What is the relation between managerial ability and Audit Report Timeliness?**
- **What is the relation between managerial ability and Audit Report Timeliness conditioned on financial distress?**

Research objective

This research aims to study:

1. The relation between managerial ability and audit report timeliness.
2. The relation between managerial ability and audit report timeliness when financial distress is factored in, applying to a sample of companies listed on the Egyptian Stock Exchange (EGX 100) from 2016 to 2020.

Research Contribution

This research contributes to the literature in three ways.

1. This paper helps to fill the gap in the literature on the relation between managerial ability and audit report timeliness by showing that audit report timeliness as a result of managerial

ability is conditioned on financial distress as in non-financial companies listed on the Egyptian Stock Exchange (EGX 100).

2. The results of the study lead to a deeper understanding of the motivations that lead ability managers to behave in an opportunistic way, which influences the risk assessment of auditors during the audit procedures.
3. Determining the impact of managerial efficiency and financial distress on the audit report's release date, due to the importance of the appropriate timing of the financial reports and then the audit report in influencing the economic value of the information contained in these reports.

The rest of this research is organized as follows. **Section 2**, managerial ability and it's importance. **Section3** presents the related previous literature and hypotheses development. **Section 4**, describes the research methodology. The results of the research are discussed **in Section 5**, and **Section 6** presents the conclusion of the study.

2. Managerial ability: An Overview

Management ability is one of the main determinants of the success and continuity of companies in the long term. As it works to improve the information environment for companies, increase transparency and reduce information asymmetry between internal and external parties (Baik et al., 2018).

The Upper Echelons Theory, which is based on a hypothesis, there is an impact of the managerial ability on strategic choices and business results Wang et al., (2018), indicating that the managerial ability is represented in some managerial characteristics (such as knowledge, experience, management style, and managerial skills) that have a significant impact on the company’s decisions and

economic results, and this effect may be on the least partially on business results (Gan, 2019; Huang and Sun, 2017).

The individual characteristics of manager's influence how the company's attitudes are measured, interpreted, and thus have an impact on the company's decisions and performance (Hessian, 2018). In this context, Kor (2003) indicated that managerial ability is represented in personal knowledge and experiences, which are mainly derived from the expertise of the field.
Demerjian et al., (2012) defined it as the degree of the executive managers' efficiency in using the economic resources available to the company and converting them into revenues. In the same context, the study of Choi et al., (2015) confirmed that managerial competence is represented in the ability of the executive managers to generate profits through the effective use of the company's resources, which appears in the positive impact on capital investment decisions.

From the above, it is clear that managerial ability is a set of personal characteristics, (reputation, management style, age, education, and professional experiences), which enable managers to use the resources available to the company efficiently and effectively, to maximize the value of the company and achieve many benefits that enable the company to continue in the long term.

Importance of managerial ability

Managerial ability contributes to:

- reducing agency problems by providing and making information available to stakeholders, enhancing transparency, and disclosure on time, as the more capable managers, tend to inform investors of the economic opportunities available to the company to protect their reputation, which reduces the

asymmetry of information between the company and investors, and thus reflects on the quality of financial reports and increases the value of the company (Meca et al. , 2018; Abernathy et al., 2018).

- Managerial ability allows the understanding and application of accounting standards with more flexibility, thus affecting the quality of information, and building estimates in a more credible manner, which is reflected in the quality of accounting profits, as well as reducing earnings management practices (real and accounting) because of the desire of managers to maintain their reputation and job positions (Huang and Sun, 2017). It may also reduce managers' involvement in tax evasion activities. (Koester et al.,2016).
- Managerial ability also contributes to improve the investment benefit at the company level, as capable managers are more able to use the company's resources more efficiently and effectively, by seizing favorable investment opportunities, and choosing the best projects with the highest positive net present value, and then maximizing the shareholders' wealth (Habib and Hasan, 2017).
- It also contributes to reduce audit fees and the possibility of the auditor releasing a continuity report for the company, especially in case of doubt about its ability to continue. (Krishnan and Wang, 2015). It may also contribute to mitigate audit risks by improving the quality of profits, or by reducing the risks of customer failure, as well as reducing the risks of litigation that may result from the deterioration of operational and financial performance. (Li and Luo, 2017)

3. Related Literature and hypotheses development.

3.1 The effect of managerial ability on the timing of audit report.

The researcher deals with a set of studies on the relation between managerial ability and the timing of issuing the audit report, and the following ones are the most important of these studies.

The study of Abernathy et al., (2018) indicates that there is an inverse relation between management competence and the delay in the audit report, meaning that the higher managerial ability, the lower delay in issuing the audit report, depending on a sample of American companies consist of 996 firm-years observation (332 firms) during the period from 2003 to 2014.

In another context, the study of Baatwah et al., (2015) test whether the characteristics of the CEO, which are the contracting period and financial experience, are related to the appropriate timing of the audit report, the study was conducted based on a sample of companies registered on the Omani Stock Exchange for the period (2007– 2011). The results indicated that the contracting period and the financial experience of the CEO are related to the audit report's proper timing, and the study also found that there is an interactive effect between both the contracting period and the financial experience regarding the timing of the audit report.

Accordingly, the CEO who has long term and who has experience in the field of accounting, is more likely to be involved in improving strategic decisions, as well as the accuracy of financial reporting, in addition, that, financial expertise adds value to the work of executives and especially their contribution in financial reporting and internal control, specifically, this

knowledge may enhance the ability of The CEO in dealing with complex accounting problems, and thus, decrease the percentage of mistakes made or estimates and incorrect judgments, which is certainly reflected on the time of preparing the client, the time of the audit test, and the time it takes to sign the audit report.

