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ORIGINAL ARTICLES

The Determinants of Audit Timeliness: Evidence From Malaysia

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ABSTRACT

Timeliness of corporate annual financial reports is considered to be a critical and important factor affecting the usefulness of information that is made available to external users. The length of the audit process highly affects the timeliness of corporate financial reporting as documented by prior literature. The purpose of this study is to examine the determinants of audit report timeliness particularly the effect of audit committee functions in Malaysian audit market. The audit committee is one important component of corporate governance mechanism and they comprise of audit committee size, audit committee qualifications and audit committee meetings. Consequently, the study applied the agency theory and formulated eight hypotheses that guided the analysis. The study sample comprised 491 Malaysian listed companies from Bursa Malaysia, which complied with the regulatory requirements and subjected to supervision of the Central Bank of Malaysia. Regression analysis was performed to examine the audit report timeliness determinants. The results show that audit report lag is influenced by audit committee size, audit committee meetings, auditor type, audit opinion, total assets and firm profitability. However, no evidence was found to support the effects of board independence and audit committee qualifications on audit report timeliness. Apart from contributing to the literature on corporate governance and audit report timeliness, this study also falls under the strand of literature that examines the consequences of regulatory changes. Detail explanations of the findings of the study along with its implications, limitations and future research suggestions are highlighted.

Key words: Audit committee functions, Bursa Malaysia, Central Bank of Malaysia.

Introduction

An efficient and effective capital market needs a transparent financial reporting system to boost investors' confidence in making investment decisions. The financial information should be of higher quality before it is delivered to outside stakeholders because users of financial information demand for complete, transparent and timely information. Thus, timely financial reporting is considered as one of the qualities of financial reporting that leads to quality decision making.

Investors in today's markets rely on accountants to provide greater information on a timely basis. Timeliness of financial reporting has allowed the information to be available to decision-makers before it loses its capacity to influence business decisions. Greater benefits will be derived from the timely reporting of financial statements, and specifically timely reporting refers to the shorter time between the date of accounting financial year end and the date an independent auditor issues an audited annual report. The delay in releasing the financial statement is most likely to boost uncertainty associated with the decisions made based on the information contained in the financial statements (Ashton, Willingham and Elliott, 1987). Therefore, timely reporting will enhance decision making and reduce information asymmetry in the capital market (Owusu-Ansah and Leventis, 2006). The issue of timely reporting also affects regulators and policy makers since they need to play a role in ensuring the shorter gap of financial report delay. Hence, exploring the determinants of timely reporting would enhance the regulators of emerging capital market in formulating new policies to improve the allocation efficiency of their markets.

Given the importance of financial reporting timeliness to investors, identifying the determinants of financial reporting delay has become a significant move to improve the financial reporting quality and also continue to motivate researchers to examine the factors that may influence the timeliness of financial reporting.

In Malaysia, Bursa Malaysia views the delay of issuing audited annual reports as a serious offence and warns company directors about their responsibility to maintain appropriate standards of corporate responsibility and accountability. The delay of the report to be released to the company's shareholders is of interest since it has a close association with the audit functions. This is because the financial statement cannot be issued until an

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audit has been duly performed and concluded (Che-Ahmad and Abidin, 2008). Bursa Malaysia also requires a timely financial reporting according to the provision in Chapter 2 (2.03-2) and Chapter 9 (9.01-3) of the Listing Requirements of Bursa Malaysia Securities Berhad. This section stipulates that the interval period between the close of the financial year of the company and the issue of the annual report to the company's shareholders and the exchange shall not exceed six months.

Hence, investigating the determinants of timely reporting would provide information that would help the regulators of emerging capital markets in formulating new policies to improve their markets (Owusu-Ansah and Leventis, 2006). One of the factors that affects the financial reporting timeliness is the timeliness of the annual audit performed by the independent auditor. Based on prior literature, it is reported that over 70 percent of all companies wait until at least the annual audit report date before releasing the earnings report to the public and shareholders (Bamber, Bamber and Schoderbek, 1993). Thus, regulators need to know the factors that contribute to audit delay before effective measures can be implemented to overcome the problems of financial reporting timeliness.

