CORPORATE GOVERNANCE AND AUDIT REPORT TIMELINESS: EVIDENCE FROM MALAYSIA

Sherliza Puat Nelson and Siti Norwahida Shukeri

ABSTRACT

Purpose – *The purpose of this study is to examine the impact of corporate governance characteristics on audit report timeliness in Malaysia. The corporate governance characteristics examined are board independence, audit committee size, audit committee meetings and audit committee members' qualifications.*

Design/Methodology/Approach – *The sample comprises of 703 Malaysian listed companies from Bursa Malaysia, for the year 2009. It excludes companies from the finance-related sector as they operate under a highly regulated regime under supervision by the Central Bank of Malaysia. Further, regression analysis was performed to examine the audit report timeliness determinants.*

Findings – *Results show that audit report timeliness is influenced by audit committee size, auditor type, audit opinion and firm profitability. However, no association was found between board independence, audit committee meetings, audit committee members' qualifications and audit report timeliness.*

Accounting in Asia
Research in Accounting in Emerging Economies, Volume 11, 109–127

ISSN: 1479-3563/doi:10.1108/S1479-3563(2011)0000011010

Research limitations/Implications – *It is a cross-sectional study of the year 2009. Practical implications for policy makers are consideration of the minimum submission period for audit reports Regulators' support for firms to have larger audit committee sizes is also discussed.*

Originality/Value – *The study investigates the impact of corporate governance on audit timeliness in light of the recent amendments to the Malaysian Code of Corporate Governance made in 2007.*

Keywords: Audit reports; timeliness; corporate governance; audit committees; Malaysia

INTRODUCTION

Audit report timeliness is commonly measured as the number of days from the year end to the date of the audit report, and is also known as audit report lag. The audit report timeliness is found to have a great impact on financial reporting timeliness and it has become a main concern for regulators and policy makers to investigate the possible factors that may influence audit report timeliness. Strong corporate governance mechanisms may improve financial reporting quality such as the strength of the board of directors and audit committees (AC). Whereby, the audit committee is documented to be significantly associated with the quality of the financial reports as it potentially affects the auditor's risk assessments (Abbott, Parker, & Peter, 2004). Furthermore, premised on agency theory, Fama and Jensen (1983) posit that a firm's internal governance plays an important role in shaping and effectively enhancing the operations of its internal control system.

Corporate governance is an important entity-level factor that sets the tone for the overall control environment that has significant implications for auditors' risk judgments. The impact of strong corporate governance mechanisms will reduce client-related risks and subsequently reduce the timing and extent of substantive testing. Hence, auditors will perceive stronger corporate governance, and less substantive testing would be performed. This leads to better audit timeliness on the issuance of audited annual report by the independent external auditor to its client. Subsequently, this affects the issuance of corporate annual report by the organisation to their stakeholders.

The issue of timely reporting will also affect regulators and policy makers since they need to play a role in ensuring efficient financial reporting.

Given the importance of financial reporting timeliness, identifying the determinants of financial reporting delay is considered an important step to improve the financial reporting quality. Therefore, this study aims to investigate the impact of corporate governance mechanisms on audit report timeliness. We predict that strong corporate governance will reduce client-related risks and hence reduce the timing and extent of substantive testing. Further, we examine the board of directors and audit committee attributes (such as size, frequency of meetings and qualification) as explanatory independent variables. Whereby, they act as effective monitoring mechanisms that will enhance the internal controls and reduce the audit business risk, and eventually give shorter audit report timeline. The study extends current literature with evidence that shows an association between audit report timeliness and the strength of a client's corporate governance and, subsequently, this substantiates the role of corporate governance in financial reporting and the auditing process.

This study is organised as follows: in the second section, a review of audit report timeliness literature is discussed, followed by the third section on the development of hypotheses. The fourth section explains the research design, followed by a discussion on analysis of findings. The sixth section offers the conclusion.

LITERATURE REVIEW

Timeliness has long been recognised as one of the qualitative attributes of general-purpose financial reports. Timeliness of financial reporting is influenced by two specific categories: company's or client's attributes and auditor's attributes. Company's attributes comprises company size, profitability, leverage, audit risk, audit complexity and company's age. Prior studies found that financial reporting timeliness is mostly influenced by company's size (Ashton, Graul, & Newton, 1989; Payne & Jensen, 2002), auditor type (Knechel & Payne, 2001), audit risk (Sharma, Boo, & Sharma, 2007) and profitability (Ismail & Chandler, 2004). Prior literatures also documented an association between financial reporting timeliness with the auditor's attributes such as audit technology (Ashton et al., 1989), provision of non-audit services (Walker & Hay, 2007), audit qualification (Soltani, 2002), auditor size (Davies & Whittred, 1980; Jaggi & Tsui, 1999) and auditor opinion (Leventis, Weetman, & Caramanis, 2005; Soltani, 2002).

