INTERNAL CORPORATE GOVERNANCE MECHANISMS AND AUDIT REPORT LAG: A STUDY OF MALAYSIAN LISTED COMPANIES

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Abstract

This study attempts to investigate the link between corporate governance mechanisms and audit report lag for companies listed on Bursa Malaysia from 2007 to 2009. The 288 companies listed on Bursa Malaysia have been randomly selected. The corporate governance mechanisms examined include the board of directors and audit committee. It shows that there are significant negative relationships between board diligence, audit committee independence and expertise. The higher the number of meetings being held indicates that the board is discharging their role towards the company. The results show that audit committee independence and audit committee expertise could assist in reducing audit report lag among companies in Malaysia. Its provide some evidence supporting the resource based theory, whereby characteristics of the audit committee, such as the resources and capabilities, could improve companies' performance as well as corporate reporting.However, it could not provide any evidence concerning the link between board independence, board expertise, CEO duality and audit committee diligence on audit report lag. This study provides comprehensive examination of ARL on Malaysian listed companies for three years period. It is consider the initial study to provide a thorough examination of the association between corporate governance characteristics and ARL.

Keywords: Audit Report Lag, Corporate Governance, Board Of Director, Audit Committee, Malaysia

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Introduction

Timeliness of the reporting is one of the important attributes in the financial market. Financial reporting will provide users with quality information that could assist them in the decision-making process as investors of companies, particularly, as users rely on the audited financial reports in their assessment and evaluation of companies' performance. Audited financial reports will increase reliability and users will feel confident concerning the reports verified by the auditors and would be able to make decisions wisely (FASB, Concepts Statement 2).

Effectiveness and efficiency often represents quality information. Efficiency in the context of quality information frequently refers to timeliness concerning the reporting delay from the company's accounting year end to the date that the audit report is completed (Chambers and Penman, 1984).[1]

The setback of not achieving timeliness in reporting the financial statements of a company would cause all the information to lose its relevancy. Such a setback may motivate users to seek information about the company from other sources, which is likely to expose any unpleasant reports relating to the company. Consequently, users, particularly investors, would likely postpone their transaction on shares, either purchase or sales, until the report on earnings is announced (Beaver, 1968). This argument is supported by Ashton *et al.*, (1987), who identified that a delay in releasing financial statements would increase

[1] Other than 'timeliness', the term 'audit report lag' and 'audit delay' also represent efficiency. These terms are used interchangeably in this study.

uncertainty concerning investment decisions. Therefore, the success in submitting financial statements on time would provide greater benefits to the company.

In Malaysia, Bursa Malaysia[2] demands timely financial reporting through the provision of Chapter 2 and Chapter 9 of the Listing Requirements (2009), Bursa Malaysia Securities Berhad. The Bursa Malaysia Listing Requirements under chapter 9.23 (a) provide that a public listed company must submit its annual report to Bursa Malaysia within six months of the company's year end. To prevent companies from late submission of their audited financial reports, Bursa Malaysia, in consultation with the Securities Commission, has imposed a penalty on public listed companies for failure to disclose the material facts such as the annual report within the time frame. In spite of the requirement, the current scenario often pictures the inability of Malaysian companies in submitting their audited financial reports on time to Bursa Malaysia (www.bursamalaysia.com).

Many professional and regulatory bodies have taken various actions to identify the factors that hinder companies in delaying the submission of their financial reports. Among the factors identified are those that relate to the internal control system of a company (Abdul Rahman and Salim, 2010). Charles River Associates (2005) stated that increased attention to the internal control system could enhance the reliability of financial statements. Internal control is important in enhancing the corporate governance of a company.

The board of directors is recognised as one of the most important mechanisms for corporate governance in implementing internal control (Beasley, 1996). The board of directors also affects the composition and structure of the audit committee (AC) (Menon and Williams, 1994), which indirectly influences the timeliness of financial reporting. This argument is consistent with the notation by the Securities Exchange Commission (SEC) and Securities Commission (SC), which state that the audit committee is an important element of corporate governance in ensuring the quality of financial reporting.

Bursa Malaysia highlighted that directors and the audit committee play a significant role in the company to ensure the fulfilment of the objectives of Bursa Malaysia concerning timely reporting and, consequently, address corporate governance concern. The Bursa Malaysia Listing Requirements were revised in August 2009 to strengthen the rules in order to become more effective. The revised requirements specify that one third of the members on the board must be independent directors, and place a restriction on the number of directorships – not more than 25 directorships at one time. Out of the 25 directorships, 10 positions should be within public listed companies and 15 positions in non-listed companies.

In respect of the audit committee, it provides that the members of the audit committee must not be less than three persons, all members must be non-executive directors, the majority of whom should be independent directors, and at least one member must be a member of the Malaysian Institute of Accountants (MIA). If none of the members of the audit committee are members of the MIA, one member must have at least three years working experience.

