AUDIT COMMITTEE CHARACTERISTICS AND AUDIT REPORT LAG IN MALAYSIA

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ABSTRACT

Timeliness of the financial statements is one of the important aspects that concerns the users of information. The delay in publication of corporate financial statements may affect the usefulness of the information. This paper aims to investigate the relationship between the characteristics of audit committee: audit committee independence, audit committee overlap, tenure of chairman of audit committee, expertise of chairman of audit committee, and audit report lag of firms listed on Bursa Malaysia. Data were collected from 139 companies in the financial year 2015. Descriptive analysis was used to provide insight into the time taken by external auditors to complete the audit work. The results show that on average, the companies took about 95 days to complete their audit report with a maximum and minimum day of 122 days and 45 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 chairman of audit committee with accounting expertise, audit committee size, frequency of meetings of audit committee, firm size, leverage, and profitability are significantly associated with audit report lag. However, the other five variables: audit committee independence, audit committee overlap, tenure of chairman of audit committee, auditor type and industry type were insignificantly related with audit report lag. This study contributes to the body of knowledge by providing a good indicator of the extent of the application of the proposed law from Securities Commission of Malaysia (The proposed draft code of corporate governance 2016) which suggests that the chair of audit committee should be a person with accounting expertise.

Key words: Audit committee characteristics, audit report lag, Malaysia

ABSTRAK

Ketepatan masa dalam penyata kewangan adalah salah satu aspek penting yang diberi perhatian oleh pengguna maklumat. Kelewatan dalam penerbitan penyata kewangan korporat boleh menjejaskan kepenggunaan maklumat. Kajian ini bertujuan untuk mengkaji hubungan di antara ciri-ciri jawatankuasa audit: jawatankuasa audit bebas, pertindihan jawatankuasa audit, tempoh pengerusi jawatankuasa audit, kepakaran pengerusi jawatankuasa audit, dan laporan audit lag firma yang tersenarai di Bursa Malaysia. Data adalah daripada 139 syarikat bagi tahun kewangan 2015. Analisis deskriptif digunakan untuk memberi gambaran mengenai tempoh masa yang diambil oleh juruaudit luar untuk menyiapkan kerja audit. Hasil kajian menunjukkan bahawa secara purata, syarikat-syarikat mengambil masa 95 hari untuk melengkapkan laporan audit mereka dengan tempoh maksimum adalah 122 hari dan tempoh minimum adalah 45 hari. Di samping itu, analisis regresi digunakan untuk menyediakan bukti empirikal di mana pembolehubah mempunyai hubungan yang signifikan dengan laporan audit lag. Keputusan kajian menunjkkan bahawa pengerusi jawatankuasa audit dengan kepakaran perakaunan jawatankuasa audit, saiz jawatankuasa audit, frekuensi mesyuarat jawatankuasa audit, saiz firma, leveraj, dan keuntungan adalah signifikan dengan laporan audit lag. Walau bagaimanapun, lima pembolehubah yang lain: kebebasan jawatankuasa audit, pertindihan jawatankuasa audit, tempoh pengerusi jawatankuasa audit, jenis juruaudit dan jenis industri adalah tidak signifikan dengan laporan audit lag. Kajian ini menyumbang kepada pengetahuan dengan menyediakan petunjuk yang baik mengenai sejauh mana pemakaian undang-undang yang dicadangkan oleh Suruhanjaya Sekuriti Malaysia (kod draf yang dicadangkan tadbir urus korporat 2016) yang mencadangkan bahawa pengerusi jawatankuasa audit mestilah seseorang yang mempunyai kepakaran perakaunan.

Kata kunci: Ciri-ciri jawatankuasa audit, laporan audit lag, Malaysia

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Ayad Ahmed Mohammed Alqublani

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ABBREVIATIONS	DESCRIPTIONS OF THE ABBREVIATIONS
AC	Audit Committee
ACCEXP	Expertise of Chairman of Audit Committee
ACCTENURE	Tenure of Chairman of Audit Committee
ACIND	Audit Committee Independence
ACMEET	Audit Committee Meeting
ACOVLAP	Audit Committee Overlap
ACSIZE	Audit Committee Size
AOB	Audit Oversight Board
ARL	Audit Report Lag
CEO	Chief Executive Officer
CG	Corporate Governance
CP	Consumer Products
FASB	Financial Accounting Standards Board
FRS	Financial Reporting Standards
IASB	International Accounting Standards Board
INDUS	Industry Type
IP	Industrial Products
LEV	Leverage
MCCG	Malaysian Code on Corporate Governance
PLANT	Plantation
PROF	Profitability
PROPER	Properties
ROA	Return on Assets
SEC	Securities and Exchange Commission
SIZE	Firm Size
TECH	Technology
TS	Trading-Services
TYPEAUD	Auditor Type
VIF	Variance Inflation Factor

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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The primary aim of financial statement is to supply information about the financial performance of companies in order to help users to make economic decision (IASB, 2014).The financial reporting is considered as an essential source that provides information which will help external users in decision making, particularly the users who depend on the audited financial reports in order to assess and evaluate performance of companies (Hashim & Rahman, 2011). The timeliness of information is however important for it to be useful as this will enable the users to make reasonable decisions (Khasharmeh & Aljifri, 2010).

Financial reporting timeliness is therefore one of the research areas that is attracting the attention of major stakeholders as it contributes to the relevance and reliability of financial reporting (Baatwah, Ahmad, & Salleh, 2013). It is an important pillar of a strong and transparent financial system (Basuony, Mohamed, Hussain, & Marie, 2016), as well as it contributes to increase in the quality financial reporting . Basuony et al. (2016) observe that information asymmetry can be reduced through the timely financial reporting disclosure while equal access to accounting information can be enhanced without the necessity of searching for other sources.

Khasharmeh and Aljifri (2010) opined that timeliness is considered as one of the significant qualitative elements of accounting information. The timeliness of information released can influence the degree of uncertainty related to the decisions based on the reported information (Ashton, Willingham, & Elliott, 1987). Timeliness of financial reporting by corporations is an important component that is used to enhance of the general quality of information (Sultana, Singh, & Van der Zahn, 2015). In addition, the timeliness of information plays a significant role as it assists individual investors to take appropriate investment decisions in the market place. Thus, the delay of disclosure of financial information could diminish the economic value of information released (Al-Ajmi, 2008).

Importantly, Ika and Ghazali (2012) show that the relationship between timeliness of financial reporting and audit committee (AC) effectiveness is anchored on the fact that if AC carries out its oversight function of financial reporting effectively, the quality of financial reporting will be influenced as this may aid timely presentation of financial information.

In this regard, after the world-wide financial scandals, regulators, professional bodies and investors have all raised major concern about the timeliness and the quality of financial reporting (Sultana et al., 2015). This concern has been further emphasized by recent regulatory actions which suggest that significant improvement in financial reporting timeliness should be prioritized by regulators and standard setters (FASB 2010; SEC 2005). One of the factors that has effect in the timeliness of the release of financial information is an audit report lag (ARL) (Ashton et al., 1987; Chan, Luo, & Mo, 2015). In view of the importance of ARL on the financial reporting timeliness, and financial performance, it is therefore essential to examine how ARL can be reduced by companies. This is essential because ARL is a mechanism which provides fast and objective measure through which organizations can publish audited financial statements while the audit committee's capability to smooth the process of audit and financial reporting is equally enhanced (Abernathy, Beyer, Masli, & Stefaniak, 2014).

Chan et al. (2015) found that companies with long audit delay tend to have more restatements in the following year. Furthermore, longer audit report lags have a clear effect on modified audit opinions in the subsequent periods . In addition, audit delay can influence the timeliness of earnings releases (Ashton, Graul, & Washington, 1989).

Previous researches have therefore defined the ARL as the amount of days delayed from the financial accounting year end after which the report is given. Several ARL studies have been conducted in some of countries such as Malaysia (Apadore & Mohd Noor, 2013; Hashim & Rahman, 2011; Puasa, Salleh, & Ahmad, 2014; Wan-Hussin & Bamahros, 2013), Australia (Sultana et al., 2015), Nigeria (Ilaboya & Christian, 2014), Egypt (Afify, 2009), Oman (Baatwah, Salleh, & Ahmad, 2015), Bahrain (Al-Ajmi, 2008) , Bahrain and UAE (Khasharmeh & Aljifri, 2010), Greece (Leventis, Weetman, & Caramanis, 2005) , China (Chan et al., 2015), Kuwait (Alfraih, 2016), Palestine (Hassan, 2016), US (Ashton et al., 1987). However, some important characteristics of effective AC (example, expertise of the audit committee as well as the tenure and audit committee overlap) have not been widely investigated which motivate the researcher to conduct this study.

One recent development in the ARL literature is the consideration of the role of corporate governance on audit ARL. Ilaboya and Christian (2014) found that the efficient corporate governance mechanisms can be used to reduce audit delay. Consequently, the global corporate governance reforms, latest legislation and other best practices guidelines introduced in the past decades have augmented the role and responsibilities of AC in the financial reporting process (Sultana et al., 2015). The emergence of AC is one of the reforms in corporate governance which is expected to improve the quality of financial information.

One of the keys to an efficient audit is the resolution of conflicts or disagreements with management regarding material misstatements, implementation of new financial accounting and reporting standards, or appropriate disclosures. AC plays an important role in helping to resolve these conflicts (Abernathy et al., 2014).

The AC works as an enforcement tool that ensures the of financial reports quality through monitoring and overseeing the process of financial reporting which involves ensuring timely submission of financial statements (Puasa et al., 2014). It is considered as a valuable tool for corporate governance which helps to reduce the likely fraudulent financial reporting. Thus, an effective AC through this function motivates the management to timely generate financial information (Ika & Ghazali, 2012). This is line with the argument of other scholars who opined that AC is a mechanism that provides the public with accurate information (Al-baidhani, 2014).

The primary responsibility of AC is to oversee financial reporting process as this will ensure that the managers' report the performance of their firm ethically. This duty is important as it checks opportunistic behavior of managers who may be manipulating financial numbers to the detriment of shareholders' value as such manipulation distorts information supplied to the shareholders while it may also result in higher information asymmetry and higher cost of capital (Kusnadi, Leong, Suwardy, & Wang, 2015). Being a mechanism of the corporate governance, it is also one of oversight function of the AC to oversee the firm's management in order to protect and preserve the shareholders' equity and interests.

Importantly however, the findings on the effectiveness of AC with ARL are mixed. Apadore and Mohd Noor (2013) found the audit committee independence had insignificant relationship with ARL. In contrast, Hashim and Rahman (2011) show that

AC independence is associated significantly with the financial reporting timeliness. Furthermore, Habib, Bhuiyan, and Uddin (2015) show that companies that have overlapping committees have good quality financial reporting than otherwise.

Moreover, the Securities Commission of Malaysian the proposed draft code on corporate governance 2016 suggests that the chair of AC should be a person that has accounting expertise or relevant work experience (Practice 7.2). This issue needs to be investigated, whether this suggestion can improve timeliness and reduce ARL.

In addition, Puasa et al. (2014) suggested that the ARL model can be improved by using additional corporate governance characteristics. Even though extant audit committee literature recommends that future researchers should to a large extent investigate the unique role being played by the audit committees chairs, experience has shown that this important role of enhancing the effectiveness of the audit committee has not been adequately explored (Baatwah et al., 2013) while the chair's characteristics, and personality traits have equally been under researched (Carcello, Hermanson, & Zhongxia Ye, 2011).

1.2 Problem Statement

Financial statements timeliness is one of the significant aspects of financial reporting that concerns the users (internal and external) of accounting information (Afify, 2009) as it improves the usefulness and increases the economic value of the information supplied (Apadore & Mohd Noor, 2013). The delay of publication of corporate financial statements may affect the usefulness of the information supplied to those who use the financial statements.

Importantly, for investors' confidence to be established, timely and reliable accounting information is required (Leventis et al., 2005) . Among the most important factors that influences the timeliness of information rendition is the annual audit timeliness (Afify, 2009; Sultana et al., 2015). Therefore, audit lag is an important mechanism that is being used to promote investors' confidence in capital market influences the timeliness of accounting information (Afify, 2009).

The financial statements aim however is to supply information about the financial strength, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. The timeliness of such statement equally contributes largely to the goal attainment of several organizations. Thus, availability and correctness of such information is important for shareholders and investors to fastrack their decision making processes (Apadore & Mohd Noor, 2013).

ARL which is the number of days from fiscal year end to audit report date, or inordinate audit lag, truncates the quality of financial reporting as it prevents timely rendition of information to investors (Afify, 2009) . It also directly influences the timeliness of firms' earnings announcements (Lee, Mande, & Son, 2009).