Whereby, in Ashton et al. (1989), the audit report timeliness is found to be better in a company where the auditor used a high audit technology and system and was able to complete the audit procedures and test on time. Hence, audit timeliness is one of the factors that affects financial reporting timeliness since the financial report can only be publicly announced after the independent auditor has signed and issued the audited financial report.

Further, prior literature also examined audit timeliness in relation to information intended to be released by the company. For example, Givoly and Palmon (1982) document that companies with bad news tend to delay their financial reports announcement, hence suggesting that company with bad news will tend to take more time to report than companies with good news. Part of this was because companies were hesitant to report bad news to the public and took more time to massage the numbers or resort to creative accounting techniques when they had to report bad news. This fact was supported by Ashton et al. (1989) when they examined the relationship between audit delays and timeliness of corporate reporting of 465 companies listed on Toronto Stock Exchange (TSE), and found longer audit delay was significantly associated with auditor's size, industry, extraordinary items and net income. Subsequently, Soltani (2002) documents companies that received qualified audit opinions, tend to delay in releasing their financial report, supplements prior studies that show company with bad news will tend to take more time to report than companies with good news.

Prior literature examines audit timeliness in relation to company's and auditor's attributes or characteristics with audit timeliness. Recent studies, such as Al-Ajmi (2008) and Afify (2009), extended current literature in association with company's characteristics and corporate governance characteristics. Al-Ajmi (2008) documents that company's size, profitability, industry and leverage significantly affect audit lag period, consistent with Ashton et al. (1989); Ismail and Chandler (2004); Lee, Mande and Son (2008); and Afify (2009). Consequently, Afify (2009) when examining the impact of corporate governance characteristics on audit report lag, found that corporate governance characteristics (board independence, duality of CEO and existence of audit committee) are significantly related to audit report lag. In addition, a more recent study on corporate governance characteristics shows that firms with large number of audit committee members have more frequent audit committee meetings and are more likely to produce audit reports in a timely manner (Mohd Naimi, Shafie, & Wan Nordin, 2010).

We can see that the audit timeliness literature has expanded from examining financial reporting timeliness with audit attributes (Ashton et al., 1989; Soltani, 2002), to auditors' control environment risk (Cohen, Krishnamoorthy, & Wright, 2002; Sharma et al., 2007), dissemination of good news (Givoly & Palmon, 1982), audit lag period (Al-Ajmi, 2008) and recently on corporate governance characteristics (Afify, 2009; Mohd Naimi et al., 2010). Even though recent studies on corporate governance had been tested, and documented audit committee size and meetings are significantly associated with audit report timeliness (see Mohd Naimi et al., 2010), little can be found on other board and audit committees' characteristics, such as audit committee's qualification. Furthermore, the former study did not consider the recent MCCG changes made in October 2007; especially the changes made to board of directors and audit committees.[1]

The recent changes made in MCCG stressed on strengthening the board of directors and audit committees, and ensuring that the board of directors and audit committees discharge their roles and responsibilities effectively. In Malaysia, Bursa Malaysia views the delay of issuing audited annual reports as a serious offence and warns company's directors about their responsibility to maintain appropriate standards of corporate responsibility and accountability. In addition, the Bursa also requires a timely financial reporting according to the provision in Chapter 9 of the Listing Requirements.[2] The Bursa had also recently issued new rules, the Bursa Malaysia Corporate Governance Guide (2009), that require the audit committee meetings to be held at least four times a year.

In light of these recent changes, there is still avenue for areas of research where corporate governance characteristics can be expanded on board's characteristics, especially the audit committees. As such, there is still a growing need to expand current literature and provide recent empirical evidence on other corporate governance characteristics that are still not widely researched in the past. Consequently, the objective of the study is to investigate the association of corporate governance characteristics such as board independence, audit committee independence and qualification, in association with audit report timeliness among Malaysian listed companies.

HYPOTHESES DEVELOPMENT

Prior literature suggests that the presence of corporate governance mechanisms will increase the monitoring of management and reduce the incidence of mismanagement or misreporting and delays in the financial reporting processes. Thus, effective corporate governance should improve internal control and reduce business risk, hence having an effect on shorter audit delay (Afify, 2009). The agency relationship between the managers and shareholders may cause the agency conflicts to occur. An efficient corporate governance mechanism is an important element to the company, especially the group of big companies, in order to ensure the credibility of internal control and monitoring of the financial reporting system (Wan Abdullah, Ismail, & Jamaluddin, 2008).

