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**INDUSTRY EXPERTISE OF AUDIT COMMITTEE CHAIRMAN AND AUDIT  
REPORT LAG: EVIDENCE FROM MALAYSIA**

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**MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)**

**UNIVERSITI UTARA MALAYSIA**

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**Thesis submitted to**

**Othman Yeop Abdullah Graduate School of Business,**

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**In Partial Fulfilment of the Requirement for the Degree Master of Science  
(International Accounting)**



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## ABSTRACT

Timeliness is considered as one of the important aspects of financial information that could be beneficial for users who rely on the audited financial report in order to make useful economic decisions. The quality of financial information could be enhanced by providing timely information. One of the important factors that determines the timeliness of the financial statement is the experience of the audit committee members, particularly, the chairman. Hence, the purpose of this study is to investigate the relationship between the industry expertise of the audit committee chairman and audit report lag. The study uses the top 100 non-financial companies listed on the Main Market of Bursa Malaysia, where the data is collected from the annual reports of those companies for the year 2018. The descriptive statistics show that the time taken by auditor to complete their audit report is about 78 days on average, with the maximum period being 122 days and the minimum being 29 days. The Ordinary Least Squares analysis reveals that industry expertise of the audit committee chairman, firm size, audit firm type, investment in internal audit and audit committee size, have a significant and negative relationship with audit report lag. While audit fees is found to be significantly and positively associated with audit report lag, there is no evidence supporting the relationship between financial condition, audit committee meeting, audit committee independence and loss with audit delay. This study may contribute to the existing literature regarding audit report lag, especially on the influence of industry expertise of the audit committee chairman on audit report lag. Moreover, this study may provide useful information for policymakers to pay more attention to the vital role of industry expertise of the audit committee chairman in improving financial reporting timeliness.

**Key words:** audit committee chairman, industry expertise, audit report lag, Malaysia.

## ABSTRAK

Ketepatan masa dianggap antara salah satu aspek penting dalam maklumat kewangan yang boleh memberi manfaat kepada pengguna yang bergantung kepada laporan kewangan beraudit dalam membuat keputusan ekonomi yang berguna. Kualiti maklumat kewangan boleh ditingkatkan dengan menyediakan maklumat tepat pada masanya. Salah satu faktor penting yang menentukan ketepatan masa penyata kewangan adalah pengalaman latar belakang ahli-ahli sebuah jawatankuasa audit, terutamanya pengerusi. Maka, tujuan kajian ini adalah untuk mengkaji tentang hubungan antara kepakaran industri pengerusi jawatankuasa audit dan tempoh laporan audit. Kajian ini menggunakan 100 syarikat teratas bukan kewangan yang tersenarai pada Pasaran Utama Bursa Malaysia yang mana data-data telah dikumpulkan daripada laporan tahunan syarikat-syarikat berkenaan bagi tahun 2018. Statistik deskriptif menunjukkan bahawa masa yang diambil oleh juruaudit untuk menyelesaikan laporan audit mereka adalah kira-kira 78 hari secara puratanya, dengan tempoh maksimum ialah 122 hari dan minimum ialah 29 hari. Analisis Kaedah Kuasa Dua Terkecil menunjukkan bahawa kepakaran industri pengerusi jawatankuasa audit, saiz firma, jenis firma audit, pelaburan dalam audit dalaman dan saiz jawatankuasa audit mempunyai kesan signifikan dan hubungan negatif dengan tempoh laporan audit. Manakala yuran audit dijumpai signifikan dan positif dikaitkan dengan tempoh laporan audit, namun tiada bukti yang menyokong hubungan antara keadaan kewangan, mesyuarat jawatankuasa audit, kebebasan jawatankuasa audit dan kerugian dengan kelewatan audit. Kajian ini boleh menyumbang kepada kajian sedia ada mengenai tempoh laporan audit, terutamanya berkenaan pengaruh kepakaran industri pengerusi jawatankuasa audit terhadap tempoh laporan audit. Tambahan lagi, kajian ini akan menyediakan maklumat yang berguna kepada penggubal undang-undang untuk memberi lebih perhatian terhadap pentingnya peranan kepakaran industri pengerusi jawatankuasa audit dalam meningkatkan ketepatan masa laporan kewangan.

**Kata kunci:** pengerusi jawatankuasa audit, kepakaran industri, tempoh laporan audit, Malaysia.

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## LIST OF ABBREVIATIONS

AC	Audit Committee
ACC	Audit Committee Chairman
ARL	Audit Report Lag
ACCINDEXP	Industry Expertise of Audit Committee Chainman
LnASSET	The Natural Log of Total Assets
FNCOD	Financial Condition
BIG4	Big Four Firm (Type of Audit Firm)
LnFEE	Natural Log of Audit Fees
LnIAINV	Natural Log of Investment in Internal Audit
ACMEET	Audit Committee Meeting
ACSIZE	Audit Committee Size
ACIND	Audit Committee Independence
LOSS	Loss (Negative Net Income)
ISAB	International Standards Accounting Board
FASB	Financial Accounting Standards Board
MCCG	Malaysian Code on Corporate Governance
ROE	Return on Equity
VIF	Variance Inflation Factor
IT	Information Technology
ESA	Egyptian Standard on Auditing
SIC	Standard Industrial Classification

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of Study

The main purpose of the financial statements is to provide information about the financial performance of companies to help users of the statements to make useful economic decisions (ISAB, 2014), particularly, users who rely on the audited financial reports. This is because these reports are considered a vital source of information that helps the outside users to make economic decisions (Hashim and Abdul-Rahman, 2011). Therefore, timely disclosure of information has long been a concern with legislators and regulators. The reason for this is that the asymmetry of information could be higher if the disclosure of financial information is delayed (Hakansson, 1977). The conceptual framework of the Financial Accounting Standards Board (2010) (FASB) indicates that a significant aspect of accounting information is its timeliness. Therefore, information should be timely because it will enable the users of statements to make valuable decisions (Khasharmeh & Aljifri, 2010).

Moreover, timeliness is considered as one of the most important accounting information characteristics, and therefore, requires that reliable information be made available to users of such accounting information when needed (Sultana, Singh, & Zahn, 2015). Besides being an important component for making decisions (Owusu-Ansah, 2000), it is a vital pillar of a strong and transparent financial system (Basuony, Mohamed, Hussain, & Marie, 2016). Mohamad-Nor, Shafie, and Wan-Hussin (2010) state that providing untimely information to investors jeopardizes financial information quality. In addition, Sultana et al. (2015) consider timeliness as an important factor that can lead to enhancing the general quality of information. This is mainly because irrelevant and delayed information can mislead decision-makers.

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