The Malaysian Government also recommended the Malaysian Code on Corporate Governance, which was established in 2000, and was later revised in 2007. The revised code recommends that members on the board of directors should have skills, knowledge, expertise, experience, professionalism and integrity. Concerning the audit committee, the code proposes that to strengthen the role of audit committees, all the members of that committee should be non-executive directors, and be able to read, analyse and interpret financial statements. This is to ensure that they would be able to effectively discharge their functions. Therefore, the existence of good corporate governance would be able to facilitate the work of external auditors in completing the audited financial report and reduce the delay in reporting.

This study aims to answer the following research question: "Could the board of directors and audit committee play an important role in effectively monitoring the timeliness of the audit report?"Thus, the current paper examines whether the existence of the board of directors and audit committee could assist in reducing audit report lag. Such examination is important since the audit literature has identified the role of the board of directors and audit committee in reviewing the financial statement.

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[2] Bursa Malaysia was previously known as Kuala Lumpur Stock Exchange.

Previous studies have proposed that corporate governance is an important determinant to ensure the success of a company in various aspects such as companies' performance, financial reporting quality, corporate failure, audit quality, environmental reporting, and earnings management. Afify (2009) and Tauringana *et al.,* (2008) examined the impact of corporate governance mechanisms on audit report lag. Both studies were conducted in a non-Malaysian setting.

Within the Malaysian context, studies have examined the issue of timeliness using firm specific variables (Ahmad and Kamarudin, 2003; Che-Ahmad and Abidin, 2008). Furthermore, past studies have provided investigation concerningthe issue of corporate governance in association with companies' performance (Mohd Ghazali, 2010), financial reporting quality (Ismail *et al.*, 2008), corporate failure (Hsu and Wu, 2010), audit quality (Wan Abdullah *et al.*, 2008), environmental reporting (Said *et al.*, 2009) and earnings management (Abdul Rahman and Mohamed Ali, 2006). However, these studies did not examine corporate governance mechanisms in relation to audit report lag. Thus, the current study extends the corporate governance literature by examining the issue of the timeliness of annual reports in the Malaysian market by incorporating corporate governance, and firm specific variables in relation to audit report lag.

This study contributes to the corporate governance and audit literature by examining the association of corporate governance: board of directors, audit committee and the audit report lag. The findings of the study would have policy implications for the Malaysian Code on Corporate Governance (MCCG). It provides supporting evidence concerning whether the development of corporate governance could significantly increase the timeliness of annual reports among companies in Malaysia. This study could assist the Malaysian Institute of Corporate Governance (MICG) to provide best practice in order to enhance corporate governance mechanisms. The findings could also assist external auditors in evaluating the effectiveness of the board of directors and audit committee in their audit planning. Such assistance would assist the external auditors in identifying the best time to be allocated for their audit engagements in terms of effort, such as whether to reduce or increase effort and the amount of fees to be charged.

The remainder of the paper is organised as follows. The following section highlights the literature review and hypotheses development relating to audit report lag, board of directors and audit committee. The third section describes the research design of the current study and follows with the results. Lastly, this paper provides the conclusion, limitations and future research avenues of the study.

Literature review and Hypotheses Development

Within the corporate governance mechanisms, the board of directors and audit committee play an important role in the monitoring process as well as concerning the reporting role in companies. Bursa Malaysia has outlined the appointment requirements for members being appointed on the board of directors and audit committee. Such requirements would ensure that monitoring targets are achievable since expert members would be able to clarify matters relating to the company. Consequently, these members would reduce auditors' task complexity and improve the timeliness. Therefore, arguably, the board of directors and audit committee would be able to reduce the audit report lag. This is because the appointment of the directors and audit committee are in line with the agency theory where agents act on behalf of principles in ensuring the company is performing well and provides quality annual reporting. From the perspective of the resource based theory, ability, qualification, and experience of the board of directors and audit committee are among the other vital resources that the company possesses in enhancing its performance.

This study has developed seven hypotheses in meeting the objective of this study, which are related to the characteristics of the board of directors and audit committee.

a) Board independence

An effective board of directors is an important mechanism of internal governance in managing an organisation (Che Haat *et al.,* 2008). Resolving the agency problem would be more effective when the boards comprise independent directors. Weir *et al.,* (2002) found that boards of directors consisting wholly of inside directors would not be adequate to monitor the company, and, in certain cases, such structure would merely worsen the agency problem. A number of studies have argued that the effectiveness of the board would increase when more non-executive directors are on the board of directors

(Ho and Williams, 2003; Weir *et al.*, 2002). For example: Beasley and Petroni (2001) investigated the association between board composition and the choice of auditors of 681 property-liability insurance companies. They found that boards of directors with a higher proportion of independent directors would have a greater tendency to employ specialised brand name auditors (high quality auditor) than board of directors with a lower percentage of independent directors. This characteristic of board of directors also ensures greater assurance concerning financial reporting (Carcello *et al.*, 2002). O'Sullivan, (2000) and Salleh *et al.*, (2006) also found that a proportion of non-executive directors had a positive impact on audit quality. The authors stated that non-executive directors exert pressure to have a proper and intensive audit.