Looking at corporate governance as another aspect of managerial ability, the results of the study of Kusumah, and Manurung (2017) indicated a negative relation between effective corporate governance and the delay in the audit report; the study was conducted using a sample of Indonesian listed companies from 2012 to 2016. Relying on a sample of companies registered on the NYSE from 2007 to 2016, the study of Nyangweso (2018) concluded that the quality of corporate governance has a mediating impact on the relation between the quality of earnings and the delay of the audit report, and the quality of corporate governance is likely to increase the quality of earnings. This supports its adverse impact on the delay in the audit report.

It is clear from the results of those studies, about concerning testing the relation between managerial ability and the timing of audit reports. That managerial ability, including (financial experience of the CEO, and the quality of corporate governance) negatively affects the delay in the audit report, and the reason for this, is that efficient managers have the necessary expertise and knowledge that enable them to efficiently configure and manage the company’s resources, as well as, the ability to identify changes in the operational, legal , accounting environment, and changes in market conditions. This ultimately increases their ability to lead companies operating in the most complex operating environments, and therefore, higher qualified

managers are more likely to implement and maintain effective internal control over financial reporting. That helps them to reduce the delay in the earnings' announcement, audit report, and listing in the stock market.

Then the researcher can derive the first hypothesis of the research as follows:

H1: There is a negative relation between managerial ability and audit report timeliness.

3.2 The effect of financial distress on the timing of audit report

The researcher deals with a set of studies on the relationship between financial distress and the timing of issuing the audit report, these studies have relied on each of the financial performance, whether in terms of liquidity or profitability, solvency, debt ratio, and the percentage of distributed profits as indicators of financial distress in companies. The following studies are the most important:

The study of Diana (2018) indicated that industrial companies with high debt levels and low profitability suffer from audit report delay, and the level of debt is the most direct factor influencing the delay of the audit report. That is because the increase in net profit will make management want to reduce the delay of the audit report, to enable the company to publish its financial statements, as soon as possible, and vice versa. Also, when a company has a higher level of debt compared to equity, the auditor usually needs more time to review the company’s financial statements, due to the complexity of debt audit procedures, and in order to reduce information asymmetry, where these companies need to disclose all information related to its ability to meet its obligations through its financial reports. The

study was conducted on a sample of 126 observations representing 42 companies registered on the Indonesian Stock Exchange for the period (2013 – 2015).

The study of Khasharmeh and Aljifri (2010) also indicated the determinants of delaying the audit report in the United Arab Emirates and Bahrain during 2004, and this study found that profitability, debt ratio, sector type, and dividend ratio have a significant effect on the delay in the audit report in Bahrain, while the type of audit, the size of the company, and the percentage of earnings per share have a weak effect. As for the Emirates, both the debt ratio and the type of audit have a significant impact on the delay in the audit report, while the other variables have not a significant impact.

In the same context, and using a sample of Turkish companies for the period (2006–2010), Baldacchino's study (2016) concluded that profitability negatively affects the delay in the audit report. Because, it is expected that it will be easier to disclose on time the good news rather than the bad news for the fiscal year, as the latter may have a negative effect on the share price and other indicators, moreover, it is not likely that bad news will be circulated before it is verified, justified or reformulated, as well as, the expiration of the disclosed period, and the company that suffers a loss may ask the auditor to plan to start the audit at a later time, which in turn delays the audit report.

The study of Hapsari et al., (2016) also studied the impact of profitability, solvency, and audit opinion on the delay in the audit report for the coal mining sub-sector companies listed on the Indonesian Stock Exchange from 2012 to 2014. The findings of that study indicated that both profitability and the auditor's

opinion positively affect the delayed Audit report, while solvency does not affect the delayed audit report.

Despite of relying on the same application environment, the study of Mutiara's(2018) results differed from the results of the previous study, as that study concluded that the higher the profitability, the less delayed the audit report, while the higher the solvency, the more delayed the audit report. The study was conducted focusing on a sample of Indonesian firms for the period (2013 – 2015).

The reason for the negative relationship between profitability and the delay of the audit report is due to the fact that Indonesian listed companies must disclose their financial statements on time, whether the news is good or bad, so that investors can take the necessary decisions. The profitability ratio can also be used as a measure of management performance. Companies that suffer from a low level of profitability will subsequently have a detrimental effect on market reactions and will cause a decrease in the performance evaluation of the company. As for companies with a high level of profitability, they will immediately disclose the good news, and therefore, the delay of the audit report will be shorter in the company that produces a higher level of profitability compared to the companies with lower levels of profitability.

The study of Napoyanti and Ariyanto (2018) also confirmed that financial distress positively affects the delay in the audit report; the study was conducted depending on a sample of Indonesian companies consisting of 45 companies registered on the Indonesian Stock Exchange.

It is clear from the results of previous studies, that the exposure of companies to financial distress affects the audit report timeliness. The reason for this, is that companies may be easier to disclose the good news on time, because of its positive impact on the company. In the event that the company is in financial distress, the auditor may usually need more time to audit the company's financial statements due to the complexity of the debt audit procedures, which in turn delayed the audit report.

Then the researcher can derive the second hypothesis of the research as follows:

H2: The negative relation between managerial ability and audit report timeliness is weaker for financially distressed firms.

