DETERMINANTS OF AUDIT REPORT LAG AND CORPORATE GOVERNANCE IN MALAYSIA

By

KOGILAVANI D/O APADORE

Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Fulfillment of the Requirement for the Master of Science
(International Accounting)

May 2012
PERMISSION TO USE

In presenting this project paper in partial fulfillment of the requirements for a postgraduate degree from Universiti Utara Malaysia, I agree that the University Library make a freely available for inspection. I further agree that permission for copying of this project paper in any manner, in whole or in part, for scholarly purpose may be granted by my supervisor(s) or, in their absence by the Dean of Othman Yeop Abdullah Graduate School of Business. It is understood that any copying or publication or use of this project paper or parts thereof for financial gain shall not be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my project paper.

Request for permission to copy or make other use of materials in this project paper, in whole or in part should be addressed to:

Dean of Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman
ABSTRACT

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

First of all, my praise to God whose blessing and guidance have helped me to complete my dissertation.

I would like to express my deep gratitude to Dr. Mohd. Atef bin Md Yusof, for his invaluable advice, constant guidance, great patience, understanding, knowledge, attention, kindness and encouragement throughout my study. The supervision and support that he gave truly help the progression and smoothness of this report.

My sincere appreciation goes to my beloved parents, Mr. Apadore and Mrs. Ayamah, sister and brother for their endless love, prayers and encouragement. Their cooperation, encouragement, constructive suggestion and full support for the report completion, from the beginning till the end.

Last but not the least, my sincere thanks to all my friends and everyone that has been supporting my work and help during this project progress till it is fully completed. Thanks for the friendship and memories. I really appreciate it.

Thank you.
TABLE OF CONTENTS

PERMISSION TO USE........................................................................................................ i
ABSTRACT .......................................................................................................................... ii
ACKNOWLEDGEMENTS.................................................................................................. iii
TABLE OF CONTENTS................................................................................................... iv
LIST OF TABLES ............................................................................................................. viii
LIST OF FIGURES ........................................................................................................ ix

CHAPTER ONE: INTRODUCTON

1.1 Background of the Study........................................................................................... 1
1.2 Problem Statement ..................................................................................................... 5
1.3 Research Question..................................................................................................... 8
1.4 Research Objective.................................................................................................... 8
1.5 Significant of the Study............................................................................................. 9
1.7 Scope and Limitation ............................................................................................... 9
1.8 The outline of the study.......................................................................................... 10
CHAPTER TWO: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Introduction .................................................................................................................. 11
2.2 Audit Report Lag ......................................................................................................... 11
2.3 Agency Theory ............................................................................................................ 13
2.4 Transaction Cost Economics ...................................................................................... 15
2.5 Characteristics of Corporate Governance ................................................................. 16
   2.5.1 Audit Committee Independence ......................................................................... 17
   2.5.2 Audit Committee Meeting .................................................................................. 19
   2.5.3 Audit Committee Expertise ................................................................................ 21
   2.5.4 Audit Committee Size ....................................................................................... 22
   2.5.5 Board Independence ......................................................................................... 23
   2.5.6 Internal Audit Investment ................................................................................... 25
   2.5.7 Ownership Concentration ............................................................................... 28
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction .................................................................................................................. 29
3.2 Theoretical Framework ............................................................................................... 29
3.3 Variable Measurements ............................................................................................... 30
  3.3.1 Dependent Variables ........................................................................................... 30
  3.3.2 Independent Variable .......................................................................................... 30
    3.3.2.1 Audit Committee Independence ................................................................. 30
    3.3.2.2 Audit Committee Meetings ......................................................................... 30
    3.3.2.3 Audit Committee Expertise ....................................................................... 31
    3.3.2.4 Audit Committee Size .............................................................................. 31
    3.3.2.5 Board Independence ................................................................................. 31
    3.3.2.6 Internal Audit Investment ......................................................................... 32
    3.3.2.7 Ownership Concentration .................................................................... 32
  3.3.3 Control Variable ..................................................................................................... 32
    3.3.3.1 Organizational Size .................................................................................. 32
    3.3.3.2 Types of Auditors .................................................................................. 33
    3.3.3.3 Profitability ............................................................................................ 34
3.4 Data Collection ........................................................................................................... 36
3.5 Model Specification ...................................................................................................... 36
3.6 Data Analysis ............................................................................................................... 37
  3.6.1 Descriptive Analysis .......................................................................................... 37
  3.6.1 Pearson Correlation ......................................................................................... 37
  3.6.1 Multi Regression Analysis ................................................................................ 38
CHAPTER FOUR: FINDINGS AND DISCUSSION

4.1 Introduction ........................................................................................................... 39
4.2 Descriptive Statistics ......................................................................................... 39
4.3 Pearson Correlation ......................................................................................... 46
4.4 Regression Analysis ......................................................................................... 48

CHAPTER FIVE: CONCLUSION

5.1 Introduction ........................................................................................................... 54
5.2 Discussion and Conclusion ............................................................................... 54
5.3 Future Research ................................................................................................. 56

REFERENCE ............................................................................................................. 58

APPENDIX ................................................................................................................. 72
LIST OF TABLES

Table 3.1 Summary of variable measurements ................................................................. 35
Table 3.2 Sample selection ............................................................................................... 36
Table 3.3 Davis scale model ........................................................................................... 38
Table 4.1 Descriptive statistics for audit report lag ......................................................... 39
Table 4.2 Number of companies and audit report lag for 2009 & 2010 ....................... 40
Table 4.3 Descriptive statistic ......................................................................................... 42
Table 4.4 Pearson correlation ......................................................................................... 46
Table 4.5 Multiple regression ......................................................................................... 48
LIST OF FIGURES

Figure 3.1: Theoretical Framework.................................................................................................. 29
CHAPTER ONE

INTRODUCTION

1.1 Background of the study

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

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


Ho, S, Hutchinson. M. (2010), Internal audit department characteristics/activities and audit fees: Some evidence from Hong Kong firms. *Journal of International Accounting, Auditing and Taxation, 19,* 2121–2136