It is anticipated that an increase of non-executive directors on the board of directors also improves audit quality. This occurs when boards with independent directors provide more independent monitoring, and, as a result, increase financial reporting quality and also the quality of the audit. Board independence with financial expertise is related to a more transparent disclosure of the company's performance (Felo, 2009). They might require more audit effort than the usual amount of effort being expended, which would eventuate to an increase in audit quality and, consequently, reduce audit report lag. Therefore, this leads to the first hypothesis developed in this study.

$H_{1:}$ There is a negative relationship between board independence and audit report lag.

b) Board diligence

One method that can be used to assess whether the board members play their roles in representing the shareholders is by examining the activities of the board. The activities of the board would reflect the board's commitment in discharging its role as an agent for the company (Jensen and Meckling, 1976). The board of directors is expected to have a firm grip on the company's internal control processes and heighten their vigilance in identifying, addressing and managing risks that may have a material impact on the financial statements and operations of the company (Corporate Governance Guide p.10, Bursa Malaysia).

A diligent board of directors would be more concerned with the financial reporting aspects of the company. Lipton and Lorsch (1992), and Conger *et al.,* (1998) provide support that boards of directors that meet frequently are more likely to discharge their duties well. This indicates a good internal control mechanism. A board of directors in a company that has more frequent meetings would allow the board members to discuss identified problems, which leads to the superior performance of the company (Evans and Weir, 1995). Tauringana *et al.*, (2008) found a significant negative relationship between the frequency of board meeting and the timeliness of the annual report for companies listed on the Nairobi Stock Exchange (NSE) in Kenya. This indicates that companies that hold frequent meetings publish their annual reports earlier, increase the company's performance and is evidence of an effective corporate governance mechanism.

The most recent guide on corporate governance by Bursa Malaysia highlights that a typical board of directors would hold a minimum of 6 to 8 board meetings annually. More frequent meetings would enable the auditors to rely more on the strong internal control of the companies and reduce their workload. Consequently, this would lead to a decrease in the audit report lag. Therefore, this study hypothesizes that:

$H_{2:}$ There is a negative relationship between board diligence and audit report lag.

c) Board Expertise

Cross directorships or multiple directorships are also known as "interlocking directors". This occurs when a director sits on several boards (Haniffa and Cooke, 2000). Directors that hold cross directorships could offer their valuable insights based on their experience from being on the board of another company (Dahya *et al.,* 1996). The number of additional directorships could reflect a director's prominent reputation and ability in effective monitoring of the companies (Beasley, 1996). Carcello *et al.*, (2002) examined the board characteristics and audit fees and found that boards with multiple directorships are more supportive in looking for high quality auditors. Their results show that the boards are more careful in discharging their duties. Consistent with the resource based theory, the internal resources that the company owns may aid the company to be more prosperous or outperform other companies. The resources that the company possesses are the skills, experience and knowledge of the board of directors. This, in turn, would produce higher quality and more reliable financial reporting, and would also lead to a reduction in the auditors' workload due to their heavy reliance on the high quality and reliable financial reporting, and, consequently, reduce audit report lag. Therefore, the third hypothesis is developed.

$H_{3:}$ There is a negative relationship between board expertise and audit report lag.

d) CEO Duality

As discussed in agency and organisational economics theories, the interests of the owners would be sacrificed to a degree in favour of management when a CEO holds the dual role of chair. This action would create managerial opportunism and agency loss since power and authority are concentrated in one person. The position of CEO Duality would not act in the best interests of the shareholders. The person who engages both roles would be reluctant to reveal unfavourable information to outsiders, specifically, the shareholders of the company. Forker (1992) affirms that a dominant individuality in both roles causes threat to the monitoring quality. Donaldson and Davies (1991, p. 50) state that "where the chief executive officer is chair of the board of directors, the impartiality of the board is compromised". Auditors may face greater risk of audit failure when the roles of the chairman and chief executive are combined (Peel and Clatworthy, 2001). This is because there is a higher possibility for concealment or misstatement of relevant facts and even fraud to be perpetrated. Therefore, CEO duality could influence the auditors' assessment of the control risk and audit risk, audit hours and the level of substantive testing increase. The characteristics of CEO duality are not associated with the companies' performance (Abdul Rahman and Mohamed Ali, 2006; Mohd Ghazali, 2010). In contrast, Afify (2009) found that CEO duality significantly affects audit report lag whereby the duality of roles imposes a threat for them to monitor the company in an effective manner and, thus, increase the audit report lag. Therefore, this study hypothesizes that a lack of impartiality of the board would increase the audit report lag.

$H_{4:}$ There is a positive relationship between CEO duality and audit report lag.

e) Audit committee independence

Agency theory highlights that the independent members on the audit committee could help the principals to monitor the agents' activities and reduce benefits from withholding information. Audit committees with more independent directors are considered as being a more reliable group than the board of directors in monitoring the company. The effective role provided by the audit committee would be appropriate to represent the rights and privileges for all stakeholders.

