AUDIT REPORT LAG IN MALAYSIA: DETERMINANTS AND MODERATING ROLE OF AUDIT COMMITTEE CHAIRMAN

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AUDIT REPORT LAG IN MALAYSIA: DETERMINANTS AND MODERATING ROLE OF AUDIT COMMITTEE CHAIRMAN

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ABSTRACT

Given the importance of timely financial reporting and its impact on capital markets, the need for timely audited accounting information is undeniably critical to shareholders and investors. Among the principles and guidelines is that Bursa Malaysia has reduced the timeframe for annual reporting from six months to four months. Thus, this study is motivated by the new requirement and the demand for studies on the efficacy of corporate governance practices in audit report lags. This study examined the relationship between the characteristics of the board of directors, audit committee, audit committee chairman, separate risk management committee, ownership structure, audit partner tenure, and financial restatements. It also examined the moderating effect of the audit committee chairman's accounting expertise on the relationship between financial restatements and audit report lag. Robust Ordinary Least Squares was used to analyse a total of 2,006 firm-year observations collected from non-financial firms listed on the Bursa Malaysia from 2013 to 2016. Results showed a significant negative relationship between the board independence, the board of directors' financial expertise, audit committee size, audit committee chairman characteristics, foreign ownership, and audit partner tenure and audit report lag. In contrast, audit committee meetings, separate risk management committee, family ownership, and financial restatements have a positive relationship with audit report lag. The audit committee chairman's accounting expertise shows a moderate effect on audit report lag and significantly improves timeliness of audit reports. The results have implications for policymakers, such as the Securities Commission, investors, and other market participants in improving the timeliness of the audit report. Policymakers may use these findings to recognise the critical role of corporate governance mechanisms in enhancing timeliness of audit reports among Malaysian public listed firms.

Keywords: Audit report lag, corporate governance, audit committee chairman, accounting expertise, Malaysia

ABSTRAK

Memandangkan terdapat kepentingan pelaporan kewangan yang tepat pada masanya dan kesannya terhadap pasaran modal, keperluan untuk maklumat perakaunan yang diaudit tepat pada masanya adalah sangat penting kepada pemegang saham dan pelabur. Di antara prinsip dan garis panduan adalah Bursa Malaysia telah mengurangkan jangka masa untuk pelaporan tahunan daripada enam bulan kepada empat bulan. Oleh itu, kajian ini terdorong dengan syarat baharu ini dan permintaan untuk kajian terhadap keberkesanan praktis tadbir urus korporat dalam kelewatan laporan audit. Kajian ini meneliti hubungan di antara ciri-ciri lembaga pengarah, jawatankuasa audit, pengerusi jawatankuasa audit, jawatankuasa pengurusan risiko berasingan, struktur pemilikan, tempoh rakan audit, dan penyataan semula kewangan. Kajian ini juga menyelidik kesan penyederhanaan kepakaran perakaunan pengerusi jawatankuasa audit terhadap hubungan di antara penyataan semula kewangan dengan kelewatan laporan audit. *Robust Ordinary Least Square* digunakan untuk menganalisis sejumlah 2,006 pemerhatian firma-tahun yang dikutip daripada firma bukan kewangan yang tersenarai di Bursa Malaysia dari tahun 2013 hingga 2016. Dapatan kajian menunjukkan hubungan negatif yang signifikan di antara kebebasan lembaga pengarah, kepakaran kewangan lembaga pengarah, saiz jawatankuasa audit, ciri-ciri pengerusi jawatankuasa audit, pemilikan asing, dan tempoh rakan audit dengan kelewatan laporan audit. Sebaliknya, mesyuarat jawatankuasa audit, jawatankuasa pengurusan risiko yang berasingan, pemilikan keluarga, dan penyataan semula kewangan mempunyai hubungan yang positif dengan kelewatan laporan audit. Kepakaran perakaunan pengerusi jawatankuasa audit menunjukkan kesan penyederhana ke atas kelewatan laporan audit dan meningkatkan ketepatan masa laporan audit secara signifikan. Hasil kajian ini mempunyai implikasi terhadap penggubal dasar seperti Suruhanjaya Sekuriti, pelabur, dan peserta pasaran lain dalam meningkatkan ketepatan masa untuk laporan audit. Penggubal dasar boleh menggunakan hasil kajian ini untuk mengenal pasti peranan penting mekanisma tadbir urus korporat dalam meningkatkan ketepatan masa laporan audit dalam syarikat-syarikat tersenarai awam di Malaysia.

Kata kunci: Kelewatan laporan audit, tadbir urus korporat, pengerusi jawatankuasa audit, kepakaran perakaunan, Malaysia

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AC	Audit Committee
ACC	Audit Committee Chairman
ACCEXPA	Audit Committee Chairman's Accounting Expertise
ACCMD	Audit Committee Chairman's Multiple Directorships
ACCTEN	Audit Committee Chairman's Tenure
ACEFF	Audit Committee Effectiveness
ACEXP	Audit Committee Financial Expertise
ACIND	Audit Committee Independence
ACMEET	Audit Committee Meetings
ACSIZE	Audit Committee Size
ARL	Audit Report Lag
AS	Auditing Standard
BIG4	Big 4 Audit Firm
BOD	Board of Directors
BODEFF	Board Effectiveness
BODEXP	Board Financial Expertise
BODIND	Board Independence
BODMEET	Board Meetings
BODSIZE	Board Size
CGM	Corporate Governance Mechanisms
DW	Durbin-Watson
FOWN	Family Ownership
FROWN	Foreign Ownership
FRQ	Financial Reporting Quality
GAO	Government Accountability Office
IAF	Internal Audit Function
IFRS	International Financial Reporting Standards
LEV	Leverage
MCCG	Malaysia Code on Corporate Governance
MFRS	Malaysian Financial Reporting Standard
MIA	Malaysian Institute of Accountants
MOWN	Managerial Ownership
OLS	Ordinary Least Square
PROF	Profitability
RESTATE	Financial Restatements
RMC	Risk Management Committee
SIZE	Firm Size
TENURE	Audit Partner Tenure
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial reporting quality (FRQ) has become an important issue following the accounting scandals of different companies over the last few years, especially following the collapse of firms such as Enron and ImClone Systems in 2001 and Tyco International and WorldCom in the United States in 2002 and Global Crossing in Europe in 2002 (Shafie, Wan-Hussin, Yusof, & Hussain, 2009). In Malaysia, the corporate landscape is scattered with several bad accounting scandals, although the scale is small compared to other global cases, such as MEMS Technology Berhad, Transmile Group Berhad and Megan Media Holdings Berhad (Hussain, Hasnan, & Sanusi, 2019). In addition, the case of 1 Malaysia Development Berhad (1MDB) has put Malaysia in a state of disgrace in the eye of the business and auditing world (Ganesan, Narayanan, Haron, & Pitchay, 2019). These corporate collapses highlight the need to improve FRQ and increase financial reporting transparency (Bardos, 2011).

A metric of FRQ and transparency is timeliness (Al-Ajmi, 2008; McGee & Yuan, 2008; Rusmin & Evans, 2017), where timeliness of financial statements is seen as a critical feature of accounting information (Al-Ajmi, 2008). Thus, well-timed reporting for policymakers is still a vital issue, and many capital market regulators around the world have adopted recommendations to encourage timely information (Al-Ebel, Baatwah, & Al-Musali, 2020). This is because timeliness improves the usefulness and the economic value of the information supplied (Apadore & Mohd-Noor, 2013). More importantly, timely financial reporting will improve investors' confidence (Ettredge, Li, & Sun, 2006; Leventis, Weetman, & Caramanis, 2005) by enhancing decision-making and reducing information asymmetry (Kaaroud, Ariffin, & Ahmad, 2020), particularly in emerging markets such as Malaysia (Owusu-Ansah & Leventis, 2006).

As timely information is necessary for market participants to make decisions, efforts have been made to enhance financial reporting timeliness (Shin, Lee, Lee, & Son, 2017). For example, Bursa Malaysia[1] has shortened the timeframe for firms to publish their annual reports from six to four months with effect from 31st December 2015. Furthermore, according to the Bursa Malaysia listing requirements[2], an auditor's report should be included in a firm's annual report. However, a firm is unable to release its annual report until its financial statements are verified by external auditors. The reason for this is that the auditor's report increases the users' level of confidence in the financial statements and also provides an impartial opinion as to whether the financial statements reported are fairly presented (Salleh & Jasmani, 2014). Moreover, financial statements that auditors have verified will remove problems arising from a conflict of interest between owners and managers, thus, increasing the reliability and the credibility of the financial statements (Azami & Salehi, 2017; Habib, Bhuiyan, Huang, & Miah, 2019).

In previous literature, the timeliness of the release of the auditor report is related to the length of the audit report lag (ARL) (Chan, Luo, & Mo, 2016), which was described in several studies as audit delay or audit report timeliness. The time spent by auditors on their work can be an important element in the timeliness of the firms' announcements of audited annual earnings (Lee, Mande, & Son, 2009). Also, ARL is frequently viewed as a significant qualitative characteristic of financial accounting

[1] Bursa Malaysia listing requirements as of 27th December 2013.
[2] Bursa Malaysia listing requirements as of 2nd January 2018.

information and one of the primary determinants of financial reporting timeliness. (Abernathy, Barnes, Stefaniak, & Weisbarth, 2017; Durand, 2019; Rusmin & Evans, 2017). However, since shareholders rely on the audit report, they prefer shorter reporting lags to reduce information asymmetry (Habib & Muhammadi, 2018; Nelson & Mohamed-Rusdi, 2015). Information asymmetry occurs in situations where one party has either more or better information than another party (Halim, Mustika, Sari, Anugerah, & Mohd-Sanusi, 2017).

Delays in issuing financial reports could possibly increase uncertainty among the various stakeholders and impact the firm's share price (Habib *et al*., 2019). Also, "a longer [audit] delay is likely to indicate problems during the course of the audit, difficulties in resolving sensitive audit issues, or more complex financial reports to prepare" (Hay, Knechel, & Wong, 2006, p.177). Consistent with the argument that an audit delay is an indicator of the outcome of auditors-clients negotiations (Durand, 2019). Moreover, ARL is considered a proxy for the audit effort (Knechel & Payne, 2001; Mitra, Song, & Yang, 2015; Shiri, Salehi, Abbasi, & Farhangdoust, 2018) Therefore, an understanding and knowledge of ARL determinants are important because this lag is considered a critical indicator of audit efficiency (Habib *et al*., 2019; Durand, 2019; Lee *et al*., 2009). Thus, reducing ARL enhances the timeliness of an annual report, as well as improves the FRQ and the efficiency of capital markets (Daoud, Ku Ismail, & Lode, 2015; Khlif & Samaha, 2014).

A large number of studies, as demonstrated in the field of research activities in the various countries of the world, reflect the importance of the audit report as a major concern for the timeliness of financial reporting (Kaaroud *et al*., 2020). However, investigations on ARL determinants, such as corporate governance (Durand, 2019) and ownership structures (Habib *et al*., 2019), are relatively scarce. Habib *et al*. (2019) suggested that many corporate governance components are more effective in improving the audit report's timeliness. Thus, corporate governance is seen as a means of maintaining an efficient mechanism to monitor and balance management behaviour in line with shareholders' desires (Abdullah, Yusof, & Nor, 2010).

Corporate governance mechanisms (CGM) is also seen as a fundamental element in enhancing investors' confidence in reporting quality, especially in the wake of several financial crises (Salehi, Moradi, & Paiydarmanesh, 2016). In this situation, the board of directors (BOD) as an important component of CGM (Alsmady, 2018), is considered to be one of the corporate supervisory functions that monitor management activities (Hasnan & Marzuki, 2017). One of the main tasks for a corporate board is to monitor the firm's financial reporting processes to ensure good quality financial statements (Vafeas, 2005; Carcello, Hermanson, Neal, & Riley, 2002). Therefore, an effective BOD would reduce ARL to promote the integrity of their firm's financial reports (Singh & Sultana, 2011). Furthermore, to perform their duties efficiently, the board might delegate responsibilities to an audit committee (AC) as a board committee (Davidson, Goodwin-Stewart, & Kent, 2005). As a result, an AC plays a more active function in supervising and monitoring the processes of financial reporting (Qamhan, Che Haat, Hashim, & Salleh, 2018) and, thus, potentially reducing the time it takes to publish the audit report (Kaaroud *et al.*, 2020; Oussii & Taktak, 2018).

Moreover, reforms in global corporate governance, new regulations, and other best practices introduced in recent decades have extended the AC's role and responsibilities in the financial reporting process (Sultana, Singh, & Van der Zahn, 2015). Puasa *et al.* (2014) reported that the AC works as an enforcement tool to ensure high FRQ by monitoring the financial reporting process and ensuring the issuance of financial statements in a timely manner. This is consistent with other researchers who opined that timeliness is the responsibility of the AC (Abernathy, Beyer, Masli, & Stefaniak, 2015). Thus, an effective AC motivates the management to generate and distribute timely financial information (Ika & Ghazali, 2012).

In this regard, the chairperson of the AC plays a vital role in enhancing the committee's capacity to effectively perform its duties (Ghafran & Yasmin, 2018). This is achieved by ensuring a proper flow of information to the AC and maintaining an open relationship with the management and the internal and external auditors (Abernathy, Beyer, Masli, & Stefaniak, 2014). In other words, an audit committee chairman (ACC) has more responsibilities than other members for failures of financial reporting and plays a key function in supervising financial reporting (Chaudhry, Roomi, & Aftab, 2020; Ghafran & Yasmin, 2018; Ghaleb, Al-Duais, & Hashed, 2021).

Nevertheless, in Malaysia most of studies neglected the role of ACC to support the ability of the committee to carry out its responsibilities effectively and reduce ARL. The Malaysia Code on Corporate Governance's (MCCG) proposal in 2016 highlighted the role and importance of ACC in setting and managing the committee's agenda. It also suggested that the chairman should be a person with accounting expertise or relevant work experience (MCCG proposed draft, 2016). However, this suggestion was not mandated by the revised MCCG of 2017. Thus, this provided the motivation for the current study.

Furthermore, increasing the workload on the AC could potentially increase inefficiencies in the financial reporting process (Subramaniam, McManus, & Zhang, 2009). As a result, financial reporting risks may become more significant and require more crucial monitoring. Thus, firms often set up a separate risk management committee (RMC) from the AC to overcome these risks (Halim *et al*., 2017). Enterprise risk management helps the board ensure that management operates actively by defining and assessing risks to make better decisions (Brown, Steen, & Foreman, 2009). Furthermore, since the oversight of the board is strengthened through stringent risk management procedures, an argument can be made that risk management and FRQ have improved (Yatim, 2010).

Other than the RMC, Setia-Atmaja (2009) noted that ownership structure performs an important role in the effectiveness of CGM. Claessens, Djankov, and Lang (2000) showed that Malaysia has a high level of concentrated ownership, where over 70 per cent of firms listed on the Bursa Malaysia are family-owned. Concentrated control of public companies may result in a dispute between the minority and majority shareholders (Anafiah, Diyanty, & Wardhani, 2017). Therefore, protection of minority shareholders is an issue that can be managed by the controlling shareholders (Al-Jaifi, 2017) who have a significant effect on management decisions in the service of their interests (Afify, 2009).

Similarly, managerial ownership encourages managers to work in line with their shareholders' interests (Jensen & Meckling, 1976). Accordingly, firms with a large degree of managerial ownership are likely to face a longer lag due to less pressure and demand for timely disclosure of information (Che-Ahmad & Abidin, 2008). Furthermore, foreign ownership may play an essential role as a useful monitoring tool for the firm's reporting process (Aziz, Mohamed, Hasnan, Sulaiman, & Abdul Aziz, 2017), particularly in emerging markets, including Malaysia. This motivates the management and the external auditor to submit the audit report on time (Ishak, Sidek, & Rashid, 2010) to protect foreign investors and ensure efficient decision-making (Tazik & Mohamed, 2014).

In addition to the internal governance mechanisms, audit practitioners and academics showed interest in the impact of audit firm tenure and auditor rotation (Singer & Zhang, 2018) as well as the advantages and disadvantages of partner rotation (Wan-Hussin, Bamahros, & Shukeri, 2018). Malaysia has initially implemented mandatory rotation rules of audit partner tenure for public listed firms where the auditor partner should be rotated every five years (and every seven years beginning 15th December 2018) (MIA, 2018). The audit partner tenure has a higher impact on audit partner behaviour (Gul, Ma, & Lai, 2017) because audit partners are ultimately responsible for audit engagements and have a more significant impact on the clients and take more responsibility in maintaining the auditor-client relationship (Chen, Lin, & Lin, 2008a). The new requirement regarding audit partner rotation in Malaysia has further motivated the current study.

In addition to audit partner tenure, financial restatements and its consequences have also raised concern among researchers, investors, and government regulators. This was predominantly after the collapse and scandals of corporate giants such as WorldCom and Enron, and Transmile Group, OilCorp Bhd, Goh Ban Huat, and Olympus in Malaysia (Abdullah *et al*., 2010), which shook the confidence of investors. Blankley *et al*. (2014) argued that financial restatements due to managerial discretion could represent an audit failure. This can create uncertainty about the firm's quality of future financial information, especially when the financial statements reveal material errors (Bardos, 2011). Similarly, restatements that may impose severe costs could hurt the restated firms (Abdullah *et al*., 2010; Eshagniya & Salehi, 2017). Thus, auditors will increase their audit effort or escalate discussions and negotiations with the client about possible disclosures to avoid potential lawsuits against them, which may lead to audit delays (Kinney & McDaniel, 1993).

It is reported that firms that eventually restate their financial statements have abnormally longer ARL relative to non-restating firms (Blankley *et al*., 2014). This indicates that ambiguous reporting issues and related disputes between clients and auditors are likely reasons for delayed audit reports. Thus, a mechanism to resolve and facilitate these disputes is needed to reduce audit delays and improve FRQ (Dong, Robinson, & Xu, 2018). In this aspect, prior research indicates that AC's expertise can reduce the incidence of financial restatement in various ways. For example, an ACC's accounting expertise would likely understand the internal audit programme and enhance the efficiency of internal controls in the prevention or detection of material misstatements (Abbott, Parker, & Peters, 2004).