This study is organized 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:

Prior literatures mostly researched on the issue of the relationship between the timing of annual earnings announcement and some companies' characteristics, for instance examining the association of financial reporting timeliness with the company's specific attributes; such as company size (proxied by total asset, total revenue, total sales etc), company performance (proxied by profit or loss, ROA, ROE), financial risk (proxied by leverage level) and industry sector (proxied by financial or non-financial companies). Prior studies found that financial reporting timeliness are mostly influenced by company size (Ashton *et al*., 1989; Payne and Jensen, 2002; Raja Ahmad and Kamarudin, 2003; Ismail and Chandler, 2004; and Dogan, Coskun and Celik, 2007), auditor type (Ashton *et al*., 1989; Knechel and Payne, 2001), audit risk (Sharma *et al*., 2007), industry (Raja Ahmad and Kamarudin, 2003; and Afify, 2009) and profitability (Ismail and Chandler, 2004; and Al-Ajmi, 2008).

Apart from companies' characteristics, prior studies also focus on the audit delay in association with the auditor's specific attributes, such as auditor's size (proxied by Big 4 and nonBig 4 international firm), audit opinion (proxied by qualified and nonqualified audit opinion) and audit technology (proxied by the auditing computer software). Other than looking at the determinants of financial reporting timeliness, prior literatures had documented an association between financial reporting timeliness with the auditor attributes such as audit technology (Ashton *et al*., 1989), provision of nonaudit services (Walker and Hay, 2007), audit qualification (Soltani, 2002), auditor size (Davies and Whittred, 1980; and Jaggi and Tsui, 1999), auditor opinion (Soltani, 2002; and Leventis, Weetman and Caramanis, 2005).

Givoly and Palmon (1982) examined the relationship between the information content of the accounting report and its timeliness and documented, and noted company with bad news tends to delay their financial reports announcement. Hence, suggesting company with bad news will tend to take more time to report than, companies with good news. Part of this reason because, companies were hesitated to report bad news to public and took more time to massage the numbers or resort to creative accounting techniques when they have to report bad news. This is also supported in 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). They found longer audit delay was significantly associated with auditor's size, industry, extraordinary items, and net income.

Soltani (2002) provides some useful implication to the timeliness of corporate report. The study examined the trend in reporting delay of companies, the effect that qualified report have on the timeliness of corporate reporting and the relationship between reporting behavior and types of audit reports over a 10-year period (1986 – 1995). The study provides evidence that the improvement is greater for reports from consolidated accounts of groups than those from annual accounts of companies. The study also shows companies that received qualified audit opinions, tend to delay in releasing their financial report if compared to the company that received unqualified opinions.

Al-Ajmi (2008) who examines the corporate reports timeliness for the three lags periods; audit lag period, interim period and the total of audit lag. Audit lag period is measured based on the period between the auditors' signature date and the publication date. The result shows, company's size, profitability, industry and leverage significantly affect audit lag period which are consistent with findings from Ashton *et al*. (1989), Ismail and Chandler (2004), Afify (2009) and Lee *et al*. (2008). Afify (2009) examines the impact of corporate governance characteristics on audit report lag, and finds corporate governance characteristics (board independence, duality of CEO and existence of audit committee) are significantly related to audit report lag. Suggesting, company that

incorporated strong corporate governance mechanisms have shorter period of audit report lag. Further, the study reports that company size, industry and profitability significantly affect audit report lag.

The focus of the research is to examine the direct factor that might affect timeliness of financial reporting, and to examine the main cause to audit timeliness and the extent that auditor is truly accountable to the delay in releasing the audited annual report to its client. Since corporate governance is significantly related to ARL (Afify, 2009), it has become the limelight in investigating the factors that affect ARL (Afify, 2009; Mohd Naimi *et al*., 2010). The strength of corporate governance is likely to affect auditors' control environment for risk assessment because a strong board and audit committee are part of the overall control environment, that provide the backbone for the effective operation of internal controls (Cohen *et al*., 2007).