Audit committee independence would enhance the effectiveness of the monitoring function, as it serves as a reinforcing agent to the independence of internal and external auditors in a company. Audit committees must be comprised entirely of independent directors in order to be more effective, as posited by Menon and Williams (1994).Klein (2002) shows that independent audit committees reduce the likelihood of earnings management, thus, improving transparency. Carcello *et al.,* (2000) found that audit committee independence has a positive significant relationship with audit fees. This provides evidence that the independence of the audit committee would lead to higher quality financial reports.

Ali Shah *et al.,* (2009) found that companies in Pakistan are having good corporate governance through having independent audit committees. In contrast, Ismail *et al.,* (2008) found that the independence of the audit committee would not influence the quality reporting of the companies. They argue that this is due to the companies only fulfilling the requirements, rather than the impact of the requirements.

The MCCG (2007) and the Bursa Malaysia Listing Requirements (2009) emphasize that the audit committee might institute stronger internal control and good monitoring of the financial reporting process in a company. The strong internal control managed by the audit committee would lead to auditors reducing their work on the company's accounts because of their reliance on the internal control of the company. Consequently, this would lead to a decrease in audit delay. Thus, the fifth hypothesis is developed.

H_5: There is a negative relationship between audit committee independence and audit report lag.

f) Audit Committee Diligence

The audit committee is an integral part of a company that emphasises high level monitoring (Dechow *et al.,* 1996). Moreover, the monitoring function would be more effective in terms of financial reporting. Activities conducted by audit committee members, such as meetings, are considered as an important tool in ensuring they are fulfilling their responsibilities towards the company. Ismail *et al.,* (2008) measure audit committee diligence based on the actual number of audit committee meetings held in a year. Audit committees must carry out activities effectively through increased frequency of meetings in order to maintain their control functions (Bedard *et al.,* 2004). Abbott *et al.,* (2000) in their examination found that audit committees that meet at least twice annually are subjected to less exposure of sanction by the authorities. This is because the conducting of regular meetings would indicate that the audit committee discharges their duties in an appropriate manner as an agent for the company. They also noted that audit committees that are wholly independent are also active by way of having meetings.

The American Bar Association posits that an audit committee that holds less than two meetings annually is considered as being uncommitted to its duties. This indicates that the audit committee is unable to contribute to the internal control in that situation. Auditors who really monitor the internal control function of the company would reduce their works. However, Ismail *et al.,* (2008) found that the frequency of audit committee meetings does not influence the quality of reporting of the companies. They argue that this is because the companies are only fulfilling the requirements, rather than the impact of the requirements.

Another study, done by Razman and Iskandar (2004), found that Malaysian companies that have good reporting meet more frequently than poor reporting companies. This is because, during the meeting, they can monitor the management activities. Consequently, this will lead to a decrease in the time taken for auditing by the auditors and reduce the reporting lag. Therefore, this study developed the following hypothesis.
$Ha_{6:}$ There is a negative relationship between audit committee diligence and audit report lag.

g) Audit Committee Expertise

Audit committee expertise is important in order to deal effectively with external auditors. Audit committees typically act as the mediator between the management and the auditors. Members of audit committees with experience in financial reporting and auditing, especially those who are CPAs would understand the auditors' tasks and responsibilities (De Zoort *et al.,* 2003). They would become more supportive of the auditors compared to audit committee members who do not have similar experience. Audit committee members who are experts are more 'friendly' with the auditors, and comprehensible, logical and coherent when they are discussing with the auditors regarding the financial reporting of the company.

Audit committees with more expertise would be more concerned about the financial reporting quality of the company. DeZoort (1998) contends that an audit committee with more internal control experience makes decisions or judgments similar to auditors compared to those audit committee members who are without experience. This reflects that experience in the accounting, internal control or auditing is fundamental to enable the audit committee to understand and address problematic issues concerning the financial reporting system of the company. They would also realise the benefits to the market of producing financial statements on time.

Audit committees with financial expertise are also identified that they are going to facilitate each other. This characteristic of audit committees shows as the resources and capabilities that the company has, as discussed in resource based theory. Capabilities are the expertise that the audit committee possess, which may assist in improving the performance of the firm.

Listed companies in Malaysia will frequently end up with a good financial report when members of the audit committee are financially literate (Razman and Iskandar, 2004). This is because audit committees who have knowledge in accounting and auditing are able to demonstrate their ability in monitoring the internal control and reporting. Strong internal control would also lead to the auditors reducing their work because of their reliance on the credibility of the internal control. Therefore, the following hypothesis is developed:

$Ha_{7:}$ There is a negative relationship between audit committee expertise and audit report lag.

Research design

The 288 companies listed on Bursa Malaysia have been randomly selected in this study involving financial years 2007 to 2009.This period is chosen in order to increase the reliability and accuracy of the results in this study. The listed companies are selected because they are governed by the rules and regulations imposed by MCCG and the Bursa Malaysia Listing Requirements. However, listed companies from the Banking and Financial Institution Act 1989 are excluded, because they are heavily regulated and the governance structure is determined by Bank Negara Malaysia. Table 1 shows the number of companies selected from various sectors.

