

**AUDIT REPORTING LAG IN MALAYSIA:  
THE CASE OF MESDAQ**

**WAN ROSHAINI BINTI WAN ALI**

**UNIVERSITI UTARA MALAYSIA  
2008**

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# **AUDIT REPORTING LAG IN MALAYSIA: THE CASE OF MESDAQ**

A thesis submitted to the Graduate School in partial fulfillment of the requirement for  
the degree Master in Science (International Accounting)

By

Wan Roshaini Binti Wan Ali

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I hereby certify that the substance of this thesis has not been submitted to any degree elsewhere and is not currently being submitted for and other degree qualification.

I hereby certify that any help received in preparing this thesis and all sources used have been acknowledged in this thesis.

Wan Roshaini Binti Wan Ali

86878

College of Business

Universiti Utara Malaysia

06010 Sintok

Kedah

22 May 2008

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## **ABSTRAK (BAHASA MALAYSIA)**

Kecukupan masa adalah faktor penting didalam menentukan akauntabiliti dan kualiti maklumat-maklumat kewangan. Maklumat kewangan boleh dicapai oleh pengguna apabila juruaudit mengeluarkan laporan kewangan yang telah lengkap diaudit dan ditandatangani. Justeru itu, tempoh masa yang diambil untuk mengeluarkan laporan kewangan tersebut bergantung kepada tempoh masa yang diambil untuk mengeluarkan laporan juruaudit yang telah ditandatangani. Kajian ini bertujuan untuk mengkaji faktor-faktor yang boleh mempengaruhi sela masa laporan juruaudit. Kajian ini berdasarkan 118 syarikat yang tersenarai di bawah MESDAQ di Bursa Malaysia dengan berpandukan laporan kewangan tahun 2006. Sepuluh faktor yang berkaitan dengan syarikat dan tiga faktor yang berkaitan dengan juruaudit telah dikaji. Faktor yang berkaitan dengan syarikat adalah kewujudan bahagian audit dalaman, kekerapan mesyuarat oleh jawatankuasa audit, saiz syarikat (berdasarkan jumlah asset), tahap kompleksiti dalam proses audit (berdasarkan kos pembangunan dan penyelidikan (R&D) dan status anak syarikat), tahun kewangan berakhir, syarikat yang baru disenaraikan, pertukaran tahun kewangan berakhir, jumlah anak syarikat dan tempat anak syarikat diperbadankan. Tiga faktor yang berkaitan dengan juruaudit pula adalah jenis firma audit (untuk syarikat dan anak syarikat) dan laporan juruaudit. Berdasarkan kajian yang dibuat, laporan juruaudit, kos pembangunan dan penyelidikan (R&D) serta syarikat yang baru disenaraikan adalah faktor-faktor penting yang menyebabkan kelewatan pengeluaran laporan juruaudit yang telah ditandatangani oleh syarikat yang tersenarai dalam MESDAQ. Pembolehubah-pembolehubah bebas lain tidak memberi kesan terhadap tempoh masa yang diambil untuk mengeluarkan laporan juruaudit yang telah ditandatangani. Keputusan kajian dibincang di bahagian keputusan dan perbincangan.

### **ABSTRACT (ENGLISH)**

Timeliness is a very crucial aspect in assessing the accountability and the quality of financial reporting. Financial information could be accessed by users once the auditor has issued and completed the annual reports. Therefore, the time taken to publish the annual report depends partly on the audit time taken to sign the audit report. This paper aims to investigate the attributes affecting audit reporting delay. The sample is 118 MESDAQ companies listed in Bursa Malaysia and uses 2006 annual reports. It examines ten corporate attributes and three auditor attributes. The corporate attributes include the existence of independent internal audit department, the number of audit committee's meeting, firm size (proxied by total assets), audit complexity (proxied by total development costs and status of subsidiaries) financial year-end, new listed company, change of financial year-end, number of subsidiaries and place of incorporation of subsidiaries. The three auditor attributes are the type of audit firm (for company and its subsidiaries) and audit opinion. Regression analysis conveys that audit opinion, total research and development cost (R&D) and newly listed company are significantly related to audit reporting delay for companies listed in MESDAQ. The rest of the independent variables are not significantly associated with audit delay. The results of this study are discussed under findings and discussions section.

## **ACKNOWLEDGEMENTS**

At last, alhamdulillah, praise be to Allah, Most Gracious and Most Merciful that through His blessing, I have completed doing my thesis in this semester.