4. Research methodology

This part of the research aims to present the methodology of the study, including the objectives, the study population, and sample, the study model, description and measurement of its variables, the results of the research hypothesis test, as follows:

4.1 Research population and sample

The research population consists of all companies listed on the EGX 100 Index during the period from 2016 to2020 and a Judgmental sample of these companies was selected, taking into account that they have the necessary data to measure the study variables. The sample also represents companies other than banks and financial services, because of their special nature, as these sectors follow accounting rules and standards that differ from other sectors. Companies for which the researcher was not able to obtain the financial statements were excluded for any year during the study period. By applying the previous criteria the final

sample consist of (65) companies, the size of observations is (325) years/company, representing 14 sectors. All data was obtained from the Compass Egypt guide and Egypt Company for Information Dissemination.

The following table summarizes the sample data.

Table (1): Sample Selection and Distribution

Serial	Industrial sector	Number of sample companies	Percentage of sample
1	basic resources	5	%,08
2	Health care and medicine	6	%0.9
3	household products	3	%,05
4	Construction and building	3	%,05
5	real estate	6	%0.9
6	Tourism and entertainment	4	%,06
7	Textiles and durable goods	10	%15,3
8	Paper and packaging materials	15	%23
9	Services, industrial products and automobiles	9	%13,8
10	Energy and support services	4	%,06
	Total	65	100%

The previous table shows that the selected sample represents 65% of the 100 most active listed companies in the Egyptian stock market.

4.2 Variable description

Independent Variable

- **Managerial ability: MAit**

According to this scale, the total benefit of the company is estimated, then the effect of the company's variables is isolated, and therefore, the remaining part is the ability of managers, and this measure is applied through two stages: (Demerjian et al., 2012)

The first stage: estimating the overall efficiency of the company. Use the data envelope analysis to estimate a company's efficiency within industries by comparing the sales each company generates according to the inputs it uses, based on the following equation:

Max0 = sales / PPE+ SGA+COGS

Whereas:

Max	company efficiency
Sales	the company's output represented in sales ,The entries consist of three COGS : cost of goods sold. SGA : general and administrative expenses. PPE : net assets, property and equipment.
The efficiency value ranges between (0) and (1), to reflect the limitations in the optimization program. The companies that take the value (1) are the most efficient companies, and the farther the value is from (1) Efficiency decreases, and the value (0) is located at the furthest point in the efficiency curve.	

The second stage: assessment of managerial ability. The company's efficiency was used to measure the managerial ability, given that the company's efficiency includes the efficiency of the executive director, and the efficiency of the company itself as determinants of efficiency. The company's efficiency was divided into factors specific to the company, namely; the size of the company, the company's market share, the available cash flows, the life cycle, the complexity of operations, foreign operations, and using the Tobit regression, the residuals that express the management ability are obtained as follows:

$$\textbf{Firm Efficiency}_i = \beta_0 + \beta_1 \textbf{ Lg (Total Assets)}_i + \beta_2 \textbf{ Market Share}_{it} + \beta_3 \textbf{ positive Free Cash Flow Indicator}_{it} + \beta 4 \textbf{ Ln (Age)}_I + \beta_5 \textbf{Foreign Currency Indicator}_i + \textbf{Year} + \varepsilon_i$$

Whereas:

Firm efficiency	The total benefit of the company t was measured in the first stage.
Log Total Assets	the sales logarithm of the company's total assets in year t.
Market Share	the company's market share (i) during the year (t), which represents a percentage of sales .The company's total industry sales.
Positive Free Cash Flow	The positive free cash flow of the company (i) during the year (t), and it was measured by a dummy variable equal (one) if the company generated positive free cash flows, and (zero) if the company generated negative free cash flows
Log Firm Age	The age of the company (i) during the year (t), which is measured in the natural logarithm of the number of years the company was listed on the Egyptian Stock Exchange
Foreign Currency Indicator	Indicator of foreign currency differences for the company (i) during the year (t), and it is measured as a dummy variable equal (one) if the company realizes profits from translation (settling) foreign currencies, and (zero) otherwise.
Year Indicator	a dummy variable for the year t.
The managerial ability is represented in the Residual (the unexplained percentage of the model) from a regression equation	

4.3 Dependent Variable

- **Audit Report Timeliness ARLagit**

This variable was measured by calculating the number of days from the end of the financial year of the audited company to the date of issuance of the external auditor's report.(Abernathy et al.,2018)

4.4 modified variable Distressit

- **Financial distress: measured** based on the Altman Z-Score (1986).

Z-Score = 1.2X1 + 1.4 X2 + 3.3 X3 + 0.6 X4 + 1.0 X5

W

hereas :

<table>
<tr><td>X1</td><td>is working capital/total assets.</td></tr>
<tr><td>X2</td><td>Retained Earnings/Total Assets.</td></tr>
<tr><td>X3</td><td>Earnings before interest and taxes/total assets.</td></tr>
<tr><td>X4</td><td>the market value of equity/book value of total liabilities.</td></tr>
<tr><td>X5</td><td>sales/total assets.</td></tr>
<tr><td colspan="2">Z expresses the value of the Z-Score, and it is an indicator that holds three cases related to the extent of the companies' distress, and these cases can be presented as follows:
The first case : Companies with a value of > 1.23 Z-Score, which are distressed companies, Distress Zone. takes the value (2)
The second case: Companies with a value of 2.90 < Z-Score > 1.23, which are companies located in the gray zone. takes the value (1)
Third case : Companies with a Z-Score > 2.90 that are in the Safe Zone. takes the value (zero) (Krishnan and Wang, 2015)</td></tr>
</table>

4.5 Control variables:

The researcher incorporates some control variables, which are related to the profitability of the firm, leverage and audit firm size (Afify 2009; Abernathy et al., 2018; Eissa **and** Hashad**, 2021**; Khasharmeh and Aljifri ,2010; Baldacchino,2016; Mutiara et al., 2018)

- **Financial Leverage: LEVit**

It is one of the important variables that could affect the company's performance, as it could lead to an increase in shareholders' returns.