Experienced members of the AC are much probable to sustain and assist external auditors in management disputes than those with less experience (DeZoort & Salterio, 2001), allowing the AC to ensure the competence of the external auditor's work and to resolve a dispute between the auditors and the firm's management, reducing ARL (Sultana *et al*., 2015). Al-Ebel *et al.* (2020), Baatwah *et al.*(2019), and Abernathy *et al*. (2014) found that the length of the audit would be reduced if the ACC had accounting expertise. Based on this argument, the study examined whether the ACC's accounting expertise moderates the relationship between financial restatements and ARL.

1.2 Problem Statement

Delays in issuing financial statements are likely to increase the risk of information asymmetry (Kaaroud *et al.*, 2020), which contributes to an increase in the level of uncertainty associated with decisions based on reported information (Ashton *et al.*, 1987). However, to increase the informational efficiency of markets, stock exchanges have set statutory maximum time limits for public listed firms to issue financial reports. For instance, Bursa Malaysia has established the timeframe for the issuance of annual reports to four months. This requirement would achieve the objective of enhancing the timeliness of the issuance of annual reports and aligning the annual report issuance timeframe among Malaysian firms with practices in other markets.

Many researchers have reported that ARL is a critical factor which affects the timeliness of auditing financial statements (Blankley *et al.*, 2014; Chan *et al.*, 2016; Dong *et al.*, 2018; Kaaroud *et al.*, 2020). Thus, improvements in ARL could significantly impact the timeliness of the audit reports (Dong *et al.*, 2018). Also, improvements in ARL are an important step for orienting investors towards making better choices of resource allocations and, hence, improving market efficiency (Khlif & Samaha, 2014). This is especially important after the worldwide financial scandals, which raised significant concerns about timeliness and FRQ (Sultana *et al.*, 2015).

Demand for timely audited financial reporting information is important for investors in capital markets (Ghafran & Yasmin, 2018). The auditor's reports are considered to be very relevant to external stakeholders (Habib *et al.*, 2019) since they include their opinion on the credibility of the financial reports (Habib & Muhammadi, 2018). Thus, investors generally prefer shorter audited financial statements to adjust their investment preferences. However, failure to submit audited financial reports on time may affect the usefulness of the information provided to users of financial statements, which, in turn, would increase the difference in information between investors (Edmonds, Edmonds, Vermeer, & Vermeer, 2017). This diminishes the economic value of the information (Al-Ajmi, 2008). Thus, pressure is exerted on auditors to complete the audit and release the audit report without delay (Sultana *et al.*, 2015).

According to the CG Watch 2016 Report, "*Malaysia is slightly behind on providing audited financial statements. Malaysian listed companies have four months to produce their audited financials (published in an annual report), rather than the standard three months in other markets"* (Asian Corporate Governance Association, 2016, p. 171). Prior studies have shown that the average ARL is 100 days in Malaysia, which is considered high compared to an average of 40 to 80 days in other developing and developed nations (Mohamad-Nor, Shafie, & Wan-Hussin, 2010; Wan-Hussin *et al.*, 2018).

According to the Bursa Malaysia listing requirements[3], if a firm fails to submit an audited financial report and annual report on or before the deadline, it will have to produce appropriate and related disclosures to explain the delay or face sanctions. In the worst scenario, a firm's shares can be suspended from trading. Such an action has an impact on the firm; for example, Kinsteel Bhd.'s share price plunged when Bursa Malaysia rejected its application to delay the issuance of its 2017 annual report.

In view of the possible negative effects of the delay in issuing audit reports, in recent years the importance of CGM to ensure the integrity of the financial reporting process

[3] Bursa Malaysia listing requirements as of 2013.

has increased. For example, auditors should consider corporate governance characteristics when making any judgements, such as the extent and timing of testing (Cohen & Hanno, 2000). However, if corporate governance is strong, the external auditor could minimise sample sizes and limit the scope of the substantive tests (Cohen, Krishnamoorthy, & Wright, 2002), thereby reducing ARL.

In this aspect, the BOD and its committees, such as AC and RMC, are the primary CGM and are in charge of monitoring the firm's management in order to protect shareholders' interests (Carcello, Hermanson, & Ye, 2011; Mohamad, Rashid, & Shawtari, 2012). It is expected that auditors will reduce their assessment when a board has more independence, more experts and are more diligent. Thus, auditors will reduce the scope of their audit procedures (Carcello *et al.*, 2002), which will reduce ARL.

Until today, many advocates of ACs have clearly noted the view that the AC is responsible for the timeliness of financial reports. In particular, ACC plays a vital role in this responsibility (Abernathy *et al.*, 2015). Thus, knowledge of the committees' attributes can enhance the AC's effectiveness and, subsequently, improve financial reporting timeliness (Ghafran & Yasmin, 2018). Empirically, however, only a few published studies have examined the role and significance of the ACC in reducing ARL (Habib *et al.*, 2019). Therefore, to fill the research gap, this study focused on the attributes of the ACC, such as accounting expertise, tenure, and multiple directorships.

Prior research has shown that accounting experts are the most effective in enhancing the AC's monitoring role (Krishnan & Visvanathan, 2008; Dhaliwal, Naiker, & Navissi, 2010). AC members may encounter problems that require a higher level of accounting sophistication. Thus, their experience in accounting becomes more relevant than any other expertise (DeFond, Hann, & Hu, 2005). Al-Ebel *et al.* (2020) and Baatwah *et al.* (2019) noted that the ACC's accounting expertise contributed to reducing ARL. Ghafran and Yasmin (2018) added that ACC with longer tenure and multiple committee seats is more effective in reducing ARL, indicating that the chairman has greater expertise to oversee financial reporting effectively due to his comprehensive knowledge of the firm (Abernathy *et al.*, 2014; Chandar, Chang, & Zheng, 2012; Liu & Sun, 2010). A chairman with strong expertise and skills is also important in maintaining an influential role of AC monitoring (Ghaleb *et al.*, 2021). Thus, the current study is a response to Habib *et al.'s* (2019) suggestion for future studies to identify the role and the influence of the ACC on ARL.

The MCCG 2017 stated that the BOD should establish a RMC which comprises mostly of independent directors. According to Subramaniam *et al*. (2009), a firm with a RMC sends a strong signal of the firm's commitment to good corporate governance. This is because the formation of an effective RMC helps organisations to achieve their objectives (Halim *et al.*, 2017; Ng, Chong, & Ismail, 2012). The establishment of a separate RMC is seen as another support for a firm's internal risk monitoring system and is likely to minimise the auditor's audit risk evaluation and the scope of the audit procedures needed (Halim *et al.*, 2017; Yatim, Kent, & Clarkson, 2006). However, from an auditor's viewpoint, the presence of the committee reflects the likelihood of the existence of complex risks and higher financial reporting risks (Subramaniam *et al.*, 2009). Consequently, independent auditors must expand their audit assessments and audits because of the higher risk to their firms. This can result in a longer delay in the audit process and the issuance of an audit report (Azami & Salehi, 2017; Durand, 2019) and raises the question of whether the establishment of RMC will impact ARL.

Ownership concentration may either reduce or intensify the agency problem and affect the composition of the internal governance structure and efficacy (Setia-Atmaja, 2009). The client's ownership structure is taken into consideration as an indicator of auditor risk (Durand, 2019). For example, auditors evaluate family firms as having lower audit risks and the financial statements contain fewer material misstatements. As such, they reduce the scope of audit planning (Ghosh & Tang, 2015). Thus, audit reports are more timely for family firms than other firms (Rusmin & Evans, 2017). Also, with higher managerial ownership stakes, the interests of the managers of the firm are more aligned with those of shareholders, and as a consequence, the agency problem in financial reporting diminishes (Al-Hayale, 2017). However, based on the agency problem (Type II) that occurs between controlling and non-controlling shareholders, the controlling shareholders of family firms may withhold or delay the release of bad news (Ali, Chen, & Radhakrishnan, 2007) and delay the audit report to protect their interests.

Furthermore, foreign ownership may affect ARL where firms with foreign ownership opt for higher audit quality and demand a vital monitoring role from the external auditor (Karim, Zijl, & Mollah, 2013; Nelson & Mohamed-Rusdi, 2015). Thus, this will affect the timeliness of the audit report. Previous studies in Malaysia have shown inconsistent findings of the effect of ownership structure on ARL (Che-Ahmad & Abidin, 2008; Ishak *et al.*, 2010; Puasa *et al.*, 2014; Tazik & Mohamed, 2014). Therefore, this raises the question of whether these types of ownership structures, namely, family, managerial, and foreign ownership, will affect ARL.

In Malaysia, public listed firms must disclose the lead auditor partner's name in the audit report, and the auditor partner should be rotated every five years (every seven years beginning from 15th December 2018) (MIA, 2018). Thus, other than ownership, regulators view that auditor's rotation may safeguard the independence of auditors and enhances FRQ (Wan-Hussin *et al.*, 2018; Brooks, Cheng, Johnston, & Reichelt, 2017). Wan-Hussin *et al*. (2018) also showed that the change in auditor partner may be detrimental to the quality of audit in the early years of the audit, particularly, if the new auditor does not have the appropriate knowledge and experience of his clients. This raises the question of whether the audit partner's mandatory rotation will improve the quality of the audit.

Furthermore, financial restatements are thought to add a new and significant perspective in examining corporate governance effectiveness (Zhizhong, Juan, Yanzhi, & Wenli, 2011). They are seen as a proxy for low FRQ (Abdul Wahab, Gist, & Majid, 2014; Wan-Mohammad, Wasiuzzaman, Morsali, & Zaini, 2018) and low audit quality (Newton, Wang, & Wilkins, 2013). Previous studies have also shown that ARL appears to be longer when a firm restates its financial statements (Dao & Pham, 2014; Blankley *et al.*, 2014; Habib *et al.*, 2019). For example, firms such as Transmile Group Berhad, LCL Corporation Berhad, and Ho Hup Construction Company Berhad failed to submit their audited annual accounts to Bursa Malaysia for public release and their financial statements were restated in the following years.

Unfortunately, the high number of financial restatements in previous years had contributed to questions regarding FRQ (Wan-Mohammad *et al.*, 2018). Thus, when a restatement is announced, the auditor needs to reassess how much trust he/she can place in the evidence provided by the management. This requires additional audit effort to investigate other restatement-related issues (Blankley *et al.*, 2014). The ACC's accounting expertise will be able to minimise the delay in auditing by minimising the likelihood of company risk. This encourages the external auditor to rely on the internal auditor's work for certain audit activities (Baatwah *et al.*, 2019).

Additionally, in audit-client accounting disputes, the AC acts as a conciliator to help solve the problems in dispute. Since the chairman of AC is considered to be the nexus for the interaction of the AC with the management and auditors, the financial experience of the chairman would be most important to resolve contentious accounting issues (Abernathy *et al.*, 2014; Baatwah *et al.*, 2019). In other words, ACC's accounting expertise may help to deal more quickly with the restatement's issues. However, there is still a lack of published studies investigating the effect of the ACC who has accounting expertise on the relationship between financial restatements and ARL. Thus, this study fills this gap in understanding the issue in Malaysia.

1.3 Research Questions

The current study aims to answer questions related to the issue of ARL among Malaysian firms. Specifically, the research questions are as follows:

1. What is the relationship between the BOD's characteristics (size, independence, meetings, financial expertise, and effectiveness) and ARL in Malaysia?
2. What is the relationship between the AC's characteristics (size, independence, meetings, financial expertise, effectiveness, chairman's accounting expertise, chairman's tenure, and chairman's multiple directorships) and ARL in Malaysia?
3. What is the relationship between the RMC and ARL in Malaysia?
4. What is the relationship between ownership structure (family, managerial, and foreign) and ARL in Malaysia?

5. What is the relationship between audit partner tenure and ARL in Malaysia?
6. What is the relationship between financial restatements and ARL?
7. Does the ACC's accounting expertise moderate the relationship between financial restatements and ARL?

1.4 Research Objectives

The current study aims to achieve the following objectives:

1. To examine the relationship between the BOD's characteristics (size, independence, meetings, financial expertise, and effectiveness) and ARL in Malaysia.
2. To examine the relationship between the AC's characteristics (size, independence, meetings, financial expertise, effectiveness, chairman's accounting expertise, chairman's tenure, and chairman's multiple directorships) and ARL in Malaysia.
3. To examine the relationship between the RMC and ARL in Malaysia.
4. To examine the relationship between ownership structure (family, managerial, and foreign) and ARL in Malaysia.
5. To examine the relationship between audit partner tenure and ARL in Malaysia.
6. To examine the relationship between financial restatements and ARL.
7. To examine the moderating effect of ACC's accounting expertise on the relationship between financial restatements and ARL.

1.5 Significance of the Study

The current study was motivated by Bursa Malaysia's emphasis on reducing the timeframe for annual reports that could improve FRQ among Malaysian companies. It provides a comprehensive insight into ARL as an important and crucial aspect that determines the timeliness of financial statements (Chan *et al.*, 2016; Abernathy *et al.*, 2017). It also aims to highlight whether the implementation of the MCCG 2012 has an impact on FRQ. The significance of the current study is discussed from both the theoretical and practical perspectives.

1.5.1 Theoretical Significance

Most existing research has been conducted in developed countries where there is a real separation between ownership and management which, in turn, created a traditional agency problem between them. However, this current study is conducted in an emerging market with high ownership concentration in which the agency conflict is between majority shareholders and minority shareholders. From the lenses of agency theory resource dependency theory and learning curve theory, this study extends previous studies by using mechanisms of corporate governance such as the BOD, AC, RMC, family ownership, managerial ownership, foreign ownership and audit partner tenure to examine their association with ARL.

Due to the separation and divergence of interest between the firm's management and shareholders, the BOD helps to protect the shareholder's interests (DeZoort, Hermanson, Archambeault, & Reed, 2002) through its oversight responsibility in the financial reporting process. Thus, if the BOD and its AC effectively perform their responsibility in the financial reporting process, this will lead to a timely report of the firm's financial information (Ika & Ghazali, 2012). However, previous studies have focused on a single individual characteristic of the BOD or AC and their relationship to ARL. The current study contributes to the agency theory by developing an effectiveness index based on several factors of the characteristics of the BOD and the AC. This is because a single, individual characteristic or factor may be inadequate to assess the effectiveness of the board or AC in determining FRQ, such as the timeliness of the audit report (Ika & Ghazali, 2012).

Despite the increasing attention on the BOD and its committees' role, only a few studies have examined the role of the ACC with regard to the timeliness of the audit report (Baatwah *et al.*, 2019; Abernathy *et al.*, 2014; Ghafran & Yasmin, 2018). Thus, this study contributes to the body of knowledge on the role of ACC's accounting expertise and how it moderates the relationship between financial restatements and ARL. It also provides empirical evidence on the impact of the multiple directorates of ACC and tenure (service on the board) on the timeliness of audit reports in the Malaysian context following the implementation of the MCCG 2012.

Furthermore, Carcello *et al.* (2011) and Habib *et al.* (2019) noted that only a few studies had separately examined the role of ACC in effectively facilitating the AC. The chairman is the individual mainly responsible for the timeliness of a company's financial reports (Abernathy *et al.*, 2015) and the link between the company's management and the internal and external auditors. The control function of the AC is more likely to be affected by how busy its chairman is as compared to the other committee members (Tanyi & Smith, 2015). Thus, the findings from this study expands the literature by utilising the resource dependence theory and agency theory to explain the role of the ACC in promoting the capacity of the AC to effectively fulfil its monitoring role.

A heavier workload on the AC may increase the potential for inefficiencies (Subramaniam *et al.*, 2009), which may affect the committee's ability to effectively monitor the financial reporting process (Bilal, Chen, & Komal, 2018). The absence of a RMC could increase the workload of the AC (Mohamad-Nor & Ishak, 2017), which could lead to an increase in ARL. However, the existence of a separate RMC is linked to the presence of higher risk financial reporting (Subramaniam *et al.*, 2009). Thus, auditors spend more time trying to reduce the risk of audit (Durand, 2019) with a likelihood of an increase in the audit delay. To the researcher's best knowledge, only a few studies have investigated the association between a separate RMC and ARL. Empirical findings from this study will fill the gap on the relationship between a separate or stand-alone RMC and ARL among Malaysian listed companies. The MCCG 2017 recommends for the BOD to establish effective risk management and internal control framework.

The present study also adds to the viewpoint of the agency theory in an emerging market, where the firms are controlled by major shareholders such as family groups, in which the agency problem is different from those of the developed countries where ownerships are widely dispersed. The ownership environment in Malaysia is unique, where most of the firms have concentrated state, family, or individual ownership (Amran & Che-Ahmad, 2013). Thus, users of financial statements pay close attention to the auditors' work to ensure that financial statements are maintained in terms of credibility and reliability (Healy & Palepu, 2001; Nelson & Mohamed-Rusdi, 2015).

Although previous studies have examined the impact of ownership structure on ARL, a gap remains as previous studies measured ownership structure by the percentage of firm shares held by the largest owner (Afify, 2009; MohammadRezaei & Mohd-Saleh,

2018) or studies were conducted in developed countries (Bamber, Bamber, & Schoderbek, 1993; Carslaw & Kaplan, 1991; Habib & Bhuiyan, 2011). Moreover, the findings of prior studies from developing countries, such as Malaysia have shown inconsistent results (Ishak *et al.*, 2010; Puasa *et al.*, 2014; Tazik & Mohamed, 2014). Thus, the current study is expected to provide further insights into the relationship between family ownership, managerial ownership, as well as foreign ownership and ARL in the Malaysian setting.

Previous studies in Malaysia have also neglected the effect of financial restatements on ARL. Thus, the current study makes a significant contribution and adds to the body of knowledge by explaining the impact of financial restatements on ARL. In addition, Bursa Malaysia's new rule for audit partner rotation from five to seven years beginning on or after 15th December 2018 further motivated this study to look at the role of audit partner tenure in reducing ARL. Therefore, this study extends the literature by using the learning curve theory to explain this role in improving the timeliness of audit reports in Malaysian setting. In sum, this study provides a comprehensive analysis concerning ARL determinants using a unique setting such as Malaysia.