According to Safieddine (2009), for good governance to take place there should be active participation of all parties, including the board of directors, audit committee, top management team, internal auditors, external auditors and governing bodies, in fostering continuous improvements. Lack of strong corporate governance may jeopardise the performance and internal control of the organisation since all business functions are interrelated to each other ranging from issues of internal control, audits, organisational structures, board directorship and management including top management and employees.

Agency theory is relevant to this study because it explains the board of directors, directors' ownership and audit committee, each of which functions as a monitoring mechanism to reduce agency problems. Monitoring mechanisms refer to the corporate governance practices and ensure the proper management performance and financial reporting processes. The financial statement can be announced to the public in a timely manner if the organisation has less business risk, as less business risk means less audit risk, thus reducing the time taken by the auditor to complete the annual audit and subsequently, shorter audit report lag. Therefore, reducing reporting lag is also considered as another component of good corporate governance practices since it reduces the information asymmetric issues by releasing the financial information on time to public (Al-Ajmi, 2008).

There is a close association between timely corporate reporting and corporate governance mechanisms since the components of corporate governance have an important role in the corporate reporting process. Agency conflicts within the organisation lead to information asymmetry between managers and shareholders. Thus, audits serve to reduce this asymmetric information risk by attesting the reliability of published financial information among the shareholders.

The presence of corporate governance mechanisms such as board independence, executives' and nonexecutives' portion of ownership and audit committee ensure the credibility of financial information that is announced to the public. Thus, corporate governance mechanisms were used in this study to examine their effects on audit delay, whereby, it is assumed that the shorter the audit delay, the shorter the time taken by the organisation to publish its corporate report and thus bring more updated information to shareholders. Boards conduct monitoring activities (agency view) and ensure that the managerial performance of the boards will reduce the agency problems that arise in the company.

It is expected that client companies with stronger corporate governance are assessed as having lower business risk and this will increase auditors' reliance on the client's internal controls and reduce the extent of substantive tests (Sharma et al., 2007). Therefore, the corporate governance mechanisms especially relating to the board are expected to reduce the audit report lag through the ability of the board to control the company's business risk.

Thus, the hypotheses of this study were developed based on the corporate governance characteristics which include board independence, audit committee size, audit committee qualification and frequency of audit committee meetings. While examining the impact of corporate governance characteristics on audit report lag, it is important to control for possible auditor attributes that are likely to affect timeliness such as auditor type and audit opinion.

Board Independence

Fama and Jensen (1983) explained that outside board of directors could strengthen the firm value by lending experienced and monitoring services and are supposed to be guardians of the shareholders' interests via monitoring and control. Past study (O'Sullivan, 2000; Salleh, Steward, & Manson, 2006) found that the proportion of board independence had a significant positive impact on audit quality. The larger the proportion of independent directors on the board, the more effective it will be in monitoring management behaviour, and thus reduce the nature of inherent risk which at the end reduce the period of audit lag (Afify, 2009). Cohen et al. (2002) argued that in the case where a client's governance structure has effectively implemented a strong monitoring as well as strong strategic perspective, there is the potential for both a more efficient audit work which leads to less extent of tests of details and a greater assurance of the integrity of the financial statements. This could then affect the assessed level of inherent and control risks, thereby affecting the nature, timing and extent of audit work. Whereby, higher number of board independence may lead to lower ARL, as it is expected that higher independent board will give better monitoring control. Hence, less audit field work and eventually reduce the ARL. The first hypothesis will be as follows:

H1. There is a negative relationship between ARL and board independence.

Audit Committee

The effectiveness of an audit committee increases when the size of the committee increases because it has sufficient resources to address the issues faced by the company (Rahmat, Iskandar, & Saleh, 2009). In a recent work by Bédard and Gendron (2010), they indicate that the audit committee size, independence, competency and meetings have greatest impact on financial reporting quality. This is supported by Mohd Naimi et al. (2010), who document that firms with more members in the audit committee and more frequent audit committee meetings are more likely to produce audit reports in a timely manner. In addition, Abbott et al. (2004) noted that with frequent meetings, audit committee will remain informed and knowledgeable about accounting or auditing issues and can direct internal and external audit resources to address the matter in a timely fashion. Thus, strong audit committee in terms of its size, higher meeting frequency and more qualified members will ensure the internal control and procedures of the company is reduced. Therefore, it will reduce the auditor working hours and subsequently reduce the ARL. Hence, the following hypotheses are conjectured:

H2. There is a negative relationship between ARL and audit committee size.

H3. There is a negative relationship between ARL and frequency of audit committee meeting.