Notably, Malaysian companies take an average of between 98 to 100 days to provide audit report (Apadore & Mohd Noor, 2013; Wan-Hussin & Bamahros, 2013), which is significantly higher when compared to other developing and developed countries. For example,in developed countries the number of ARL is less than 100 days. Sultana et al. (2015) found the average ARL in Australian companies was 87 days. While in New Zealand, the average was 83 and days (Gilling, 1977). On the other hand, studies have equally shown that the average ARLis less in other developing countries than Malaysia. For instance, it took 95 days for companies in Nigeria (Ilaboya & Christian, 2014), in China, the companies took 87 days (Habib, 2015), while in the Arab countries such as Egypt, 47 days (Khlif & Samaha, 2014), and Oman, 52 days (Baatwah et al., 2015).

Taking the cognizance of the above, corporate governance is occupying important position in the scheme of business globally, especially after the incessant and non-stop global financial crisis. Essentially, sound corporate governance is regarded as a fundamental prerequisite being used to accept and register companies in most of the stock exchange markets globally. The AC however plays an important role in corporate governance concerning the firms's control,direction, and accountability. Its committees are recognized as effective mechanism for corporate governance at they help to reduce the potential financial reporting fraudulent practices (Al-baidhani, 2014). The primary role of the AC is to supervise the financial reporting process (Thoopsamut & Jaikengkit, 2009) but these responsibilities cannot be performed easily unless the committees have some experts and independent directors as its members (Baatwah et al., 2013).

In line with that ,the Securities Commission of Malaysia proposed a draft code on corporate governance 2016 which suggests that the chair of AC should be a person that has accounting expertise or relevant work experience (Practice 7.2). In addition, the prior researches also suggest that accounting experts are the most effective financial expertise that is required in enhancing the audit committee 's monitoring role (Carcello, Hollingsworth, Klein, & Neal, 2006; Krishnan & Visvanathan, 2008). Accounting expertise may be more important for AC members than any other expertise because ''best practices'' suggest that audit committee members are responsible for tasks that require a high degree of accounting sophistication (Defond, Hann, Xuesong, & Engel, 2005).

Therefore, the efficacy of the AC often hinges on the role of the chair. The chair plays a pivotal role in providing leadership and vision as well as in setting and managing the audit committee's agenda.

Furthermore, AC chair is one of the mechanisms that may affect financial reporting quality . Previous studies found an association between financial reporting quality and auditor tenure (Cassell, Hansen, Myers, & Seidel, 2016). The audit lag declines as auditor tenure increases, and which indicates that auditors with elongated tenure of office are able to efficiently audit their clients (Lee et al., 2009). However, the ARL is likely to be longer where audit tenure is shorter (Dao & Pham, 2014).

Prior study has shown that the long tenure of independent directors on AC has a negative association with earnings management (Thoopsamut & Jaikengkit, 2009), implying that independent AC members who stay longer on board have greater experience and expertise to oversee financial reporting effectively (Liu & Sun, 2010). In addition, a positive significant relationship between longer audit tenure and auditor's reporting decision was found by Shafie, Hussin, Yusof, and Hussain (2009). However, it is also noted that the fraud likelihood is lower when AC has longer tenure and where chief executive officer is not the chairman of the board (Persons, 2005).

Furthermore, the companies with compensation overlapping and audit committees may lead to higher or sound financial reporting than those firms without such overlap (Chandar, Chang, & Zheng, 2012). AC independence is the most important characteristic that is assumed to effectively assist the members of AC to discharge their responsibilities (Habib et al., 2015).

Taking above discussion into consideration therefore, comprehending those factors that influence the time that is taken by the external auditors to issue the ARL is therefore an important area of research to be investigated. Doing so will enhance understanding and bring about effective development of corporate governance, reporting procedures and protocols within firms for the purpose of ensuring timely and reliable delivery of financial information.

1.3 Research Questions

This study focuses on AC independence, AC overlap, tenure of chairman of AC , and expertise of chairman of AC which might be related to the ARL in firms listed on Bursa Malaysia . Accordingly, there are four research questions designed for this study, which are:

1. What is the association between AC independence and audit report lag for the listed companies on Bursa Malaysia?
2. What is the association between AC overlap and audit report lag for the listed companies on Bursa Malaysia?
3. What is the association between tenure of chairman of AC and audit report lag for the listed companies on Bursa Malaysia?
4. What is the association between expertise of chairman of AC and audit report lag for the listed companies on Bursa Malaysia?

1.4 Objective of the Study

There are four objectives of this study which are:

1. To examine the association between AC independence and ARL for the listed companies on Bursa Malaysia.
2. To examine the association between AC overlap and ARL for the listed companies on Bursa Malaysia.
3. To examine the association between tenure of chairman of AC and ARL for the listed companies on Bursa Malaysia.

4. To examine the association between expertise of chairman of AC and ARL for the listed companies on Bursa Malaysia.

1.5 Significance of the Study

This research makes an important contribution to corporate governance and ARL literature in Malaysia in several ways:

This study makes significant contribution to the corporate governance and audit literature by examining association of corporate governance; AC characteristics and the ARL within Malaysian listed companies. Although there is a rich history of research into determinants of ARL, either in Malaysia or different countries; the bulk of the prior studies focuses generally on the AC (e.g. AC independence, AC meetings (Wan-Hussin & Bamahros, 2013) , AC financial expertise, AC prior experience (Sultana et al., 2015), AC size (Ilaboya & Christian, 2014). However, the current study focuses on AC overlap and on the features of the chairman of AC such as expertise and tenure as factors that influence efficacy of the AC and which often hinges on the role of the chairman.

Furthermore, the findings of the study would have policy implications for Securities Commission of Malaysia. It provides supporting evidence on whether the proposed draft of code on corporate governance 2016 (which suggests that the chair of AC should be a person that has accounting expertise or relevant work experience (Practice 7.2)) can enhance corporate governance mechanisms, especially in relation to ARL.

1.6 Scope of Study

This study has several limitations which hinder the scope and generalization of the results of the study. These limitations include:

- Limited sample. Due to the limited time, this study fully focused on 139 listed companies (Main market) on Bursa Malaysia for one year 2015. Therefore, the result of this study relies heavily on those randomly chosen 139 companies from Bursa Malaysia.
- Audit report lag measurements are based on the audit report date, which is based on the length of time between financial year end and audit report date.

1.7 Organization of Study

The present study is organized as follows: Chapter one presents the background of the study, problem statement and research questions. It also outlines the research objectives and significance of the study. Lastly, it presents the organization of the chapters. Chapter two provides a review of literature on prior studies related to audit reports lag and related studies on the AC characteristics such as AC independence, AC overlap, tenure of chairman of AC , expertise of chairman of AC and ARL in Malaysia. Chapter three presents the research methods used in this study as it also discusses theoretical framework, hypothesis development, research model, variables measurement and data collections. Chapter four presents and discusses the findings of the study. Chapter five summarizes the findings and suggests the opportunities for future study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents relevant literatures related to AC characteristics and ARL. The first section presents the corporate governance in Malaysia. The second section provides the theoretical framework of this study. This study relies on agency theory which explains how ACs can contribute effectively to reduce the ARL. The third section focuses on some studies conducted on the factors that affect ARL in Malaysia and some other countries. Finally, the forth section presents the AC characteristics and highlights the literature regarding the factors that are considered to be important to towards effective AC roles as well as empirical evidence on how these factors contribute to financial reporting quality and audit quality (AC independence, Overlapping of AC and expertise and tenure of chairman AC) with ARL in Malaysia.

2.2 Corporate Governance in Malaysia

Following the financial crisis of Asia of 1997, the Malaysian government started to establish a high level financial committee in 1998 with the aim of developing a standard-framework for corporate governance (CG) and setting best practices for Malaysian companies. In March 2000 when the first Malaysian code on corporate governance (MCCG) was issued, it recorded a significant breakthrough in corporate governance reform in the country.

Report from the financial committee on corporate governance (2012) claims that "The process and structure issued to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interests of other stakeholders" (page 4).

The financial crisis 1997 clearly indicated weaknesses in Malaysian corporate governance, which led to the overhauling of the entire corporate sector in Malaysia (Singam, 2003). The MCCG 2007 tries to fortify the role of the ACs by mandating the committees to consist of non-executive directors. Also, all its members must possess the required knowledge on how to read analyses and interpret the financial reports so as to be able to carry-out their responsibilities.

However, looking at MCCG 2007 content at a glance, it seems to be contributing little compare to MCCG, 2000. Nonetheless, it is indeed an important attempt because it is now compulsory rather than voluntary for companies to have its internal auditing committee that composed a risk management team (Ghazali & Manab, 2013).

According to Bursa Malaysia, all companies are mandated to prepare their financial reports timely and must comply with the provision stated in chapter (9.23) of the listing requirement. This chapter clearly states that the period between the financial year end of the firm and the period of rendering yearly report to the shareholders of the company and the exchange should not be more than four months. Though any delay in issuing the audited annual reports is considered a serious offence; company's directors are charged with their responsibilities of maintaining suitable standards of corporate responsibility and accountability (Nelson & Shukeri, 2011).

2.3 Agency Theory

One of the most used theories in corporate governance studies is the agency theory. The theory addresses the ways of developing and helping design an optimal corporation in the event of conflict interest between management and the shareholders, as the shareholders believe that some of the decisions taken by the management are at the expense of their wealth (Fama, 1980).

Managers may take advantage of their positions and engage in activities for their personal gain at the detriment of maximizing owner's wealth who do not have close monitoring of the manager's decisions. Therefore, owners have to pay monitoring cost which may include; cost of preparing and auditing the financial reports and among other costs, in which case enable them to control and observe management decisions (Hassan, 2016) . Thus, the study deems agency theory as a relevant theory to be applied in this study. Furthermore, the corporate governance is the mechanism used at the firm level in order to address corporate governance problems.

Thus, in line with CG control mechanism, the AC supervises the internal/external auditors and management of the organization so as to protect and preserve shareholders' interest as well as their equity. At this point, Al-baidhani (2014) contended that the AC scope and nature of its activities should be explored further to ensure that they are capable of discharging the functions appropriately, and especially where there is any report of shortcoming in achieving the CG objectives. In addition, the presence of AC is to protect the interest of the shareholders through its oversight role in the financial reporting, external auditing activities and internal control (Turley & Zaman, 2004).

2.4 Previous Studies on Audit Report Lag

The concern of every user of financial information is the timeliness of the financial reports (Afify, 2009). Timeliness of financial reporting is one of the significant features of financial information that makes it useful to the user. Munsif, Raghunandan and Rama (2012) believe that regulators have always been worried about the need for timely financial information for both users and investors. Conversely, non-timeliness will reduce the economic value of the information, and also lead to loss of investors' confidence in the financial report (Apadore & Mohd Noor, 2013; Leventis et al., 2005).

Accordingly, Chan et al. (2015) observed that audit reporting lag is one of the important factors that determines the timeliness of the release of financial reports. But audit delay can influence the timeliness of earnings releases (Ashton et al., 1989). It equally affects investors' confidence in the capital market. However, delay in disclosure of an auditor's opinion on the position of the financial information prepared by the regulators will send a bad signal of irregularity or fraud among managers and shareholders thereby making both current and potential investors to loss confidence in the entire capital market (Mohamad-Nor et al., 2010).

Importantly, a number of investigations from different countries across the globe have contributed to the determinants of ARLs. In this regard, prior studies have defined ARL as the amount of days delayed from the end of financial accounting period to the date of the actual report (e.g., Carslaw & Kaplan, 1991; Mohamad-Nor et al., 2010).

Many studies have been conducted on AC characteristics and ARL in different countries including Malaysia (for example; Apadore & Mohd Noor, 2013; Hashim & Rahman, 2011; Puasa et al., 2014; Wan-Hussin & Bamahros, 2013), Australia (Sultana et al., 2015), Nigeria (Ilaboya & Christian, 2014), Egypt (Afify, 2009), Oman (Baatwah et al., 2015), Bahrain (Al-Ajmi, 2008), Bahrain and UAE (Khasharmeh & Aljifri, 2010), Greece (Leventis et al., 2005), China (Chan et al., 2015), Kuwait (Alfraih, 2016), Palestine (Hassan, 2016), US (Ashton et al., 1987).

Study by Sultana et al. (2015) based on 494 observe data collected from 2004 to 2008 discussed on the six characteristics of AC; financial expertise, prior AC experience, independence, diligence, gender and size. The result of the study indicated that ARL among Australian companies was 87 days which is greater than other developed nations. The study further indicated that AC members with prior AC experience, financial expertise and who are independent are linked with shorter audit reporting lag and which led to the significant improvement in the quality financial reporting of the firms. However, the results of the study revealed that the AC gender, size and meeting frequency are insignificant determinants of ARL. Considering these findings, it can be concluded that effective corporate governance mechanism improves the timeliness as well as the quality of financial reporting of the firms.