Table 1. Total number of companies and sample based on industry

Industry	Population	Sample of companies	Percent
Construction	49	19	7
Consumer	139	53	18
Hotel	5	2	1
Industrial	265	88	30
Infrastructure	7	3	1
Property	88	31	11
Plantation	43	16	6
Technology	29	12	4
Trading & services	181	64	22
TOTAL	806	288	100

There are seven variables that describe the characteristics of boards of directors and audit committees while another three variables describe the control variables. These variables are defined in Table 2.

Table 2. Variables Measurements

Variable	Measurement
<u>Dependent</u> ARL (Audit report lag)	Represents the number of days elapsing between the end of the fiscal year of the company to the completion of the audit for the current year for each individual firm (the audit report date).
<u>Independent</u> BDINDs (board independence)	The proportion of non-executive directors to total number of directors is the number of non-executive directors on the board divided by the total number of directors on the board at the year-end.
BDMEET (Board meeting/diligence)	Number of board meetings for the financial year.
BDEXP (Board experience/expertise)	Number of multiple directorships by non-executive directors to the total number of non-executive directors.
DUAL (CEO duality)	DUAL = ‘1’ if CEO is the chairman and ’0’ otherwise.
ACIND (AC independence)	Percentage of non-executive directors to the total of audit committee members.
ACMEET (AC meeting diligence)	Number of audit committee meetings.
ACEXP (AC experience/expertise)	No of audit committee members with background experience in financial reporting (such as MIA, MICPA) to the total of audit committee members.
<u>Control</u> SIZE (Company size)	Natural log of year end total assets.
AUDIT TYPE (Type of audit firm)	Dummy variable, ‘1’ if auditor is one of the former Big-4 audit firms, ‘0’ otherwise.
PROF (Profitability)	PROF = Return on assets, measured by net income divided by total assets.

Results

Descriptive statistics

Table 3 below presents the descriptive statistics of the variables used. Overall, it shows that companies have improved over the years concerning the number of days taken to complete the audited financial statement although results from previous studies are at variance with these findings. Che-Ahmad and Abidin (2008) found it took442 days while Ahmad and Kamarudin (2003) reveal that 273 days was the maximum number of days to complete the annual report. The current study is similar to Afify (2009) who found that the maximum and mean score number of days to complete the annual report was 115 days and 67 days, respectively.

Table 3. Descriptive Statistics for Audit Report Lag (N= 288)

Year		N	Minimum	Maximum	Mean	Median
2007	ARL	288	40.00	184.00	103.14	110.50
2008	ARL	288	40.00	146.00	103.42	111.00
2009	ARL	288	36.00	136.00	102.46	110.00
2007- 2009	ARL	864	36.00	184.00	103.00	111.00

Notes: ARL = number of days between the end of the fiscal year to the date of completion of audit

Table 4. Number of companies and audit report lag for 2007 – 2009

Audit report lag ARL(within)	No. of companies		No. of companies		No. of companies	
Year / percentage	2007	Percent	2008	Percent	2009	Percent
1 month (30 days)	0	0.00	0	0.00	0	0.00
2 months (60days)	22	7.64	20	6.94	25	8.68
3 months (90days)	42	14.58	41	14.24	41	14.24
4 months (120days)	198	68.75	211	73.26	208	72.22
5 months (150days)	25	8.68	16	5.56	14	4.86
6 months (180days)	0	0.00	0	0.00	0	0.00
More than 180days	1	0.35	0	0.00	0	0.00
Total	288	100	288	100	288	100

Table 4 shows the movements on audit report lag from year 2007 until 2009. For the three-year period, no companies completed or submitted their annual report within a month. Year 2008 shows the least number of companies submitting their annual report within two months, followed by 22 companies in 2007 and 25 companies in 2009. The results also show 41 to 42 companies have completed and submitted their annual report within three months.

The results show that most companies completed and submitted their audited reports much earlier than the deadline stipulated by Bursa Malaysia. Such results indicate that the companies are concerned and realise that audited reports are useful for users' decision-making. The results support the notion that excessive delay in publishing financial statements would increase the uncertainty in relation to investment decisions (Ashton *et al.*, 1987; Ahmad and Kamarudin, 2003).

Table 5 provides the descriptive statistics for the board of directors and audit committees among the listed companies. The mean score of the board independence (BODIND) is 0.63 (63 percent). The results show that most companies have more than half independent directors on their board of directors. The results show that, at minimum, independent directors represented 25 per cent of the board composition in the companies, which is less than one third. The average number of board meetings (BODDIL) held was 5. In table 5, the results also show that, on average, 71 percent of independent directors have interlocking directorships. The results indicate that the management of the companies hold the belief that independent directors who hold directorships in other companies could enhance the companies' performance by providing vast experience and skills. In addition, on average, the results also show that slightly less than half of the companies (41 percent) practice CEO duality where the CEO also holds the position of the chairman.