H4. There is a negative relationship between ARL and audit committee qualification.

Auditor's Type

Afify (2009) shows that larger audit firms have a stronger motivation to complete their audit work on time in order to maintain their reputation and name. The large audit firms normally have more efficient audit teams as they have more resources to conduct trainings for their staff and are also able to employ more powerful audit technologies which reduce the time of audit work (Owusu-Ansah & Leventis, 2006). Giroux and McLelland (2000) found that Big Four firms completed their audit work faster than the non-Big Four firms. Thus, it is expected that large audit firms (Big Four firms) will perform faster audit work as compared to the small audit firms (non-Big Four firms) as Big Four firms have more resources compared to non-Big Four firms. Given with more resources, the auditors in Big Four firms are able to complete the audit work on time and consequently reduce the ARL. Hence, the hypothesis will be as follows:

H5. There is a negative relationship between ARL and auditor type.

Audit Opinion

The company that received unqualified audit opinion is said to have proper management and internal control system, thus reducing the time of audit process and procedures (Soltani, 2002). Bamber, Bamber, and Schoderbek (1993) argued that the qualified opinions are not likely to be issued until the auditor has spent considerable time and effort in performing additional audit procedures. Moreover, companies always view audit qualified opinion as ‘bad news’ and might not respond to the auditor’s request promptly. It is a symptom of auditor–management conflict that would also increase audit delay (Che-Ahmad & Abidin, 2008). For the company that received qualified audit opinion, the auditor may need additional time to complete the audit work and thus increase the ARL. Thus, the expected relationship for audit opinion is as follows:

H6. There is a negative relationship between ARL and audit opinion.

Firms’ Performance

Prior research has found that firms that experience losses for the period would result in longer audit report lag (Ashton et al., 1989; Givoly & Palmon, 1982; Ismail & Chandler, 2004). Prior studies also reported that firms experiencing losses for the periods are expected to have a longer audit delay as compared to the ones reporting a profit. There are some underlying reasons to the expectation of firm performance with audit report lag. Firms that have bad news – the ones which have made losses – tend to delay their financial statement release because they want to avoid reporting the bad news to their shareholders and investors, and hence avoid jeopardising their firm's reputation and performance. However, for firms that experience profit, the management wants the auditor to complete their annual report in a short time because they want to report the good news to their shareholders. Moreover, the auditor may take a longer period to audit firms that incurred losses because of the associated business risk (Afify, 2009) and consequently increase the ARL. Hence, the expected relationship between firm's performance and audit report lag is as follows:

H7. There is a negative relationship between ARL and firm performance.

RESEARCH DESIGN

Sample

This study utilised secondary data as the main source of information. The information relating to the proportion of board independence, composition of audit committee size, meetings and qualification, auditor type, audit opinion and firms' profitability was collected from company annual reports for the year 2009. There were 719 companies listed in the Bursa Malaysia, but only 703 companies had available information.

The sample excluded finance-related companies, companies from Initial Public Offerings (IPO), close-end funds sectors, exchange-traded funds and Real Estate Investment Trust (REITs). Finance-related companies are excluded from the sample because these companies have significantly different requirements, rules and regulations with respect to financial reporting.[3] The sample also excluded companies under PN4[4] conditions since the companies are categorised as being unable to maintain the listing condition of the Bursa Malaysia (Rahmat et al., 2009) and do not comply with any of the specified conditions by the Bursa Malaysia.

The sample selection covers the audited annual report for the year 2009 which is considered as the latest issue of annual reports and latest available information at time of this study and it is the information after the CG revised code was implemented in 2007. In addition, the sample selection of annual report of 2009 is to complement the earlier study by Mohd Naimi et al. (2010). Almost all corporate annual reports were downloaded from the Bursa Malaysia's website and a few were hand collected.

Operationalisation of Variables

The study used multiple regression analysis by modelling ARL as a function of explanatory variables. Corporate governance characteristics are modelled as independent variables that are consistent with prior studies. Specifically, the ARL model used in this study is consistent from prior studies (Afify, 2009; Che-Ahmad & Abidin, 2008; Mohd Naimi et al., 2010).

The ARL model for this study is as follows:

$$\text{ARL} = \beta 0 + \beta 1(\text{BIND}) + \beta 2(\text{ACSIZE}) + \beta 3(\text{ACMEET}) + \beta 4(\text{ACQUAL}) + \beta 5(\text{AUDTYPE}) + \beta 6(\text{AUDOPIN}) + \beta 7(\text{PERF}) + \varepsilon$$

Table 1 shows the operational measures of each variable.

Table 1. Summary of Operationalisation of Variables.