Measured as:

LEV = Total Liability / Total Assets

- **Return on Assets (ROAit)**

To control the company's profitability, it was measured by the ratio of net income to total assets (Bills et al., 2017; Li and Luo 2017).

Measured as:

ROA = Net Income / Total Assets

- **Audit_Size : Aud_ Sizeit**

It means the affiliation of the audit firm to one of the Big four audit firms or affiliation with auditing facilities other than the Big Four. Consistent with this definition, this variable was **measured through** a dummy variable equal one if the firm (i) in the year (t) audited by an accounting and auditing office in partnership with one of the Big Four, zero otherwise.. (Bills et al., 2017; Cho et al. al., 2017)

Table (2): Description of the research variables

Variables	Variable symbol	Definition of the variables
Independent variable		
Managerial ability	**MAit**	Managerial ability index according to (Demerjian et al., 2012).
modified variable		
financial distress	**Distressit**	Companies with a value of > 1.23 Z-Score, which are distressed companies, Distress Zone. **takes the value (2)** Companies with a value of 2.90 < Z-Score > 1.23, which are companies located in the gray zone. **takes the value (1)** Companies with a Z-Score > 2.90 that are in the Safe Zone. **takes the value (zero)**
Dependent variables		
Audit Report Timeliness	ARLag**it**	The number of days from the end of the financial year of the audited company to the date of issuance of the external auditor's report.
Control variables		
Financial Leverage:	**LEVit**	Total Liability divided by Total Assets
Return on Assets	**ROAit**	Net income divided by total assets.
Audit_Size	**Aud_ Size it**	dummy variable takes the value one if the firm (i) in the year (t) audited by an accounting and auditing office in partnership with one of the Big Four, zero otherwise.

4.6 Research models

The researcher depends on the hypothesis of the research test on two models of Multiple regression to test the effect of both managerial ability , financial distress. And audit report timeliness.

Model (A): testing the effect of negative relation between managerial ability and audit report timeliness.

$$ARLagit=\alpha+B1(MAit)+B2(ROAit)+B3(LEVit)+ +B4(Aud_Sizeit)+ \varepsilon \, it \quad (A)$$

Model (B): testing the effect of negative relation between managerial ability and audit report timeliness conditioned on financial distress.

$$ARLagit= \alpha +B1(MAit)+ B2(Distressit)+B3(MAit*Distress)+ B4(ROAit)+B5(LEVit)+ B6(Aud_Sizeit)+ \varepsilon \, it \quad (B)$$

The (MAit) is managerial ability measured as shown in section (3.2). Distress is financial distress **measure** based on the Altman Z-Score, ROAit is the return on asset for the firm (i) in the year (t). Levit is the firm's leverage for the firm (i) in the year (t), measured as total liabilities divided by total assets. Aud_Sizeit is a dummy variable equal to one if the firm (i) in the year (t) audited by big4 auditor, zero otherwise

5. Results And Discussion

By analyzing the data, the researcher relied on the Multiple Linear Regression Model to test the relationship between the dependent variable, independent variables, and the control variables. But before presenting the results of the study models, the validity of the models must be verified. The extent to which the model is free from the problem of Measurement.

- **Multi-collinearity**

This problem arises in the case of a linear relationship between the independent variables, and to verify this problem, the variance inflation factor (VIF) was used. The results of the test (Tolerance) and the (VIF) test as shown in table (2) indicates that the variables do not suffer from the problem of multi-collinearity, as the value of the (Tolerance) test is less than one at the level of all the variables of the model. (VIF) is less than (10) at the level of all the variables of the model. This indicates that there is no multi-collinearity between the independent and control variables. (O'brien,2007)

Table (3): Multi-collinearity test

Variables	Collinearity Statistics			
	Model A		Model B	
	Tolerance	VIF	Tolerance	VIF
LEVit	0.895	1.118	0.652	1.534
Aud-sizeit	0.978	1.022	0.973	1.027
ROAit	0.997	1.003	0.957	1.045
MAit	0.876	1.142	0.600	1.667
Distressit			0.891	1.123
MAitDistress			0.457	2.187

- Normality of Random Errors

The researcher also relied on the test of (Kolmogorov-Smirnov) to verify that the data follow a normal distribution. As shown in Table No(4)

Table (4): (Kolmogorov-Smirnov)test

One-Sample Kolmogorov-Smirnov Test			
variables	Kolmogorov-Smirnov Z		
	Statistic	N	Sig
LEVit	6.247	**325**	0.000
Aud-sizeit	1.758	**325**	0.000
ROAit	3.853	**325**	0.000
MAit	4.748	**325**	0.000
Distressit	3.867	**325**	0.000
MAitDistress	7.698	**325**	0.000

It is clear from table (4). That the level of significance (sig) is less than (.05) in all variables, and this means that the data of the study do not follow a normal distribution, and to treat this problem, the natural logarithm function of these variables is used until it approaches the normal distribution. But, in this study, the size of the sample is (325) observations are greater than (30) observations, and therefore, the problem of distributing the data naturally does not affect the validity of the study models.

- **Hetroscedasticity**

The researcher also relied on the test of Spearman correlation to verify the Heteroscedasticity between the dependent variable and the independent variables, and the results of the test showed that the coefficient of correlation in the first model between | ei |, $\hat{Y}$ (ARLag**it**) is non-significant, where, P-value = 0.442 > 5%. This indicates that there is a difference in the variances of all models.