1.5.2 Practical Significance

The current study provides a clearer understanding of the variables that affect the ARL for regulatory and legislative agencies in a different setting compared to studies in developed countries as found in previous literature. This study also examined the impact of CGM on ARL by Malaysian firms that contribute to aid regulators and policymakers, such as the Bursa Malaysia, Securities Commission, the Audit Oversight Board, the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accounting (MIA), to offer additional understanding into audit efficiency. Timely audit reports enhance decision-making by reducing market information asymmetry. Thus, determinants of the timing of audit reports would be critical for capital regulators of emerging markets to develop new policies to improve market audit effectiveness. Furthermore, the results of this study could benefit the firm's management to improve the timeliness of financial reports and their corporate governance practices.

Previous research showed that the presence of an ACC with the relevant and requisite accounting expertise facilitates financial reporting efficiency and timely audit reports (Al-Ebel *et al.*, 2020; Abernathy *et al.*, 2014; Baatwah *et al.*, 2019). Nevertheless, the recommendation of the proposed draft of MCCG (2016) did not concur with the MCCG 2017, which stated that the ACC is required to have accounting or relevant experiences. In this aspect, this study is one of a few studies which attempts to investigate the role and effect of the characteristics of the ACC on the timeliness of the audit reports. Hence, the current study extends the previous study conducted by Baatwah *et al.* (2019) by demonstrating the moderate effect of the ACC's accounting expertise on the relationship between financial restatements and ARL.

Furthermore, results from the study have political implications for the Securities Commission by providing supporting evidence as to whether the separate RMC can enhance CGM, particularly about the timeliness of audit reports. This study also provides a better perception of the effect of the audit partner's tenure on audit quality. Overall, the results of this study should alert regulators to future policy changes to speed up the audit report period as Malaysian companies are currently lagging behind the United States companies (Wan-Hussin & Bamahros, 2013).

1.6 Research Motivation and Scope of the Study

The current study was motivated by the following factors. First, Bursa Malaysia has new listing requirements[4] which are related to the issuance of annual reports. Under this new requirement, firms should release their annual reports (which should include the audit report) within four months from the end of the fiscal year. Second, to the best of the researcher's knowledge, only a few published studies have been carried out in Malaysia to examine the relationship between the ACC's characteristics and ARL. Third, Malaysia's unique ownership structure provided the impetus to examine the relationship between ownership structures and ARL following Durand's (2019) and Habib *et al.'s* (2019) suggestion for future studies to identify the relationship between CGM and ARL. Finally, the study is motivated by the absence of empirical studies on the relationship between financial restatements and ARL in the Malaysian setting. The current study is also the first to examine the ACC's accounting expertises moderating effect on the relationship between financial restatements and ARL. The findings may help regulators to further develop or enhance corporate governance rules in Malaysia, especially to improve the ARL, which will increase the FRQ.

The sample for the study was selected from non-financial firms listed on the main market of Bursa Malaysia from 2013-2016. Financial firms were excluded as they have different compliance and regulatory criteria and unique characteristics (Yasin & Nelson, 2012), which may influence the reporting behaviour of these companies (Kaaroud *et al.*, 2020). Moreover, financial institutions were found to have a shorter ARL than other sectors (Kaaroud *et al.*, 2020). The period of study was chosen being the most recent annual reports available from the Bursa Malaysia website after the

[4] Bursa Malaysia listing requirements as of 27th December 2013.

introduction of several regulations, such as the revised MCCG of 2012, full adoption of International Financial Reporting Standards (IFRS) in 2012 as well as the establishment of the Audit Oversight Board in 2010. Furthermore, the MCCG of 2012 contained the requirements to establish a sound framework to manage risks and the roles and responsibilities of the BOD, which are related to risk management issues (MCCG, 2012).

1.7 Organisation of the Study

The study is organised as follows. Chapter One offers a discussion on the background of the study and the problem statement. It outlines the research questions, research objectives, and significance of the study as well as the motivation and the scope of the study. Chapter Two provides a brief discussion on the development and history of corporate governance in Malaysia. It also includes the importance of ARL along with the definitions, measurements, and determinants of ARL. The Chapter presents the moderating effect of the ACC's accounting expertise on the relationship between financial restatements and ARL. This is followed by Chapter Three, which includes discussing the underlying theories applied in the study, namely agency theory, resource dependence theory and the learning curve theory. The Chapter also shows the research methods utilised in this study, followed by discussions of the research framework, hypotheses development, research models, variables measurement, and data collection. Chapter Four provides the results of the descriptive statistics of all variables, diagnostic tests and regression results and additional empirical analyses. The study ends with Chapter Five with a summary and conclusions while highlighting the implications, limitations, and suggestions for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter Two includes a review of prior studies concerning ARL. It is organised in the following order. Section 2.2 provides a discussion of corporate governance in Malaysia. Section 2.3 highlights the definitions and measurements of ARL, while Section 2.4 explains and discusses the importance of ARL. Section 2.5 provides a review of the relevant literature on ARL in developed and developing nations, while Section 2.6 presents studies on ARL in Malaysia. Section 2.7 includes the literature review about the determinants of ARL. Section 2.8 shows the relevant literature on the chairman of ACs with accounting expertise as a moderating variable. The Chapter summary is presented in Section 2.9 which concludes Chapter Two.

2.2 Corporate Governance in Malaysia

A series of financial crises in the Asian countries showed a lack of transparency and a weakened financial system. Thus, the governments of these Asian countries embarked on improving their financial systems to restore confidence among investors (Vichitsarawong, Eng, & Meek, 2010). The Malaysian financial crisis in 1997 revealed the weaknesses in its corporate governance that lead to the overhauling of the entire corporate sector (Singam, 2003). The cornerstone of corporate governance reforms in Malaysia is the MCCG (Ponnu, 2008). In 1998, the Malaysian government started the process, establishing an important financial committee to develop a standard framework for corporate governance and to establish best practices for Malaysian firms.

When the first MCCG was issued in March 2000, significant corporate governance reforms were recorded in the country. The Malaysian Securities Commission (2000) noted that the code has three sections. These were corporate governance principles, best practices in corporate governance, and principles and best practices for other corporate participants (see Appendix D). The critical elements in corporate governance were comprehensively highlighted which addressed issues related to shareholders, the BOD, accountability, and audit. The code also stated that the management of risks was one of the board's principal responsibilities (Ghazali & Manab, 2013). In 2001, in the aftermath of the revamping of the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia) listing requirements, the code became effective for all publicly listed firms. As a result, public firms are required to adhere to Chapter 15 of the code related to directors, ACs, auditors and corporate governance disclosures (Kamardin & Haron, 2011).

The code was revised in 2007 due to the complexity of the capital market and the need to further enhance corporate governance practices (Mohamad-Nor & Ishak, 2017). The significant amendments made to the code were explicitly aimed at strengthening the BOD and the AC, and to ensure that the BOD and the AC effectively discharged their responsibilities and roles (MCCG 2007). The revised code also provided criteria for candidates for directorships which include skills, experience, knowledge, integrity, professionalism, and the directors' inherent ability to effectively discharge their expected responsibilities (Kamardin & Haron, 2011).

The MCCG 2007 stated that a minimum of three members should be drawn from the BOD to form part of the AC. The AC members should be non-executive directors, and a majority of the members should be independent. The code further recommended that the members of the AC should have financial expertise and that at least one member should be a member of the accounting body or association. Another key amendment of the MCCG 2007 code was the need for listed firms to set up an internal audit function (IAF) and the appointed head of the internal audit should report directly to the AC to maintain the independence of the IAF (see Appendix E).

Further revisions to the code were introduced in 2012 and the main objective of the MCCG 2012 was to enhance the effectiveness of the internal CGM of Malaysia. The new code concentrates on explaining the critical role of the BOD in providing meaningful leadership and improving the board's overall effectiveness. The code was also aimed at reinforcing the independence of directors by limiting the period of service of every independent director to a maximum of nine years, as well as stating that most of the directors on the board have to be independent in the case where the chairman of the board was not independent.

The MCCG 2012 contained eight distinct principles, the main focus of which was to lay a strong foundation for the entire board and its appointed committees to enhance their roles effectively (see Appendix F). Simultaneously, the code safeguarded the overall integrity of financial reporting and ensured timely and high quality disclosure and emphasised the importance of risk management and internal controls by establishing a sound risk management framework (MCCG 2012).

In April 2016, the Securities Commission introduced a proposed draft MCCG 2016. The main change of the draft was to enhance the role of the ACC. Principle B, Practice

7.2 states that the chair of the AC is a person with accounting expertise[5] or relevant work experience (proposed draft MCCG 2016, p18). Furthermore, Practice 7.3 states that the AC is chaired by an independent director, who is not the chair of the board (proposed draft MCCG 2016, p18). Another revision of the proposed draft, Principle C Practice 11.1 requires that the board establishes a board level committee responsible for overseeing the firm's risk management framework and policies (proposed draft MCCG 2016, p23) (see Appendix G).

In 2017 the Securities Commission released a projected draft of a new code to guide corporate governance. The principal aim of MCCG 2017 was to strengthen the internalisation of a culture of good corporate governance that places much importance on accountability and transparency. The MCCG 2017 comprised of three principles related to audit and risk management, BOD, and integrity in corporate reporting The new code also states that half of the BOD must be made up of independent directors and for large firms, the board must comprise a majority of independent directors. The code requires the firm to appoint all independent directors on the AC where the chairman should not be the chairman of the BOD. The code also emphasised the need for strong internal control and risk management functions (see Appendix H).

According to Chapter 9, Section 23 of the Bursa Malaysia listing requirements[6], all firms must prepare their financial reports in a timely manner and in compliance with the stated provisions. It also clearly states that with the period of four months from the end of the firm's financial year, the firm must issue its annual report to the firm's shareholders and Bursa Malaysia.

[5] A degree or professional qualification in accounting.
[6] Bursa Malaysia listing requirements as of 2nd January 2018.

2.3 Definition and Measurement of Audit Report Lag

ARL is defined as the period from the end of the financial year to the audit report date (Habib *et al.*, 2019; Kaaroud *et al.*, 2020; Wan-Hussin *et al.*, 2018). It is considered one of the important aspects that considerably affect the timeliness of audit and earnings information (Bamber *et al.*, 1993). Many of the earlier studies measured ARL as the total number of days from the fiscal year-end to the actual date of the audit report (Al-Ebel *et al.*, 2020; Bryan & Mason, 2020; Durand, 2019; Ghafran & Yasmin, 2018; Habib, 2015; Kaaroud *et al.*, 2020; Khoo, Lim, & Monroe, 2020; Lamptey, Tang, & Bonaparte, 2021; Leventis *et al.*, 2005; Wan-Hussin *et al.*, 2018).

2.4 Importance of Audit Report Lag

Professional agencies and researchers consider financial reporting timeliness as a fundamental characteristic that reflects the relevance and the reliability of all financial information (Bakare, Taofiq, & Jimoh, 2018) and is vital to all those who use financial reports (Das, 2015). Therefore, Bursa Malaysia listing requirements[7] (Chapter 2 and Chapter 9) require that listed firms disclose information to the public on time. A critical factor determining financial reporting timeliness is a timely audit report (Abernathy *et al.*, 2017; Al-Ebel *et al.*, 2020; Chan *et al.*, 2016). In major countries, firms are not allowed to issue financial reporting until external auditing has been concluded (Abernathy *et al.*, 2017). As a result, a vast majority of firms (more than 70 per cent) do not make a declaration of their total earnings until an auditor's report is issued (Bamber *et al.*, 1993).

Previous studies have shown that ARL impacts the timeliness of earnings announcement (Givoly & Palmon, 1982), is the cause of auditor switching (Mande &

[7] Bursa Malaysia listing requirements as of 2nd January 2018.

Son, 2011), and results in restatements and non-standard opinions in the following years (Chan *et al.*, 2016). As such, audit delay becomes an essential input for investment decision-making (Habib *et al.*, 2019). Furthermore, a delay in disclosing an auditor's opinion on financial information will send a bad signal of irregularity or fraud among managers and shareholders, thereby making both current and potential investors lose confidence in the financial report (Leventis *et al.*, 2005; Apadore & Mohd-Noor, 2013; Mohamad-Nor et *al.*, 2010). Hence, investors mostly prefer short ARL (Habib *et al.*, 2019).

2.5 Audit Report Lag Studies

Studies on audit lag in developed countries started since 1975, and most of these studies were conducted in the United States. Abernathy *et al.* (2017) discovered that of 97 studies, 58 were conducted in the United States. Examples of the first few studies that examined ARL the developed countries include Dyer and McHugh's (1975) study in the Australian context, in New Zealand (Gilling, 1977), in the United States (Courtis, 1976; Ashton *et al*., 1987), in Greece (Leventis *et al*., 2005), in France (Soltani, 2002), in Canada (Ashton *et al.,* 1989), and in the United Kingdom (Abdelsalam & Street, 2007). Other earlier studies were conducted in developing countries, such as in Zimbabwe (Owusu-Ansah, 2000), in Kores (Lee & Jahng, 2008), and in Bahrain (Al-Ajmi, 2008).

Given the possible effect of ARL in issuing audit reports (Wan-Hussin & Bamahros, 2013), studies have examined factors that contributed to the delay (Abernathy, Kubick, & Masli, 2018; Bhuiyan & D'Costa, 2020; Chan *et al.*, 2016; Chiudini & Marques, 2018; Durand, 2019; Ghafran & Yasmin, 2018; Habib & Bhuiyan, 2011; Habib & Muhammadi, 2018; Kaaroud *et al.*, 2020; Khoo *et al.*, 2020; Meckfessel & Sellers, 2017; Raweh, Kamardin, & Malik, 2019; Sultana *et al.*, 2015; Tanyi, Raghunandan, & Barua, 2010).

Since ARL has become a global issue due to its economic significance (Rusmin & Evans, 2017), researchers have started to study the determinants of ARL. Durand (2019) noted that in previous research, 126 independent variables were used as ARL determinants which can be grouped into three categories: firm characteristics, audit characteristics, and corporate governance characteristics (Habib *et al.*, 2019).

Empirical studies have examined firm characteristics and complexities in determining the ARL. Al-Ebel *et al.* (2020), Ashton *et al.* (1989), Bhuiyan and D'Costa (2020), Dyer and McHugh (1975), and Givoly and Palmon (1982) showed that larger firms have a shorter ARL. They suggested that large firms have stronger internal control systems. A firm’s financial year also influences the audit delay (Ashton *et al.*, 1989; Knechel & Payne, 2001; Ashton *et al.*, 1987). These studies reported that firms whose year-end fall within the peak season would have a longer ARL.

Researchers have examined the performance and financial condition of issuers (firms) as determinants of ARL. Givoly and Palmon (1982) and Courtis (1976) provided empirical evidence on the length of time it takes for good news versus bad news to reach the public. Similarly, Bryan and Mason (2020), Carslaw and Kaplan (1991), Habib and Muhammadi (2018), and Wan-Hussin *et al.* (2018) showed that an audit report is delayed when a loss is reported. However, Dyer and McHugh (1975) did not find any relationship between total reporting lag and profitability in Australia. Leverage is also a measure of organisational risk used in several studies (Habib *et al.*, 2019). Highly leveraged firms have been found to possess a more extended ARL than less leveraged firms (Carslaw & Kaplan, 1991; Al-Ajmi, 2008; Bamber *et al.*, 1993; Habib *et al.*, 2019).

Another determinant of ARL that researchers have examined is the complexity of client operations. Firms reporting extraordinary items in their report usually have a longer ARL (Durand, 2019; Leventis *et al.*, 2005). The number of subsidiaries is another proxy for complexity, where, as the number of subsidiaries increases, the ARL will also increase (Durand, 2019; Lee & Jahng, 2011; Mohammad Rezaei & Mohd-Saleh, 2018; Rusmin & Evans, 2017; Xu, Carson, Fargher, & Jiang, 2013). A company's industry classification also plays an essential role in determining ARL. A lower ARL is common among firms in the financial industry (Ashton *et al.*, 1987; Courtis, 1976) and banks have a shorter ARL (Al-Ajmi, 2008).

Aside from firm characteristics, auditor attributes are another important determinant of ARL. Several studies have shown that audit fees (Swanson & Zhang, 2018), auditor opinion (Chan *et al.*, 2016; Durand, 2019; Soltani, 2002), auditor change (Swanson & Zhang, 2018; Xu *et al.*, 2013), audit partner rotation (Sharma, Tanyi, & Litt, 2017), Big 4 consulting firms (Meckfessel & Sellers, 2017), audit risks (Chan *et al.*, 2016), type of audit firms (Gilling, 1977; Lee & Jahng, 2011; Rusmin & Evans, 2017; Xu *et al.*, 2013), audit firm industry specialisation (Habib & Bhuiyan, 2011; Rusmin & Evans, 2017), high non-audit fees (Knechel, Sharma, & Sharma, 2012) and auditor-client geographic proximity (Dong *et al.*, 2018) are associated with ARL.

Recent studies have begun to examine mechanisms of corporate governance as determinants of ARL. The level of corporate governance of an organisation would impact audit risk evaluation and expected audit procedures which will impact ARL

(Cohen & Hanno, 2000; Durand, 2019). One of the significant aspects of CGM is the ownership structure. Empirical studies suggest that firm ownership may affect ARL (Bamber *et al.*, 1993; Carslaw & Kaplan, 1991; Habib & Bhuiyan, 2011; Mohammad Rezaei & Mohd-Saleh, 2018; Rusmin & Evans, 2017; Shiri *et al.*, 2018; Soltani, 2002).

Previous studies also viewed ARL as a reflection of the internal and external efforts of auditors where internal audit is negatively associated with ARL (Abbott, Parker, & Peters, 2012). Moreover, board characteristics have also been widely discussed in its relationship to ARL. For example, previous studies showed that board independence (Afify, 2009; Alfraih, 2016; Daoud *et al.*, 2015), board meetings, board size (Ahmed & Che-Ahmad, 2016; Daoud *et al.*, 2015), board gender (Ahmed & Che-Ahmad, 2016) and separating the roles of the chief executive officer as well as board chairman (Afify, 2009; Alfraih, 2016) had a significant effect on ARL.