Variables	Operational Measures
Dependent variable	
Audit Report Lag (ARL)	Number of days from the interval period of financial year end date to the date of annual audit report
Independent variables	
Board Independence (BIND)	The proportion of non-executive directors to the total number of directors
Audit Committee Size (ACSIZE)	Total number of audit committee members
Audit Committee Meetings (ACMEET)	The number of audit committee meetings held during the financial year
Audit Committee Qualifications (ACQUAL)	The proportion of audit committee members possessing professional accounting qualifications (ACCA etc.) or members of any professional accounting bodies (MIA, CPA etc.) to the total number of audit committee members
Auditor Type (AUDTYPE)	Assigned as 1 for Big Four firm and 0 otherwise
Audit Opinion (AUDOPIN)	Assigned as 1 for company received unqualified audit opinion and 0 otherwise
Firm Performance (PERF)	Assigned as 1 for company that incurs profit and 0 for company that incurs loss

ANALYSIS OF RESULTS AND DISCUSSIONS

Descriptive Analysis

Table 2 reports the descriptive statistics of all variables investigated in this study. The table shows the descriptive of mean, standard deviation, minimum and maximum. Using data from 703 observations of annual reports from the KLSE for a year period of 2009, it was found that the average audit report lag was 101 days with a standard deviation of 22.32 days. The analysis of the sample study also shows that only two companies were found to have audit report lag of more than 180 days and violated the Bursa Malaysia requirements on the minimum submission period of six months. However, majority of the companies in the sample complied with the reporting requirements on audit report as shown in Table 3. Hence,

Table 2. Descriptive Statistics.

Variables ($N = 703$)	Minimum	Maximum	Mean	SD
ARL	34	239	101.09	22.32
BIND	0.17	0.83	0.44	0.12
ACSIZE	2	6	3.26	0.54
ACMEET	0	16	4.93	1.25
ACQUAL	0.00	1.00	.33	0.16

Note: ARL, number of days from the interval period of financial year end date to the date of annual audit report; BIND, the proportion of non-executive directors to the total number of directors; ACSIZE, number of AC members; ACMEET, the number of audit committee meetings held during the financial year; ACQUAL, the proportion of audit committee members possessing professional accounting qualifications (ACCA etc.) or members of any professional accounting bodies (MIA, CPA etc.) to the total number of audit committee members.

Table 3. Descriptive Statistics.

Variables ($N = 703$)	Category	Frequency	Percentage (%)
AUDTYPE	Big Four	304	43.2
	Non-Big Four	399	56.8
AUDOPIN	Qualified audit opinion	67	9.5
	Unqualified audit Opinion	636	90.5
PERF	Loss	175	24.9
	Profit	528	75.1

Note: AUDTYPE, assigned as 1 for Big Four firm and 0 otherwise; AUDOPIN, assigned as 1 for company received unqualified audit opinion and 0 otherwise; PERF, assigned as 1 for company that incurs profit and 0 for company that incurs loss.

suggesting that firms actually adhered to the listing requirements to submit the annual audit report within the stipulated time period.

Correlation Analysis

The objective of the test is to see if there is any multi-collinearity problems among the variables and association among variables as shown in Table 4. The problem exists if independent variables are highly correlated at each other with correlation values exceeding 0.9 according to Tabachnick and Fidell (2007). However, none of the variables found to be more than 0.5. The highest correlation is between the two control variables which are audit opinion and firm performance (profitability) that is 0.306 which suggest that multi-collinearity is not a serious problem that would jeopardise the regression results (Tabachnick & Fidell, 2007). Results show that ARL are negatively and significantly correlated with audit committee size, auditor's type, audit opinion and firms' performance suggesting that as ACSIZE increases, it reduces the ARL.

Table 4. Pearson's Correlation.

	ARL	BIND	ACSIZE	ACMEET	ACQUAL	AUDTYPE	AUDOPIN	PERF
ARL	1	0.010	−0.159*	0.070	0.014	−0.265*	−0.214*	−0.194*
BIND		1	0.083*	0.077*	0.012	−0.080*	−0.090*	−0.093*
ACSIZE			1	0.058	−0.173*	0.145*	0.096*	0.105*
ACMEET				1	−0.31	−0.022	−0.145*	−0.047
ACQUAL					1	−0.019	0.077*	0.029
AUDTYPE						1	0.088*	0.181*
AUDOPIN							1	0.306*
PERF								1

Note: **, *, significant at 0.01 and 0.05 level (2-tailed). ARL, number of days from the interval period of financial year end date to the date of annual audit report; BIND, the proportion of non-executive directors to the total number of directors; ACSIZE, number of AC members; ACMEET, the number of audit committee meetings held during the financial year; ACQUAL, the proportion of audit committee members possessing professional accounting qualifications (ACCA etc.) or members of any professional accounting bodies (MIA, CPA etc.) to the total number of audit committee members; AUDTYPE, assigned as 1 for Big Four firm and 0 otherwise; AUDOPIN, assigned as 1 for company received unqualified audit opinion and 0 otherwise; PERF, assigned as 1 for company that incurs profit and 0 for company that incurs loss.