- **Autocorrelation**

This problem arises if there is a correlation between the residuals of the regression models. Where the independence of errors from each other is one of the assumptions of the regression models, the researcher used the (Durban-Watson) test to make sure that the model did not fall into this problem. Whenever the test value approaches 2, this indicates that the model do not suffer from the problem. The results of this test indicated that the value of Durban-Watson for the model (B) in the test is (1, 734).and model (A) is (2, 041).

5.1 Descriptive analysis

Table (1) shows the results of the descriptive analysis for the research variables: Managerial ability, growth, Audit report timeliness, Audit – size, leverage, return on the asset, and financial distress. The descriptive analysis results tested by the researcher are extracted from the Egyptian exchange market for the period(2016-2020).

Table (5): Descriptive analysis

	N	Minimum	Maximum	Mean	Std. Deviation
LEVit	325	.03993	2.48717	.5257020	.27714005
Aud_Sizeit	325	0	1	.51	.501
ROAit	325	.18	.96	.5650	.09864
MAit	325	-.90752	1.69636	-.0102151-	.21198053
Distressit	325	.02	3.20	1.0897	.71068
ARLagit	325	20	166	55.38	29.106
MAitDistress	325	.13	3.40	1.5183	.48783
Valid N (listwise)	325				

Table (5) shows the results of the minimum, maximum, mean, and the standard deviation for the research variable managerial ability (MAit) that ranged from (-0.90752 to 1.69636), with standard deviation (0.2198) and mean (-0.10215) , audit report timeliness (ARLagit)ranged from(20 to 166) with a mean (55.38) and the results also showed a low standard deviation with the timing of the audit report's release with (29.106). Consequently, we conclude that the timing of releasing the audit report is similar in the study sample companies and that the phenomenon may be the same in the Egyptian market.

As shown by the results of the descriptive statistics for the variable of financial distress that the value of the mean (1.0897)

with standard deviation (.71068), this indicates a high rate of financial distress in the sample companies. The descriptive statistics results also indicate a high level of debt with the sample companies, the average value of debt variable (.5257020) with standard deviation (.27714005). This may be an indication of a high level of financial distress.

As for the company's characteristics, the descriptive statistics results indicated that the mean of (ROAit) return on assets (.5650), and a low standard deviation (.09864), this indicates that the return on asset is similar in the study sample companies.

The results give an overview of the data that shows the existence of a wide range between the values of **return on assets (ROAit)**, the results also showed that 51% of the sample companies are audited by audit firms from the big four.

5.2 Correlation Analysis

The Pearson correlation analysis was performed to determine the direction and significance of correlation among the variables of the study (managerial ability, financial distress, audit report timeliness, return on asset, audit size, leverage) as follows.

Table (6): Pearson correlation analysis

Correlations

		LEVit	Aud_Sizeit	MAit	ROAit	Distressit	ARLagit	MAitDistress
LEVit	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	325						
Aud_Sizeit	Pearson Correlation	-.039-	1					
	Sig. (2-tailed)	.480						
	N	325	325					
MAit	Pearson Correlation	.305**	.122*	1				
	Sig. (2-tailed)	.000	.028					
	N	325	325	325				
ROAit	Pearson Correlation	-.127-*	-.034-	-.155-**	1			
	Sig. (2-tailed)	.022	.546	.005				
	N	325	325	325	325			
Distressit	Pearson Correlation	.210**	-.067-	-.024-	.007	1		
	Sig. (2-tailed)	.000	.232	.663	.897			
	N	325	325	325	325	325		
ARLagit	Pearson Correlation	.062	-.108-	-.296-**	.073	.475**	1	
	Sig. (2-tailed)	.264	.052	.000	.191	.000		
	N	325	325	325	325	325	325	
MAitDistress	Pearson Correlation	.569**	.073	.607**	-.116-*	.168**	.023	1
	Sig. (2-tailed)	.000	.190	.000	.037	.002	.682	
	N	325	325	325	325	325	325	325

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table (6) shows the Pearson correlation matrix of the dependent variable, **Audit Report Timeliness** (ARLagit), and the independent variable managerial ability. The results of the correlation of Pearson show that there is a negative correlation between the variable of **Audit Report Timeliness** (ARLagit) and managerial ability (MAit) with a value of (-0.296) at the level of (0.000), and this is an indication of the increase in managerial ability With the decrease in the **Audit Report Timeliness**, This is line with the findings of the study (Abernathy et al., 2018), which found that managerial ability adversely affects the timing of issuing the audit report, we also note that there is a positive correlation between the variable of the financial distress ((Distressit) and **Audit Report Timeliness** (ARLagit) with a value of (0.475) at the level of(0.000). These

results are very logical from the point of view of (Hapsari et al., 2016; Napoyanti and Ariyanto ,2018); Bhaskar et al.,2017; Cornaggia et al.,2017), they indicate that financial distress positively affects the delay in the audit report. The results also show a positive and non-significant relation between **Audit Report Timeliness** (ARLagit) and the (MAit*Distress) this indicates that the negative relationship decreased between managerial ability and audit report timeliness, and it turned into a positive relationship in financially distressed firms.