Interest in ACs as part of overall CGM has dramatically increased over the years (DeZoort & Salterio, 2001). Evidence from relevant literature showed that AC independence (Sultana *et al.*, 2015), AC ownership (Bhuiyan & D'Costa, 2020), and AC financial expertise (Oussii & Taktak, 2018; Sultana *et al.*, 2015; Raweh *et al.*, 2019) influence ARL. While AC size (Sultana *et al.*, 2015), gender (Sultana *et al.*, 2015), AC authority (Oussii & Taktak, 2018), and meetings (Oussii & Taktak, 2018; Raweh *et al.*, 2019; Sultana *et al.*, 2015) did not appear as significant determinants of ARL. Ghafran and Yasmin (2018) showed evidence of the role of the ACC on the lag of audit reports. They found that the monitoring expertise and experiential of the ACC have a negative relationship with ARL.

A few studies have assessed the effect of legislation. Mitra *et al.* (2015) examined the effect of a change from Auditing Standard (AS) No. 2 to AS No. 5[8] on ARL in the United States and showed that ARL in the AS No. 5 was significantly lower than those in the AS No. 2. Nonetheless, Habib (2015) found that ARL increased after the newly established accounting standards were adopted in China. However, this increase was more pronounced for firms that were audited by small auditors. Habib and Bhuiyan (2011) reported that the firms with the adoption of IFRS, the ARL increased except for industry specialist auditors.

Khoo *et al.* (2020) showed that corporate reputation was negatively correlated to ARL. Xu, Dao, and Petkevich (2019) examined political corruption and its effect on auditor behaviour. They found that firms in the United States with their headquarters located in highly corrupt areas have a longer ARL. This implied that trustworthiness and client risks are assessed by auditors based on where the headquarters of the firms were located. In Indonesia, Habib and Muhammadi (2018) show that the ARL is relatively short for politically-connected firms, but increases when they conduct both an operating and a loan-type related party transaction. This implies that audit risks will increase for firms with related party transactions due to their opportunistic nature. Abernathy *et al.* (2018) pointed out that a human capital attribute, as measured by managerial ability, is related to shorter ARLs.

[8] AS2 = "An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements (AS2, PCAOB 2004), effective from November 2004, to provide guidance to auditors of accelerated filers on performing internal control audits. AS5 = An Audit of Internal Control over Financial Reporting That Is Integrated with an Audit of Financial Statements, effective from the fiscal year ending on or after November 15, 2007, which addresses some specific problems of implementation associated with AS2" (Mitra *et al.*, 2015.p.508). Both standards have been introduced by the Public Company Accounting Oversight Board, which is a non-profit corporation created by the Sarbanes-Oxley Act 2002.

Furthermore, Abernathy *et al*. (2017) conducted the first comprehensive review of ARL around the world, and Durand (2019) and Habib *et al*. (2019) presented a meta-analysis of ARL determinants. They reported that there were opportunities for future research, such as the role of the ACC in ARL, as well as understanding the ARL in family-controlled firms.

More recently, Gontara and Khlif (2021) show that ARL is positively associated with tax avoidance, and that this relationship remains positive when the firm is audited by a Big-4 audit firm but is not significant when the firm is audited by a non-Big-4 audit firm. Lamptey *et al.* (2021) found a negative relation between ARL and managerial entrenchment proxy by the entrenchment index. They contended that management entrenchment limits managerial opportunism and reduces auditor efforts and time spent on audit completion.

2.6 Audit Report Lag Studies in Malaysia

The timeliness of financial reports is important to investors. As such, Bursa Malaysia reduced the annual reporting period six to four months. Under this new requirement, for a fiscal year-end on or after 31st December 2014, firms are required to issue their annual reports within five months from a firm's fiscal year-end. Following that, annual reports for the fiscal year-end on or after 31st December 2015, firms must publish their annual reports (which must also include the audit report) within four months of the fiscal year-end. Since the financial report contains the audit report, an in-depth understanding of all the possible determinants of the delay of the audited report will increase the timeliness of the release of the firm's financial reports.

Given its importance, Raja-Ahmad and Kamarudin's (2003) study examined the determinants of the delay in the audit report. They found that audit opinion, financial losses, the proportion of debt, financial industry, audit size, and the firm's year-end influenced audit delay. Abdullah (2006) added that the separation of the functions of the chief executive officer and board chairman as well as board independence affected audit delay. Che-Ahmad and Abidin (2008) showed that a director's interest in his/her firm is positively associated with the length of time to conduct an audit which implied that the structure of ownership is associated with ARL.

After the introduction of the MCCG 2000, Mohamad-Nor *et al*. (2010) examined the relationship between CGM and ARL. Their results showed that firms with large AC members and more frequent AC meetings are more likely to produce their audit reports on time. However, their study did not show a strong relationship between the independence of the board and ARL, which is inconsistent with the study by Abdullah (2006). Ownership structure is also considered as a CGM (Al-Qadasi & Abidin, 2018). Nonetheless, Ishak *et al*. (2010) showed that shareholding concentration and institutional ownership affected the timeliness of audit reports.

Hashim and Rahman (2011), Nelson and Shukeri (2011), and Hashim and Rahman (2012) examined the relationship between AC characteristics and ARL among non-financial firms. They found that AC's frequent meetings did not contribute to the reduction of the ARL. They argued that the AC, which holds more frequent meetings, did not produce better results which were inconsistent with Kaaroud *et al.* (2020) and Mohamad-Nor *et al.* (2010). The researchers ignored some significant control variables, such as firm financial distress indicators (leverage) and complexity. Yaacob and Che-Ahmad (2012) showed a clear positive relationship between the adoption of Financial Reporting Standards 138 and ARL.

In corporate governance, internal audits perform a crucial task in the financial reporting process. Wan-Hussin and Bamahros (2013) showed a negative correlation between audit delay and IAF costs. However, Apadore and Mohd-Noor (2013) showed that an investment in the IAFs did not improve the timeliness of audit reports. Wan-Hussin and Bamahros (2013) showed a positive but insignificant relationship between firms audited by the Big 4 audit firms and audit delays which is inconsistent with the findings of Mohamad-Nor *et al*. (2010) and Che-Ahmad and Abidin (2008).

Tazik and Mohamed (2014) examined accounting information system effectiveness and foreign ownership on ARL. Their findings showed that a high level of accounting information system effectiveness and a high proportion of foreign ownership would reduce ARL. Puasa *et al*. (2014) examined whether there is an association between the AC characteristics and financial reporting timeliness and specifically they determined the change in the timeliness of audit reports for the pre-and post-MCCG 2007. Their findings showed that the timeliness of financial reports significantly increased during the post-MCCG 2007.

Salleh *et al*.'s (2017) study did not provide any evidence that firms with more experienced members released audit reports on a schedule. They also reported that the interaction involving AC independence and AC financial expertise had an insignificant relationship with ARL. Baatwah *et al*. (2019) showed that ACC's accounting expertise had reduced the ARL. Both studies suffered from bias due to limited sample size and large firms (Top 100). Wan-Hussin *et al*. (2018) found that busy auditors increased the

ARL. However, they were unable to establish any evidence that audit partner tenure has a direct relationship with ARL. Kamarudin *et al*. (2018) showed that firms audited by a specialist industry firm have timely financial reporting. Kaaroud *et al.* (2020) studied the impact of the Sharia board expertise on ARL in the Islamic banking institutions and showed an insignificant association between Sharia board expertise and ARL.

In the Malaysian context, quite a number of earlier empirical studies were conducted on ARL since 2003. However, very few of these studies have investigated the role of the ACC as an ARL determinant, as well as the effect of financial restatements on ARL. Furthermore, a critical review of earlier studies related to ARL also found inconsistent evidence regarding board and AC characteristics. Based on these critiques, this current study filled the research gaps by providing a more comprehensive model of ARL determinants by adding new variables such as the RMC, which have not been considered in prior research in the Malaysian environment.

2.7 Determinants of Audit Report Lag

This section presents and analyses a comprehensive literature review of determinants of ARL, which are significant for increasing audit efficiencies in all market economies (Abernathy *et al.*, 2017), especially in emerging markets. Audited financial statements are credible and accurate basis for market financial information (Leventis *et al.*, 2005).

2.7.1 Board Size

The BOD size is a characteristic used as a metric to measure board effectiveness (Omer & Al-Qadasi, 2019). The MCCG (2000) notes that the board size and its effectiveness need to be considered, but the code does not recommend the size (Hashim & Devi, 2008). Therefore, an adequate board would create room for the distribution of workload and committee assignments which will lead to strong and effective board decisions (Laksmana, 2008). Abdul Latif, Taufil Mohd, and Kamardin (2016) reported that a large board size reduces the opportunistic behaviour of managers.

Resource dependence theory implies that a company with a larger BOD has better business outcomes, as experience, knowledge, and skills are incorporated into boardroom discussions (Zahra & Pearce, 1989). A firm with a large board size reduces the domination of the chief executive officer and assists the directors exercise their powers regarding corporate governance (Kamardin, 2014). Alfraih (2016) and Basuony *et al*. (2016) found that a decrease in board would contribute to an increase in ARL. This result indicates that a board with more members may devote more of their time and effort to manage and ensure high quality corporate monitoring, which may promote timeliness of reporting (Alfraih, 2016).

On the other hand, a firm with a small board size may reduce the board monitoring role (Dalton, Daily, Johnson, & Ellstrand, 1999). Hassan (2016) and Al Daoud *et al*. (2015) reported that a higher number of directors leads to a longer ARL. They noted that the large board size contributes to less involvement, reduces the chances of direct and successful contact, reduces the possibility of constructive consensus, and slows the adoption of the right decisions. Chalu (2021) showed an insignificant relationship between board size and ARL. In Malaysia, Salleh *et al*. (2017) and Mohamad-Nor *et al*. (2010) failed to find evidence for any association between board size and ARL.

2.7.2 Board Independence

Among the various characteristics of the BOD, independence is considered to be one of the elements that represent board efficiency (Palaniappan, 2017; Wang, Xie, & Zhu, 2015). This is because independent directors perform the role of arbitrators in cases of disagreements that may arise between internal managers (Alfraih, 2016). They also do a better job of monitoring the management and safeguard the interests of investors who are usually in need of accurate and timely information (Ezat & El-Masry, 2008) to reduce information asymmetry. In support of this view, Du *et al*. (2018), Salehi *et al*. (2017), Goh *et al*. (2014), and Wang *et al*. (2015) argued that the stakeholders could rely on an independent board to monitor the management. In academic circles and practice, it is agreed that independent directors (outside board or non-executive directors) increase board monitoring and board transparency (Terjesen, Couto, & Francisco, 2016).

Previous studies have examined independent directors and ARL, for example, in Australia (Singh & Sultana, 2011), in the Middle East (Basuony *et al.*, 2016), and Kuwait (Alfraih, 2016). Evidence shows that board independence is associated with shorter lags in audit reports. In Egypt, Afify (2009) showed that with more independent directors, the board performs better at their monitoring function which can boost financial disclosure quality, timeliness of major financial reports and make audits more efficient and effective, thus reducing ARL. This is similar to Habib *et al*.'s (2019) study that showed firms with a large number of independent board members had a shorter ARL. However, Wu, Wu, and Liu (2008) argued that independent directors increase the reporting lag due to the monitoring role of the board as they must spend more time to verify a firm's material accounting events.

Bursa Malaysia's listing requirements[9] stated that the BOD must maintain a minimum of two independent directors or one-third of the directors must be independent, it depends on whichever is the higher. Also, the MCCG 2012 recommends that the board undertakes an annual evaluation of its independent directors "The board should undertake an assessment of its independent directors annually" (Principle 3, Recommendation 3.1). Abdullah (2006) and Mohamad-Nor *et al*. (2010) reported a relationship between board independence and ARL. Nonetheless, Kaaroud *et al.* (2020), Shukeri and Islam (2012), Nelson and Shukeri (2011), and Apadore and Mohd-Noor (2013) showed that the role of board independence in the timeliness of audit reports is not crucial.

2.7.3 Board Meetings

Another important aspect of board functioning is board diligence (Ghosh, 2007). The MCCG (2000) recommends that BOD should meet regularly and disclose the number of meetings throughout a financial year with details of attendance for each director (Hashim & Devi, 2008). Carcello *et al*. (2002) showed that board diligence comprises of elements involving the number of board meetings. Board meetings are deemed to be an important source of achieving board diligence, which invariably improves board effectiveness in its monitoring role (Foo & Zain, 2010; Vafeas, 1999). Members of the board who attend more meetings are more likely to monitor managers (agents) effectively and thus minimise the problems of the agency resulting in less information asymmetry (Foo & Zain, 2010) through the disclosure of timely information (Daoud *et al.*, 2015).

[9] Bursa Malaysia listing requirements as of 2nd January 2018.

Previous studies which related board meetings to ARL show mixed results. For example, Ahmed and Che-Ahmad (2016) and Al Daoud *et al*. (2015) showed a negative relationship between board meetings and ARL. Similarly, Tauringana *et al*. (2008) found that board meetings increased the timeliness of annual reports. This shows that boards with more regular meetings allow sharing of information among the directors, which leads to sound and effective board decisions.

However, Bakare *et al*. (2018) found that board meetings have a negative impact on the timeliness of financial reporting. They argued that management members would be away from their managerial responsibilities during these meetings causing delays in financial reporting. Conversely, Singh and Sultana (2011) showed that board diligence was insignificantly related to ARL for Australian listed firms. However, this study suffered from bias due to omitted variables, such as audit opinion and profitability. In Malaysia, Salleh *et al*. (2017) reported that the frequency of meetings increased ARL. This finding is different from Hashim and Abdul Rahman (2012), who showed that frequent board meetings reduced ARL. They argued that the frequency of board meetings improves the board's ability to fulfil its monitoring role properly and, as a result, increases the timeliness of the audit report.

2.7.4 Board Financial Expertise

Board members with expertise were significant in explaining the board's effectiveness (Daoud *et al.*, 2015). Financial expertise contributes to improving a firm's corporate governance, satisfying a firm's investors and reducing agency costs (Sarwar, Xiao, Husnain, & Naheed, 2018). Previous studies show that financial expertise is effective as a monitoring mechanism (Abdelsalam & Street, 2007; Yunos, Smith, & Ismail, 2012). This is because the financial experts serving on boards have the professional ability to manage accounting controls and financial reporting; thus, preventing possible reporting failures (García-Sánchez, Martínez-Ferrero, & García-Meca, 2017).

However, only a few studies examined the relationship between board member's financial expertise and ARL as the focus was more on AC's financial expertise. The findings on the financial expertise-ARL relationship were also inconclusive. Singh and Sultana (2011) showed that board members with financial expertise were significantly and negatively related to ARL. An insignificant finding was also reported by Al Daoud *et al*. (2015) and Ahmed and Che-Ahmad (2016). However, the sample size for these studies was small causing a bias in the findings.

2.7.5 Board Effectiveness

The BOD is a critical mechanism of corporate governance (Goh *et al.*, 2014; Kamardin, 2014; Wu *et al.*, 2008) which is responsible for monitoring the firm's resources and operations (Ponnu, 2008) on behalf of the shareholders to ensure FRQ (Habib & Jiang, 2015; Mohamad-Nor *et al.*, 2010). In emerging markets with high ownership concentration, BOD is playing an essential role in terms of monitoring and managing the actions of the shareholders who are controlling in order to safeguard the rights of minor shareholders (Fama & Jensen, 1983). The agency theory argues that increasing the effectiveness of the board will reduce agency conflict. For this purpose, a company's BOD has to act effectively to achieve the overall interest of the shareholders by ensuring timeliness in releasing financial reports (Bakare *et al.*, 2018).

Recent developments in corporate governance literature raise concerns about the effectiveness of the boards' roles (Kamardin & Haron, 2011). Laoworapong, Supattarakul, and Swierczek (2015) showed that firms with high board efficiency improved their performance. Moreover, Johl, Johl, Subramaniam, and Cooper (2013) argued that internal audit quality can be substituted for board quality to maintain the quality of financial reporting. This is because the highest internal corporate governance system remains with the BOD and it is generally expected that a board's characteristics and its associated sub-committees are related to the timeliness of reporting (Abdullah, 2006).

Singh and Sultana (2011) noted that a board's characteristics are a major factor that reinforces overall effectiveness; thus, increasing the timeliness of financial reporting. Ben-Amar and McIlkenny (2015) and Al-Qadasi, Abidin, and Al-Jaifi (2018) showed that board attributes, such as board size, board independence, board meeting, and board expertise, helped to explain their level of effectiveness. Abdullah (2006), Afify (2009), Alfraih (2016), Basuony *et al.*(2016), Daoud *et al.*(2015), and Wu *et al.*(2008) are among the researchers who have examined board characteristics as important factors that affect the timeliness of a firm's annual report.

Many of the earlier studies in corporate governance examined the BOD's key characteristics rather than their effectiveness (Bin-Ghanem & Ariff, 2016). However, this study examined a combination of these characteristics rather than a single measure because interactions within these dimensions are most likely to affect audit quality significantly (Zaman, Hudaib, & Haniffa, 2011). The effectiveness of one individual mechanism hinges on the effectiveness of other mechanisms (Aguilera, Filatotchev, Gospel, & Jackson, 2008; Connelly, Limpaphayom, & Nagarajan, 2012; Lara, Manuel, Osma, & Penalva, 2007; O'Sullivan, Percy, & Stewart, 2008; Ward, Brown, & Rodriguez, 2009).

In sum, most previous research on audit quality has examined the BOD's characteristics and ARL separately and found inconsistent results. However, the current study examined the BOD in terms of the following attributes: size, independence, number of meetings, and financial expertise by using a combined measure to capture the full impact of these characteristics on ARL. According to Singh and Sultana (2011), effective CGM within the firms are expected to decrease ARL. Thus, the strength of the BOD (optimal size, more independent members, frequent meetings, and financial expertise) can affect ARL. Therefore, the current study fills this gap identified from the literature.

2.7.6 Audit Committee Size

AC is one of the firm's sub-committees of the BOD, and members of the BOD nominate its members. The AC is a channel of communication between the BOD, the internal auditor, the external auditor, and operating executives (Abdul Rahman & Mohamed Ali, 2006; Qamhan *et al.*, 2018; Song & Windram, 2004). Thus, the AC may be considered as a monitoring instrument that enhances the flow of information (Hassan, 2016; Oussii & Taktak, 2018), as well as reducing agency problems by diminishing the information asymmetry between managers and the outside shareholders (Klein, 2002; Madi, Ishak, & Manaf, 2014), and also among the minority shareholders and the controlling shareholders in some countries with high ownership concentrations (Fama & Jensen, 1983).