Multivariate Analysis

Table 5 shows the multivariate analysis. Results show that ACSIZE is negative and significantly associated with ARL. This was initially supported earlier, where ACSIZE has a negative and significant relationship with ARL and is consistent with Sharma et al. (2007). The findings support H2 (audit committee size) and provide evidence that larger audit committee size tends to ensure that the internal control of the company is strong. Consequently, it generates positive influence on the auditor's assessment of business and audit risk, planned audit hours and the level of substantive testing and good financial reporting. Therefore, reduce the audit report lag.

However, the findings find no support for H3 (audit committee meetings) and H4 (audit committee qualification). These results might be addressed in

Table 5. Multiple Regression Analysis ARL $= \beta 0 + \beta 1$(BIND) $+ \beta 2$(ACSIZE) $+ \beta 3$(ACMEET) $+ \beta 4$(ACQUAL) $+ \beta 5$(AUDTYPE) $+ \beta 6$(AUDOPIN) $+ \beta 7$(PERF) $+ \varepsilon$.

Variable	Expected Sign	Coefficients	*t*-Value	*p*-Value
(Constant)		132.185	18.848	0.000
BIND	–	−0.026	−0.713	0.476
ACSIZE	–	−0.101	−2.743**	0.006
ACMEET	–	0.047	1.298	0.195
ACQUAL	–	0.009	0.238	0.812
AUDTYPE	–	−0.22	−6.051**	0.000
AUDOPIN	–	−0.152	−4.003**	0.000
PERF	–	−0.098	−2.584**	0.010
N		703		
F-value		14.73		
p-value		0.000**		
Adjusted R^2		0.12		
R^2		0.129		

Note: **,*, significant at 0.01 and 0.05 level. ARL, number of days from the interval period of financial year end date to the date of annual audit report; BIND, the proportion of non-executive directors to the total number of directors; ACSIZE, number of AC members; ACMEET, the number of audit committee meetings held during the financial year; ACQUAL, the proportion of audit committee members possessing professional accounting qualifications (ACCA etc.) or members of any professional accounting bodies (MIA, CPA etc.) to the total number of audit committee members; AUDTYPE, assigned as 1 for Big Four firm and 0 otherwise; AUDOPIN, assigned as 1 for company received unqualified audit opinion and 0 otherwise; PERF, assigned as 1 for company that incurs profit and 0 for company that incurs loss.

light of the strict adherence of listed companies on the enforcement of MCCG (2007), which requires all listed companies to have at least three members and at least one member being a financial expert. Furthermore, H1 fails to be supported, where H1 assumes a negative association between board independence and audit report lag, and finding is consistent with Mohd Naimi et al. (2010) but contradicts with Wan Abdullah et al. (2008).

The results support H5, H6 and H7, and provide evidences that auditor type, audit opinion and profitability are significantly associated with audit report lag. The results are consistent with prior studies such as Ashton et al. (1989), Jaggi and Tsui (1999), Soltani (2002), Raja Ahmad and Kamarudin (2003), Ismail and Chandler (2004), Al-Ajmi (2008), Che-Ahmad and Abidin (2008) and Afify (2009). H5 (auditor type) has a significant negative association with audit report lag and subsequently provides evidence that companies audited by the Big Four firms have a shorter audit report lag, thus report earlier to the public. Prior studies suggest that the possible reason is that Big Four firms have more resources, powerful technology, more experienced auditor which enables the audit process to be completed within a shorter period of time. Furthermore, companies that received qualified audit opinion are expected to report their financial statement early, because the auditor believed these types of companies do not have much problem which need extensive testing in providing their opinion.

H6 (audit opinion) is also supported and consistent with Soltani (2002) and Raja Ahmad and Kamarudin (2003). The findings also support H7 (firm performance) indicating that profitability is significantly associated with audit report timeliness, suggesting that companies with good news (experience profit) report faster than companies with bad news (reporting loss). The findings are consistent with Ashton et al. (1989), Afify (2009) and Ismail and Chandler (2004) that documented bad news took longer time to reach the public than good news. In addition to that, this result provides evidence that companies with higher profitability may wish to complete the audit of their accounts as early as possible in order to quickly release their audited annual reports to the public.