With regard to the control variables

The results showed a positive and non-significant relationship between leverage (LEVit) and Audit Report Timeliness(ARLagit) with a value of (0.062) at the level of(0.264) This indicates that an increase in financial leverage affects the increase in the probability of financial distress, and therefore, affects the delay in the audit report, which is consistent with the positive relationship between the financial distress and the timing of the issuance of the audit report (Hapsari et al. (2016); Bhaskar et al.(2017), Khasharmeh and Aljifri (2010).The results also showed a negative and significant relationship between the variable of return on asset (**ROAit**), and Audit Report Timeliness(ARLagit) with a value of (-.127) at the level of(0.022). This means that the higher the return on asset (**ROAit**), the lower the timing of issuing the audit report which leads to speeding up the issuance of the audit report. This was justified by the fact that companies that make high profits tend to expedite the disclosure of good news, so it asks the auditor to complete the audit procedures immediately. (Mutiara et al., 2018)

5.3 Results of Linear Regression analysis.

5.3.1 Results of the first hypothesis test for the relationship between Audit Report Timeliness (ARLagit) and managerial ability.

Table (7) :Audit Report Timeliness (ARLagit) and managerial ability.

Variables	B	Std.Error	Beta	t	Sig	Collinearity Statistics	
						Tolerance	VIF
(Constant)	-44.534	16.389		-2.717	0.007		
LEVit	36.687	17.708	0.101	2.072	0.039	0.895	1.118
Aud-sizeit	-6.451	9.374	-0.032	-.688	0.492	0.978	1.022
ROAit	-159.650	13.411	-0.547	-11.897	0.000	0.997	1.003
MAit	-81.979	23.396	-.172	-3.504	0.001	0.876	1.142
Model significance assessment							
Adjusted R Square		0.316		F	30.942		
Significance (F)		0.000		Sample (N)	325		
Durbin-Watson		2.041		Average of VIF	1.07125		
Average of Tolerance		0.936					

The result of multi-linear regressions in Table (7) shows the relation between managerial ability and audit report timeliness. The results indicate that there is a negative and significant relation between managerial ability and audit report timeliness with a value of (-81. 979) at the level of (0.001), meaning that in light of the increase (decrease) in managerial ability, companies are less (more) in audit report timeliness. This finding supports the validity of the first hypothesis that there is a negative relation between managerial ability and audit report timeliness. This is line with the results of a study (Abernathy et al., 2018), which found that managerial ability adversely affects the timing of issuing the audit report, that is, the greater the managerial ability, the lower the timing of issuing the audit report, which leads to speeding up the issuance of the report. This is due to that managers with managerial competence have the necessary

experience and knowledge that enable them to efficiently configure and manage the company's resources, as well as the ability to identify changes in the operational, legal and accounting environment and changes in market conditions, which ultimately lead to increasing their abilities to lead companies that operate in the most complex operating environments, therefore, higher-quality managers are more likely to establish and maintain effective internal control over financial reporting, which helps them reduce lag from announcing an audit report.

With regard to the control variables, the results indicated that there is a negative and significant relationship between return on asset and audit report timeliness with a value of (-159. 650) at the level of (0.000). Meaning that profitability adversely affects the delay in the issuance of the audit report, and the reason for this, is that companies that achieve high profits tend to expedite the disclosure of good news, so the auditor is required to complete the audit procedures immediately, while companies tend to delay the disclosure of bad news facing the company in an attempt to amend the status quo.(Alkhatib and Marji, 2012; Mutiara et al. ,2018; Baldacchino ,2016).

The results also show a positive and significant relation between Financial Leverage and audit report timeliness with a value of (36. 687) at the level of (0.039). This is due to the fact that companies whose indebtedness is high seek to delay publishing their financial reports, as the company and its auditors take longer time to ascertain all aspects related to that indebtedness, especially in the event of an increase in the number of the company’s creditors, that is, because of the long period, it takes the auditors to examine aspects of that indebtedness.

(Hapsari et al. (2016) ;Napoyanti and Ariyanto (2018); Bhaskar et al.(2017); Khasharmeh and Aljifri (2010). The results also indicate that there is a negative and non-significant relation between audit size, and Audit Report Timeliness.

5.3.2 Results of the first hypothesis test for the relationship between Audit Report Timeliness (ARLagit), financial distress ,and managerial ability.

Table (8): Audit Report Timeliness (ARLagit), financial distress, and managerial ability.

Variables	B	Std.Error	Beta	t	Sig	Collinearity Statistics	
						Tolerance	VIF
(Constant)	20.655	8.126		2.542	0.012		
LEVit	2.931	9.940	0.016	.295	0.768	0.652	1.534
Aud-sizeit	-4.509	4.504	-0.045	-1.001	0.318	0.973	1.027
ROAit	32.414	6.560	0.226	4.942	0.000	0.957	1.045
MAit	-86.320	13.548	-.368	-6.371	0.000	0.600	1.667
Distressit	19.392	2.323	.395	8.346	0.000	0.891	1.123
MAitDistress	31.435	15.677	0.133	2.005	0.046	0.457	2.187
Model significance assessment							
Adjusted R Square		0.352		F		26.191	
Significance (F)		0.000		Sample (N)		325	
Durbin-Watson		1.734		Average of VIF		1.4305	
Average of Tolerance		0.775					