In the Malaysian context, the BOD should establish an AC comprising at least three members, a majority of whom are independent. The MCCG 2017 required that all members of the AC should be comprised solely of independent directors. The code also says that all members selected to serve on an AC should be financially literate.

Resource dependency and agency theorists have differed on the effects of the AC size on its effectiveness (Sultana *et al.*, 2015). From the agency theory perspective, Collier and Gregory (1999) argued that when there is an increase in AC size, monitoring and control functions are impaired (Sultana *et al.*, 2015). In contrast, in resource dependence theory, effective monitoring is contingent upon the AC having adequate resources to conduct its functions. An adequate number of committee members is one of these resources needed by an AC to be effective (DeZoort *et al.*, 2002). All potential problems associated with the financial reporting process are most likely to be resolved and uncovered with a larger AC (Mohamad-Nor *et al.*, 2010).

Empirical studies showed mixed results related to the effect of AC size on ARL. Raweh *et al*. (2019) and Chalu (2021) showed a positive relationship between AC size and ARL, but Durand (2019) showed a negative impact of AC size on ARL. Oussii and Taktak (2018), Aldoseri, Hassan, and Melegy (2021) and Sultana *et al*. (2015) observed an insignificant relationship between AC size and ARL. In Malaysia, previous studies have shown that firms with more members in their AC are likely to produce timely audit reports (Mohamad-Nor *et al*., 2010; Apadore & Mohd-Noor, 2013; Shukeri & Islam, 2012; Wan-Hussin *et al*., 2018). They argued that a firm with a larger AC size has strong internal control, thus, improving the timeliness of the audit report. However, Wan-Hussin and Bamahros (2013), Kaaroud *et al.* (2020), and Baatwah *et al*. (2019) did not find any support for the impact of AC size on the ARL.

2.7.7 Audit Committee Independence

An independent director on the AC is important because the ability to effectively monitor management and protect shareholders' interest is viewed as a function of director independence (Hundal, 2013; Bedard *et al*., 2004; Abbott *et al*., 2000). Thus, AC independence is important to firms in balancing the divergent views of external auditors and management to bring about high quality financial reports (Kusnadi, Leong, Suwardy, & Wang, 2016). With more independent directors, the AC could improve their oversight function and FRQ (Hundal, 2013; Agrawal & Chadha, 2005). Furthermore, independent boards promote AC effectiveness in financial reporting (Song & Windram, 2004). This is in line with the agency theory, which posits that the independent board members are free from personal ties or economic interests related to the firm's management and are therefore in a better position to perform their monitoring tasks (Wu, Hsu, & Haslam, 2016).

Previous studies have examined the relationship between AC independence and ARL where the findings of these studies remain inconclusive. A possible reason for the inconclusive outcome may be due to the different regulatory requirements between countries (Durand, 2019). For instance, Sultana *et al*. (2015) showed a negative relationship between AC independence and ARL among Australian firms. However, Oussii and Taktak (2018), Chukwu and Nwabochi (2019), and Raweh *et al*. (2019) found an insignificant relationship between the independence of the AC and ARL in Tunisia, Nigeria, and Oman, respectively. In Malaysia, Baatwah *et al*. (2019) and Wan-Hussin and Bamahros (2013) showed that the independence of the AC has a negative relationship with ARL. Moreover, other empirical studies showed no relationship between AC independence and ARL (Apadore & Mohd-Noor, 2013; Wan-Hussin *et al.*, 2018; Mohamad-Nor *et al.*, 2010).

2.7.8 Audit Committee Meetings

The degree of AC diligence constitutes an additional significant factor influencing its effective functioning (DeZoort *et al.*, 2002; Sharma, Naiker, & Lee, 2009). Prior researches have shown that the frequency of AC meetings is the key predictor of AC diligence (Bedard *et al.*, 2004; Rupley, Almer, & Philbrick, 2011). Zaman *et al*. (2011) noted that the more frequent the ACs hold their meetings, the more effective they become in carrying out their monitoring tasks. Sharma *et al*. (2009) and Setiany *et al*. (2017) suggested that the number of AC meetings could be used as a monitoring mechanism to maintain the integrity of the monitoring function and oversee the firm's financial reporting system. Saleh, Iskandar, and Rahmat (2007) suggested that members who rarely attend committee meetings, although they may have financial expertise, cannot enhance AC effectiveness and effectively oversee the financial reporting process.

Kusumah and Manurung (2017) showed a negative association between the frequency of meetings of the AC and ARL. Other empirical studies showed an insignificant association between the meetings of AC and ARL (Habib *et al.*, 2019; Baatwah *et al.*, 2015; Raweh *et al.*, 2019; Sultana *et al.*, 2015). In Malaysia, Baatwah *et al*. (2019) and Mohamad-Nor *et al*. (2010) showed that the frequency of AC meetings had a negative relationship with ARL. Problems that are encountered during the financial reporting process are usually identified and resolved during the meetings; thus, this is likely to reduce the overall time taken to issue an audit report.

However, Wan-Hussin and Bamahros (2013), Abed, Hamdallah, and Srouji (2021), Kaaroud *et al.* (2020), and Kamarudin *et al*. (2018) showed that firms with more timely reporting are not associated with frequent AC meetings. They argued that more issues are likely to arise when more AC meetings are conducted. Also, the frequency of meetings does not necessarily improve the monitoring function, which leads to an increase in the ARL. Likewise, Apadore and Mohd-Noor (2013), Aldoseri *et al.* (2021)

and Hashim and Abdul Rahman (2012) found an insignificant association between AC meetings and ARL.

2.7.9 Audit Committee Financial Expertise

Agency theory explains the monitoring functions of expert directors in mitigating conflicts between owners and managers of the firm (Nelson & Devi, 2013). Financial expertise is essential to increase monitoring effectiveness (Amin, Lukviarman, Suhardjanto, & Setiany, 2018) and improve the corporate governance process (García-Sánchez *et al.*, 2017). Thus, AC members should possess the required expertise to fulfil their responsibilities in monitoring the firm's financial reporting and internal control (Bedard *et al.*, 2004). Krishnan (2005) found that the financial expertise of the AC had a lower tendency to be associated with the incidence of internal control problems.

AC members with more experience also have a vital role to play in the resolution of conflicts between the management and external auditors (DeZoort & Salterio, 2001) and enhances the ability of the AC in terms of ensuring that the work of the external auditor is carried out competently (Sultana *et al.*, 2015). This would significantly reduce the time spent by auditors conducting their audit, and thus, minimising the delay in audit reporting. Oussii and Taktak (2018), Sultana *et al*. (2015), Aldoseri *et al.* (2021), and Raweh *et al*. (2019) discovered that the percentage of financial experts among the AC members has a negative relationship with the ARL. They argued that financial experts have a better understanding of auditing procedures than other members.

In Malaysia, findings from studies that examined the relationship between AC members with financial expertise and ARL are mixed. Hashim and Abdul Rahman (2012), Kaaroud *et al.* (2020), and Tazik and Mohamed (2014) showed that financial expertise among members is related to shorter ARL. However, Baatwah *et al.* (2019), Salleh *et al.* (2017), and Wan-Hussin and Bamahros (2013) showed an insignificant relationship between members of the AC with expertise and ARL. These studies measured expertise by using the proportion of members who have auditing and accounting experience on the AC. This finding is also similar to Apadore and Mohd-Noor (2013) and Mohamad-Nor *et al*. (2010).

2.7.10 Audit Committee Effectiveness

AC effectiveness, as a subject of interest, has increased over the years due to the increasing concern about the quality and process of corporate financial reporting (which had been the cause behind the accounting scandals) (Soliman & Ragab, 2014). The agency theory argues that AC is considered a monitoring instrument in the financial reporting procedure to minimise conflicts of interest (Oussii & Taktak, 2018). Rupley *et al*. (2011) noted that an effective AC is known for providing many public benefits that included reduced corporate fraud and improved financial reporting. Also, high quality AC members can face less pressure to increase their audit efforts as they could oversee the financial reporting process effectively (Chan, Liu, & Sun, 2012).

Abbott *et al*. (2004) reported that the firm's tendency to restate their annual financial reports would be reduced significantly if an AC holds its meetings a minimum of four times yearly, has a minimum of one financial expert, and all members are independent. DeZoort *et al*. (2002) noted that AC effectiveness is mostly dependent on having qualified members with the relevant authority and resources to protect shareholders' interest by making provisions for reliable internal controls, financial reporting, and risk management. It also includes appointing an independent auditor through the diligent oversight functions of the AC. This definition is consistent with the requirement of the MCCG 2017, which highlighted that an AC should bring high transparency, independent judgement and a focus required for overseeing the financial reporting process.

Ika and Ghazali (2012) found a relationship between AC effectiveness and financial reporting timeliness. In support of this idea, Schneider (2018) argued that the capabilities of the AC affected the quality of financial statements. Afify (2009) showed that the existence of an AC is likely to lessen the amount of time that auditors spend in accomplishing their audit work. Similarly, Zaman *et al*. (2011) reported that AC effectiveness was positively associated with auditor remuneration for larger clients. Ghafran and Yasmin (2018) showed that an AC with only independent directors, three or more members, held three or more meetings yearly, and one financial expert had a significant impact on ARL.

Previous empirical literature noted that AC effectiveness depended on the size, independence, frequency of meetings and financial experience of its members (Agyei-Mensah, 2019; Al-Qadasi *et al.*, 2018; Al-Rassas & Kamardin, 2015b; Ben-Amar & McIlkenny, 2015; Bin-Ghanem & Ariff, 2016; Goh, 2009; Ika & Ghazali, 2012; Zaman *et al.*, 2011). However, previous research in Malaysia examined the characteristics of the AC in relationship to ARL individually and has found inconsistent results. Therefore, the current study uses a composite measure from size, independence, meetings, and expertise as an appropriate measure to test the impact of AC effectiveness on ARL.

2.7.11 Audit Committee Chairman's Accounting Expertise

Given the nature and complexity of financial reporting, regulators worldwide have expressed a great interest in professionally qualified AC members (Ghafran & Yasmin, 2018). The ACC holds the highest responsibility for overseeing financial reporting (Schmidt & Wilkins, 2013) and can influence the timeliness of financial reporting (Abernathy *et al.*, 2015). In line with this rationale, the framers of the Sarbanes-Oxley Act of 2002 reinforced the importance of having a financial expert on the AC (Tanyi & Smith, 2015). Similarly, in Malaysia, MCCG 2017 suggests that every member of the AC should have adequate financial knowledge.

Theoretically, both agency theory and resource dependency theory have addressed this relationship. Agency theory indicates that the participation of financially experienced AC members strengthens the committee's ability to confirm that external audit tasks are performed competently (Sultana *et al.*, 2015). The resource dependence theory also posits that directors holding knowledge and expertise provide vitally relevant resources and advice to improve the monitoring of a firm's financial processes (Hillman & Dalziel, 2003). The expertise of the AC enhances the committee's effectiveness in overseeing the financial reporting process (Krishnan & Visvanathan, 2008; Abbott *et al*., 2004; Abernathy *et al*., 2014; Amin *et al*., 2018; Sultana & Mitchell Van der Zahn, 2015; Sultana *et al*., 2015).

Baatwah, Ahmad, and Salleh (2013) showed that the ACC's expertise could enhance the committee's power and improve its monitoring role. Schmidt and Wilkins (2013) noted that the ACC's expertise provides the timeliest disclosures. They reported that the AC with this kind of experience could be best placed to assist management and internal accountants in addressing financial reporting problems. They further stated that an AC with financial expertise might enable members of the committee to allocate their time and resources to ensure any misstatement is corrected on time. Also, they revealed that restatement dark periods are shorter for clients having AC with more accounting experts.

Similarly, Abernathy *et al.* (2014), Al-Ebel *et al.* (2020), and Baatwah *et al.* (2016) reported that the accounting expertise of the ACC had a negative relationship with ARL. They argued that AC members with expertise reduced the actual amount of time required for the AC to sufficiently discuss, clearly comprehend, and evaluate significant accounting policies and routine transactions with the auditor. This result is inconsistent with Ghafran and Yasmin (2018), who found that the ACC with financial expertise had an insignificant relationship with ARL. The reason for the insignificant result was because 92 per cent of the chairman in the sample had financial expertise.

In Malaysia, Baatwah *et al*. (2019) reported that the ACC's expertise was able to reduce ARL. The current study is an extension of Baatwah *et al*. (2019), which differed in several aspects. While Baatwah *et al*. (2019) used the top 100 listed firms in 2011, this study consisted of non-financial firms during 2013-2016 (after the introduction of the MCCG 2012). The results of Baatwah *et al*. (2019) might not be generalisable to smaller firms listed on Bursa Malaysia. The current study attempted to address this gap.

2.7.12 Audit Committee Chairman's Tenure

Tenure is defined as the length of time a member has served on a board (Ghafran & Yasmin, 2018; Kesner, 1988). The tenure of AC members on the board is a crucial element in evaluating AC effectiveness in the execution of their expected monitoring function. Prior researchers stated different thoughts on how the AC members' tenure might affect in terms of their ability to monitor the process of financial reporting. The broader literature on job performance proposes that the time spent in a firm enhances a person's capacity to perform his/her job (Steffens, Shemla, Wegge, & Diestel, 2014). Similarly, with more time spent in a firm, directors develop better expertise, reputation and experience (Liu & Sun, 2010). Those directors have high managerial commitment and a willingness to work better as poor and weak performance will gradually and dramatically impair their reputational capitals over time (Liu & Sun, 2010).

Also, AC members with a longer tenure will be more efficient, perform better, with more knowledge, monitoring and experience in managing a firm that affects the quality of financial reporting (Herranz, Iturriaga, & Reguera-Alvarado, 2018; Rickling, 2014; Thoopsamut & Jaikengkit, 2009). This view is supported by Chan *et al.* (2012), who argued that members of the AC with long tenure are more likely to produce less a demand for audit effort due to their monitoring effectiveness, thus reducing the ARL.

Liu and Sun (2010), Thoopsamut and Jaikengkit (2009), and Yang and Krishnan (2005) showed that FRQ is higher when AC members have a longer tenure. They argued that the long tenure of directors ensures effective monitoring of financial reporting based on their work knowledge and experience. However, Herranz *et al.* (2018) found that AC tenure and financial information quality have a non-linear relationship. They argued that the lengthy tenure of members of the AC could initially impact the independence of the AC but that longer tenures would improve the committee's expertise after a certain threshold.

Nevertheless, other research suggests that director independence can be diminished over time as directors form relationships with each other (Byrd, Cooperman, & Wolfe, 2010). Directors who have a long tenure are more likely to form good relationships with managers (Rickling, 2014), which would impair directors' willingness to monitor the financial reporting process effectively. More importantly, the extant research shows that the positive impact of a board with a long tenure outweighs its negative effects on FRQ (Chan *et al.*, 2012; Ghafran & Yasmin, 2018).

Only a few studies have examined the relationship between ACC's tenure and ARL. For instance, Abernathy *et al*. (2014) reported a significant and negative impact between members of the AC with a long tenure on the firm and ARL. Ghafran and Yasmin (2018) showed that the ACC has a critical role in enhancing the AC's ability to carry out its responsibilities effectively. They also noted that the ACC's long tenure is linked to the experience gained over time, helping to decrease the ARL. Also, Baatwah *et al*. (2015) showed that a director's tenure was directly associated with ARL. Importantly, tenure increases a director's familiarity and relationship with the firm's financial reporting process and allowing the external auditor to begin early enough to complete the audit at the appropriate time. However, Tanyi and Smith (2015) did not find any significant relationship between ACC's tenure and FRQ.

In Malaysia, Baatwah *et al*. (2019) reported a negative and significant relationship between the ACC's tenure and ARL. This implies that the ACC who has a long tenure in the company, enhanced his understanding and experience of its financial statements and accounting issues. Baatwah *et al*. (2019) used only the top 100 firms listed in 2011. By using all non-financial firms, the present study aims to fill this study gap.

2.7.13 Audit Committee Chairman's Multiple Directorships

Multiple directorships can be regarded or termed as the situation where directors sit on the board of two or more firms (Hasnan & Hussain, 2015). The holding of multiple directorships is a contemporary corporate governance issue and has become a focus of regulators in the wake of escalating accounting scandals (Tanyi & Smith, 2015). Haniffa and Cooke (2002) noted that multiple directorships or interlocking directorate is common among Malaysian public listed companies. Also, 90 per cent of directors hold between one to three directorships on publicly listed firms (Abdul Latif, Kamardin, Taufil Mohd, & Che Adam, 2013). This is because their supervisory role may be affected by obligations inside and outside the firm (Méndez, García, & Pathan, 2017). As a result, the listing requirements of Bursa Malaysia limited the number of multiple directorships from ten to five multiple directorships in listed firms.

Busy directors are commonly defined as those holding multiple directorates (Benson, Davidson, Davidson, & Wang, 2015). Since ACC holds an official position that is a major source of power (Sharma *et al.*, 2009), the study of their characteristics, such as expertise, tenure and multiple directorates, is worthy of further study (Carcello *et al.*, 2011). This is because these characteristics have received little attention in previous research (Rickling, 2014). In support of this, Habib *et al*. (2019) suggested more studies on the role and significance of the ACC in ARL.

Several studies have documented the importance of the ACC in facilitating effective AC performance (Abernathy *et al*., 2014). The responsibilities of the chairman range from ensuring the proper and adequate flow of information about the firm to members of the AC, ensuring that a cordial relationship exists between the AC, the management as well as both the internal and external auditors, preparing agenda for meetings, establishing guiding principles for the AC, serving as a mediator between the management team and the auditor on matters relating to financial reporting, assisting in the selection of new AC members as well as providing leadership roles to monitor external auditors (Tanyi & Smith, 2015).