From the above discussion, the findings suggest that the agency conflict can be mitigated with the presence of corporate governance mechanisms. Thus, the existing effective and strong corporate governance, concomitant with proper monitoring control, leads to more efficient and effective audit work, hence reducing audit report lag. Finally, it advances towards higher financial disclosure quality.

DISCUSSION AND CONCLUSION

This study provides recent empirical evidence relating to the audit report timeliness of Malaysian listed companies in 2009. The mean audit delay is 101 days (which is still below the maximum periods of six months as stipulated by the Bursa Malaysia at that time), and an improvement by one day earlier from prior study (see Mohd Naimi et al., 2010). Nevertheless, audit committee size, auditor type, audit opinion and profitability are found to have significant relationships with audit delay. Whereby, audit delay was significant and negatively associated with audit committee size, auditor type, audit opinion and profitability of the companies.

The result suggests that larger audit committee size is associated with lower audit report lag, hence improve audit report timeliness. Therefore, this will provide more space to the external auditors to ample space for discussion with audit committee members who are more diligent to provide resources to the companies. Subsequently, they are able to give more time and effort to ensure the accuracy of financial information that is going to be disclosed to the public, and effectively improve the financial reporting quality. It is vital to identify the timeliness issues, as it is found that there are companies that exceeded the six-month period of audit report issuance. This has implication for practice. Regulators should ensure that companies comply with the minimum submission period, to avoid companies taking the advantage of the current six-month reporting period, and giving rise to issues of information asymmetry.

However, the study is not without some limitations. Since the study is based on cross-sectional study, the trend of audit delay and long-term effects of corporate governance on timeliness of audit report could not be examined. Furthermore, the exclusion of companies from the finance sector might have contributed some limitation to the study in terms of the reported overall mean of the audit delays of financial companies. Due to the different regulations for financial institutions, this research was unable to include financial institutions in the sample size and future research might consider examining the effects of corporate governance characteristics on audit report timeliness in financial companies.

Therefore it is suggested that future studies may consider other mechanisms of corporate governance such as board meetings, compensation committee and proportion of board ownership and internal audit functions in order to examine the overall influence of corporate governance on audit report timeliness. The inclusion of more variables will amplify the research and provides an in-depth explanation to examine other factors that might influence audit timeliness. For example, the inclusion of internal audit function may be considered since the study is likely to relate with investigating the effect of client's business risk on the auditor's judgment. Other than that, future research may also include companies from finance-related sectors in order to examine different qualities of financial reporting between financial and non-financial companies, and consider a longitudinal study that would compare the timeliness of audit report in two or more periods, to observe if the timeliness of audit report improves over time.

In light of the corporate governance changes and improvements over the years, the study provides prevalent implications to improve financial reporting timeliness, as well as financial reporting quality.

NOTES

1. The revised Code strives to strengthen the role of audit committees by requiring the committees to comprise fully of non-executive directors. In addition, all its members should be able to read, analyse and interpret financial statements so that they will be able to effectively discharge their functions (Securities Commission, 2007, p. 14).
2. Chapter 9, on continuing disclosure.
3. In Malaysia, financial institutions are under the supervision of the Central Bank of Malaysia besides that of the KLSE.
4. Companies that do not comply with the Bursa Malaysia requirement and experience financial difficulties.

REFERENCES

Abbott, L. J., Parker, S., & Peter, G. F. (2004). Committee characteristics and restatements. *Auditing: A Journal of Practice and Theory*, *23*(1), 69–87.

Afify, H. A. E. (2009). Determinants of audit report lag does implementing corporate governance have any impact? Empirical evidence from Egypt. *Journal of Applied Accounting Research*, *10*(1), 56–86.

Al-Ajmi, J. (2008). Audit and reporting delays: Evidence from an emerging market. *Advances in Accounting*, *24*(1), 217–226.

Ashton, R. H., Graul, P. R., & Newton, J. D. (1989). Audit delay and the timeliness of corporate reporting. *Contemporary Accounting Research*, *5*(2), 657–673.

Bamber, E. M., Bamber, L. S., & Schoderbek, M. P. (1993). Audit structure and other determinants of audit report lag: An empirical analysis. *Auditing: A Journal of Practice and Theory*, *12*(1), 1–23.

Bédard, J., & Gendron, Y. (2010). Strengthening the financial reporting systems: Can audit committees deliver? *International Journal of Auditing*, *14*(2), 1–37.

Bursa Malaysia. (2009). *Bursa Malaysia Corporate Governance Guide 2009*. Kuala Lumpur: Bursa Malaysia.

