DETERMINANTS OF AUDIT REPORT LAG AND CORPORATE GOVERNANCE IN MALAYSIA

By

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ABSTRACT

An accurate and timely financial statement is considered as an important aspect to the success of all organization. Therefore, financial information needs to be available to users especially investors and shareholders as soon as possible in their decision making. This paper aims to investigate the relationship between the characteristics of corporate governance; board independence, ownership concentration, audit committee independence, expertise, meeting, size, internal audit investment and audit report lag among companies listed under Bursa Malaysia. The samples covered are among 180 companies listed at Bursa Malaysia for 2009 and 2010. The samples are chosen randomly from 843 company of the population. Descriptive statistics was used to provide insight into the time taken by external auditors to complete an audit work of a company. The results show that on average, the companies took about 100 days to complete their audit report with a maximum and minimum day of 148 days and 26 days respectively. In addition regression analysis was used to provide empirical evidence on which variables had significant relationship with audit report lag. The results show that audit committee size, ownership concentration, organization size and profitability are significantly associated with audit report lag. However the other six variables (audit committee independence, meetings, expertise and types of auditors were found to have insignificant relationship with audit report lag.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Timeliness is really a pertinent issue that exists in corporate reporting. Timeliness enhances the usefulness of information or otherwise it will decrease its economic value. This is in tandem with recognition that was made by American Accounting Association (AAA, 1955 and 1957), the Accounting Principles Board (1970), the American Institute of Certified Public Accountants (1973) and so on. There are many ways to define timeliness. Basically timeliness is known as the reporting delay from the company's accounting year end to the date of the audit report completed (Chambers and Penman, 1984). Audit report lag also is considered as an essential dimension for stakeholders and regulatory authorities, professional bodies, academicians, financial analysts, investors and managers in order to identify and get to know about the financial accounting information. In accordance with this, there are a number of studies which were listed with the same conclusion that the audit report lag is imperative for investors to make decisions. These include studies by (Chambers and Penman, 1984; Choi and Choe, 1998; Ball, Kothari and Robin, 2000; Al-Sehali and Spear, 2004).

Besides that, audit report lag also leads the existing shareholders and potential shareholders to postpone their transaction on shares (Ng and Tai, 1994). This would lead a negative effect to the company. So, in order to establish the confidence of investors, reliable and timely accounting information is really needed. The audited financial statement in the annual report seems to be one of the reliable sources of

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