Empirical studies have reported inconsistent findings concerning the multiple directorships of committee members. Some studies showed that multiple directorships held by directors may make them sufficiently busy such that they are not able to monitor management properly as suggested by the busyness hypothesis (Ferris, Jagannathan, & Pritchard, 2003; Fich & Shivdasani, 2006; Habbash, Sindezingue, & Salama, 2013). Consistent with this argument, Falato *et al*. (2014) claimed that the busy director is detrimental to the effectiveness of the monitoring activities of the board, which would, in turn, deteriorate the company's value. Dhaliwal *et al*. (2010) showed that AC accounting experts who are independent, have a lower tenure, and hold fewer directorships in their firms have a positive impact on their accruals' quality. Sharma and Iselin (2012) reported a positive relationship between the number of directorships held by the AC members and financial misstatements. They argued that effective management monitoring requires a significant commitment of resources and time which is reduced because they sit on more than one committee. As a result, since the AC operates as a team, if a specific director is incredibly busy, the slack may need to be picked up by other members of the AC.

In line with the above, Rickling (2014) showed that the number of directorships held by AC members influences the effectiveness of audit members in providing financial reporting oversight. Also, Tanyi and Smith (2015) have shown that a busy ACC is negatively correlated with FRQ. They argued that the ACC with multiple directorships does not have enough time to adequately monitor the financial reporting process, leading to lower AC monitoring and, in turn, lower FRQ. Sharma *et al*. (2009) showed that the directors with multiple board seats are negatively related to the frequency of meetings. This is because these directors may find it challenging to devote considerable effort and time to a particular AC.

The positive indicator of the reputation of directors (reputation hypothesis) is the other aspect of the impact of multiple directorships. Hasnan and Marzuki (2017) argued that multiple directorships could be utilised as monitoring means in reducing agency costs. The benefit of holding multiple board seats allows these directors to optimise their skills and knowledge in discharging their responsibilities to avoid potential litigation and protect their already built reputation and possible loss of current and likely future board seats (Sharma & Iselin, 2012). Some studies have supported the reputation hypothesis. For example, DeZoort and Salterio (2001) noted that the number of directorships held by the members of AC was positively linked to firm support for the auditor in the case of an auditor-management dispute, thus presumably leading to better financial reporting. Tham, Sultana, Singh, and Taplin (2019) showed that in the Australian market, board members with multiple directorships exhibits less levels of earnings management.

Ghafran and Yasmin (2018) showed that the ACC with multiple committee seats increased the timeliness of financial statements and reduced ARL. By maintaining the possibility of participating on a variety of monitoring committees, the ACC is more likely to provide a more complete and detailed picture of the business, thereby improving his/her overall capacity to make sound and better informed decisions (Chandar *et al.*, 2012).

Empirical studies have dealt with multiple directorships in Malaysia. For example, Jaafar, Wan-Hussin, and Bamahros (2017) showed that the ACC has a significantly higher number of multiple directorships than non-chairman members. Baatwah *et al*. (2019) noted that the ACC with multiple directorships was not significantly related to ARL. The results of this study may not be generalisable, as only the top 100 companies listed in 2011 were included in its sample. The current study attempted to fill this gap by using all non-financial firms.

2.7.14 Separate Risk Management Committee

In recent years, both academics and practitioners have shown a deep interest in corporate governance, but the RMC is a relatively new and critical element of CGM for improving the internal control environment (Yatim, 2010). The RMC is a sub-committee of the BOD. The existence of a RMC undoubtedly helps enable a firm to achieve its business objectives and enhance its FRQ. Ultimately, the RMC assists in safeguarding a firm's reputation and, thus, to improve firm performance (Halim *et al.*, 2017). The primary function of the RMC is to determine the risks that a firm will face (Ishak & Mohamad-Nor, 2018). Brown *et al*. (2009) suggested that the governance structure should have a separate RMC. However, the establishment of this committee is still voluntary in most countries, especially for non-financial firms (Subramaniam *et al.*, 2009).

Traditionally, the role of monitoring and oversight of the firm's financial and fraud risks is a responsibility of the AC (Sekome & Lemma, 2014). However, doubts abound over the efficiency of ACs in the supervision of risk management following various financial failures and scandals (Hassan, Salleh, Yatim, & Rahman, 2012; Sekome & Lemma, 2014). Thus, the need to identify financial risks has become higher and requires more vital monitoring and oversight through the establishment of a RMC, separated from the AC (Halim *et al.*, 2017).

The existence of a RMC might lessen the workload of the AC (Mohamad-Nor & Ishak, 2017). Brown *et al*. (2009) remarked that the responsibilities of risk management has gone beyond the capabilities and scope of an AC alone. Thus, the argument can be made that increasing the workload pressure on ACs alone may raise the potential for creating inefficiencies (Subramaniam *et al.*, 2009), which leads to an increased ARL. However, the establishment of a separate RMC will facilitate a better oversight of the risks (Subramaniam *et al.*, 2009) because a committee is likely to have better and more in-depth knowledge about critical risks and the potential effects on a firm (Halim *et al.*, 2017). Therefore, this leads to an enhancement of the quality of corporate governance, which results in improved investor protection and enhanced firm value (Bhuiyan, Cheema, & Man, 2020a; Subramaniam *et al.*, 2009).

On the other hand, the existence of a RMC is seen as an additional layer of red tape which could make the board to fully rely on this committee, leading to a loss of focus on risk supervision (Hines, Masli, Mauldin, & Peters, 2015). Since most board members already serve on multiple committees, adding another committee can dilute their focus (Bhuiyan, Salma, Roudaki, & Tavite, 2020b). Furthermore, Subramaniam *et al.* (2009) showed that, in contrast to firms with a combined RMC and AC, those with a separate RMC will have greater financial reporting risks. Lawrence, Minutti-Meza, and Vyas (2018) noted that the presence of the RMC indicates that the firm may have operational risks. As a result, risky clients are expected to increase the auditors' work (Sharma, Boo, & Sharma, 2008), which, in turn, is likely to increase the scope of audit procedures and, thus, leads to a longer ARL.

The empirical findings regarding RMC are limited. Previous research dealing with the formation of the RMC in a firm, for instance, Subramaniam *et al*. (2009) have shown that firms with larger boards and an independent board chairman are more likely to put in place a stand-alone RMC. Similarly, Sekome and Lemma (2014) showed a positive correlation between board independence and the existence of a separate RMC. Halim *et al*. (2017) noted that RMC affects company performance.

In Malaysia, a separate RMC is associated with good and strong board structures (Yatim, 2010) and strong AC structures (Yatim, 2009). However, Abdullah, Abdul-Shukor, and Rahmat (2017) reported that the establishment of a RMC could increase risk management disclosures. Apart from examining factors associated with the establishment of a RMC, some researchers have also investigated the relationship between RMCs and FRQ. Hassan *et al*. (2012) noted that the establishment of a RMC was positively linked to the financial instrument's disclosure quality. Ishak and Md Yusof (2013) showed that a separate RMC would reduce the possibility of getting a modified audit opinion. On the other hand, Ali, Besar, and Mastuki (2017) showed that a RMC has positive and significant associations with the financial restatement. Yatim *et al*. (2006) found an insignificant relationship between audit fees and RMC. In conclusion, the role of the established RMC to improve ARL is unexplored; thus, the current study fills this gap.

2.7.15 Family Ownership

As part of CGM, ownership characteristics play an increasingly important role in influencing the firm's decisions to resolve their internal control problems and enhance the reliability of financial reports (Mitra & Hossain, 2011). Previous studies have provided evidence that the ownership structure as it is related to firm performance

(Zakaria, Purhanudin, & Palanimally, 2014), earnings quality (Al-Jaifi, 2017; Al-Rassas & Kamardin, 2015a), audit quality (Alzeaideen & Al-Rawash, 2018), and FRQ (Alhazaimeh, Palaniappan, & Almsafir, 2014).

Family ownership is defined as control by a family (Maury, 2006) and is reflected in the closeness between an associated firm and a family (Hsu, Lin, & Tsao, 2018). Recent academic studies have shown that family-controlled firms account for 85 per cent of all firms worldwide (Ghosh & Tang, 2015). Generally, firms in Asia have more concentrated ownership than in the United Kingdom and the United States (Lean, Ting, & Kweh, 2015). In Malaysia, studies have noted that family-owned firms are the most prevalent (Amran & Che-Ahmad, 2013; Wan-Hussin, 2009). This means family businesses have become an important part of the Malaysian economy in which firm ownership tends to be less dispersed and more concentrated (Amran & Che-Ahmad, 2013). Concentrated ownership might affect the decision-making process (Kamardin, Abdul Latif, & Taufil Mohd, 2016) and control the firm's operations at the board level, including the timely disclosure of its financial information (Lim, How, & Verhoeven, 2014).

Family firms usually face less significant agency-related problems (Jensen & Meckling, 1976) but suffer more agency-related problems due to the dispute between controlling and non-controlling shareholders (Ali *et al.*, 2007). In other words, the association between family ownership and FRQ can be clarified by two contradictory assumptions: the alignment assumption and the entrenchment assumption (Wang, 2006).

For the alignment hypothesis, it is suggested that large family shares (represented by managers) can lead to the alignment of the manager's and shareholders' interests which may discourage families from postponing the publication of the audit report. For example, Ghosh and Tang (2015) and Rusmin and Evans (2017) showed that family firms have shorter ARLs. Empirical studies also show that family firms are of higher accounting quality than non-family firms (Paiva, Lourenço, & Dias Curto, 2018). As a result, the financial statements of these firms are usually less vulnerable to material misstatements. In this case, a lower audit risk can be considered by the auditors in their audit preparation and planning (Shiri *et al.*, 2018) which leads to a short auditing period as well as quicker issuance of an audit report.

Furthermore, Lourenço *et al*. (2018) showed that a firm with family ownership was more likely to report its annual financial statements at the stipulated time as compared with non-family firms. They argued that companies with family ownership have an incentive to be more timely than their non-family counterpart because of the concern for their reputation. These findings are inconsistent with the research outcomes of Jaggi and Tsui's (1999) study that reported an insignificant association between family ownership and ARL.

On the other hand, the entrenchment hypothesis suggests that controlled shareholders (family members) can expropriate minority shareholder interests to enhance their interests (Claessens & Fan, 2002; Wang, 2006). As a result, family members may have more significant incentives to manage their private earnings. From this perspective, they would act to discourage the flow of information related to firm activities (Hsu *et al.*, 2018) as greater transparency could place them under more rigorous control of the capital market (Fan & Wong, 2002). Thus, the entrenchment effect indicates that family ownership is correlated with low FRQ (Hasnan, Rahman, & Mahenthiran, 2013). Family-owned companies are probably choosing a much opaque knowledge climate to swindle minority shareholders, undermining the timeliness of earnings (Lim *et al.*, 2014). Motivation for the expropriation of minority shareholders by controlling shareholders may also increase the audit risk assessment. As a result, higher audit risks could increase audit measures with longer ARLs (Durand, 2019; Pham, Dao, & Brown, 2014).

Although studies on family ownership have been extensively carried out, however, limited studies have specifically looked at the relationship between family ownership and ARL (i.e., Ghosh & Tang, 2015; Rusmin & Evans, 2017; Shiri *et al.*, 2018). In Malaysia, family members and directors typically dominate the ownership structure (Kamardin *et al.*, 2016). As no published research in Malaysia has examined the role of family ownership on ARL, this current study fills this research gap.

2.7.16 Managerial Ownership

Managerial ownership in this study refers to the proportion of shares in the firm owned by managers. Managerial ownership is an efficient function of corporate governance (Al-Matari, Al-Matari, & Saif, 2017). Jensen and Meckling (1976) argued that an increasing in the level of managerial ownership may motivate managers to work in line with shareholders' interests and, thus, reduce agency conflicts and costs (Type I). Nevertheless, in an environment with a high ownership concentration like East Asia, Type II of the agency problem is present between minor shareholders and controlling shareholders (Fan & Wong, 2002; Claessens *et al.*, 2000).

The literature generally supports the role of managerial ownership as an effective mechanism which improves the monitoring function and enhances a firm's information quality (Gotti, Han, Higgs, & Kang, 2012; Kamardin & Haron, 2011). Kamardin (2014) confirmed that firms with a high level of managerial ownership were more likely to make decisions consistent with maximising shareholder wealth. However, when managerial ownership decreases, the agency risk faced by outside shareholders increases and sends a negative signal to shareholders about the real value of the firm (You, Tsai, & Lin, 2003).

Studies that examined the relationship between managerial ownership and timely financial reporting are scare. Carslaw and Kaplan (1991) showed that the ARL increased for firms that are controlled by managers as compared to firms that are controlled by external investors. They argued that with an acute need for information from major external investors, auditors and the firm are pressured to initiate and complete an audit as soon as possible. However, Leventis *et al*. (2005) and Basuony *et al*. (2016) did not find a significant relationship between managerial ownership and ARL.

In Malaysia, Puasa *et al*. (2014) showed that managerial ownership has a significant positive impact on ARL post-MCCG which was revised in 2007. However, they did not find a positive or any significant managerial ownership-ARL relationship for the pre-MCCG 2007. Che-Ahmad and Abidin (2008) found that a high level of managerial ownership is more likely to be associated with a longer ARL. They argued that since managers have easy access to information, they place less pressure on the external auditors. Furthermore, as insider ownership increases, they are more likely to have greater control of the firm and higher chances to make decisions to suit their interests

(Guo & Ma, 2015; Oh, Chang, & Cha, 2015). Thus, managers are motivated to delay the disclosure of bad news (Mouna & Anis, 2013). Thus, managers work to increase the delay of an auditor's report to improve the firm's poor performance. However, both of these Malaysian research have issues as they were conducted before MCCG 2012, and the sample for Che-Ahmad and Abidin's (2008) study included finance firms. The current study avoided this limitation and focused on how managerial ownership could affect ARL following the MCCG 2012 code implementation with considering a sample of non-financial firms.

2.7.17 Foreign Ownership

Foreign ownership is defined as the proportion of equity owned by foreigners (Nelson & Mohamed-Rusdi, 2015). In Malaysia, the average equity held by foreign investors in firms is 24 per cent (Ghazali, 2010). Foreign ownership can play a crucial role in stimulating and enhancing the economic growth of firms and a country. Foreigners as shareholders will seek to protect their investments and exert pressure on independent directors to perform their monitoring role (Desender, Aguilera, Lópezpuertas-Lamy, & Crespi, 2016) and enhance corporate governance practices which could reduce the information asymmetry and the agency problem. The majority of foreign investors are from Europe, particularly from the United Kingdom (Ibrahim & Samad, 2011). As noted in the literature, foreign investors need more information disclosure and adequate transparency to avoid insider shareholders' expropriation (Ben-Nasr, Boubakri, & Cosset, 2015). Thus, firms with higher foreign ownership may likely receive better disclosure in a voluntary and timely manner (Nagata & Nguyen, 2017).

Empirical studies have documented that foreign ownership contributes effectively to ensuring the quality of accounting information (Aziz *et al.*, 2017). Bagaeva (2008) argued that firms with foreign ownership report earnings with a more timely recognition of economic gains than other firms. Karim *et al*. (2013) and Zureigat (2011) showed a positive relationship between audit quality and foreign ownership of firms. Similarly, Nelson and Mohamed-Rusdi (2015) showed a positive relationship between higher foreign ownership and audit fees. Foreign investors tend to engage high quality auditors (Alzeaideen and Al-Rawash, 2018), which improves the timeliness of audit reports. He, Rui, Zheng, and Zhu (2014) showed that foreign investors played a significant role in selecting external auditors in emerging markets.

Several studies have been conducted to examine the relationship between foreign ownership and ARL. For example, Soltani (2002) showed a greater increase for the consolidated accounts groups in terms of the timeliness of audit reports compared to the non-group firms. Soltani (2002) argued that the increased activity among foreign investors can be a factor in persuading the groups to release their parent firm and consolidated accounts early to a meeting with the general shareholders. Basuony *et al*. (2016) also showed a positive and significant relationship between foreign ownership and ARL. They argued that the shareholders are mainly viewed as financiers only in the Middle East because they are not effectively exercising their ownership rights and professionally in activities such as attending and voting at meetings. However, Shin *et al*. (2017) and Habib and Muhammadi (2018) did not support any impact for foreign ownership and audit delays. Their studies had limitations where Shin *et al*. (2017) only selected the firms whose audit reports were delayed less than 90 days, and Habib and Muhammadi (2018) included only foreign institutional investors in their study.

In Malaysia, Tazik and Mohamed (2014) showed that foreign ownership was negatively related to ARL, justifying that firms which are motivated to issue more information on time to foreign investors with an aim to help these investors to preserve their investment by making efficient decisions and monitoring the management's performance. Ishak *et al*. (2010) also showed that the significant presence of foreign ownership (more than 20 per cent) was negatively related to ARL. This implies that in firms where foreign investors have significant shareholdings, they could influence these firms and the auditors to expedite an audit and release timely information. However, Ishak *et al*. (2010) found an insignificant relationship between foreign ownership and ARL. Both studies had limited sample sizes and data was collected for only a year, plus data was collected before the MCCG 2012.

2.7.18 Audit Partner Tenure

Auditing plays a significant role in reducing information asymmetry between shareholders and managers by ensuring the reliability of financial statements as well as reducing the agency problem (Varici, 2013). Auditing regulations in different countries, including Australia, Finland, United Kingdom, Sweden, Germany, Japan, Taiwan, China, and Malaysia have been obliged to disclose the name of the auditor in the audit report for transparency to the public (Wan-Hussin *et al.*, 2018). Regulators appear to pay more attention to the negative impact of long tenure on directors' independence than to the positive effects of their competence (Garcia-Blandon & Argiles-Bosch, 2017). Thus, many nations have implemented compulsory rotation rules to enhance audit quality, generally, at the partner level (Carey & Simnett, 2006).

In the United States, the Sarbanes-Oxley Act accelerated the audit partner's mandatory rotation from seven to five years (Litt, Sharma, Simpson, & Tanyi, 2014). Similarly, the Malaysian Institute of Accountants (MIA) required in 2011 that the individuals not to be part of any key audit partner for more than five years period in auditing any public interest entity. However, this requirement changed from five to seven years for periods beginning on or after 15th December 2018 (MIA, 2018).