The result of multi-linear regressions in Table (8) shows a negative and significant relationship between managerial ability and audit report timeliness with a value of (-86. 320) at the level of (0.000). The results also indicate that there is a positive and significant relationship between financial distress (**Distressit**) and audit report timeliness (ARLagit) with a value of(19. 392) at the level of (0.000), meaning that in light of the increase (decrease) in financial distress, companies are more (less) in audit report timeliness. This is consistent with the results of a study (Hapsari et al.,2016), which indicated that financial distress

directly affects the timing of issuing the audit report, meaning that the greater the financial distress, the greater the timing of issuing the audit report, which leads to the delay in issuing the report. This has been explained by the fact that companies tend to delay the disclosure of bad news as well as the debts that the company faces in an attempt to amend the existing situation and review all aspects of indebtedness. It is also evident from the results of the regression analysis that there is a positive and significant relationship between the interactive variable financial distress and managerial ability(MAitDistress) and the variable audit report timeliness (ARLagit) with a value of(31. 453) at the level of (0.046), which indicates that the inverse relationship between managerial ability and audit report timeliness is less clear in companies with high financial distress rates, where the negative relationship decreased between managerial ability and audit report timeliness, and it turned into a positive relationship. This result can be explained by the fact that there is a direct effect of financial distress on the timing of issuing the report that companies whose financial distress is high seek to delay issuing audit reports, as companies tend to delay the disclosure of bad news facing the company, and its auditors take a longer time to ascertain all aspects related to that financial distress in an attempt to amend the status quo.(Maharani ,2017)

The researcher concludes from the previous analysis that the company’s financial condition affects the relationship between the managerial ability and the timing of the audit report's issue.

This finding supports the validity of the second hypothesis that the negative relation between managerial ability and audit report timeliness is weaker for financially distressed companies.

5.4 Robustness checks and sensitivity tests.

5.4.1 Sensitivity analysis

- **The case of changing the method of measuring managerial ability**

To test the robustness of the basic analysis results, the researcher conducted a sensitivity analysis with the aim to re-analyze research Models **A, B,** by measuring the independent variable "**managerial ability"** in the decimal rank of managerial ability scores(**RANKMAit**), in line with(Krishnan and Wang ,2015),

Table (9): Audit Report Timeliness (ARLagit) and managerial ability.

Variables	B	Std.Error	Beta	t	Sig	Collinearity Statistics	
						Tolerance	VIF
(Constant)	32.833	9.234		3.561	0.000		
LEVit	11.809	9.540	0.066	1.238	0.217	0.982	1.018
Aud-sizeit	-11.978	5.306	-0.121	-2.257	0.025	0.973	1.028
ROAit	40.400	7.581	0.281	5.329	0.000	0.994	1.006
RANKMAit	-19.638	9.527	-.110	-2.061	0.040	0.970	1.032
Model significance assessment							
Adjusted R Square			0.304	**F**	18.942		
Significance (F)			0.000	**Sample (N)**	325		
Durbin-Watson			1.793	**Average of VIF**	1.021		
Average of Tolerance			0.979				

Table (10): Audit Report Timeliness (ARLagit), financial distress, and managerial ability.

Variables	B	Std.Error	Beta	t	Sig	Collinearity Statistics	
						Tolerance	VIF
(Constant)	27.964	8.312		3.364	0.001		
LEVit	-5.496	8.754	-0.031	-.628	0.531	0.936	1.069
Aud-sizeit	-8.680	4.758	-0.087	-1.824	0.069	0.970	1.030
ROAit	29.447	6.909	0.205	4.262	0.000	0.960	1.041
RANKMAit	12.426	5.208	.113	2.386	0.018	0.990	1.010
Distressit	20.977	2.427	.428	8.645	0.000	0.909	1.100
RANKMAitDistress	12.398	5.208	.113	2.380	0.018	0.989	1.039
Model significance assessment							
Adjusted R Square		0.279		**F**		18.933	
Significance (F)		0.000		**Sample (N)**		325	
Durbin-Watson		1.786		**Average of VIF**		1.033	
Average of Tolerance		0.8075					

The results of the two regression models in sensitivity analysis, Table (9) and (10), appear in agreement with the main results in the regression analysis models in the basic analysis (Table 7, and 8), The results indicate that there is a negative and significant relation between managerial ability and audit report timeliness with a value of (-19. 638) at the level of (0.046) as shown in(table 9), and this relation turned into a positive relationship in financially distressed firms with a value of (12. 398) at the level of (0.018) as shown in (table 10). This supports the main results of the study, and confirmed the reliability and quality of the research model design, and tests its hypotheses under the basic analysis.

- **The case of changing the method of measuring Audit Report Timeliness.**

  The researcher conducted a sensitivity analysis with the aim to re-analyze research Models **A, B,** by measuring the dependent variable "**Audit Report Timeliness.**" by the logarithm scale

of the audit **report timeliness (Aud- Logit).** To control the effect of extreme values on the delay of the auditor's report, in line with (Baatwah et al., 2015).

Table (11): Audit Report Timeliness (ARLagit) and managerial ability.

Variables	B	Std.Error	Beta	t	Sig	Collinearity Statistics	
						Tolerance	VIF
(Constant)	1.528	.040		38.019	0.000		
LEVit	.161	0.049	0.178	3.266	0.001	0.901	1.110
Aud-sizeit	-0.011	0.026	-0.022	-0.421	0.674	0.979	1.022
ROAit	0.160	0.037	0.222	4.284	0.000	0.999	1.001
MAit	-0.366	0.065	-0.310	-5.641	0.000	0.888	1.126
Model significance assessment							
Adjusted R Square 0.231				**F** 13.236			
Significance (F) 0.000				**Sample (N)** 325			
Durbin-Watson 1.695				**Average of VIF** 1.064			
Average of Tolerance 0.941							

Table (12): Audit Report Timeliness (ARLagit), financial distress, and managerial ability.