Firstly, I would like to express my deep appreciation to my supervisor, Dr. Mohd 'Atef bin Md Yusof for his guidance, suggestions, reviews, kindness, comments and criticism as well as his valuable time throughout my graduate study especially in completing my thesis, thank you very much.

I am most grateful to my lecturers in UUM, especially to Dr. Kamil bin Md Idris for his strong experience in teaching 'Research Methodology'.

My thanks also go to my friends and my classmates in UUM for their kindness and information in assisting me to finish up my thesis.

Last but not least, my deep love goes to my husband, my family and my family-in-law for their supports in completing my thesis, thus my graduate study.

Finally, to examiner, all my course mates, all lecturers in Faculty of Accountancy UiTM Perak and to all individuals that have involve directly and indirectly in the completion of this project, thank you very much.

**Wan Roshaini Binti Wan Ali**  
**College of Business**  
**Universiti Utara Malaysia**  
**May 2008**

## TABLE OF CONTENTS

	PAGE
Declaration	i
Permission to Use	ii
Abstract (Bahasa Malaysia)	iii
Abstract (English)	iv
Acknowledgement	v
Table of Contents	vi
List of Tables	vii
List of Figures	viii
List of Abbreviations	ix
<b>1.0 INTRODUCTION</b>	
1.1 Background of the Study	1
1.2 Problem of the Study	4
1.3 Purposes and Objectives of the Study	6
1.4 Significance of the Study	7
1.5 Why MESDAQ companies?	9
<b>2.0 LITERATURE REVIEW</b>	10
<b>3.0 THEORITICAL AND HYPOTHESIS DEVELOPMENT</b>	16
<b>4.0 RESEARCH METHODOLOGY AND VARIABLE MEASUREMENT</b>	
4.1 Data Collection and Sample Selection	19
4.2 Variable Measurements and Model Specification	19
<b>5.0 FINDINGS AND DISCUSSIONS</b>	
5.1 Descriptive Statistics	27
5.2 Correlation Analysis	30
5.3 Regression Analysis	33
5.4 Diagnostic Test	35
<b>6.0 CONCLUSION</b>	36
<b>REFERENCES</b>	37
<b>APPENDIX</b>	42



## LIST OF TABLES

<b>NO. OF TABLE</b>	<b>TITLE</b>	<b>PAGE</b>
Table 1	Descriptive analysis for entire sample (n=118)	28
Table 2	Correlation coefficients between variables for the overall sample of 118 companies	31/32
Table 3	Regression results for LNDELAY (n=118)	33
Table 4	Summary of the results	35

## LIST OF FIGURES

NO. OF FIGURE	TITLE	PAGE
Figure 1	Some facts about companies seeking to be listed on Bursa Malaysia	10
Figure 2	Main Board and Second Board vs MESDAQ Market	42

## LIST OF ABBREVIATIONS

AC	Audit committee
BOD	Board of Directors
IA	Internal Audit
ICOFR	Internal control over financial reporting
IMF	International Monetary Fund
KLSE	Kuala Lumpur Stock Exchange
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
R&D	Research and development
SOX 404	Sarbanese-Oxley Section 404
TP&L	Trading, Profit and Loss Account
UK	United Kingdom
US	United States of America
VIF	Variable inflation factor
vs	versus

## **1.0 INTRODUCTION**

### **1.1 Background of the Study**

The main goal for conducting business is to earn profit and any other returns. One way to measure whether the business achieves its goal or not is by preparing 'Trading, Profit and Loss Account (TP&L). TP&L is one of the final accounts produced at the end of accounting period along with Balance Sheet and other financial statements. Every company is required to prepare the financial statements and to be audited by qualified auditor for the confirmation of its truthfulness. Financial statement is one of the content in company's annual report, which provides valuable information to various groups of users, especially investors. A major objective of corporate reports (annual reports) is to serve primarily those users who have limited authority, ability or resources to obtain information and who rely on financial statements as their principal source of information (Radebaugh *et al.*, 2006). In emerging capital markets, the audited financial statements in the annual report are likely to be the only reliable source of information available to the market (Leventis *et al.*, 2005). According to Wallace (1993), this is assumed because other non-financial statement sources such as media releases, news conferences and financial analysts forecasts are not well developed and the regulatory bodies are not as effective as in Western developed countries (Waresul *et al.*, 1993). Therefore, many investors and shareholders need this financial information in order to make any investment decisions. Investors as well as finance providers need to analyze the audited financial statements before approving the loan or deciding to invest. Companies, however, need these sources of fund as soon as possible to finance their operation and growth. This will depends on the time taken to prepare and issue the audited financial

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