A recent study by Mohd Naimi *et al*. (2010) document, firms with large number of audit committee members and frequent audit committee meetings are more likely to produce audit reports in a timely manner. The study includes board of directors and audit committee as proxies of corporate governance characteristics, where they hypothesized that effective board of directors and audit committee will ensure timely submission of financial statements. Which is likely to come from, proper and effective monitoring control on financial reporting process. However, the study reports that audit committee independence and expertise are not associated with the timeliness of audit report, which suggests that more emphasis should be given to strengthening the independence and expertise of the audit committee.

In light of these recent changes, there is still avenue for areas of research where audit committee characteristics can still be a factor affecting the external auditor's work. Therefore, there is still need to expand current literature and provide recent empirical evidence on the audit committee relationship with association of audit report timeliness.

Hypotheses Development:

Prior literature suggests that the presence of corporate governance mechanisms will increase the monitoring of management and reduce the incidence of management or misreporting, and delays in the financial reporting processes. Thus, suggesting effective corporate governance particularly audit committee characteristics should improve internal control and reduce business risk, hence have an effect on shorter audit delay (Afify, 2009). The agency relationship between the managers and shareholders may cause the agency conflicts to occur, thus the corporate governance (audit committee) is assumed as the best monitoring and controlling mechanism to reduce such problems. In relation to financial reporting and audit timeliness, corporate governance mechanism may reduce the audit business risk of the company; hence reduce the audit work and hours taken by the auditor to complete their annual audit work. Corporate governance, a system by which firms are directed and controlled in order to ensure their continuity in business, is the responsibility of senior management and the board of directors. Accordingly, the various reforms and requirements have been developed to promote sound corporate governance. Those reforms include requiring a number of board members to be independent; creating audit committees composed of members with professional qualifications, frequencies of audit committees meeting and setting the minimum number of audit committee members; minimizing management's control over the appointment of board and committee members; and encouraging the review of performance of the board and of each board member.

Board Independence:

Fama and Jensen (1983) explained that outside board of directors could strengthen the firm value by lending experienced and monitoring services and supposed to be guardians of the shareholders' interests via monitoring and control. Prior studies (O'Sullivan, 2000; Salleh *et al*., 2006) found that the proportion of board independence had a significant positive impact on audit quality. The larger proportion of independent directors on the board, the more effective it will be in monitoring management behavior 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 of 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 lead to less extent of tests of details and 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. Hence, third hypotheses will be as follows:

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

Audit Committee:

Audit committee effectiveness improves when the size of the committee increases because, it has sufficient resources to address the issues faced by the company (Rahmat *et al*., 2009). In a recent work by Bedard and

Gendron (2010), they indicate that the audit committee size, independence, competency and meetings have greatest impact to financial reporting quality. This is supported by Mohd Naimi *et al.,* (2010) who document firms with more members in the audit committee and more number of audit committee meetings, are more likely to produce audit reports in 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. 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 audit committee qualification.
H4: There is a negative relationship between ARL and frequency of audit committee meeting.

Auditor 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 team as they have more resources to conduct trainings for their staff, and employ better audit technologies which will reduce the time of audit work (Owunsu Ansah and Leventis, 2006). Hence, complement findings by Giroux and McLelland (2000). The former finds that Big Six firms completed their audit work faster than the non-Big Six firms. Thus, it is expected that large audit firms will perform faster audit work as compared to the small audit firms. Hence, the hypothesis will be as follows:

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

Audit opinion:

Companies 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 *et al*. (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 and Abidin, 2008). Thus, the expected relationship for audit opinion is as follows:

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

Company Size:

The company size is proxied by total asset. The total assets have commonly been used in previous studies of audit delay to measure company size (Ashton *et al*., 1989; Newton and Ashton, 1989 and Abdulla, 1996). Most prior studies found a negative association between the audit delay and the company size. This might be because of the large resources that the company has and able to hire personnel to properly control the internal functions. Besides that, larger companies have more resources to pay relatively higher audit fees and are able to settle the fees soon after the companies’ year-end (Kamarudin and Raja Ahmad, 2003). Thus, it is likely that the audit-reporting lag for larger companies is lesser than those of smaller ones. Dyer and McHugh (1975) argued that the management of larger companies have greater incentives to reduce both audit delay and reporting delay since they are closely monitored by investors, trade unions and regulatory agencies. This larger external pressure forces them to report on a timely fashion. Therefore, prior researchers have argued that to reduce the uncertainty about performance that may reduce the share price, the larger firms tend to complete their audit work as soon as possible to release the annual reports (Davies and Whittred, 1980a; Ashton *et al*., 1989 and Abdulla, 1996). Thus, the expected relationship for company size is as follows:

H7: There is a negative relationship between ARL and company size.