There are two opposite opinions regarding the relationship between auditor tenure and audit quality. First, audit quality should increase in the later years due to a learning effect as the auditor with a long tenure develops an understanding of the business improving his/her knowledge of the firm's performance (Hapsoro & Santoso, 2018) as well as increase audit quality (Gul, Fung, & Jaggi, 2009; Myers, Myers, & Omer, 2003; Shafie *et al.*, 2009). While Tepalagul and Lin (2015) found a positive relationship between auditor tenure and reporting quality, Stanley and DeZoort (2007) showed a negative relationship between audit tenure and financial restatements. However, changing auditors may negatively influence audit quality because the new auditors lack adequate knowledge about their clients during the early years of audit engagements (Carcello & Nagy, 2004; Dattin, 2017; Litt *et al.*, 2014; Wan-Hussin *et al.*, 2018).

Second, over time an auditor may develop a close relationship with a client's management and is more likely to act in favour of the firm, thus reducing the independence of the auditor (Cameran, Prencipe, & Trombetta, 2016; Carey & Simnett, 2006; Dattin, 2017; Lennox & Wu, 2018; Salleh & Jasmani, 2014; Tepalagul & Lin, 2015). Thus, regulators believe that auditor rotation is a means of preserving auditor independence and enhancing audit quality (Brooks *et al.*, 2017; Carey & Simnett, 2006; Lennox, 2014).

Data on audit partners are unavailable in many countries and for this reason, research on partner level audit quality is limited (Gul *et al.*, 2017). One of the early audit partner tenure studies that used Australian data observed that the audit partner with long tenure correlate with a lower likelihood of issuing a going-concern opinion (Carey & Simnett, 2006). This implies that strong relations with the client could negatively affect the decision-making by an audit partner. Lennox, Wu, and Zhang (2014) showed that mandatory partner rotation was associated with higher quality audits in the years immediately surrounding rotation. However, Chen *et al.* (2008a) found a positive correlation between audit partner tenure and earnings quality. They also reported a positive relationship between the tenure of the audit firm and the quality of earnings after controlling for the tenure of the partner.

Manry, Mock, and Turner (2008) showed that the tenure of the audit partner was positively associated with FRQ for small but not large firms. Litt *et al*. (2014) and Daugherty, Dickins, Hatfield, and Higgs (2012) showed that partner rotation was associated with lower FRQ. Laurion, Lawrence, and Ryans (2016) showed a greater likelihood of restatement discoveries following a rotation. Arthur, Endrawes, and Ho (2017) showed that the rotation of audit partners would only increase audit quality if both the audit firm and the audit partner are industry experts.

Dao and Pham (2014) showed a clear negative association between audit firms with short tenure and ARL. The main reason for this was that the auditors must spend more time to fully understand the client and an entire industry during the first early years of an audit engagement. This finding is in line with Lee *et al*. (2009), who showed that ARL declined as auditor tenure lengthened. They argued that an increase in an auditor’s tenure increased the auditor’s knowledge related to risk, client operations, and accounting systems. This will lead to more efficient audits and, in turn, will result in a shorter ARL. Habib and Bhuiyan (2011) also showed that ARL was much longer for firms with a short audit tenure.

Additionally, very few studies have been conducted to examine the effect of the audit partner's characteristics on the timeliness of the audit reports, particularly on the tenure of the audit partner (Durand, 2019). Sharma *et al*. (2017) showed that audit reports were postponed for a longer period immediately following the required rotation of an audit partner. However, Azizkhani, Hossain, Jiang, and Yap (2021) found that mandatory audit partner rotation do not affect ARL. Also, Wan-Hussin *et al.* (2018) did not find empirical evidence to show that Malaysia's audit partner tenure was directly related to ARL. Thus, this study is an extension of the research of Sharma *et al*. (2017), Azizkhani *et al.* (2021) and Wan-Hussin *et al.* (2018) by examining the relationship between audit partner tenure and ARL.

2.7.19 Financial Restatements

A financial restatement is an event in which a firm must restate its previous financial statements due to fraud, error, or other reasons (John, Shangguan, & Mateti, 2015). Hribar, Kravet, and Wilson (2014) stated that financial restatements represent cases in which firms have issued misstated financial statements. According to the Statement of Financial Accounting Standards No. 154 and the Malaysian Financial Reporting Standard (MFRS) No. 108, firms must restate their financial statements because of any error in the financial statements related to the previous periods (FASB, 2005; MFRS, 2011). The Government Accountability Office (GAO) states that *A financial statement restatement occurs when a company, either voluntarily or prompted by auditors or regulators, revises public financial information that was previously reported* (GAO, 2002, p.1).

There are numerous reasons why firms may restate their financials. Eilifsen and Messier (2000) defined four requirements that must be met to restate audited financial statements. First, a client's internal controls fail to prevent or detect a misstatement. Second, an external auditor fails to detect the misstatement and the financial statements are issued. Third, the material misstatement occurs as the result of certain types of inherent risk such as personal problems or the management's aggressive accounting practices. Last, the misstatement is subsequently discovered, leading to the necessity to restate the previously issued audited financial statements. However, the reasons for financial restatements may be benign, for instance arising from changes in accounting policies and principles resulting from the implementation of new accounting policies and standards (Wu, 2002).

Financial restatements due to fraud or error are de facto reporting failures (Stanley & DeZoort, 2007). Financial restatements of listed firms have become more serious impacting the accuracy of accounting information (Nan-wei, Cheng, & Yuan, 2017), reducing FRQ (Wan-Mohammad *et al.*, 2018; Abdul Wahab *et al.*, 2014) and decreasing audit quality (Eshagniya & Salehi, 2017; Newton *et al.*, 2013) in the restated period. Moreover, financial restatements can result in costly consequences, such as a decrease in firm value (Du, 2017). Financial restatements can also damage a firm's reputation with negative effects on cash flows and, thus, lower its valuation (Graham, Li, & Qiu, 2008). Hence, the auditing firms and regulatory bodies face pressure to restore auditing confidence (Kaklar, Kangarlouei, & Motavassel, 2012). The presence of a restatement implies misstatements in the financial statements, which lower the auditor's perception of the client's credibility, trustworthiness, and competence (Durand, 2019; Feldmann, Read, & Abdolmohammadi, 2009).

Furthermore, financial restatements can raise audit risks against the auditor (Durand, 2019). Liu, Raghunandan, and Rama (2009) suggested that stockholders tend to vote against auditor ratification after the declaration of a financial restatement. According to the Statement on Auditing Standards No.107, auditors should assess the risk of material misstatement to adjust their audit plan accordingly (American Institute of Certified Public Accountants, 2006). Consequently, when auditors conclude that there is a significant risk of audit, they need to change audit procedures to obtain additional evidence, thus increasing their audit time (Feldmann *et al.*, 2009).

Several previous studies provided evidence that financial restatements affect audit quality. For example, Hasnan and Hussain (2015) showed that more audit quality would reduce financial restatement, while Lobo and Zhao (2013) and Salehi, Farhangdoust, and Vahidnia (2017) showed a negative relationship between audit effort and restatements using audit fees as a proxy. However, Feldmann *et al*. (2009) argued that there is a positive association between audit fees and financial restatements, and they showed that restated firms are faced with higher audit fees compared to non-restated firms.

Mitra *et al*. (2015) showed that firms with future restatements are more likely to have abnormally more extended ARLs relative to non-restating firms. The findings are supported by Blankley *et al.* (2014) and Knechel and Sharma (2012), who also showed that firms which have restated their financial statements had a significant delay in obtaining the audit report. This may suggest that auditors were confronted with more complex issues that had taken more time and professional judgement in their work (Chiudini & Marques, 2018). This tends to increase the ARL. Also, abnormally long ARLs reflect a client's accounting difficulties, and the additional audit effort during the lag period may not be sufficient or effective for resolving these accounting issues (Blankley *et al.*, 2014).

Research on developing countries, such as Nan-wei *et al*. (2017) showed a positive relationship between financial restatements and ARL in China. Also, in China, Ma, Du, and Zhang (2018) identified a negative relationship between accounting restatements and the timeliness of annual reports. In Brazil, Chiudini and Marques (2018) found a relationship between financial restatements and ARL. They argued that a longer delay in releasing an auditor's report might signal greater risks about the audit.

Overall, a critical analysis of the previous literature showed that financial restatements are a widespread global issue that impacts restating firms (Hasnan & Marzuki, 2017). This is because an upsurge in the occurrence of restatements in prior years have resulted in a higher level of apprehension for the FRQ (Wan-Mohammad *et al.*, 2018) and decline in the number of investors (Abdullah *et al.*, 2010). Shafie and Zainal (2016) suggested that financial restatements should be addressed as it affects investors' confidence among Malaysian firms. Furthermore, when the audited financial statements are restated, the validity of the audit opinion validity and the underlying audit process are questionable as the audited financial statements released initially were not free from material misstatements (Stanley & DeZoort, 2007). Most of the previous studies were carried out in developed economies (Blankley *et al.*, 2014; Dao & Pham, 2014; Mitra *et al.*, 2015). To the best of the researcher's knowledge, only a few studies have examined the relationship between financial restatements and ARL in Malaysia; thus, the current study fills the research gap making this study timely.

2.8 Moderating Effect of the Audit Committee Chairman's Accounting Expertise

The moderator variable is an independent variable that influences the relationship between another independent variable and an outcome variable in strength or direction (Baron & Kenny, 1986; Bennett, 2000; Sharma, Durand, & Gur-Arie, 1981). Baron and Kenny (1986) suggested guidelines for determining whether a proposed variable represents a hypothesised moderator effect. The moderators are often introduced when unexpectedly weak or inconsistent relations exist between the independent and outcome variables across studies. From this perspective, the previous studies provided inconsistent results regarding the relationship between financial restatement and ARL (Habib *et al.*, 2019). Therefore, the current research conforms to the conditions set by Baron and Kenny (1986) for moderating path analysis.

Bennett (2000) specified that whether a variable is a moderator or not should be based on theory and the conceptual framework that guides the research. Theoretically, accounting or financial expertise may increase the effectiveness of monitoring (Amin *et al.*, 2018). Given that the auditing committee's main objective is to monitor the company's financial process, it is safe to conclude that auditing committee members with accounting expertise are better equipped to oversee management practices for financial reporting to achieve high quality reporting (Kusnadi *et al.*, 2016). Das, Gong, and Li (2020) revealed that the involvement of the members of AC with accounting expertise moderate the effects of reassessments, resulting in less negative stock market reactions and a lower probability of chief executive officer turnover.

Among the members of the AC, the chairman is most responsible for the overall functioning of the committee (Chaudhry *et al.*, 2020), in particular the oversight of financial reporting (Schmidt & Wilkins, 2013). Moreover, an AC with a chairman with the necessary expertise is in a better position to effectively manage the committee's responsibilities to ensure FRQ (Chaudhry *et al.*, 2020). Previous research showed that the ACC with experience would improve the committee's efficiency in terms of supervising the financial reporting process (Abernathy *et al.*, 2014; Ghafran & Yasmin, 2018; Schmidt & Wilkins, 2013).

Schmidt and Wilkins (2013) showed that AC's experience leads to the remediation of financial reporting issues by allowing clients to disclose dark restatement details more quickly. They further stated that an AC with financial expertise might enable members of the committee to allocate their time and resources to ensure timely correction of any misstatements. Baatwah *et al.* (2019) also showed that the ACC with accounting experience will improve the timeliness of the audit reports even if the FRQ is lower.

Empirical studies showed inconsistent results regarding the relationship between financial restatements and ARL. Nan-wei *et al*. (2017) showed a positive relationship between financial restatement and ARL. Mitra *et al*. (2015) reported that firms with future restatements are more likely to have abnormally longer ARLs relative to non-restating firms. These results support Blankley *et al.*'s (2014) findings which also showed that firms that restate their financial statements faced significant delays in obtaining their audit report. This may suggest that the auditor, faced with more complicated problems, may require a longer time to complete work, thus increasing the audit time (Chiudini & Marques, 2018). However, Swanson and Zhang (2018) and Sharma *et al.* (2017) showed an insignificant relationship between financial restatements and ARL.

Studies have also shown that AC's experience will minimise the impact of financial restatement in several ways. First, AC's experience contributes to a better understanding of audit problems and risks, and audit procedures for addressing and/or identifying risks and issues (DeZoort & Salterio, 2001). Second, it is also more likely that the AC with at least one financial expertise will recognise the internal audit programme and its implications. This ensures that corporate accountability systems are provided to enhance the efficiency of internal controls to prevent or detect material error (Abbott *et al.*, 2004). Financial expertise and audit knowledge among AC members will increase the likelihood that the AC will assist the auditor in the financial reporting dispute between auditors and management (Arel, Brody, & Pany, 2006). However, (Agrawal & Chadha, 2005)(Agrawal & Chadha, 2005)Agrawal and Chadha (2005) suggested that AC members with no accounting or financial experience are less able to recognise financial reporting problems.

Abbott *et al.*'s (2004) empirical research noted a significant negative correlation between the AC with at least one member with financial expertise and the likelihood of a reassessment. Similar results were also found by Wan-Mohammad *et al.* (2018) that the increase in the number of members of the AC with financial experience significantly reduces the likelihood of financial restatement.

Previous research has examined the relationship between the ACC's expertise and ARL. Al-Ebel *et al.* (2020), Abernathy *et al.* (2014), Baatwah *et al.* (2016), and Baatwah *et al.* (2019) showed a negative and significant relationship between the ACC's expertise and ARL. They argued that the accounting expertise of AC members reduced the time required to sufficiently discuss, understand, and evaluate significant accounting policies and normal transactions with the auditor. This finding contradicts

Ghafran and Yasmin's (2018) study that showed the ACC with financial expertise had an insignificant relationship with ARL.

Previous literature that examined the expertise of the ACC as a moderating factor is limited. For example, Mustafa and Youssef (2010) examined AC effectiveness and the impact of asset misappropriation by assessing the interaction between financial expertise and AC independence. Results showed that an AC with more financial experts and higher independence lowered the risk of asset misappropriation.

Baatwah *et al.* (2019) examined the association between the accounting expertise of ACC and their personal characteristics (shareholdings, tenure, and multiple directorships) using data from the annual reports of the top 100 Malaysian firms in 2011. They argued that a chairman with experience in accounting and shareholdings in the firm could reduce the audit delay. This finding implies that the relationship between the ACC and the timeliness of audit reports is strengthened by the extent of the chairman's shareholdings. The interaction between accounting expertise and the ACC's tenure is also significantly and negatively related to ARL.

Based on the previous discussions, it can be concluded that many empirical studies have identified that financial restatement is a critical issue and has an impact on restatement firms. However, most of the previous studies did not consider the ACC's accounting expertise to moderate the relationship between financial restatement and the ARL. To the best of the researcher's knowledge, the first to examined the impact of the ACC's accounting expertise on the association between financial restatement and ARL.

2.9 Summary

This Chapter began with a review of the results presented in previous studies conducted in developed and developing countries, including Malaysia, on the relationship between CGM and ARL. The review highlighted that most previous research were conducted on developed economies, such as the United States. The review also recognised the limited evidence in Malaysia on the role of the ACC to carry out its responsibilities effectively and reduce ARL. The discussion also included the literature related to the establishment of a separate RMC, ownership structure, audit partner tenure, and financial restatements. The review noted that previous studies in Malaysia did not examine the role and significance of the ACC's accounting expertise on the relationship between financial restatements and ARL. Hence, the current study was an attempt to fill this gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Chapter Three discusses the research design and methodology of the study. The Chapter clarifies the conceptual framework and the development of the hypotheses. The research design outlines the measurements and techniques of data analysis used in the study. This Chapter is organised as follows: Section 3.2 starts with a discussion of the underpinning theories of the current study, including agency theory, resource dependence theory, and learning curve theory. Section 3.3 explains the research framework while Section 3.4 describes the development of the hypotheses. Section 3.5 presents the research method and sample selection. Section 3.6 shows the data collection procedures. Section 3.7 provides details on the measurement of variables. Section 3.8 provides the research models, and the Chapter ends with a summary in Section 3.9.

3.2 Underpinning Theories

This section highlights the theories utilised in the study, namely, the agency theory, resource dependence theory, and learning curve theory. The main underpinning theory is agency theory used by many previous researchers to explain the issue of ARL (Al-Ajmi, 2008; Ghafran & Yasmin, 2018; Sultana *et al.*, 2015).

3.2.1 Agency Theory

Agency theory is one of the most used theories in corporate governance research. The theory addressed the ways of developing and designing an optimal corporation in the event of a conflict of interest between management (agent) and the shareholders (principal). Shareholders believe that some of the decisions made by the management are at the expense of their wealth (Fama, 1980). Hence, conflicts of interest arise due to opportunistic behaviour when the agent fails to act in the principal's best interests (Jensen & Meckling, 1976).

A main reason for the agency conflict between shareholders and management (Type I) is that there are asymmetries of information that arise owing to the direct participation of management in firm's day to day activities. This involvement means that managers have more information than owners about a firm and its business (Aboody & Lev, 2000). As a result, management would use this information to optimise gains to the detriment of shareholders. Therefore, the variations in the scope and nature of the information between managers and owners can result in agency problems (Ghafran, 2013), such as sub-optimal investment decisions. In this context, transparency of financial statements and the quality of timely disclosure of information are practical solutions to protect shareholders from such conflicts of interest (Salehi *et al.*, 2016). However, the delay in issuing financial information will lead to more information asymmetry as well as agency problems (Al-Ebel *et al.*, 2020; Hakansson, 1977).

Mustapha and Che-Ahmad (2011) and Al-Qadasi *et al.*(2018) noted that Malaysia has a unique concentrated business environment with more agency problems arising between majority shareholders and minority shareholders (Type II). As a result, most shareholders will conceal their expropriation practices by reducing the disclosure of financial statements to ensure that their private interests can be realised (Anafiah *et al.*, 2017). In this context, auditing would play a key role in reducing information asymmetry and would enhance the credibility of information (Healy & Palepu, 2001).

Auditing can also be thought as a monitoring task carried out by an independent party in mitigating agency issues. Thus, the audit report should be presented on a timely manner to provide the necessary guarantee to users of financial information. Information asymmetry can also be minimised if the management sends information signals to investors via the timeliness of the audit report. Afify (2009) stated that timely delivery of audit opinions helps improve investor decision-making and minimises information asymmetry because audited financial statements considered as the most reliable source that provide financial information (Alkhatib & Marji, 2012; Khlif & Samaha, 2014). However, the controlling owners might be unwilling to engage auditors of higher quality as such auditors would conduct strict monitoring (Hsu *et al.*, 2018).