Audit committee independence (ACIND) has a mean score of 0.93, which is 93 percent and a minimum score of least 0.60 (60 percent) of their audit committee members being represented by independent directors. The results also show that almost all the audit committees in the listed companies discharge their duties appropriately with five meetings being held. The highest number of meetings held by the audit committee during the three-year period was 12. The mean score of audit committee expertise (ACEXP) is 0.4 (40 percent). Such results indicate that listed companies have audit committee members with experience in financial reporting. Only 24 of the companies (2.78 percent) formed their audit committee with members not having an accounting qualification.

Table 5. Descriptive statistics for Board of Directors, audit committee and control variables

Variable	N	Minimum	Maximum	Mean	Median	Std. Deviation
Independent						
BODIND	864	0.25	1.00	0.63	0.63	0.17
BODDIL	864	1.00	13.00	5.00	5.00	1.51
BODEXP	864	0.00	1.00	0.71	0.75	0.29
CEODUAL	864	0.00	1.00	0.41	0.00	0.49
ACIND	864	0.60	1.00	0.93	1.00	0.18
ACDIL	864	1.00	12.00	4.84	5.00	1.67
ACEXP	864	0.00	1.00	0.40	0.33	0.19
Control						
SIZE -TOTASSET (RM BILLION)	864	9 -3	36.64	0.79	0.24	2.86
TYPEAUD	864	0	1	0.58	0.00	0.49
PROFITABILITY	864	-1.88	11.059	0.03	0.03	0.40

Notes:
BODIND = proportion of independent non-executive director to total number of directors
BODDIL = number of board meetings
BODEXP = average number of outside directorships in other firms held by outside directors
CEODUAL = 1 if CEO is the chairman and "0"otherwise
ACINDP = percentage of non-executive directors to the total of audit committee members
ACDIL = number of audit committee meetings
ACEXP = no of audit committee members with background experience in financial reporting
TOTASSET = total assets that the companies have at the end of the financial year.
TYPEAUD = '1' if audited by Big-4, '0' if otherwise
PROFITABILITY = net income divided by total assets

Correlation matrix analysis

Table 6 provides the results on the normality test. The results show a non-significant value (0.333), which is more than 0.05, indicating data normality. Based on Kolmogorov-Smirnov and Shapiro Wilk tests, this study concludes that audit report lag is normally distributed.

Table 6. Normality Test for Audit Report Lag

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
NARL	0.034	864	0.021	0.998	864	0.333

a. Lilliefors Significance Correction

The Pearson product moment correlation was used to determine the strength and direction of the relationship between the independent variables and dependent variable. Table X presents the results of the correlation matrix analysis. The results show no correlation problem among the variables since the value is less than 0.5. The variance inflation factor (VIF) indicates that all variables have a value below two, which is within the acceptable range of 10(M. Yasin *et al.*, 2009).

Table 7. Correlation Matrix Table

	ARL	BOD DIL	BOD IND	BOD EXP	CEO DUAL	AC DIL	AC IND	AC EXP	Log_ Asset	TYPE AUD	ROA
ARL	1										
BOD DIL	0.036	1									
BOD IND	-0.083*	0.172**	1								
BOD EXP	-0.097**	-0.023	0.065	1							
CEO DUAL	0.093**	-0.111**	-0.279**	-0.144**	1						
AC DIL	0.096**	0.234**	0.051	-0.002	0.069*	1					
AC IND	-0.068*	0.043	0.215**	-0.002	-0.038	0.030	1				
AC EXP	-0.019	0.075*	-0.068*	0.020	0.112**	0.022	0.013	1			
LOG _ASSET	-0.170**	.0.178**	0.156**	0.128**	-0.097**	0.093**	0.078*	-0.003	1		
TYPE AUD	-0.170**	0.000	0.005	0.104**	-0.008	-0.088**	0.010	-0.021	0.195**	1	
ROA	-0.076*	0.013	0.016	-0.039	0.031	0.033	0.029	-0.032	-0.021	0.006	1

**Correlation is significant at the 0.01 level (2-tailed).* Correlation is significant at the 0.05 level (2-tailed)

Fixed Panel Regression

The current section presents the results of the fixed panel regression using Eviews. The panel data analysis is an increasingly popular form of longitudinal data analysis among social and behavioural science researchers (Hsiao, 2003). A panel is a cross-section or group of people who are surveyed periodically over a given time period. In this study, the group is the listed companies selected and the time is the duration of the data collected, which is the three-year period between2007 and2009. Since the data is bound to be heterogeneous, the panel data technique could take such heterogeneity explicitly into account by allowing individual specific variables (Gujarati, 2003). Normal regression does not adjust for the firm's specific effect, which would lead to variables being omitted and the model being mis-specified (Fraser *et al.,* 2005). The fixed effect model could overcome such problems by adjusting the effects through the firm's specific intercept by capturing the immeasurable firm's specific characteristics (Fraser *et al.,* 2005). The panel data provides more informative data, variability and efficiency. Under the panel data, the model is generated as follows:

$$ARL = \beta_1 BDINDs + \beta_2 BDMEET + \beta_3 BDEXP + \beta_4 DUAL + \beta_5 ACINDP + \beta_6 ACMEET + \beta_7 ACEXP + \beta_8 SIZE + \beta_9 AUDTYPE + \beta_{10} PROF + \varepsilon\ it$$