Firm performance:

Prior research document that firms that experience losses for the period, would result in longer audit report lag (Givoly and Palmon, 1982; Ashton *et al*., 1989; Ismail and Chandler, 2004). Prior studies also reported that firms experiencing losses for the periods are expected to have a longer audit delay compared to the ones reporting a profit. There are some underlying reasons to the expectation of firm’s performance with audit report lag. Firms that have bad news (i.e. incur losses) tend to delay their financial statement. They tried to avoid reporting the bad news to their shareholders and investors, and whom might jeopardize their firm’s reputation and performance. However, for firms that experience profit, the management wants the auditor to complete their annual report in a shorter period, because they were excited to convey good news to their shareholders.

Moreover, auditor may take longer time to audit firms that incurred losses, because of the associated auditor business risk (Afify, 2009). Hence, the expected relationship between firm performance and audit report lag is as follows:
H8: There is a negative relationship between ARL and firm performance.

Research Design:

This section describes the sample and operationalization of variables of the study.

Sample:

This study utilized 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 and audit opinion are collected from corporate annual reports. Out of 532 annual reports for the year 2011 that are available, only 491 companies are with sufficient information and finally selected to be the sample of this study.

The sample selection process does not consider the finance-related companies, companies from Initial Public Offerings (IPO), close end funds sectors, exchange traded funds and REITS. Finance-related companies are excluded from the sample because those companies have significantly different requirements, rules and regulations with respect to financial reporting. The sample selection also excluded companies under PN17 conditions since the companies are categorized as 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 only audited annual report for the year 2011 which is considered as the current sample size for this study. All corporate annual reports are available from the Bursa Malaysia's website and hand collected for data collection.

Operationalization of variables:

Multivariate analysis is used by modeling ARL as a function of explanatory variables. Corporate governance characteristics are modeled as independent variables and other control variables, which are consistent with prior studies. Specifically, the ARL model used in this study is consistent with Che-Ahmad and Abidin (2008), Afify (2009) and Mohd Naimi *et al*. (2010). The ARL model for this study is as follows:

$$ARL = \beta 0 + \beta 1\ (BIND) + \beta 2\ (ACSIZE) + \beta 3\ (ACQUAL) + \beta 4\ (ACMEET) + \beta 5\ (AUDTYPE) + \beta 6\ (AUDOPIN) + \beta 7\ (ASSETS) + \beta 8\ (PERF) + \varepsilon$$

Table 1 shows the operational measures of each variable.

Table 1: Summary of variables

Variables	Operational Definition
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 total number of directors
Audit Committee Size (ACSIZE)	Total number of audit committee members
Audit Committee Qualifications (ACQUAL)	The proportion of audit committee members possess professional accounting qualifications (ACCA etc) or member of any professional accounting bodies (MIA,CPA etc) to total number of audit committee members
Audit Committee Meetings (ACMEET)	The number of audit committee meeting held during the financial year
Control Variables 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
Total Assets (ASSETS)	Total assets of the company
Firm Performance (PERF)	assigned as 1 for company incur profit and 0 for company incur loss

Findings 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 491 observations of annual reports from the KLSE for a year period of 2011, it was found that the average audit report lag was 97 days with

a standard deviation of 23 days. The analysis of the sample study also shows that no company were found to have audit report lag of more than 180 days and thus, no company had violated the Bursa Malaysia requirements on the minimum submission period of six months. It is also proven that majority of the companies in the sample complied with the reporting requirements on audit report as required. Hence, suggesting adherence to listing requirements to submit the annual audit report within the stipulated time period.

Table 2: Descriptive Statistics.