Similarly, Ilaboya and Christian (2014) examined corporate governance in relation to ARL in Nigeria using a sample of 120 listed companies in the Nigerian Stock Exchange Market from 2007 to 2011. The study focused on the effect of board size, board independence, AC size, type of audit firm and AC independence, and firm size on ARL. It was found that the average ARL is 95 days. The findings further revealed that board size, firm size and type of audit firm have significant effect whereas, board independence and AC size have no significant effect on the ARL.

Likewise in Malaysia , Puasa et al. (2014) attempted to examine the relationships between AC characteristic, financial reporting timeliness and specifically determine change in the timeliness of the reporting for the pre and post MCCG 2007.

With a sample of 669 firms in 2004 to 2006, and 2009 to 2011, the results of the study indicated that in the pre MCCG 2007, the AC independence level has a significant connection with the financial reporting timeliness. The findings further revealed that post MCCG 2007 indicates that only non-executive director’s composition, size and financial-expertise are associated with the timeliness of financial-reporting. The result also indicated that timeliness of financial reporting has significantly improved during post MCCG 2007 in contrast to pre MCCG 2007 in relation to AC, in which case shows the effectiveness and efficiency of the committee after the revision of the code.

Similarly, Apadore and Mohd Noor (2013) revealed that the average for listed companies in Bursa Malaysia was 100 days to provide the financial information to the users. The possible reason for this delay may be that the AC size, profitability and ownership concentration play an important role in ARL. However, the result indicated that AC with more meetings and independence has no relationship with ARL. Nevertheless, the result contradicts prior findings of Wan-Hussin & Bamahros, (2013).

Further, using a sample of 2,440 companies in Malaysia, MarhaYaacob and Che-Ahmad (2012) analyzed the relationship between the adoption of FRS 138, and the timeliness of audit report. The results of the study indicated that the adoption of FRS 138 in Malaysia is one the factors that affect improvement in the period of time necessary to issue an audit report.

Moreover, Wan-Hussin and Bamahros (2013) focused on public traded companies in Malaysia during the year 2009. Analyses from 432 samples revealed that there is a negative significant link between the cost expended for the internal audit function and delay. The result further revealed that audit lag is decreasing in the AC independence and the audit firm tenure. In addition, larger corrections to the previously reported unaudited financial results and more frequent AC meetings are connected with a longer audit lag.

In addition, Mohamad-Nor et al. (2010) conducted a study on the relationships between characteristics of AC and audit reporting timeliness. The results indicate that firms that have more members on the AC and more frequent meetings of AC are more likely to produce audit reports in a timely manner. On the other hand, the results demonstrate that the boards of director variables are not as important as ACs in determining the audit lag. The results of this study also suggest that more emphasis should be given to strengthening the independence and expertise of the AC.

More recently, Alfraih (2016) investigated the impact of external and internal mechanisms of corporate governance on the audit reports lag. The study draws a sample of 195 companies from Kuwait Stock Exchange in 2013. It was found that the average audit report lag is around 65 days, because the companies with non-Big 4 and small board take more time before submitting the report to the end users than firms that have Big 4 auditors and larger board. Furthermore, the report lag is longer significantly in public owned companies, but no relationship was reported between ARL and institutional ownership.

In support of these findings, Afify (2009) shows that the average ARL in Egypt is 60 days. The study also found that the duality of CEO, board independence, company size, industry, existence of an AC and profitability have significant influence on ARL. Nonetheless, ownership concentration has no significant relationship with ARL. A study by Chan et al. (2015) investigated the determinants of ARL in China, using different measures of audit risk, and they found that the expertise of auditor and the complexity were found to have a significant relationship with longer audit reporting lags.

Ashton et al. (1987) aimed at examining the factor that describes companies, their auditor and the kind of relationship between the parties that can have effect on the audit delay. By administering questionnaires to 488 firms, analyses of the study indicated that qualified opinions, industrial sector, company size, type of auditor and net loss for the year have significant influence with audit lag. In Oman, Baatwah et al. (2015)

observed 339 companies from 2007 to 2011. The findings of the study indicated that the CEO's tenure and CEOs with financial expertise have negative relationship with ARL. Explanation from this finding may not be far away from the fact that CEO is believed to have significant impact on the financial reporting quality as these features have an effect on the behavior of the CEOs.

Hassan (2016) also observed 46 companies from 2011 with the objective of studying the determinants of audit delay among Palestinian companies. Findings of the study indicated that ARL is influenced by the following factors; board size, company complexity, ownership dispersion, existence of AC, status of the audit firm and corporate size.

2.5 Audit Committee Characteristics

The New York Stock Exchange was the first to recommend the formulation of AC in 1939 and subsequently the Security and Exchange Commission in 1972. Today most authorities of the capital market have made formulation of AC mandatory to the listed companies.

AC has been described by Sarbanes-Oxley as "a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer". Therefore, AC has the responsibility for financial reporting oversight (Archambeault, Dezoort, & Hermanson, 2008).

In view of the above, literatures have stated many reasons for the formulation of an AC, among which are; the protection of interest of shareholders and the way AC can achieve this objective is through the engagement of qualified members with adequate authority and resources to provide comprehensive oversight (DeZoort,Hermanson, Archambeault, & Reed, 2002); to ensure financial reporting quality in an emerging nation (Ika & Ghazali, 2012) and to minimize agency cost through an effective monitoring of the financial reporting quality (Archambeault et al., 2008).

The AC therefore plays a significant role in corporate governance concerning the companies' direction, accountability and control. It is also involved in the organization's external and internal audits, accounting and financial reporting, internal control, risk management and regulatory compliance (Al-baidhani, 2014; DeZoort et al., 2002). But financial reporting is arguably one of the key board committee functions (Khondkar, Robin, & Suh, 2016). In addition, companies that have AC, prepare and submit their account earlier than those who do not have such committee. Therefore, the presence of AC might be considered as a monitoring mechanism that improves the flow of information between management and the shareholders of the companies, breach the information asymmetry and minimize the ARL (Hassan, 2016).

Past studies recommended that the chair of the AC occupies a higher rank and the official position that represents a major source of power (Sharma, Naiker, & Lee,2009). In support of this, Udueni (1999) regards the chair of major board committee such as the AC as an influential person compared to other members who are not helming any committee. The duties of the chair range from ensuring proper and adequate flow of information to the AC, and ensure open relationship between the AC and management, external and internal auditors. Other responsibilities which are time consuming include; provision of leadership, setting agenda for meetings, and establishing guiding principles to the AC, serve as a mediator between auditor and the management team on matters regarding financial reporting, help in selecting new AC members as well as leading the monitoring of external auditor (Tanyi & Smith, 2015). It also ensures and facilitates effective AC performance (Abernathy et al., 2014).

Similarly, Tanyi and Smith (2015) stated that AC must ensure that the committee execute its duties diligently and have a clear understanding of the extent of management responsibilities as regards to financial reporting. Nonetheless, prior literature on AC neglects the silent role of the chair in enhancing the AC effectiveness (Baatwah et al., 2013). The relationship between AC timeliness and effectiveness in reporting is anchored on the reason that if AC is effective in its supervisory role of reporting process, it will influence financial reporting quality which in turn leads to the presentation of the financial information on time to the users (Ika & Ghazali, 2012).

2.5.1 Audit Committee Independence

The agency theory helps member of independent AC to supervise the agent's activities and reduce from holding information (Hashim & Rahman, 2011). AC responsibilities cannot be discharged easily until such committee has independent directors (Baatwah et al., 2013) as the listing requirement of Bursa Malaysia stated that all listed companies must have ACs comprising three members of whom majority shall be independent while the AC members should be non-executive directors (MCCG, 2007).

Empirical evidence from Dhaliwal, Naiker, and Navissi (2010) revealed that AC that is independent has positive influence on accruals quality. In contrast, study by Kusnadi et al. (2015) shows that the incremental independence of ACs has no relationship with increase in the financial reporting quality as well as the voluntary ethics disclosure (Othman, Farhana, Maznah, Arif, & Abdul, 2014). Similarly, Abbott, Parker, and Peters (2004) examined the influence of AC characteristic using a sample of 44 fraud and non-fraud Philippines companies. It was reported that the independence of the committee is negatively related with the occurrence of restatement. Sultana et al. (2015) in addition used data from 2004 to 2008 in about 100 Australian companies and found that the AC reduces the ARL. This finding is however contrary with prior findings of Apadore and Mohd Noor (2013).

In Malaysia, Puasa et al. (2014) investigated the link between AC characteristics and financial reporting timeliness. The study aimed at observing the difference on the timeliness of financial reporting for the period before and after the establishment of MCCG in 2007. It was found that in the pre MCCG period, the AC independence influenced the timeliness of financial reporting.

Similarly, Hashim and Rahman (2011) conducted a study on association between AC characteristics and audit report using 299 companies listed on Bursa Malaysia from 2007 to 2009 and result indicated that AC independence can reduce ARL. The result was consistent with Wan-Hussin and Bamahros (2013). Nonetheless, the findings by both Apadore and Mohd Noor (2013) and Mohamad-Nor et al. (2010) indicated that AC with independence does not play an important role in ARL.

Alfraih (2016) explore the impact of mechanisms of external and internal corporate governance on the audit reports timeliness in KSE listed companies the in 2013. The result of the study revealed that a larger number of independent directors are more likely to produce financial statement timely. Likewise, Basuony et al. (2016) investigate the impact of corporate governance on the timeliness of financial reporting in Middle Eastern countries from 2009 to 2011. The result of the study revealed that the independence of the board significantly affects the ARL. In a close related study, Kusnadi et al. (2015) used a sample of 423 companies from Singapore Exchange in the year 2010. The study examines how the AC independence influences financial reporting quality. Findings of this study revealed that more than 98 percent of the sample companies have ACs with majority of independent directors while incremental independence of ACs has no significant effect on companies' financial reporting quality. One of the possible reason of this findings may be due to the fact that majority of the AC consists of independent directors.

2.5.2 Audit Committee Overlap

AC plays an important function in the process of financial reporting of companies and has been the major subject of corporate governance regulation in the wake of remarkable accounting scandals. Previous literature has studied AC characteristics such as AC independence, AC size, AC meetings, AC qualification and financial expertise. Nonetheless, these studies neglect the overlap as one of the characteristic that can influence the effectiveness of the AC members. Moreover, overlapping membership with the compensation committee likely brings about knowledge spillover which is essential for the AC's financial reporting oversight function (Chandar et al., 2012).

In line with the above, Karim, Robin and Suh. (2015) claimed that committee overlap is consistent with abridged incentives to monitor and found that audit fees is negatively related to committee overlap. Recently, Habib et al. (2015) investigated the relationship between financial reporting quality and overlapping membership on AC. About 6,791 data were collected from all listed companies in Australian Stock Exchange from 2001 to 2011. The results of the study revealed that companies with overlapping committee have improved financial reporting than companies without such overlap. In addition, the overlap is adversely influenced by equity holdings of directors with overlapping members.

However, overlapping committees expend a lower level of supervisory effort (Karim et al., 2015). The supervisory role of AC is more likely to be impaired by the busyness of the AC chair (Tanyi & Smith, 2015). Similarly, holding multiple directorships can negatively influence the degree of consideration that can be accorded to a specific firm, thus supervisory quality will be poorer (Barua, Rama, & Sharma, 2010). In Malaysia, study by Othman et al. (2014) found that multiple directorships of AC members is negatively linked to voluntary ethics disclosure. In support of this view, Yang and Krishnan (2005) revealed that ACs that have a higher percentage of members with four or more other board memberships are less likely to avert earning management. Tanyi and Smith (2015) used 6,535 firm-year observations, and found that the companies with busy AC chairs have significantly higher levels of abnormal accruals, and are more likely to meet or beat earnings benchmarks.

Furthermore, Liao and Hsu (2013) argue that common membership is more likely to occur in firms with weak corporate governance and in firms lacking financial and committee resources, and is not associated with firms having a high demand for coordination between compensation and ACs. The researchers also found that firms with common membership have poorer earnings quality and weaker pay-performance sensitivity than other firms. In contrast, Alshetwi (2016) examines the association between the firms' earning management and multiple directorships. Drawing data from 98 Saudi non-financial listed companies, it was found that the multiple - directorship has no relationship with a decrease in the degree of earnings management. In USA, study by Rickling (2014) used 75 observations from 2005 to 2007. The findings showed that busyness influences audit members' effectiveness in providing financial reporting oversight.