The fixed panel regression result is shown in Table 8. It shows that board diligence (BODDIL), audit committee independence (ACINDP) and audit committee expertise are significant at the 1% level. One of the control variables, company size is also significant at the 1% level. Other variables –board independence, board expertise, CEO duality, profitability and type of auditor – do not have a significant association with audit report lag.

Table 8. Fixed Panel Regression Result

Variable	Coefficient	Prob.
BODIND	-0.025864	0.288
BODDIL	-0.005616	**0.001***
BODEXP	-0.002881	0.205
CEODUAL	0.002235	0.863
ACIND	-0.021706	**0.001***
ACDIL	-0.009835	0.899
ACEXP	-0.040084	**0.001***
LOG_ASSET	-0.129782	0.012
ROA	-0.002146	0.264
TYPEAUD	0.002535	0.294
C	5.786734	0.000
N	864	
Adjusted R-squared	0.802562	
F-statistic	12.811	
Prob(F-statistic)	0.000	

Notes:
BODIND = proportion of the non-executive directors divided by total number of directors
BODDIL = number of board meetings
BODEXP = average number of outside directorships in other firms held by outside directors
CEODUAL ='1' if CEO is the chairman, '0' if otherwise
ACINDP = percentage of non-executive directors to the total of audit committee members
ACDIL = number of audit committee meetings
ACEXP = no of audit committee members with background experience in financial reporting
LOG_ASSET = natural log of total assets (in billions of ringgit Malaysia)
TYPEAUD = '1' if audited by Big-4, '0' if otherwise
ROA = net income divided by total assets
Adjusted R^2 = adjusted R^2 coefficient determination
F stat = indicate how much variation is explained by the regression equation.
*significant at 1%.

Discussion

There are seven hypotheses developed in this paper and three are accepted. The first hypothesis states that there is a negative relationship between board independence and audit report lag. However, this study could not provide any evidence concerning the association between board independence and audit report lag. Therefore, Hypotheses one(H_1) is rejected. This is consistent with Hsu and Wu (2010) who found no association between board independence and corporate failure among companies listed on the London Stock Exchange. Similar to Buniamin *et al.*, (2008), they indicated that board independence could not play an effective monitoring role in influencing financial reporting quality and, thus, is not effective in resolving the agency problem.

The results of this study however, contradict with Afify (2009) who found that board independence could reduce audit report lag. Similarly, Che Haat *et al.*, (2008) found that internal governance mechanisms could lead to significantly higher firm performance and Wan Abdullah *et al.*, (2008) found that board independence is one of the important factors for a company to perform effectively.

The results show that there is a significant association between the number of board meetings and audit report lag. This indicates that a higher number of board meetings is more likely to reduce the audit report lag of the companies. Therefore, the second hypothesis (H_2) is accepted. The results of this study are consistent with Tauringana *et al.*, (2008) who found that there is a relationship between the number of board meetings held and the timeliness of annual reports for companies listed on the Nairobi Stock Exchange (NSE) in Kenya. The results indicate that companies that hold meetings more frequently tend to publish their annual reports earlier; an evidence of an effective corporate governance mechanism. The other study done by Carcello *et al.*, (2002) found a relationship between board meetings and audit fees. A higher number of meetings of the board of directors would likely address problems and, consequently, would instigate the approval of releasing the annual report.

This study shows that there is no significant relationship between the number of independent directorships with audit report lag. Therefore, hypothesis three(H_3) is rejected. The results of this study are consistent with Carcello *et al.*, (2002) who found that there is no relationship between that variable for a small sample of companies on audit fees. Similarly, Che Haat *et al.*, (2008) also found no relationship on the directorship of the directors in relation to the performance of the company. Such results are consistent with Abdul Rahman and Salim (2010) who explain that too many directorships may impair the level of independence among the directors and, consequently, affect the effectiveness in performing their roles and responsibilities. This is consistent with resource dependency theory, which recognises the importance of addressing the updating of sources of power and dependence and cataloguing the new set of available tactics for managing dependence.

The last characteristic for board of directors is CEO duality. The results show that there is no significant association between CEO duality and audit report lag. The results indicate that CEO duality did not influence audit report lag, therefore, hypothesis four (H_4) is rejected. The results of this study are in contrast to the findings of Afify (2009) who found that CEO duality is significantly associated with audit report lag in which CEO duality increases audit reporting lag.