Variables (*N* = 491)	Minimum	Maximum	Mean	Std. Deviation
ARL	35	123	96.62	22.8
BIND	0.20	0.88	0.46	0.13
ACSIZE	2	6	3.21	0.51
ACQUAL	0.00	1.00	0.40	0.17
ACMEET	0	15	4.88	1.32
ASSETS	6,090,000	74,611,400,000	1,732,433,403.58	6,084,765,904

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 total number of directors; ACSIZE=Number of AC member; ACQUAL=The proportion of audit committee members possess professional accounting qualifications (ACCA etc) or member of any professional accounting bodies (MIA,CPA etc) to total number of audit committee members; ACMEET=The number of audit committee meeting held during the financial year; ASSETS =The total assets in the company.

Table 2.1: Descriptive Statistics.

Variables (*N* = 491)	Category	Frequency	Percentage (%)
AUDTYPE	Big Four	283	57.6
	Non-Big Four	208	42.4
AUDOPIN	Qualified audit opinion	41	8.4
	Unqualified audit opinion	450	91.6
PERF	Loss	91	18.5
	Profit	400	81.5

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 incur profit and 0 for company incur loss.

Correlation Analysis:

The objective of the test is to see if there are any multicollinearity problems among the variables and association among variables. 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 total assets and audit committee meeting that is 0.381 which suggest that multicollinearity is not a serious problem that would jeopardize the regression results Tabachnick and Fidell (2007). Results show that ARL are negatively correlated with auditor's type, audit opinion and firm performance.

Table 3: Result of correlation analysis.

	ARL	**BIND**	**ACSIZE**	**ACQUAL**	**ACMEET**	**AUDTYPE**	**AUDOPIN**	**ASSETS**	**PERF**
ARL	1	-0.017	-0.269**	0.025	0.110*	-0.291**	-0.222**	-0.222**	-0.193**
BIND		1	0.190*	-0.016	0.150**	-0.036	-0.128**	-0.004	-0.063
ACSIZE			1	-0.205**	0.123**	0.163**	-0.021	0.215**	0.040
ACQUAL				1	-0.041	-0.001	0.11	-0.063	0.018
ACMEET					1	0.032	-0.180**	0.381**	-0.049
AUDTYPE						1	0.173**	0.167**	0.174**
AUDOPIN							1	0.052	0.311**
ASSETS								1	0.101*
PERF									1

,significant at 5% level (2-tailed and 1% level (2-tailed).*

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 total number of directors; **ACSIZE**=Number of AC member; **ACMEET**=The number of audit committee meeting held during the financial year; **ACQUAL**=The proportion of audit committee members possess professional accounting qualifications (ACCA etc) or member of any professional accounting bodies (MIA,CPA etc) to 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; **ASSETS** =The total assets in the company; **PERF**=assigned as 1 for company incur profit and 0 for company incur loss.

Multivariate Analysis:

Table 4 shows the regression analysis for the 491 companies. Results show that ACSIZE, ACMEET, AUDTYPE, AUDOPIN, ASSETS and PERF are negative and significantly associated with ARL. This is also initially supported in Table 4, where ACSIZE, ACMEET, AUDTYPE, AUDOPIN, ASSETS and PERF has a negative and significant relationship with ARL and is consistent with Ahmad and Kamaruddin (2003).

The findings support H2 (audit committee size) and H4 (audit committee meeting) and provide evidence that larger audit committee size and regular audit committee meetings able to ensure strong internal control in the company and thus able to reduce the business risk and eventually reduce the time taken by the external auditors to complete their audit works. Hence, reduce the audit report lag. The results are consistent with Afify (2009).

Table 4: Multivariate Regression Analysis.
ARL = β0 + β1 (BIND) + β2 (ACSIZE) + β3 (ACMEET) + β4 (ACQUAL) + β5 (AUDTYPE) + β6 (AUDOPIN) + β7 (ASSETS) + β7 (PERF) + ε

Variable	Expected Sign	Coefficients	*t*-value	*p*-Value
(Constant)		134.37	15.216	0.000
BIND	-	-0.035	-0.837	0.403
ACSIZE	-	-0.215	-4.974**	0.000
ACQUAL	-	-0.022	-0.536	0.593
ACMEET	-	0.199	4.431*	0.000
AUDTYPE	-	-0.193	-4.589**	0.000
AUDOPIN	-	-0.125	-2.871**	0.004
ASSETS	-	-0.205	-4.553**	0.000
PERF	-	-0.083	-1.942**	0.053
N			491	
F-value			17.49	
p-value			0.000**	
Adjusted R^2			0.212	
R^2			0.225	

The findings also support H5 (auditor type) and suggest that the companies audited by the Big Four audit firms tend to have a shorter audit delay because they are big companies. Thus are able to employ a larger number of employees. Furthermore, since they are large firms, it is assumed that they are able to audit more efficiently and effectively and have greater flexibility in scheduling the audits so that it can be completed on time. Thus, the audit delay is lesser for clients audited by the Big Four audit firms and consistent with Ashton *et al.* (1989) and Raja Ahmad and Kamaruddin (2003).