Further, investigating whether AC members of the board can better perform monitoring function if they are also on the compensation committee, Chandar et al. (2012) found that companies with compensation committees and overlapping audit have greater financial reporting quality than those without such overlap. Contrary, Kusnadi et al.(2015) found that there is no significant relationship between financial reporting quality and overlapping membership in audit and remuneration committees. It was also reported by another study that overlap directorship is not related significantly with cash compensation measures, while overlap is negatively related to the extent of option based compensation measures (Zheng and Cullinan 2010). This indicates that compensation committee with overlap may substitute some stock compensation for option compensation.

2.5.3 Tenure of Chairman of Audit Committee

One of the characteristics of AC is the tenure of chairman. In order for the audit committee chairman to serve as the AC member, he must be responsible for and be influential in company's misstatement remediation efforts (Schmidt & Wilkins, 2013). Moreover, the AC tenure can influence the effectiveness of an AC by providing financial reporting oversight (Rickling, 2014). The audit quality in private-client audits improves quickly after the first year but then declines with very long tenure (Bell, Causholli, & Knechel, 2015).

Sharma and Iselin (2012) argue that the longer-serving independent AC members may accumulate firm-specific expertise, enabling them to effectively oversee the financial reporting process. In contrast, independent AC members with shorter tenure may not have accumulated such knowledge to efficiently monitor the financial reporting process.

Many studies have been carried-out to investigate the influence of tenure. For example, Othman et al. (2014) using top 94 companies which are listed on Bursa Malaysia investigated the impact of AC characteristics on voluntary ethics disclosures. The result shows that only tenure and multiple directorships have relationship with the voluntary ethics disclosure.

Dao and Pham (2014) used 7,291 observations form Compustat and Audit Analytics databases from 2008 to 2010. The study found that short-audit firm-tenure is related to longer audit reporting lag. In addition, auditors need more time to understand customers and the industry during first few years of audit engagement, therefore, resulting in longer ARL. By using 339 observations between 2007 and 2011 on the Muscat Security Market, Baatwah et al. (2015) show that the CEO tenure is associated with timely audit report. Importantly, tenure increases the CEO familiarity with company financial reporting processes and enable external auditor to start early enough to complete the audit in good time.

However, Rickling (2014) examines the relationship between AC directors tenure in USA by using 75 companies from 2005 to 2007. The result of the study revealed that the AC directors with longer tenure have a positive relationship with the probability of a firm that repeatedly meet analyst forecasts. Reduction in high fraud risk during the audit period is more likely when auditors have greater client-specific experience (i.e., when the tenure of auditor is longer). Furthermore, the probability of a reduction in fraud risk is narrow for auditors with short tenure of three (3) years or less and more likely for auditors with longer tenure of fifteen (15) years or more (Trompeter, Myers, Mcqueen, & Myers, 2016).

Thoopsamut and Jaikengkit (2009) found that earnings management is lower when AC members have longer tenure. Similarly, Yang and Krishnan (2005) found that the average tenure of ACs is negatively associated with earnings management. In contrast, Dhaliwal et al. (2010) show that accruals quality is positively related to lower tenure.

2.5.4 Expertise of Chairman of Audit Committee

The AC member who has the highest responsibility to oversee financial reporting is the AC chairman as he is more likely to be held responsible for financial reporting failures than any other member of the AC (Schmidt & Wilkins, 2013). Bromilow (2010) opined that chairman of the committee is the main point of contact between internal and external auditors, AC and management, and therefore determines the AC effectiveness (Pricewaterhouse Coopers, 2003). Therefore, the onus lies on the AC chairman to ensure the timeliness of a company's financial reporting (Abernathy et al., 2014).

Agency theory claimed that the presence of members with financial expertise enhances the audit committee's ability to ensure that the external auditor's function is competently carried-out (Sultana et al., 2015). It also opines that such members comprehend audit judgements, understand and mediate during auditor or corporate management disagreements, thereby ultimately reduces audit reporting lag (Sultana et al., 2015).

Importantly, the proposed draft of the Malaysian code of corporate governance 2016 released by the Securities Commission of Malaysia emphasizes more on financial expertise and it suggests that chair of AC in Malaysia companies should be a person with accounting expertise. It is believed that such knowledge would facilitate timely financial reporting to the users (Abernathy et al., 2014).

Previous studies have been conducted to examine the impact of director with expertise. For example, by using 339 data collected between 2007 and 2011 in the Muscat Security Market, Baatwah et al. (2015) indicated that the CEO with financial expertise has significant relationship with timeliness of the audit report. Moreover, CEO with financial expertise is easily convinced by an external auditor in the annual audit negotiation process.

Furthermore, Schmidt and Wilkins (2013) concluded that AC with higher financial expertise may be in better position to assist internal accountants and management in the event of problems solving. They further stated that the presence of AC with financial expertise may enable members of the committee to allocate their time and resource to make sure any misstatement is corrected accordingly in a timely manner. In addition, this study which was used a sample of 154 firms from 2004 to 2009, revealed that ‘’restatement dark periods’’ are shorter among clients that have AC with more accounting experts. However, the relationship between AC with financial expertise and restatement is primarily attributable to the presence of an AC chair who is an accounting financial expert.

On the same note, Abernathy et al. (2014) findings indicated that AC chairman with accounting expertise has a significant relationship with the timelier of financial reporting. AC chair with accounting knowledge understands better and assesses accounting issues and determine appropriate solutions. Furthermore, AC members with accounting expertise are in the better position to share their knowledge of a matter with other members in the committee even with different level of accounting technical competence (Abernathy et al., 2014). In addition, Schmidt and Wilkins (2013) found that companies with AC chairs with accounting expertise provide the timeliest disclosures and also reduce the dark period by almost 38 percent.

Additionally, members of AC with sound accounting knowledge are expected to improve accounting conservatism through their supervisory ability driven by their knowledge, job expectation, and economic incentives to reduce the litigation risk and guard their reputation (Krishnan & Visvanathan, 2008). In addition, AC accounting experts have a profound positive impact on accruals quality (Dhaliwal, Naiker, & Navissi, 2010). Nonetheless, AC expertise has no relationship with the voluntary ethics disclosure (Othman et al., 2014) .

2.6 Summary

The main objective of this chapter is to focus on the previous studies that had investigated factors affecting ARL. A review of literature related literature on the association between AC characteristics and ARL was done. The empirical studies provide evidence on factors influencing on the ARL (e.g. AC size, AC meetings firm size, board size, profitability, industry and audit fee). Nonetheless, these studies neglect the AC overlapping as one of the characteristics that can influence the effectiveness of the AC. Also, literature ignores the salient role of the AC chairs in enhancing the effectiveness of the AC (e.g., tenure of chairman AC , expertise of chairman AC. Therefore, the present study is an attempt to fill this gap.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

A framework is developed with the purpose of answering the following research questions: What is the relationship between AC independence, overlap, tenure and expertise of chairman of AC with ARL for listed companies on Bursa Malaysia?

The first part of this chapter therefore provides the conceptual framework of this study followed by development of hypotheses, variables measurement, model specification, and data collection.

3.2 Theoretical Framework

The framework shown in Figure 3.1 explains the association between the independent variables and dependent variable. Based on the previous discussion, this study proposes that the AC independence, AC overlap, tenure of chairman of AC and expertise of chairman of AC variables, include the control variables influence the ARL. Each of the variables and the development of hypotheses and data collection are discussed in the following section.

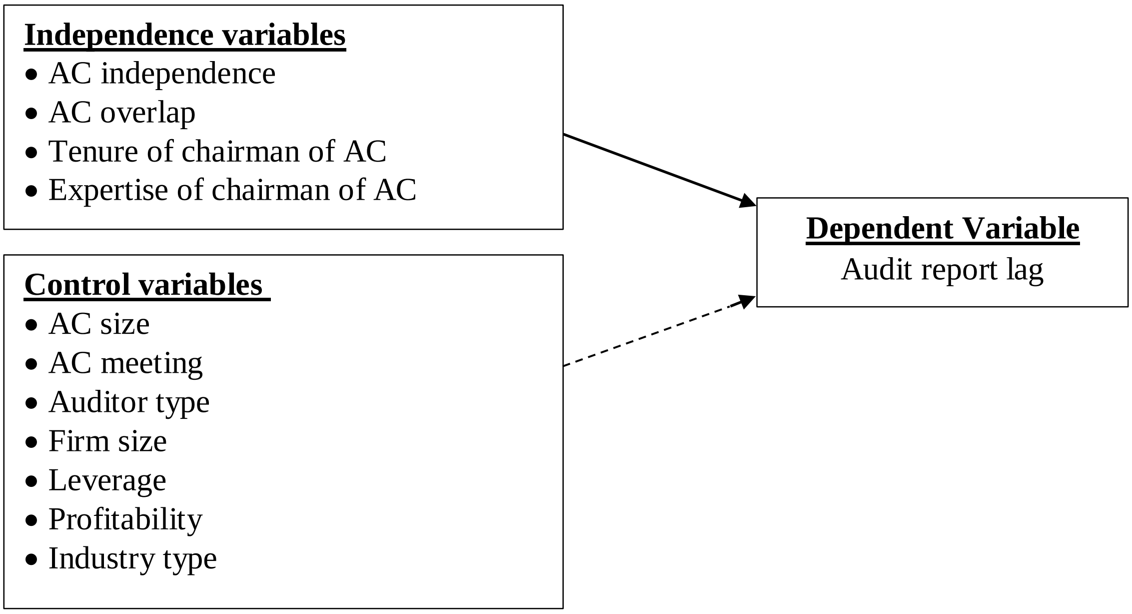

Figure 3.1
Research Framework

3.3 Hypotheses Development

Four hypotheses are developed in order to examine independent variables that would give an impact on dependent variable. AC independence, AC overlap, tenure of chairman of AC and expertise of chairman of AC are the independent variables to be examined while ARL is the dependent variable. For this purpose, the following hypotheses were developed to test the variables.

3.3.1 Audit Committee Independence

In line with agency theory, the members of AC who are independent could assist the principals to monitor the agent's activities while withholding of information is reduced. This is because AC with more independent directors are considered as a more reliable group other than board of directors in monitoring the company (Hashim & Rahman, 2011).

Previous studies have discussed many benefits of independent director while other studies have investigated the relationship between AC independence with ARL. However, findings from these studies remain inconclusive. For instance; Afify (2009) claimed that the independence of directors in AC is more likely to be free from top management influence in ensuring un-biased information is communicated to the shareholders. Independent AC smoothens the efficiency of supervisory function because it is positioned as a supporting agent to both external and internal auditors of the company (Hashim & Rahman, 2011). Independent AC also helps in reducing audit reporting lag. Furthermore, independent AC also assists in balancing divergent views of external and management auditors to produce qualitative financial report (Kusnadi et al., 2015). On the other hand, previous study also noted that AC with independence do not play an important role in ARL (Apadore & Mohd Noor, 2013; Mohamad-Nor et al., 2010).

However, empirical evidence from Sultana et al. (2015) and Wan-Hussin and Bamahros (2013) revealed that there is significant negative relationship between AC independence and audit report lag. Similar findings were also documented by Puasa et al. (2014). In addition, Kusnadi et al. (2015) found that ACs with a majority of independent directors has no influence on the companies' financial information quality.

Based on these finding it is obvious that previous studies findings remain inconclusive, and based on agency theory the following hypothesis is formulated.

H1: There is a negative relationship between audit committee independence and ARL

3.3.2 Audit Committee Overlap

This research enriches the existing literature by investigating the role of AC overlap on the ARL. Barua et al. (2010) argue that a larger number of other directorships will have a positive influence on monitoring and related mechanisms. Chandar et al. (2012) argue that overlapping membership of AC member with other committee (i.e. compensation committee) could enhance the knowledge spillover of AC member that leads to increase the oversight function quality of AC on financial reporting. This suggests that a firm that possesses an overlap of AC and compensation committee members has higher financial reporting quality. In the same way, empirically, Habib et al. (2015) and Kusnadi et al. (2015) provide supporting evidence on the positive relationship between overlapping membership on audit and compensation committees and the financial reporting quality.

On the contrary, holding multiple directorships can make a director to be too busy, there by weakening the effectiveness of the AC (Sharma & Kuang, 2013). To support this view, Sharma et al. (2009) shows that directors with multiple board seats are not able to attend meetings . Furthermore, Othman et al. (2014) show a negative association between AC members holding multiple directorships and voluntary ethics disclosure.