Che-Ahmad, A., & Abidin, S. (2008). Audit delay of listed companies: A case of Malaysia. *International Business Research*, *1*(4), 32–39.

Cohen, J., Krishnamoorthy, G., & Wright, A. M. (2002). Corporate governance and the audit process. *Contemporary Accounting Research*, *19*(4), 573–594.

Davies, B., & Whittred, G.P. (1980). The association between selected corporate attributes and timeliness in corporate reporting: Further analysis. *Abacaus*, pp. 48–60.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics*, *26*(2), 301–325.

Giroux, G., & McLelland, A. J. (2000). An empirical analysis of auditor report timing by large municipalities. *Journal of Accounting and Public Policy*, *19*, 263–281.

Givoly, D., & Palmon, D. (1982). Timeliness of annual earnings announcements: Some empirical evidence. *The Accounting Review*, *57*(3), 485–508.

Ismail, K. N. I., & Chandler, R. (2004). The timeliness of quarterly financial reports of companies in Malaysia. *Asian Review of Accounting*, *12*(1), 1–18.

Jaggi, B., & Tsui, J. (1999). Determinants of audit report lag: Further evidence from Hong Kong. *Accounting and Business Research*, *30*(1), 17–28.

Knechel, W. R., & Payne, J. L. (2001). Additional evidence on audit report lag. *Auditing: A Journal of Practice and Theory*, *20*(1), 137–146.

Lee, H., Mande, V., & Son, M. (2008). A comparison of reporting lags of multinational and domestic firms. *Journal of International Financial Management and Accounting*, *19*(1), 28–56.

Leventis, S., Weetman, P., & Caramanis, C. (2005). Determinants of audit report lag: Some evidence from the Athens Stock Exchange. *International Journal of Auditing*, *9*, 45–58.

MCCG. (2007). Malaysian Code on Corporate Governance, Report on Corporate Governance, Securities Commission, Kuala Lumpur.

Mohd Naimi, M. N., Shafie, R., & Wan Nordin, W. H. (2010). Corporate governance and audit report lag in Malaysia. *Asian Academy of Management Journal of Accounting and Finance*, *6*(2), 57–84.

O'Sullivan, N. (2000). The impact of board composition and ownership on audit quality; Evidence from large UK companies. *The British Accounting Review*, *32*(4), 397–414.

Owusu-Ansah, S., & Leventis, S. (2006). Timeliness of corporate annual financial reporting in Greece. *European Accounting Review*, *15*(2), 273–287.

Payne, J. L., & Jensen, K. L. (2002). An examination of municipal audit delay. *Journal of Accounting and Public Policy*, *21*, 1–29.

Rahmat, M. M., Iskandar, T. M., & Saleh, N. M. (2009). Audit committee characteristics in financially distressed and non-distressed companies. *Managerial Auditing Journal*, *24*(7), 624–638.

Raja Ahmad, R. A., & Kamarudin, K. A. (2003). *Audit delay and the timeliness of corporate reporting: Malaysian evidence*. Working Paper, MARA University of Technology, Shah Alam.

Safieddine, A. (2009). Islamic financial institutions and corporate governance: New insights for agency theory. *Corporate Governance: An International Review*, *17*(2), 142–158.

Salleh, Z., Steward, J., & Manson, S. (2006). The impact of board composition and ethnicity on audit quality: Evidence from Malaysian companies. *Malaysian Acccounting Review*, *5*(2), 61–83.

Securities Commission. (2007). Malaysian Code of Corporate Governance (Revised 2007). Kuala Lumpur.

Sharma, D. S., Boo, E., & Sharma, V.D. (2007). The impact of non-mandatory corporate governance on auditors' client acceptance, risk and planning judgments (2008). *Accounting & Business Research*, 38(2), June 2008. Retrieved from SSRN: http://ssrn.com/abstract=1113194

Soltani, B. (2002). Timeliness of corporate and audit reports: Some empirical evidence in the French context. *The International Journal of Accounting*, *37*, 215–246.

Tabachnick, B. G., & Fidell, L. S. (2007). *Using multivariate statistics* (5th ed.). Pearson Education.

Walker, A., & Hay, D. (2007). *An empirical investigation of the audit report lag: The effect of non-audit services*. Working paper presented at Australian National Centre for Audit and Assurance Research Workshop. Australian National University. Retrieved from http://www.unimaas.nl/ISAR2009/02_07_Walker_Hay.pdf. Accessed October 2010.

Wan Abdullah, W. Z., Ismail, S., & Jamaluddin, N. (2008). The impact of board composition, ownership and CEO duality on audit quality: The Malaysian evidence. *Malaysian Accounting Review*, *7*(2), 17–32.