In the case of the impact of different types of audit reports (unqualified, qualified, and disclaimer opinions), the results show that a longer audit delay generally corresponds to a more serious qualification, which in the Malaysian case is the ‘‘disclaimer of opinion.’’ The findings provide evidence that company with other than qualified opinion of audit report influence auditor to perform more extensive audit work, hence delay the audit report to be issued. Thus, the findings support H6 (audit opinion) and consistent with Soltani (2002).

The result also support H7 (company size proxied by total assets) and H8 (firm performance proxied by net income) where the findings shown the significance negative relationship with ARL. Firms with large resources and earning positive income will give pressures to external auditors to promptly release their audit report because they want to announce to investors particularly about their firm performance. Thus, the ARL is shorter with regard to the company size and profitability. The finding is consistent with Afify (2009) and Raja Ahmad and Kamarudin (2003).

However, the findings found no support for hypothesis H1 (board independence) and H4 (audit committee qualification). These results might be supported from the strict adherence of listed companies on the enforcement of MCCG 2007; which recommends that directors should be effective, comprises of independent nonexecutive directors and need to make up at least one third of the membership of the board. The code also requires all listed companies to have at least three members with at least one member being a financial expert.

Hypothesis H1 is fail to be supported, where H1 assumes a negative association between board independence and audit report lag. It was thought that, the more independent the board is, the better the company in reducing their audit business risk because of less conflict between manager and shareholders; hence shorten the audit delay. The findings found weak negative relationship between board independence and audit report lag and is consistent with Mohd Naimi *et al*. (2010). However, contrary with Wan Abdullah *et al*. (2008) which found that the more boards are independence, the shorter the audit report lags.

From the above discussion, the findings suggest that the audit report lag can be shorten with sufficient audit committee members, frequency of meetings conducted and large resources that the company employs. Those factors able to mitigate the problem of long audit report lag, and thus able to improve the financial reporting quality.

Conclusion:

One measure of financial reporting quality is the timeliness of audit report. Thus, this study provides recent empirical evidence relating to the audit report lag of 491 companies listed on Bursa Malaysia in 2011. In identifying the factors affecting audit report lag, findings show that the mean of audit delay is 97 days (which is

still below the maximum periods of six months as stipulated by the Bursa Malaysia). Nevertheless, auditor type and audit opinion are found to have negative relationship in audit reporting timeliness. The result suggests that companies audited by Big Four firms and received more qualified audit opinion gives influence on the audit reports. At the same time, suggest that companies with qualified report have fewer problems in financial reporting and hence reduce the time taken by the auditor to perform their audit work. Hence, improve the financial reporting quality.

However, the study is not without some limitations. Since the study is based on cross-sectional study with small sample size, the trend of audit delay and long term effects of board independence and audit committee on timeliness of audit report could not be examined. Furthermore, the exclusion on companies from finance sector due to the different regulation for financial institutions may also be a pushed factor from generalization.

However, the study may be extended and modified in a number of ways. Firstly, in order to enhance the explanatory power of the audit delay, future studies may consider other mechanisms such as board meetings, compensation committee and proportion of board ownership to examine the whole influence on audit report timeliness. Future studies may include more variables to give a broader view of other mechanisms on audit timeliness.

Apart from contributing to the literature on corporate governance and audit timeliness, this study also falls under the strand of literature that examines the consequences of the regulatory changes introduced around the world to strengthen corporate governance and financial reporting transparency. Hence, reduce the audit delays. Specifically, the study extend prior researches in emerging economies by providing important empirical evidence, on the role of corporate governance in financial reporting and auditing process.

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