Rickling (2014) argues that the degree of busyness by the director can influence AC member's effectiveness to provide effective financial reporting oversight and provide empirical support for calls by governance advocates and others about limiting busy-boarding. Similarly, Sharma and Iselin (2012) reported a positive association between AC overlap and financial misstatements, suggesting that AC members who serve on multiple boards may not offer better monitoring and which affects their effectiveness in monitoring financial reporting and ultimately leads to a higher level of ARL.

Agency theory predicts that ACs with high multiple directorships might be subject to time constraints, which impinges upon monitoring effectiveness and adversely affects financial reporting quality (Zheng, 2008).

Based on the arguments and agency theory presented above and the empirical results of some prior studies, this study predicts the following hypothesis:

H2: There is a positive relationship between audit committee overlap and ARL.

3.3.3 Tenure of Chairman of Audit Committee

Previous corporate governance literature indicates that the AC chair occupies topmost position in the firm while the position signifies a strong power source (Sharma et al., 2009). Furthermore, Udueni (1999) regards the chair of a key board committee (e.g. AC) as an influential person as compared to other members who do no helm any committees. The AC chair's duties range from ensuring proper flow of information to the AC, ensuring open relationships between the management and AC, internal auditors, and external auditors (Tanyi & Smith, 2015). This study expects that the personal traits of AC chairman (e.g. tenure) would influence the timeliness of audit report. Organizational behavior theory suggests that longer tenure increases an individual's commitment toward the firm (Buchanan, 1974). In line with agency theory argument, elongated tenure may create many problems, such as staleness and entrenchment (Sharma & Iselin, 2012). Importantly, two justifications have also been advanced for limited serving tenure of the directors. The first reason is that an independent director that unnecessarily overstay in office may develop rapport with the management thereby blocking his views of his of genuine criticism of the management activities (Sharma & Iselin, 2012; Vafeas, 2003). Secondly, such directors may run out of innovation or new ideas, hence they may lack relevance with respect to the firm's future (Kiel, Nicholson, Tunny, & Beck, 2012).

Importantly, several previous studies suggest that the longer a director serves on the board, the more knowledgeable he or she is likely to be about the firm's practices, and therefore would be in better position to protect shareholder interests and improve firm performance (Yang & Krishnan, 2005). Furthermore, Ghosh and Moon (2004) argue that independence and audit quality increase with longer tenure because of improved auditor expertise from superior client-specific knowledge.

Similarly, Thoopsamut and Jaikengkit (2009) argue that longer tenure of AC members will lead to higher performance, enhances monitoring skills, knowledge and experience to handle the firm's operation. In addition, the accounting experts with length of service are likely to offer more effective monitoring of financial reporting relative to those with lower tenure (Dhaliwal et al., 2010).

Recent research asserts that the process of auditing may be delayed if a CEO does not have enough experience and knowledge about financial reporting and company accounts which, in turn, may oblige the auditor to start the audit function late and then delay publication of the audit report (Baatwah et al., 2015). Dao and Pham (2014) found that the audit firm tenure is negatively linked to ARL.

Sharma and Iselin (2012) found positive relationship between the tenure of independent AC members and financial misstatements in the post-SOX environment, and which suggests that directors elongated tenure may not exercise independent judgment .In additional, Othman et al. (2014) found a positive relationship between AC tenure and voluntary ethics disclosure.

Based on the arguments presented above and the empirical results of some prior studies, this study predicts the following hypothesis:

H3: There is a negative relationship between tenure of chairman of AC and ARL.

3.3.4 Expertise of Chairman of Audit Committee

The audit committee chair's duties range from ensuring proper flow of information to the AC, and to ensure open relationships between the AC and the management. Time-consuming responsibilities include setting the agenda for audit meetings, providing important mediation between the auditor and management team on financial reporting issues, and leading monitoring of the external auditor. The chairman of the AC must ensure that the committee carries out its responsibilities efficiently and that it has a clear understanding of the extent of the board's responsibilities and that of management with respect to financial reporting (Tanyi & Smith, 2015). This is in line with agency theory advocates who opined that the presence of members with financial expertise enhances the audit committee's ability to ensure that the external auditor's work is fully undertaken, understood audit judgments, comprehend and mediate disagreements between auditor and corporate management, and thereby reduce audit report lag (Sultana et al., 2015). However, this study posits that the responsibilities of AC cannot be discharged easily except such committees have directors who have relevant expertise and are independent. Thus, Abernathy et al. (2014) argue that AC accounting financial expertise contributes to AC effectiveness by improving the timeliness of financial information. This view is supported by Baatwah et al. (2015) that a CEO with financial expertise is positively associated with audit report timeliness.

Sharma and Kuang (2013) observe that financial expertise is associated with a lower likelihood of aggressive earnings management but such is obtainable when the expertise is held by independent directors. Furthermore, accounting experts on the committee are positively related to restatements initiated by the firm rather than those initiated by other parties, such as the SEC or the auditor (Sharma & Iselin, 2012). Similarity, Dhaliwal et al. (2010) argue that the monitoring role of accounting experts can effectively promote the quality of financial reporting. In addition, Abernathy et al. (2014) argue that AC with financial accounting expertise will be mostly useful when it is availed by the AC chairman , and that AC chairman with public accounting-based expertise will result in more timely accounting information.

Based on the arguments and agency theory presented above and the empirical results of some prior studies, this study predicts the following hypothesis:

H4: There is a negative relationship between expertise of chairman of AC and ARL

3.4 Measurement of All Variables

3.4.1 Dependent Variable: Audit Report Lag (ARL)

The major focus of this study is on ARL. This variable is measured by calculating the number of days between the date of financial year end and the date of the auditor's report. This measure is consistent with prior studies (e.g. Afify, 2009; Apadore & Mohd Noor, 2013; Ashton et al., 1989; Carslaw & Kaplan, 1991; Hashim & Rahman, 2011; Leventis et al., 2005; Mohamad-Nor et al., 2010; Sultana et al., 2015).

3.4.2 Independent Variables

3.4.2.1 Audit Committee Independence

Based on the definition of independent directors as stated under the Malaysia code of corporate governance, this study measures the AC independence as proportion of independent AC on the total number of AC size. This measure was used by previous studies (Alfraih, 2016; Apadore & Mohd Noor, 2013; Mohamad-Nor et al., 2010; Puasa et al., 2014).

3.4.2.2 Audit Committee Overlap

Following Karim et al. (2015), this study measures the overlap AC as number of directors serving in both the audit and remuneration committees divided by the number of directors serving on the AC.

3.4.2.3 Tenure of Chairman of Audit Committee

Tenure of chairman of AC is measured based on the number of years that a chairman of AC continuously holds a position in the company (Baatwah et al., 2015; Hazarika, Karpoff, & Nahata, 2012; Trompeter et al., 2016).

3.4.2.4 Expertise of Chairman of Audit Committee

To test the association between expertise of chairman of AC with ARL, this study measures expertise as dummy variable, "1" if the chairman of AC is qualified as accounting expert, "0" otherwise (Abernathy et al., 2014; Baatwah et al., 2015).

3.4.3 Control Variables

3.4.3.1 Audit Committee Size

Bursa Malaysia requires all listed firms to appoint an AC amongst its directors and of which must not have less than three members. Therefore, the size of AC is measured by number of AC members, similar with previous work (Apadore &Mohd Noor, 2013; Puasa et al., 2014). This number includes both non-executive independent directors and non-executive non-independent directors. This study expects that the AC size will have a negative relationship with ARL.

3.4.3.2 Audit Committee Meeting

This is measured by using the total number of AC meetings during the financial year, similarly used by Othman et al. (2014) and Sharma and Kuang (2013). This study predicts that the AC meeting will have a positive relationship with ARL. This is because more issues may arise if additional meetings are held by the firm which would prolong the ARL (Apadore & Mohd Noor, 2013). Furthermore, the frequency of these meetings may not necessarily lead to better monitoring efforts for the company.

3.4.3.3 Auditor Type

Big four audit firms are more motivated to maintain their reputation and name and, hence, try to submit their report in a timely manner (Basuony et al., 2016). Previous studies find a significant relationship between Big 4 and ARL. However, others report non-significant relationship between Big 4 and ARL (Apadore & Mohd Noor, 2013). This study measures this variable as Dummy variable, “1” if auditor’s is a Big 4 firm, “0” otherwise (Habib & Bhuiyan, 2016; Rickling, 2014; Sharma & Kuang, 2013; Tanyi & Smith, 2015). Big four refers to one of the widely known accounting firms such as KPMG, Ernst and Young, Pricewaterhouse Corporation and Deloitte & Touche, while non-big four refers to local accounting firms. This study expects that the auditor type will have a negative relationship with ARL.

3.4.3.4 Firm Size

Firm size has widely been used as a control variable for ARL. Majority of ARL studies show a significant negative relationship with firm size. This study measures firm size as natural log of the total assets of the firm (Sharma & Kuang, 2013 ; Sultana et al., 2015). Based upon the results of prior studies that found a negative relationship between firm size and ARL, this study expects that the firm size will have a negative relationship with ARL. There exist some reasons why company size could have negative relationship with the extent of audit lag. Firstly, bigger companies possess the resources to pay relatively higher audit fees to execute immediately after the end of the financial year (Afify, 2009). Secondly, it has been agreed that bigger companies may have better internal controls, which reduce the probability for financial statements errors to occur and enable auditors to depend on controls more extensively and to carry out more interim work (Carslaw & Kaplan, 1991). Thirdly, bigger companies may be monitored more closely by regulatory agencies, trade unions and investors, and therefore face bigger external pressure to make earlier report (Afify, 2009).

3.4.3.5 Leverage

Leverage is used as a control variable in the ARL model. The present study measures leverage as total debts divided by total assets (Al-Ajmi, 2008; Rickling, 2014). This study expects that the leverage will have a positive relationship with ARL. Greater leveraged firms are mostly prompt an auditor to take on better care and checks that leads to longer audit report lags (Sultana, Singh, & Zahn, 2014).

3.4.3.6 Profitability

Profitability has previously been investigated as control variable of ARL (e.g. Apadore & Mohd Noor, 2013; Hashim & Rahman, 2011). Afify (2009) found that firms with higher profitability may incline to complete their account audit earlier in order to quickly release their audited corporate annual reports as to convey the good news .Furthermore, several studies found a negative relationship between profitability and ARL. Hence, this study predicts a negative association between profitability and ARL. Different measures have been used in the literature to represent firm profitability but this study follows Hashim and Rahman (2011) and Afify (2009) to measure profitability by using net income to total assets(ROA).

3.4.3.7 Industry Type

Industry type is used as a control variable in the ARL model to control the effect of industry sectors. The present study uses a dummy variable to measure the industry type.

Each dummy variable of industry is equal to "1" if the company is that of the corresponding sector and "0" otherwise. The dummy of construction has been dropped to avoid the multicollinearity problem.

3.5 Model Specification and Analysis

In order to test the hypothesis and the relationship between dependent variable and independent variables, multiple regression analysis was conducted. The model specification is based on the previous model employed by pervious researchers (Afify, 2009; Apadore & Mohd Noor, 2013; Ashton et al., 1989; Leventis et al., 2005; Sultana et al., 2015).

$$ARL = \beta_0 + \beta_1 ACIND + \beta_2 ACOVLAP + \beta_3 ACCTENURE + \beta_4 ACCEXP + \beta_5 ACSIZE + \beta_6 ACMEET + \beta_7 TYPEAUD + \beta_8 SIZE + \beta_9 LEV + \beta_{10} PROF + \beta_{11} INDUS + \varepsilon$$

Where:
ARL = Audit report lag
ACIND = AC independence
ACOVLAP = AC overlap
ACCTENURE = Tenure of chairman of AC
ACCEXP = Expertise of chairman of AC
ACSIZE = AC size
ACMEET = AC meeting
TYPEAUD = Auditor type
SIZE = Firm Size
LEV= Leverage
PROF = Profitability
INDUS = Industry type
€ = Error term

The measures of each variable are described and summarized in Table 3.1 below.