Variables	B	Std.Error	Beta	t	Sig	Collinearity Statistics	
						Tolerance	VIF
(Constant)	1.530	0.037		40.880	0.000		
LEVit	0.033	0.050	0.037	.664	0.507	0.726	1.377
Aud-sizeit	-0.003	0.024	-0.006	-1.126	0.900	0.976	1.025
ROAit	0.107	0.035	0.148	3. 099	0.002	0.962	1.039
MAit	-0.368	0.063	-.311	-5.853	0.000	0.780	1.281
Distressit	0.096	0.012	.391	7.921	0.000	0.907	1.102
MAitDistress	0.135	0.060	0.128	2.237	0.026	0.678	1.475
Model significance assessment							
Adjusted R Square			0.284	**F**	22.433		
Significance (F)			0.000	**Sample (N)**	325		
Durbin-Watson			1.838	**Average of VIF**	1.216		
Average of Tolerance			0.838				

The results of the two regression models in sensitivity analysis, Table (11) and (12), appear in agreement with the main results in the regression analysis models in the basic analysis (Table 7, and

8), which support the main results of the study, and confirmed the reliability and quality of the research model design, and testing its hypotheses under the basic analysis.

5.4.2: Additional analysis

- **The case of dividing the study sample into two subsamples**

Krishnan and Wang (2015); Gul et al., (2018) explained the existence of a negative relationship between managerial ability and audit fees in distress companies, and because this relationship may provide more understanding about the impact of managerial ability on contracting risks, so the researcher conducted an additional analysis of the relationship between managerial ability and audit fees, and the extent of the impact of This relationship is with the financial condition of the company, by dividing the study sample into two sub-samples, depending on the indicator of the financial distress of the company distress, the first sample represents a sample of companies suffering financial distress, and the second sample is financially stable companies, and the results appear in Table (11) as follows:

Audit fees it= α +B1(MAit)+ B2(Distressit)+B3(MAit*Distress)+ B4(ROAit)+B5(LEVit)+ +B6(Aud_Sizeit)+ ε it

Table (13): Financial distress

Variables	B	Std.Error	Beta	t	Sig	Collinearity Statistics	
						Tolerance	VIF
(Constant)	217.671	66.909		3.253	0.001		
LEVit	24.3821	32.148	0.053	.758	0.449	0.944	1.060
Aud-sizeit	-18.772	18.385	-0.071	-1.021	0.309	0.945	1.058
ROAit	-38.444	29.928	-0.089	-1.285	0.201	0.954	1.049
MAit	-112.809	17.299	-0.453	6.521	0.000	0.938	1.066
Distressit	173.7382	30.810	-0.287	-2.221	0.028	0.272	3.675
MAitDistress	173.738	39.055	0.580	4.448	0.000	0.267	3.740
Model significance assessment							
Adjusted R Square	0.282			**F**	19.896		
Significance (F)	0.000			**Sample (N)**	159		
Durbin-Watson	1.755			**Average of VIF**	1.941		
Average of Tolerance	0.72						

Table (14): Non-financial distress

Variables	B	Std.Error	Beta	t	Sig	Collinearity Statistics	
						Tolerance	VIF
(Constant)	10.737	1.646		6.522	0.000		
LEVit	-1.873	1.661	-0.100	-1.128	0.261	0.703	1.422
Aud-sizeit	1.768	0.784	0.171	2.255	0.026	0.976	1.024
ROAit	1.466	1.030	0.107	1.423	0.157	0.980	1.020
MAit	-2.270	1.178	-0.198	-1.927	0.056	0.528	1.893
Distressit	0.687	0.753	-0.071	0.931	0.363	0.931	1.074
MAitDistress	-0.301	1.264	-0.027	-.238	0.812	0.449	2.226
Model significance assessment							
Adjusted R Square	0.129			**F**	13.896		
Significance (F)	0.000			**Sample (N)**	166		
Durbin-Watson	1.834			**Average of VIF**	1.4431		
Average of Tolerance	0.7611						

It is clear from the previous analysis that in financially distressed companies there is a negative relationship between managerial ability and audit fees, which indicates a decrease in auditing fees in the event of an increase in the managerial ability of the managers, as well as a decrease in the negative relationship and its transformation into a positive relationship between the interactive variable financial distress and managerial ability (MAitDistress). and the variable audit

fees. The analysis also showed that, this relationship is not significant in Non-financial distress companies, this is consistent with the result that was reached for the negative relationship between the interactive variable between managerial ability and financial distress (MAitDistress) and the variable audit report timeliness (ARLagit) (Table 8, model B).

6. Conclusion

This study aims to test the impact of financial distress on the relation between audit report timeliness and managerial ability using 325 firm-year observations from 2016 to 2020, the results shows that there is a negative and significant relation between managerial ability and audit report timeliness. This finding supports the validity of the first hypothesis that there is a negative relation between managerial ability and audit report timeliness. This is consistent with the results of a study (Abernathy et al., 2018), which found that managerial ability adversely affects the timing of issuing the audit report, that is, the greater the managerial ability, the lower the timing of issuing the audit report, which leads to speeding up the issuance of the report. The analysis also shows that the impact of high-ability managers on audit report timeliness is less prominent in financially troubled companies. When the sample was divided into high and low financial distress, the researcher founded that for financial troubled (distressed) companies the association between managerial ability and audit report timeliness is positive. The results are robust to sensitivity tests. Overall, the researcher observes consistent results with the audit report timeliness.

There are some limitations that worth noting, as with other prior empirical studies. First, the results are relied on a noisy proxy for

managerial skill. Second, While the study used a robustness test to adjust for managerial ability, residuals from the Demerjian et al. (2012) firm-efficiency model can capture variables other than management competence (Demerjian et al. 2013), increasing the potential of correlated omitted variables.

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