As for the characteristics of audit committees, this study hypothesized that there is a negative relationship between audit committee independence, diligence and expertise in relation to audit report lag. Upon the analysis, it provides evidence to reject hypothesis six (H_6) because there is no significant difference between audit committee diligence and audit lag. However, the results support Ha_5 and Ha_7. Audit committee independence and audit committee expertise may reduce audit report lag, however, audit committee diligence could not influence audit report lag. The results are similar to the study by Klein (2002) who found that more independent audit committee members would effectively influence financial reporting quality.

This study supports the view that an audit committee with a simple majority of independent audit committee members is more likely to fulfil its duties effectively compared to an audit committee with no independent members. This is consistent with agency theory where independent members in an audit committee could assist principals to monitor the agents' activities and reduce benefits from withholding information. They would provide more effective roles in monitoring the companies.

Increasing the number of financial experts on audit committees will reduce the incident of fraud (Farber, 2005). Those who have financial expertise demonstrate a high level of financial reporting knowledge and, thus, are expected to lead the committee, and identify and ask knowledgeable questions that challenge management and the external auditor (He *et al.*, 2009).

Generally, it is believed that more meetings and discussion of the committee would improve the performance of the company. However, similar to the study done by Uzun *et al.*, (2004), the results in this study show that the number of audit committee meetings held is not significantly associated with audit report lag. More frequent meetings of the company does not necessarily provide better achievement of the company. Thus, the company needs to ensure that audit committee members raise and try to resolve the issues with management during the meeting, and, as a result, improve the quality of reporting.

Conclusion

This study provides empirical evidence that audit report lag has a significant negative relationship with the number of board meetings (BODDIL), audit committee independence (ACINDP) and audit committee expertise (ACEXP).
The characteristic of board meetings indicates that as the number of meetings increase, the time taken to produce the annual report reduces. The findings of this study support the notion by Dalton and Daily (1999) in that the monitoring role of the board is important in overseeing the process of accounting, financial reporting, auditing and also concerning the disclosure of information to the shareholders, potential investors and other relevant stakeholders for evaluation on company performance. When more

meetings are conducted, the board may discharge their duty properly regarding the monitoring function of the company, consequently, increasing the quality of reporting of the company, particularly timeliness.

Based on this study, board independence is not found to bean influencing factor in reducing audit report lag. The results indicate that board independence does not necessarily assist timely corporate reporting. Of vital importance is that the board of directors needs to fulfil their role effectively and efficiently regardless of whether they are independent directors or non-independent directors. This study could not provide evidence that companies would have better performance even when they comply with the rules provided by Bursa Malaysia Listing requirements concerning board composition. The results indicate that there is a possibility that companies with one third of independent directors on the board are just in form rather than substance. The authors also noted that the directors of listed companies also view that the independent directors must be independent in mind whereby they have to understand the company background, and strengths and weaknesses to ensure they are successful in carrying out their role for the benefit of the company.

The characteristics of the board on board expertise do not significantly influence the reduction of audit report lag. This is because of the different skills of the board expertise, which although useful in one company may not be useful in another company. This study proposes that companies should have stricter rules and criteria selection for their directors to ensure their monitoring role can be effectively discharged.

Furthermore, the results of this study also provide that CEO duality does not significantly influence audit report lag. Carter and Lorsch, (2004) recommended that a leader needs to appoint independent directors for companies that practice CEO duality. This study provides that audit committee independence and audit committee expertise are important factors that affect the audit report lag of the companies. Thus, it corresponds with the resource based theory where those characteristics of the audit committee, such as the resources and capabilities, may improve companies' performance as well as corporate reporting. These two characteristics represent the Bursa Malaysia Listing Requirements, which require audit committees to be composed of not fewer than three members, with the majority of them being independent directors, and with at least one member of the audit committee possessing financial expertise. Audit committees with these characteristics could assist the companies to be timely in their annual reporting.

This study did not find a significant association between audit committee meetings and audit report lag. This suggests that audit committees could prioritise important things that need to be resolved during the meeting in order to improve the performance of the company as well as in assuring audit report lag.

As an exploratory study of the Malaysian market in relation to corporate governance mechanisms concerning audit report lag, this paper acknowledges a number of limitations. First, this study employs only seven variables that are related to corporate governance. This study did not include other factors such as government policy or political issues, which might also affect audit report lag. Additionally, McGee (2007) noted that the influence of timeliness might be attributed to culture, or the political and economic system of the country. Next, the findings of this study would be more accurate if the study covered the entire population. This would provide greater generalization on the Malaysian listed companies concerning audit report lag and corporate governance characteristics.

Examining other corporate governance variables such as corporate ownership in assuring audit report lag of the companies is suggested for future research avenues. In addition, it would be interesting to examine the link between corporate governance mechanisms to share price in relation to audit report lag. As well as looking at the timeliness of annual reports, it is also important to examine the other reports such as the interim and quarterly report since these reports are important in assessing company performance. In addition, which parties are liable for the delay of the annual report –the preparers or auditors – can also be explored.

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