Table 3.1
Summary of Measurements

Variables Definition	Variable Name	Measurement	Expected Relationship	Support
Audit report lag	ARL	The number of days between the date of financial year end and the date of the auditor's report.	-----	(Afify, 2009; Apadore & Mohd Noor, 2013; Sultana et al., 2015)
AC independence	ACIND	Proportion of independent AC on the total number of AC size.	Negative	(Apadore & Mohd Noor, 2013; Mohamad-Nor et al., 2010)
AC overlap	ACOVLAP	Number of directors serving in both the audit and remuneration committees divided by the number of directors serving on the AC.	positive	Karim et al. (2015)
Tenure of chairman of AC	ACCTENURE	Number of years that a chairman of AC continuously holds this position	Negative	(Baatwah et al., 2015; Hazarika, Karpoff, & Nahata, 2012; Trompeter et al., 2016)
Expertise of chairman of AC	ACCEXP	Dummy variable, "1" if the chairman of AC is qualified as accounting expert, "0" otherwise	Negative	(Abernathy et al., 2014; Baatwah et al., 2015)
AC size	ACSIZE	Number of AC members	Negative	(Apadore &Mohd Noor, 2013; Puasa et al., 2014)
AC meeting	ACMEET	The total number of AC meetings during the financial year.	positive	(Othman et al.,2014 ; Sharma & Kuang, 2013)
Auditor type	TYPEAUD	Dummy variable, "1" if the auditor's one of big 4 and "0" otherwise	Negative	(Habib & Bhuiyan, 2016; Rickling, 2014; Sharma & Kuang, 2013)
Firm Size	SIZE	Natural log of the total assets of the firm	Negative	(Sharma & Kuang, 2013 ; Sultana et al., 2015)
Leverage	LEV	Total debts divided by total assets	Positive	(Al-Ajmi, 2008; Rickling, 2014)
Profitability	PROF	Net income to total assets	Negative	(Hashim & Rahman ,2011; Afify,2009)

3.6 Population, Samples and Data Collection

The study used a secondary data gathered from the annual reports of the non-financial companies at Bursa Malaysia Market http://www.bursamalaysia.com/market/ for 2015 in the main market. Annuals reports of 2015 were specifically chosen because of several modifications that have been made in the proposed draft of the Malaysian code of corporate governance 2016, while the annuals report of 2016 is not available to all companies until the date of the study. The samples are chosen randomly by Excel from 728 company of the population. The sample consists of 146 listed companies.

Table 3.2 shows the population of companies are 728 after exclusion Finance sector, REITS, closed end Fund, Exchange Traded Funds, Spac, Infrastructure sector, Hotels, Mining and PN17. Samples are 20 percent taken randomly by using Excel from each sector (Consumer Products, Industrial Products, Construction, Trading-Services, Technology, Properties and Plantation), which resulted in 146 samples. The final sample of study was 139 companies due to unavailability of data.

Table 3.2
Sample Selection

Sector	**Main Market**	**PN17**	**Population**	**Percent**	**Sample**
Consumer Products	124	5	119	20	24
Industrial Products	220	6	214	20	42
Construction	46	0	46	20	9
Trading-Services	188	4	184	20	37
Technology	30	0	30	20	6
Properties	95	0	94	20	19
Plantation	41	0	41	20	9
Total	744	15	728		146

3.6.1 Data Collection Procedures

This study used companies' annual reports that were mainly gathered from Bursa Malaysia website to collect data on hypothesis variables. Data for dependent variable were extracted from audit report, while data for independent and control variables were gathered from corporate governance report, balance sheet, and income statement (Data stream).

Originally, 146 companies listed on Bursa Malaysia would be gathered due to data in availability the final sample is reduced to 139 companies (see Appendix). It was found that four companies did not have any data for 2015 on the Bursa Malaysia website. Therefore, they were excluded. The other three companies were found to have incomplete data. As such, they were also excluded from the study.

3.7 Data Analysis

The study uses different statistical tests to examine the hypothesized relationship including first, the descriptive statistics (mean, minimum, maximum, and standard deviation) to describe the characteristics of the sample. Second, assumption tests were conducted to provide insight about the normality, heteroscedasticity of data. Furthermore, correlation analysis was used to check which variables have strong and weak correlation with dependent variable and to check the multicollinearity among independent and control variables. Finally, multiple regression analysis was employed to analyze the effect of these variables on the period taken by external auditor to complete the audit function.

3.8 Summary

In this chapter, theoretical framework was developed based on the argument that AC characteristics contribute to financial report quality, audit quality, and ARL. The chapter also provided hypotheses developments that tried to answer the questions of this study. These hypotheses predicted negative relationship between AC independence, tenure and expertise of chairman of AC while it equally predicted a positive relationship between AC overlap and ARL.

Based on prior studies, this study employed some measurements in order to test the hypotheses. It also extended prior studies by using ARL model with some additional variables that were expected to have an impact on ARL. This chapter also discussed the method and procedures used to collect the data about hypotheses variables. Annual reports of companies listed on Bursa Malaysia Market as at 2015 were the main input of data analysis. Finally, short descriptions on the types of analysis that were used to examine the hypotheses were presented.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter, the results of the statistical analysis are presented and discussed. The discussion of the findings is based on the objectives that have been identified in the study. The first section provides descriptive analysis for the study sample which includes mean, maximum, minimum, and standard deviation. The second section presents assumption tests that include normality and heteroscedasticity tests. The third section discusses correlation analysis which includes discussion of the variables that have high correlation with independent and dependent variables. It provides insight into the presence of multicollinearity between the independent and control variables that may affect regression analysis. Finally, regression analysis is conducted to provide evidence on the ability of the model to explain the variances in ARL and which variables have significant impact on ARL.

4.2 Descriptive Statistics

Sekaran and Bougie (2010) define descriptive statistics as a form of information presentation which describes the variables and makes them easily understood and interpreted. This analysis gives a clear meaning of data through frequency distribution, minimum, maximum, mean, median and standard deviation.

Table 4.1 provides descriptive statistics of ARL. From the Table 4.1, the mean for ARL for Malaysian listed companies is 95 days. That means the time taken by the external auditors of listed companies to complete audit work is, on average, 95 days with the least of 45 days and maximum of 122 days. This result is approximately similar with previous studies (e.g., Apadore & Mohd Noor, 2013; Wan-Hussin & Bamahros, 2013).

Interestingly, this provides evidence that, on average, ARL in Malaysia is longer compared to other developing and developed countries. For example, Sultana et al. (2015) found that the average ARL in Australian companies is 87 days. While in New Zealand, the average is 83 days (Gilling, 1977). On the other hand, in the developing countries, the studies show that the average ARL is less than Malaysia. For instance, in Nigeria is 95 days (Ilaboya & Christian, 2014), in China the companies take 87 days to disclosure the report for the market (Habib, 2015) while in Egypt is 47 days (Khlif & Samaha, 2014).

Table 4.1
Descriptive Statistics of Dependent Variable (ARL)

Variable	Observation	Mean	Standard .Deviation	Minimum	Maximum
ARL	139.000	95.187	20.905	45.000	122.000

With regards to AC characteristics variables Table 4.2 depicts the descriptive statistics of control and independent variables used in this research. The table shows the result of the study with respect to features of AC among selected 139 listed companies in Bursa Malaysia. The results show that about 90 percent of AC members are AC members and are non-executive. This result is in line with paragraph 15.9 of the listing requirement, as it states that all the AC members must be non-executive directors, with a majority of them being independent directors. This result is consistent with Hashim and Rahman (2011). The mean of AC overlap is 0.691 which means that more than two-thirds of the firms in the sample of this study have at least one director who sits on both the remuneration committee and AC. The average number of years that chairman of AC holds the position in the company is 8.542 years with minimum and maximum size 0.070 and 22.280 respectively. The proportion of firms that has chairman of ACs with accounting expertise in the sample is 65 per cent. This result gives a good indicator of the extent of the application of the proposed law from Securities Commission of Malaysia (The proposed draft code of corporate governance 2016) and which suggests that the chair of AC should be a person with accounting expertise.

Table 4.2
Descriptive Analysis Statistics of Variables

Variable	Observation	Mean	Std. Deviation	Minimum	Maximum
ACIND	139.000	0.908	0.145	0.500	1.000
ACOVLAP	139.000	0.691	0.277	0.000	1.000
ACCTENURE	139.000	8.542	5.596	0.070	22.280
ACCEXP	139.000	0.655	0.477	0.000	1.000
ACSIZE	139.000	3.288	0.628	3.000	6.000
ACMEET	139.000	5.043	1.239	3.000	10.000
SIZE LOG	139.000	13.152	1.451	9.880	17.675
SIZE (000) RM	139.000	1826585.000	5161705.000	19530.000	47400000.000
LEV (percent)	139.000	19.409	16.535	0.000	72.390
PROF (percent)	139.000	5.179	9.674	-49.560	37.910
TYPEAUD	139.000	0.525	0.501	0.000	1.000

Table 4.2 in addition provides descriptive analysis for the control variables. From this table, the mean for AC size for Bursa Malaysia companies is three people, which is consistent with previous studies (Apadore & Mohd Noor, 2013; Wan-Hussin & Bamahros, 2013) . The least number of AC member is three while the maximum number of AC member is six. The result of the number of frequency of AC meetings times is five on the average during a year. This indicates that the majority of the AC in the selected companies performs their responsibilities and plays their duties effectively. This result is in tandem with the findings of Apadore and Mohd Noor (2013) and

Hashim and Rahman (2011) . The maximum number of AC meetings held during the year was ten. This suggests that Bursa Malaysia companies have ACs which met five times during 2015 and this was relatively higher than the minimum requirement by the code of corporate governance that requires AC to hold meetings not less than four times a year.

For auditor type, the mean is 0.525 indicating that about 53 percent of the sample companies were audited by big four while 47 percent audited by non-big four. This result confirms the results of Hashim and Rahman, (2011) and Wan-Hussin and Bamahros (2013) who reported that 58 percent and 65 percent respectively of their sample companies are audited Big four with audit firm. This suggests that Bursa Malaysia companies tend to hire more specialist and qualified auditors to ensure audit quality and financial reports quality. The mean of firm size as measured by the natural log of total assets for 139 listed companies in Bursa Malaysia within the sample in 2015 is 13.152 with minimum and maximum size 9.880 and 17.675 respectively. In terms of leverage, the descriptive statistics indicate a mean leverage of 19.409 with a minimum value of zero and a maximum value of 72.390 and it shows that there is a high diversity between companies. Regarding company profitability, it appears that ROA (PROF) on average for Bursa Malaysia companies is 5.179 ranging from -49.560 losses to 37.910 profits.

4.3 Assumption Tests in Regression Analysis

An important element of simple linear regression analysis is checking whether the basic assumption of normality (Hair, Anderson, Tatham, & Black, 2010) is met. Regarding the first assumption (normality) this study employed graphical methods to check the normality assumption of the residuals. The graphical methods include drawing, histogram and probability-probability (P-P) plot. Based on Figures 4.1 and 4.2, it can be said that the residuals are somewhat normally distributed for the model.

The second assumption is heteroscedasticity. To examine the existence of heteroscedasticity, the White test is used to detect the problem of heteroscedasticity following the suggestion of Gujurati (2003). The null hypothesis for the test of variance homogeneity is conducted. The hypotheses will be rejected if the p-value exceeds 0.05. From the p-value, the heteroscedasticity is 0.423 and exceeded the 0.05. Thus, the data used in this study (the whole sample) are considered free from heteroscedasticity.

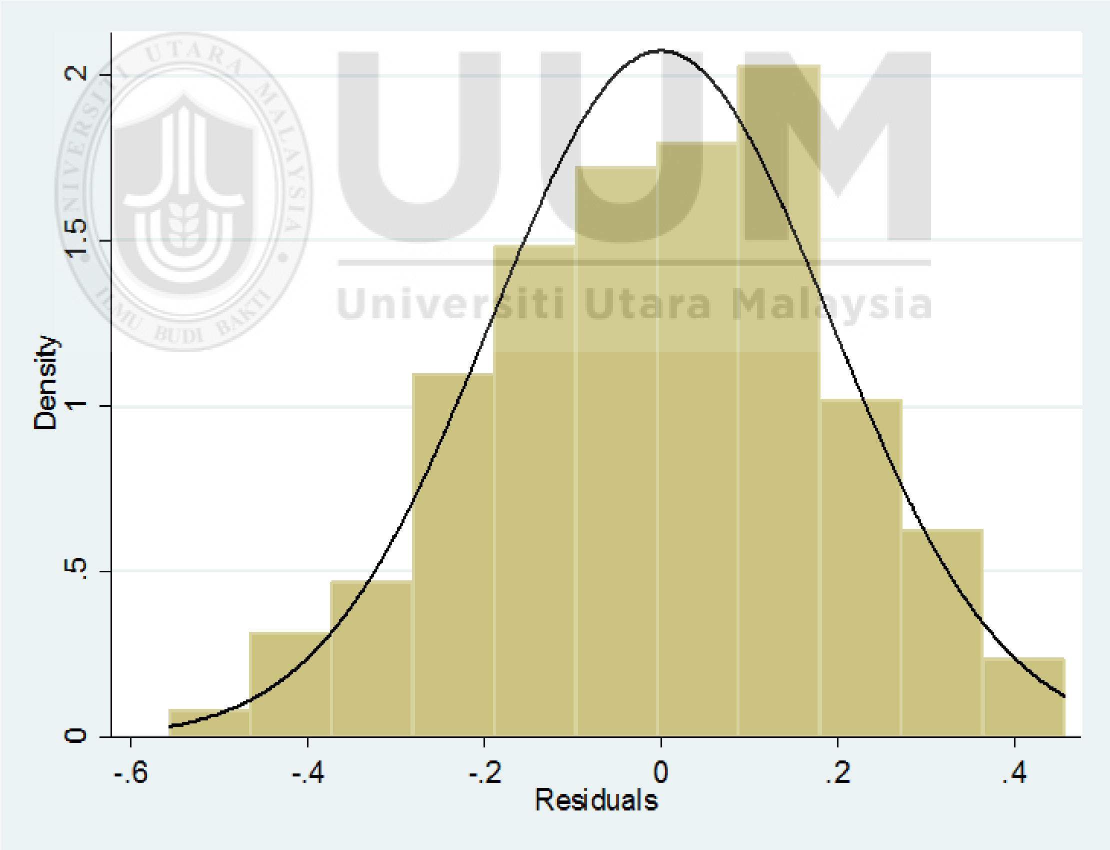

Figure 4.1
Histogram for the Statistic Test Result

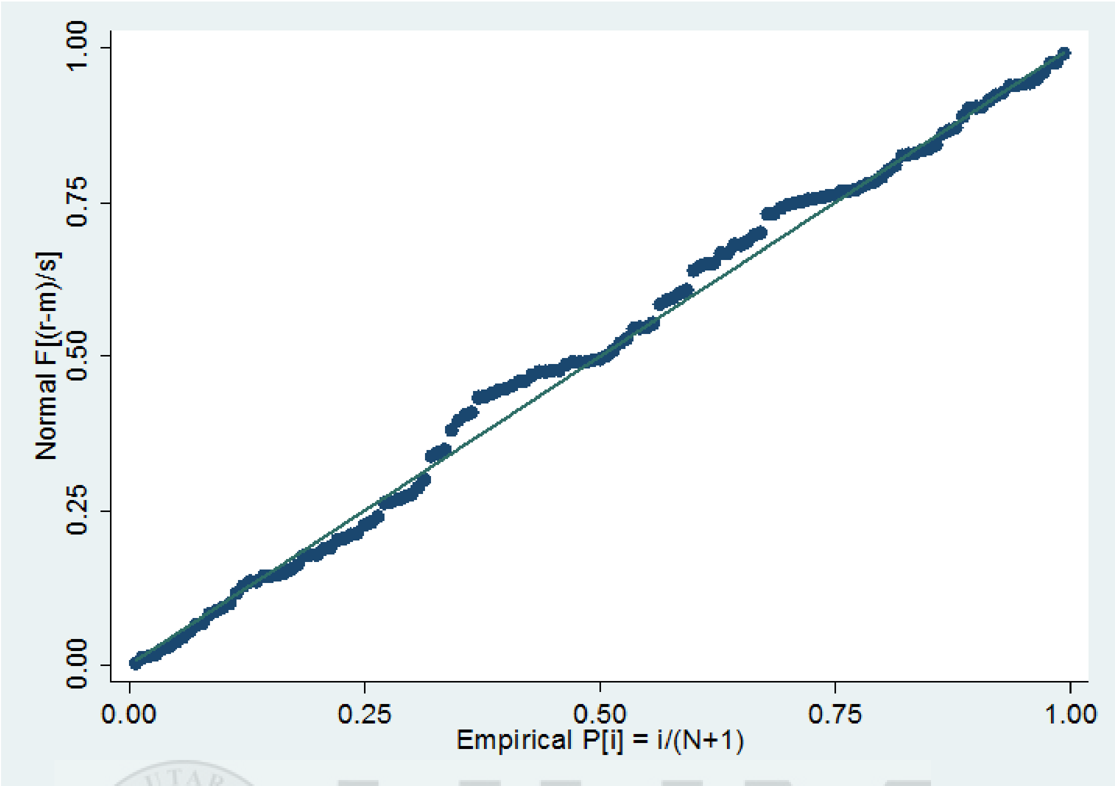

Figure 4.2
Normal P-P Plot of Regression Residuals.

Correlation analysis shows the correlation between two variables. It can also be used to check the existence of multicollinearity problem among independent variables. From Table 4.3, it appears that ten variables have significant correlation with ARL. AC independence and AC overlap are positively and significantly correlated to ARL at one percent and five percent respectively. The other four variables are control variables and this includes AC size, auditor type, firm size and profitability and negatively significant correlated with ARL at one percent suggesting that when these variables increase, ARL decreases. Other variables which include, expertise of chairman AC, tenure of chairman AC, AC meetings and leverage appear to have a weak correlation with ARL.

From the Table 4.3 it can be seen that the highest correlation between independent and control variables is between firm size and leverage at 0.420. No measure of multicollinearity exists between the independent variables as the maximum correlation is at -0.303 (between ACCTENURE and ACCEXP). This suggests that multicollinearity problem is not severe because the correlation between the variables is less than 0.90.

Table 4.3

Correlation Matrix of Variables

	ARL	ACIND	ACOVLAP	ACCTENURE	ACCEXP	ACSIZE	ACMEET	TYPEAUD	SIZE	LEV	PROF	CP	IP	PIANT	PROPER	TECH	TS
ARL	1																
ACIND	.329**	1															
ACOVLAP	.211*	.195*	1														
ACCTENURE	0.014	0.092	0.074	1													
ACCEXP	-0.152	-0.161	-0.056	-.303**	1												
ACSIZE	-.380**	-.399**	-0.131	-0.098	0.061	1											
ACMEET	0.146	-0.126	-.169*	0.076	-0.109	0.039	1										
TYPEAUD	-.281**	-.226**	-0.055	0.048	0.006	.208*	0.138	1									
SIZE	-.347**	-0.148	-0.148	0.063	-0.13	.193*	.209*	.409**	1								
LEV	0.089	-0.025	0.005	-0.081	-0.052	-0.048	0.133	0.11	.420**	1							
PROF	-.289**	-0.083	-0.072	0.058	-0.005	0.075	-0.142	0.042	.187*	-0.12	1						
CP	-0.004	-0.111	-0.005	0.101	-0.002	0.127	0.063	-0.042	-.184*	-.215*	0.14	1					
IP	0.15	0.13	-0.06	0.006	0.038	-0.065	-0.035	-0.031	-.258**	-0.091	0.056	-.273**	1				
PLANT	-0.008	0.049	0.065	0.149	-0.055	-0.081	-0.104	-0.043	0.138	0.058	-0.109	-0.117	-0.161	1			
PROPER	0.052	0.096	.256**	-0.029	0.069	-0.127	0.105	0.043	.207*	0.154	0.091	-.177*	-.244**	-0.105	1		
TECH	0.047	-0.07	0.067	-0.01	0.005	0.011	-0.036	-0.152	-0.16	0.044	-.175*	-0.095	-0.13	-0.056	-0.085	1	
TS	-.213*	-.176*	-.232**	-.170*	-0.032	0.145	-0.02	0.12	.176*	0.091	-0.142	-.258**	-.356**	-0.153	-.231**	-0.123	1

*significant at 5 percent; **significant at 1 percent

Moreover, to confirm the results and check whether there is multicollinearity between variables, Variance Inflation Factor (VIF) and tolerance statistics are utilized. Hair et al. (2010) suggested that VIF of less than ten and a tolerance statistic below one would indicate the existence of no serious multicollinearity problem. Table 4.4 shows that VIF ranges below ten and tolerance value is less than one. These results reinforce that there is no severe multicollinearity.

Table 4.4
VIF and Tolerance Statistic for Multicollinearity Assumption

Constant	Tolerance	VIF
ACIND	0.726	1.378
ACOVLAP	0.791	1.264
ACCTENURE	0.828	1.208
ACCEXP	0.837	1.195
ACSIZE	0.756	1.322
ACMEET	0.805	1.243
TYPEAUD	0.757	1.321
SIZE	0.454	2.200
LEV	0.730	1.370
PROF	0.757	1.320
CP	0.298	3.360
IP	0.240	4.172
PLANT	0.510	1.959
PROPER	0.359	2.782
TECH	0.554	1.805
TS	0.250	4.004

4.4 Regression Analysis Results

By using a multiple regression technique, this section presents an analysis and discussion of the relationship between AC characteristics (measured by AC independent, AC overlap, tenure of chairman of AC, expertise of chairman of AC) and ARL. It also discusses the relationship between control variables, AC size, AC meeting, auditor type, firm size, leverage, profitability, industry type, and ARL in Malaysia.

In Table 4.5 regression analysis reveals that the R^2 for the model is 0.421 and the adjusted R^2 is 0.345. This points to the fact the model explains 42 percent of the variance in the ARL in the sample of this study. It also specifies that 34.5 percent of the total variance in ARL is explained by independent and control variables, while the other 65.5 percent is explained by other factors. Moreover, the model is significant (F-statistic = 5.550, $p < 0.000$). This suggests that the variation in ARL is significantly explained by the model.

Table 4.5
Multiple Regression Analysis

ARL	Coef.	T-Statistics	P>t
ACIND	0.223	1.580	0.117
ACOVLAP	0.093	1.320	0.190
ACCTENUER	-0.002	-0.680	0.499
ACCEXP	-0.076	-1.910	0.058*
ACSIZE	-0.080	-2.490	0.014**
ACMEET	0.041	2.610	0.010***
TYPEAUD	-0.056	-1.410	0.162
SIZE	-0.054	-3.020	0.003***
LEV	0.003	2.250	0.026**
PROF	-0.005	-2.190	0.030**
CP	-0.001	-0.010	0.992
IP	0.016	0.200	0.840
PLANT	-0.025	-0.260	0.798
PROPER	0.003	0.040	0.970
TECH	-0.073	-0.640	0.526
TS	-0.070	-0.880	0.381
Cons	5.112	16.280	0.000***
R^2		0.421	
Adj R^2		0.345	
F-Statistics		5.550***	
N		139	

The results of linear regression using ARL as dependent variable and AC characteristics as the test variables are presented in Table 4.5.

First hypothesis posits a negative link between AC independent (ACIND) and ARL. The hypothesis is not supported by the result because relationship is not significant. This is in tandem with the findings of Apadore and Mohd Noor (2013) who found insignificant relationship. Furthermore, Puasa et al. (2014) findings show that the independence level of AC has no significant impact on ARL after Malaysian code on corporate governance in 2007. On the other hand, Wan-Hussin and Bamahros (2013) and Hashim and Rahman (2011) show significant relationship between audit independence and ARL. One of the possible reason of this findings may be due to the fact that majority of the AC consists of independent directors and is in line with MCCG that requires that all the AC members must be non-executive directors, with a majority of them being independent directors. Additionally, whether the directors in the company are really independent from the substance rather than the form.

Second hypothesis expects a positive relationship between AC overlap (ACOVLAP) with ARL. The result supports this hypothesis but it is not significantly related to the ARL. This indicates that AC overlap has no effect on ARL in Malaysia. The insignificant relationship may be due to the fact that multiple directorships can make a director too busy, and therefore not be able to attend meetings because of his full commitment in order responsibilities. This result is similar to Kusnadi et al. (2015) who find that the overlapping membership of ACs has no significant effect on the financial reporting quality for companies.

Third hypothesis predicts a negative relationship between the tenure of chairman of audit committee (ACCTENUER) and the ARL. The hypothesis is supported by the results but it is not significantly related to the ARL. These results are consistent with Vafeas (2003)'s argument that long tenure directors are more affiliated and then less effective. On the other hand, this results are inconsistent with the Liu and Sun (2010) 's argument that director tenure affects AC effectiveness.

Fourth hypothesis predicts a negative relationship between expertise of chairman AC (ACCEXP) and ARL. The finding supports this hypothesis and provides evidence that expertise of chairman of AC is significantly related with ARL at ten percent. This finding is in line with the agency theory claiming that the existence of members with expertise in finance, enhances the ability of the audit committee to ensure that the work of the external auditor is fully undertaken, comprehend and mediate the disagreements between corporate management and the auditor and thereby reduce audit report lag (Sultana et al., 2015). It also supports the empirical studies that found a significant impact of expertise directors on ARL (Baatwah et al., 2015; Abernathy et al., 2014; Schmidt & Wilkins, 2013). This finding gives a good indicator of the extent of the application of the proposed law from Securities Commission of Malaysia.

For control variables, which are AC size, AC meeting, firm size, leverage and profitability have significant impact on ARL at five, one, one, five and five percent, respectively. Audit committee size (ACSIZE) had negative significance at five percent and which indicates that the relationship between AC size and ARL is negative. This implies that companies in Bursa Malaysia with large number of AC would exert some pressures or demands on the management and hence fast track audit report. This result tallies with prior studies' findings (Apadore & Mohd Noor, 2013; Mohamad-Nor et al., 2010; Puasa et al., 2014).

Frequency of AC meetings (ACMEET) is positively significant at one percent. This means that more frequent AC meetings are related to more stringent levels of auditing and thus, longer delays, which aligns with Wan-Hussin and Bamahros (2013) but contradicts earlier studies of Mohamad-Nor et al.(2010). However, the findings from Mohamad-Nor et al. (2010) may suffer from bias due to omitted variables while some other studies do not find significant link between AC meeting and ARL (Hashim & Rahman, 2011; Puasa et al., 2014). This finding may be due to the fact that meetings frequency does not necessarily lead to better monitoring efforts for the firm.

For auditor type (TYPEAUD) this study found insignificant relationship which implies that there is no relationship between type of auditors and ARL. This is consistent with findings of Apadore and Mohd Noor (2013) and Puasa et al. (2014) for the period after MCCG 2007 .While, the result contradicts with Hashim and Rahman (2011) who reported a positive link but couldn't provide any support on the association between types of auditors and ARL.

Firm size is negatively associated with ARL and it is consistent with the previous studies. This implies that large Bursa Malaysia market companies are associated with shorter lag. This finding is consistent with past studies such as Afify (2009), Mohamad-Nor et al.(2010), Apadore and Mohd Noor (2013).

The variable of leverage (LEV) is statistically significant (at five percent level) and positive for all data, indicating that highly leveraged (Total debts divided by total assets) companies tend to delay their publications of their yearly reports as well as have a prolonged audit lag period. Empirically, this result is consistent with the results of Puasa et al. (2014) and Al-Ajmi (2008) who documented that leverage is positively related with the ARL.

Profitability (PROF) is found to be negatively associated with ARL at five percent. This indicates that firms with higher profitability may wish to complete the audit of their accounts as early as possible in order to quickly release their audited corporate annual reports to convey the "good news". This result is in line with most of the prior studies such as Afify (2009),Nelson and Shukeri (2011), Apadore and Mohd Noor (2013).

Finally, for industry type (INDUS) this study found insignificant relationship, which indicates that there is no relationship between industry type and ARL. This is consistent with findings of MarhaYaacob and Che-Ahmad (2012) .While, the result contradicts with (Afify, 2009). The reason for this is that this sample includes only non-financial companies.

4.5 Summary

In this chapter, the results of descriptive analysis assumption, correlation, and regression analysis were presented and discussed. The results showed that Bursa Malaysia Market companies took, on average, 95 days to release audited financial reports. It also revealed that 90 percent of AC members are non-executive and independent AC members. Furthermore, the results show that more than two-thirds of the firms in the sample of the study have at least one director who is on both the remuneration and AC. For the chairman AC with accounting expertise, result gives a good indicator of the extent of the application of the proposed law from Securities Commission of Malaysia (The proposed draft code of corporate governance 2016) which suggests that the chair of AC should be a person with accounting expertise.

Finally, regression analysis was carried out to determine which variables have significant impact on ARL. It reports that the study variables explain 42 percent of the variances in ARL for Bursa Malaysia Market companies. The result shows that the expertise of chairman of AC, AC size, firm size, and profitability are negatively associated with ARL.AC meeting and leverage are positively associated with ARL. Accordingly, the results support hypothesis four and reject hypotheses one, two and three.

CHAPTER FIVE

CONCLUSION AND FUTURE RESEARCH

5.1 Introduction

This chapter is the final part of this study. The conclusion is discussed based on the findings and the recommendation for future studies which are related to audit report lag.

5.2 Limitations of the Study

It is obvious that there is no such thing as a perfect research; this study is not perfect and has various limitations:

- This study covers only financial year 2015 and which therefore implies that the results of this study may not be generalizable for other periods.
- Another limitation of the study is that excludes financial companies as they are more regulated than other sectors. Therefore, the findings of the present study cannot be generalized to these institutions. Also, there may be a sampling bias as 20 percent of the listed companies are only selected.
- Another limitation is related to the characteristics of AC (AC independence, AC overlap, tenure of chairman of AC, expertise of chairman of AC size, AC meetings, firm size, leverage, profitability, auditor type and industry type) that are investigated in the current study. Other influential characteristics on the ARL such as characteristics of chairman of AC such as overlap and age, auditor tenure, the effect of Audit Oversight Board (AOB), and the impact of internal auditors are not considered in the current study.

In spite of the above limitations, the current study provides comprehensive understanding of the effect of AC characteristics on ARL in the Malaysian companies. Moreover, these limitations call for further studies for the purpose of understanding the variables that are not covered in this study.

5.3 Conclusion

The main objective of the study is to examine the association between AC characteristics and ARL in Malaysia. Many studies have investigated ARL by using various companies and auditor attributes, but AC characteristics like AC overlap, tenure of chairman AC and expertise of chairman AC are seldom explored.

The analysis of sample of Bursa Malaysia Market companies shows that external auditors take on average of 95 days to complete the auditing of companies' accounts with a minimum of 45 days and maximum of 122 days. With regards to regression analysis, the results show that only one independent variables, expertise of chairman of AC is negatively significant associated with ARL. The findings support the argument that chairman of AC with accounting expertise will result in more timely accounting information. Furthermore, the findings reveal that five control variables; AC size, AC meetings, firm size, leverage and profitability have significant impact on ARL. AC size, firm size, and profitability are negatively associated with ARL and consistent with prior studies while AC meetings and leverage are found to be positive and consistent with prior studies. The study also reports that AC independence, overlap, tenure of chairman of AC, auditor type and industry type are insignificantly associated with ARL. Overall, H4 is supported while H1, H2 and H3 are not supported. Table 5.1 shows the summary of the study findings.

Table 5.1
Summary of the Study Findings

Hypothesis	ARL Model
H1: There is a negative relationship between audit committee independence and ARL	Not supported
H2:There is a positive relationship between audit committee overlap and ARL	Not supported
H3: There is a negative relationship between tenure of chairman audit committee and ARL	Not supported
H4: There is a negative relationship between expertise of chairman of AC and ARL	Supported

5.4 Future Research

In view of the findings and limitations of this study, future studies may be conducted on the variables that are not covered in this study as this will provide more insight into the determinants of ARL. Specifically, the current study uses AC characteristics, for example: AC independence, AC overlap, tenure of chairman of AC and expertise of chairman of AC as factors impact in ARL in Malaysia; hence, future study is suggested to incorporate other variables that may have impact on ARL such as characteristics of chairman of AC (overlap and age), auditor tenure, and the impact of internal auditors. Future research also may consider the effect of Audit Oversight Board (AOB).

Furthermore, the data of this study is based on the annual reports of 2015. Thus, future studies may be conducted to investigate the impact of corporate governance characteristics on ARL by using the data of pre and post with respect to the proposed draft of the Malaysian code of corporate governance 2016. Additionally, future studies could be extended by replicating this study by using both finance and non- finance listed companies.

5.5 Summary

This thesis has examined four hypotheses concerning the association between the characteristics of AC and ARL. By using multiple regression, H4 is supported while H1, H2 and H3 are rejected. This study has made an important contribution by providing empirical evidence on how audit committee contributes to reduce agency problem by reducing the ARL. Moreover, it provides more insight into ARL by involving variables that have received little attention so far. This thesis confronts a variety of limitations such as time constraint, audit report lag measurement and limited sample size. Therefore, it is suggested that future research should be conducted in order to overcome such limitations.

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APPENDIX: LIST OF COMPANIES

No	Name Code	Industry Type
1	PANTECH	Trading-Services
2	BJLAND	Trading-Services
3	TNLOGIS	Trading-Services
4	AYS	Trading-Services
5	XINHWA	Trading-Services
6	TASCO	Trading-Services
7	SCOMIES	Trading-Services
8	MESB	Trading-Services
9	YINSON	Trading-Services
10	GUNUNG	Trading-Services
11	AMWAY	Trading-Services
12	SAMCHEM	Trading-Services
13	SUMATEC	Trading-Services
14	DESTINI	Trading-Services
15	AWC	Trading-Services
16	MMCCORP	Trading-Services
17	PANSAR	Trading-Services
18	ASTRO	Trading-Services
19	BIPORT	Trading-Services
20	EATECH	Trading-Services
21	MULPHA	Trading-Services
22	CCB	Trading-Services
23	TALIWRK	Trading-Services
24	EDEN	Trading-Services
25	MTRONIC	Trading-Services
26	LIONFIB	Trading-Services
27	MEDIA	Trading-Services
28	PHARMA	Trading-Services
29	CARIMIN	Trading-Services
30	FSBM	Trading-Services
31	DELEUM	Trading-Services
32	MHB	Trading-Services
33	THHEAVY	Trading-Services
34	MISC	Trading-Services
35	SJC	Trading-Services
36	WARISAN	Trading-Services
37	PJBUMI	Trading-Services

38	GPA	Industrial Products
39	MENTIGA	Industrial Products
40	ACME	Industrial Products
41	SUPERMX	Industrial Products
42	KIMHIN	Industrial Products
43	ADVENTA	Industrial Products
44	MYCRON	Industrial Products
45	COMCORP	Industrial Products
46	MERCURY	Industrial Products
47	CSCSTEL	Industrial Products
48	GESHEN	Industrial Products
49	WTK	Industrial Products
50	TURIYA	Industrial Products
51	RESINTC	Industrial Products
52	HARTA	Industrial Products
53	TECGUAN	Industrial Products
54	SCIB	Industrial Products
55	SCOMIEN	Industrial Products
56	GBH	Industrial Products
57	TGUAN	Industrial Products
58	SCNWOLF	Industrial Products
59	SEB	Industrial Products
60	CEPCO	Industrial Products
61	ABRIC	Industrial Products
62	TAWIN	Industrial Products
63	TAANN	Industrial Products
64	MINETEC	Industrial Products
65	BSLCORP	Industrial Products
66	PWORTH	Industrial Products
67	ULICORP	Industrial Products
68	FIMACOR	Industrial Products
69	SKBSHUT	Industrial Products
70	WELLCAL	Industrial Products
71	SCGM	Industrial Products
72	TOPGLOV	Industrial Products
73	HWGB	Industrial Products
74	TOYOINK	Industrial Products
75	CYL	Industrial Products
76	LCTH	Industrial Products
77	PRESTAR	Industrial Products
78	KOSSAN	Industrial Products
79	KARYON	Industrial Products

80	CAB	Consumer Products
81	XIANLNG	Consumer Products
82	FPI	Consumer Products
83	SINOTOP	Consumer Products
84	FCW	Consumer Products
85	MFLOUR	Consumer Products
86	DLADY	Consumer Products
87	OFI	Consumer Products
88	HEIM	Consumer Products
89	MAGNI	Consumer Products
90	PARAGON	Consumer Products
91	PRLEXUS	Consumer Products
92	TGL	Consumer Products
93	LTKM	Consumer Products
94	MINTYE	Consumer Products
95	PANAMY	Consumer Products
96	TAFI	Consumer Products
97	UMW	Consumer Products
98	KHEESAN	Consumer Products
99	SWSCAP	Consumer Products
100	MWE	Consumer Products
101	PMCORP	Consumer Products
102	SNC	Consumer Products
103	ACOSTEC	Consumer Products
104	MSNIAGA	Technology
105	CUSCAPI	Technology
106	EFORCE	Technology
107	HTPADU	Technology
108	DIGISTA	Technology
109	GRANFLO	Technology
110	MUH	Properties
111	NAIM	Properties
112	TAMBUN	Properties
113	MALTON	Properties
114	PLENITU	Properties
115	SNTORIA	Properties
116	SPSETIA	Properties
117	THRIVEN	Properties
118	DPS	Properties
119	MAGNA	Properties
120	IBHD	Properties
121	DBHD	Properties

122	SDRED	Properties
123	ASIAPAC	Properties
124	TAGB	Properties
125	ENCORP	Properties
126	LBS	Properties
127	PARAMON	Properties
128	IVORY	Properties
129	IJMPLNT	Plantation
130	RSAWIT	Plantation
131	UMCCA	Plantation
132	KWANTAS	Plantation
133	PINEPAC	Plantation
134	GOPENG	Plantation
135	UTDPLT	Plantation
136	SHCHAN	Plantation
137	TSH	Plantation
138	ZELAN	Construction
139	ECONBHD	Construction
140	TRC	Construction
141	PTARAS	Construction
142	IREKA	Construction
143	MUHIBAH	Construction
144	KIMLUN	Construction
145	IJM	Construction
146	WCEHB	Construction