Despite the presence of the two distinct types of agency problems, advocates of agency theory argued that there is a need for CGM to be structured to minimise the management's ability to protect their interests to the detriment of those of the shareholders (Sultana *et al.*, 2015). Al-Ajmi (2008) argued that putting good corporate governance practices in place is one solution to the agency issue, which will reduce the reporting lag. Thus, the management's delay in announcing their auditor's opinion will increase uncertainty in investment decisions and worsens information asymmetry (Mohamad-Nor *et al.*, 2010; Jaggi & Tsui, 1999).

Agency theory is appropriate to this study as it clarifies the role of the BOD, managerial ownership, and the AC as monitoring mechanisms to reduce agency problems (Das, 2015; Nelson & Shukeri, 2011). Monitoring mechanisms can reduce agency problems by enhancing internal controls and reducing audit business risks. If a firm has less business risk, the audit risk is low, which reduces the auditor's time to complete the audit report (Bamber *et al.*, 1993; Durand, 2019; Nelson & Shukeri, 2011). On the other hand, Habib *et al.* (2019) argued that the auditors need more audit hours and substantial audit assurance when the firm has a poor corporate governance practice, which, in turn, increases ARL.

3.2.2 Resource Dependence Theory

Hillman, Withers, and Collins (2009) reported that one of the most effective strategic management and organisational theories is the resource dependence theory. The theory posits that organisations are dependent on their external surroundings. In this respect, board members are seen as providing resources and directly influencing the board's ability to provide critical resources to a company (Pfeffer & Salancik, 2003).

Previous researchers using resource dependence theory had often focused on board composition and board size as indicators of the board's ability to offer critical resources to a firm (Hillman *et al.*, 2009). Pfeffer and Salancik (2003) claimed that when a firm appoints an individual to a board, the firm expects that this individual will support the firm, concern himself with its problems, and invariably represent it to others. They also categorised four benefits that directors bring to the firm: (1) information in the form of counsel and advice, (2) channels for communicating information between a firm and its external organisations, (3) legitimacy, and (4) preferential access to resources.

Furthermore, the resource dependency theory posits that the directors, as resource providers with connections with outsiders, provide insights into how other firms manage their financial reporting process. The exposure to different management styles and monitoring behaviours of other firms may help the AC to effectively monitor and maintain a high quality in financial reporting (Jaafar, 2016). Moreover, the resource dependency theory shows that the expertise and knowledge of the AC members would provide them with a superior capability to understand, examine and analyse the FRQ (Sultana *et al.*, 2015). DeZoort and Salterio (2001) found evidence that experience and knowledge can affect the support of an AC member toward the auditor, thus likely reducing the time taken to issue an audit report. Abernathy *et al*. (2017) argued that larger firms have better internal control systems and access to more resources, resulting in the early reporting of their financial statements to stakeholders.

In summary, the resource dependency theory is relevant for this study for the reason that corporate governance appears to have transferred the supervisory role of the BOD (agency theory) to the board's resource provision function (resource dependency theory) (Hillman *et al.*, 2009; Hillman & Dalziel, 2003).

3.2.3 Learning Curve Theory

DeAngelo (1981) defined audit quality as the auditor's ability to discover a breach in the client's accounting system and report it. This ability to detect a breach will be greater if the auditor has a more in-depth knowledge of the client, and without a doubt, this knowledge increases with tenure through the learning curve effect (Garcia-Blandon & Argiles-Bosch, 2017). In other words, the auditors play an important role in the quality of the financial reports as they are responsible for ensuring that the client's financial statements are free from material misstatements (Schmidt & Wilkins, 2013). To achieve this, effective audits require a thorough understanding of a client's business and process (Tanyi *et al.*, 2010).

From the learning curve theory perspective, to carry out an efficient audit, auditors need time to build sufficient client-specific knowledge (Lapre, Mukherje, & Van Wassenhove, 2000; Liu, Xie, Chang, & Forgione, 2017), implying that auditors gain more client-specific knowledge through time (Hapsoro & Santoso, 2018). Once the auditors gain more understanding and knowledge of the specific business processes of a client, it leads to an increase in the ability of the auditors to detect both unintentional and intentional material misstatements in the financial reports and to produce a report of higher audit quality (Chi & Huang, 2005). This would reduce the time required to provide financial information.

On the contrary, a new partner of an audit firm has a greater learning curve to acquire client knowledge (Bedard & Johnstone, 2010). This is because when an auditor is appointed, he/she begins the auditing process with less client-specific knowledge (Jackson, Moldrich, & Roebuck, 2008). In other words, with the higher learning curve in a new audit partner rotation, they would need to continue training for new industries, customers, and systems, which puts excessive pressure on the efficiency and effectiveness of the audit (Sharma *et al.*, 2017). This, in turn, reduces the auditor's ability to determine whether a firm's accounting and reporting choices are proper (Lennox, 2014). Thus, audit costs would increase due to the additional effort and work needed by auditors (Jackson *et al.*, 2008), which would lead to an increase in the ARL.

3.3 Research Framework

The main theory underlying the development of the hypotheses in this study is agency theory, while the resource dependency theory is used to complement the agency theory views, especially regarding the flow and exchange of resources between the firms and their resource suppliers (Sultana *et al.*, 2015). The resource suppliers are the expertise of the BOD and the AC. Various monitoring mechanisms impact the financial reporting processes and information reliability which influence ARL. The agency theory assumes that the monitoring mechanisms must align with both the managers' and shareholders' interests to minimise conflicts of interest and any potential opportunistic behaviour that may arise (Jensen & Meckling, 1976). The agency and resource dependence theories suggest that stronger BOD and ACs are related to stronger controls and lower risks (Sharma *et al.*, 2008). Thus, when a firm has a lower risk, an auditor does not need to expend greater effort for his audit, leading to reduced ARL.

Furthermore, according to learning curve theory, an auditor who is familiar with the client's operations, processes, and procedures will be able to complete audit reports more quickly (Wan-Hussin *et al.*, 2018). The knowledge and expertise gained through repeated audits contribute to the reduction of learning curves, which in turn reduces ARL. However, a new partner in a new audit firm faces a steeper learning curve to acquire client knowledge (Bedard & Johnstone, 2010), putting undue strain on audit effectiveness and efficiency by reducing time available to audit the client (Sharma *et al.*, 2017).

Figure 3.1 which was developed based on theories and previous studies (Abernathy *et al.*, 2014; Afify, 2009; Ashton *et al.*, 1989; Baatwah *et al.*, 2019; Blankley *et al.*, 2014; Durand, 2019; Ghafran & Yasmin, 2018; Habib *et al.*, 2019; Habib & Muhammadi, 2018; Ika & Ghazali, 2012; Rusmin & Evans, 2017; Wan-Hussin *et al.*, 2018) illustrates the determinants of ARL in Malaysia, namely the BOD' characteristics (size, independence, meetings, financial expertise, and effectiveness), the AC's characteristics (size, independence, meetings, financial expertise, effectiveness, the chairman's accounting expertise, the chairman's tenure, and chairman's multiple directorships), a separate RMC, ownership structure (family, managerial, and foreign), audit partner tenure, and financial restatements. Furthermore, this is the first study (to the best of the researcher's knowledge) to examine the moderating effect of the accounting expertise of the ACC on the relationship between financial restatements and ARL.

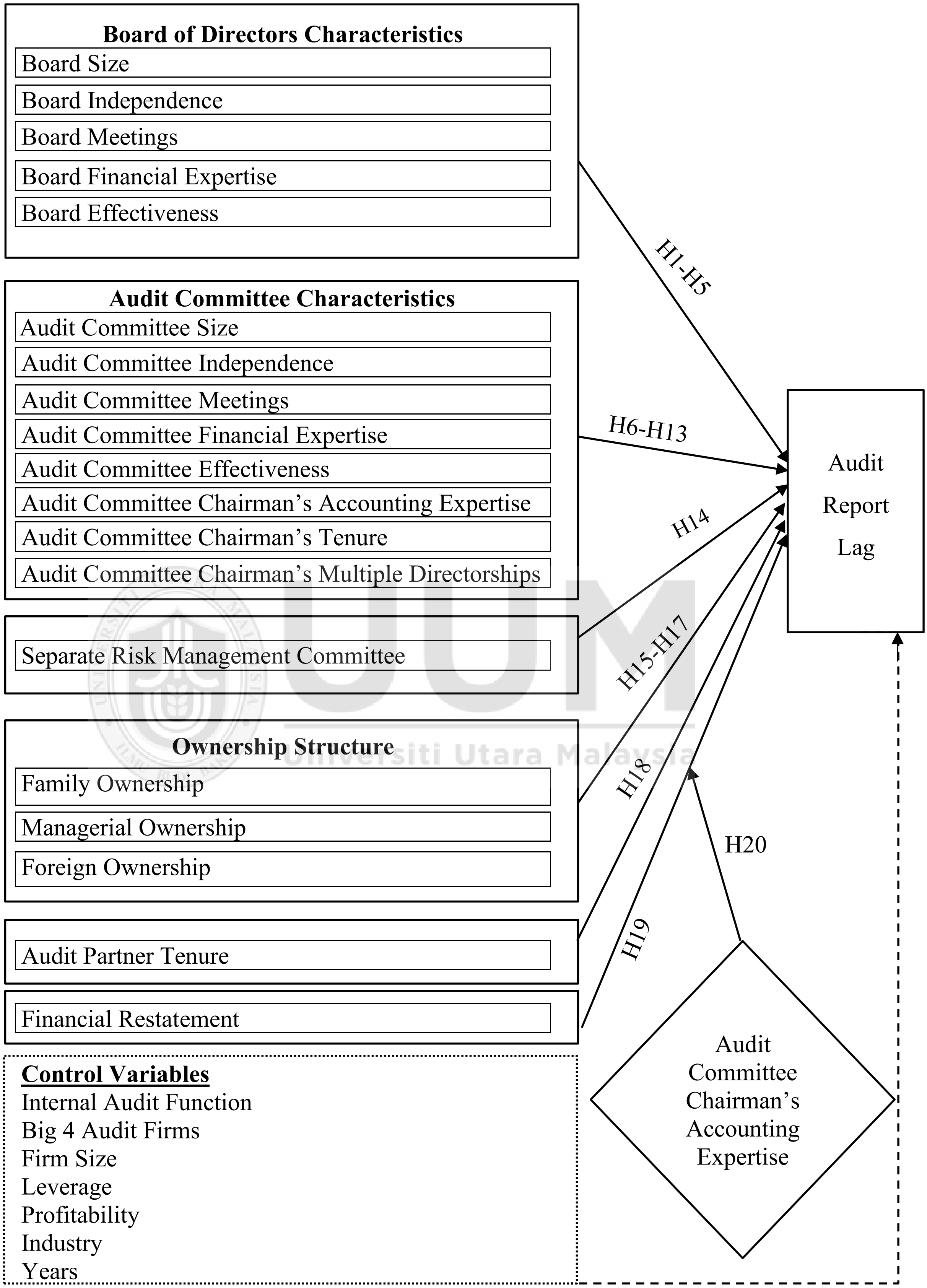

Figure 3.1
Research Framework

3.4 Hypotheses Development

This section discusses the relationship between the independent and dependent variables in formulating the study hypotheses based on agency theory, resource dependency theory, and learning curve theory. In this study, nineteen independent variables were hypothesised to influence ARL, while the accounting expertise of the ACC was hypothesised to have a moderating effect on the relationship between financial restatements and ARL. IAF, the Big 4 audit firms, firm size, leverage, profitability, industry, and years were included as control variables.

3.4.1 Board Size

Fama and Jensen (1983) argued that BOD is an effective mechanism for addressing the agency conflicts caused by the separation of control and ownership. Nonetheless, there is disagreement among researchers as to whether large or small boards can better monitor management and enhance the quality of financial reporting (Hassan, 2016; William, Fadil, & Armstrong, 2005).

According to the resource dependence theory, having a large board size leads to a higher board level of experience, leading to better firm performance (Zahra & Pearce, 1989) and a greater desire for disclosure (Ezat & El-Masry, 2008), which may increase the timeliness of reporting (Alfraih, 2016; Basuony *et al.*, 2016). The BOD can efficiently and effectively monitor managerial behaviour, and the ARL would probably be shortened and control risks are lower (Habib, 2015). However, the agency theory views that a large board size (seven or eight members) is less likely to function effectively (Jensen, 1993) because it will take some time for the members to cooperate with each other (Li, Zhang, & Wang, 2014). They also become less efficient in their teamwork, performance and connectivity, thereby increasing the ARL (Alfraih, 2016).

Empirical studies indicate a significantly negative relationship between BOD size and audit delays (Alfraih, 2016; Basuony *et al.*, 2016), a significantly positive relationship (Daoud *et al.*, 2015; Hassan, 2016), and an insignificant relationship (Chalu, 2021; Habib, 2015; Habib *et al.*, 2019). Salleh *et al*. (2017) and Mohamad-Nor *et al*. (2010) did not find evidence of a relationship between board size and ARL in Malaysia. Based on findings from previous studies, it is clear that the relationship between board size and ARL remains inconclusive. Using the agency theory and resource dependence theory, the following hypothesis was developed:

H₁: *There is a significant relationship between board size and ARL.*

3.4.2 Board Independence

Non-executive directors on the board is considered as one of the most important determinants in their capability to protect investors' interests (Fama & Jensen, 1983). They are seen to be in the most appropriate position to scrutinise or observe the management rather than the internal managers (Mohamad-Nor *et al.*, 2010). As a result, they regularly act as arbitrators in disputes between the internal managers and tackle agency issues (Alfraih, 2016). Goh *et al*. (2014) posited that the stakeholders could possibly depend on an independent board in monitoring the activities of the management. A firm with many independent board members would strengthen the supervisory role of its board. This would have a positive impact on issues relating to quality financial disclosures (Afify, 2009), which would result in a quicker issuance of audited financial reports, hence lessening the ARL (Chan *et al.*, 2016).

Alfraih (2016) noted that an increase in the number of independent board members will enhance the firm's internal control process. This will decrease the auditors' evaluation regarding control issues and intrinsic risks. Thus, this will reduce the range of the audit tasks and improve the timeliness of the audit reports. Empirical studies showed some evidence of a relationship between board independence and ARL. For example, Habib *et al*. (2019), Alfraih (2016), Afify (2009), and Habib and Muhammadi (2018) found a negative association between the independence of BOD and ARL. However, Wu *et al*. (2008) showed that a board with independent directors positively affected reporting lag due to the board's monitoring role as they were able to expend much time verifying the important accounting actions of the firm. In contrast, Chan *et al*. (2016) and Habib (2015) showed that there was no relationship between board independence and ARL.

In Malaysia, Abdullah (2006) showed a negative relationship between board of director's independence and ARL, while Mohamad-Nor *et al*. (2010) reported a weak positive relationship between the independence of BOD and ARL. However, Nelson and Shukeri (2011), Shukeri and Islam (2012), and Apadore and Mohd-Noor (2013) showed an insignificant relationship between board independence and ARL. Following the perspective of the agency theory and resource dependence theory, the following hypothesis was developed:

***H*₂**: *There is a significant relationship between board independence and ARL.*

3.4.3 Board Meetings

Carcello *et al*. (2002) stated that the numbers of meetings reflect the diligence of the BOD. From the agency theory perspective, the frequency of board meetings is a vital factor in enhancing the effectiveness of the BOD (Vafeas, 1999). Thus, directors who attend more meetings can effectively monitor managers (Foo & Zain, 2010). Effective monitoring will decrease audit risks causing auditors to decrease their efforts and audit procedures (Chan *et al.*, 2016), thus issuing the audit report on time.

Furthermore, the more frequent board meetings may indicate the existence of a good internal control mechanism. Management issues are more likely to be addressed and resolved during the meetings, and, as a result, the quality of reporting is improved (Hashim & Rahman, 2012). On the other hand, when the board meets frequently, they will leave their managerial responsibility. Thus, activities related to financial reporting will be delayed, which will lead to a delay in the issuance of financial reports (Bakare *et al.*, 2018).

Ahmed and Che-Ahmad (2016) and Daoud *et al.* (2015) showed a negative relationship between board meetings and ARL. Similarly, Tauringana *et al*. (2008) showed that board meetings had a significant positive effect on the timeliness of annual reports. However, Bakare *et al*. (2018) showed a negative relationship between the frequency of board meetings and the timeliness of financial reporting, while Singh and Sultana (2011) showed an insignificant association between board diligence and ARL.

In Malaysia, studies that examined the relationship between board diligence and ARL showed inconsistent results. Hashim and Abdul Rahman (2012) found that frequent board meetings reduced ARL, while Salleh *et al*. (2017) reported that the frequency of board meetings increased ARL. Based on these inconclusive findings, and the agency theory, the following hypothesis was developed:

***H*$_3$**: *There is a significant relationship between the frequency of board meetings and ARL.*

3.4.4 Board Financial Expertise

Agency theory suggests that the members of any board who have financial expertise would improve the effectiveness of the board in terms of its supervisory role (Oussii & Taktak, 2018). This promotes the board's capacity to ensure that the external auditor's work is capably undertaken (Sultana *et al.*, 2015) by convincing the external auditor in the audit negotiation process. The presence of board members with financial expertise would also improve the board's level of knowledge, which would lead to more support for external auditors in any dispute between the management and the auditor (DeZoort *et al.*, 2002; Singh & Sultana, 2011). Also, a board with members with financial expertise would be in an appropriate position to resolve issues related to the firm. Accordingly, these members would reduce the functional complications of auditors (Hashim & Rahman, 2012) and, as a result, the audit report is issued on time.

The resource dependence theory suggests that a board with a large proportion of outside directors with relevant experience and knowledge may improve the quality and reliability of financial reporting. This reduces audit risks and enhances the timeliness of the audit report. Furthermore, the finance experts on the board are aware of the importance of the annual report being released in a timely manner and exert pressure on the management to do so (Tauringana *et al.*, 2008). Board members who lack experience cannot solve and understand the problems and issues identified in the reports (Daoud *et al.*, 2015); thus, causing them to need to spend more time understanding these issues and, consequently, more ARL.

Singh and Sultana's (2011) empirical study showed a negative relationship between the percentage of financial expertise on the BOD and ARL, while an insignificant relationship was reported by Al Daoud *et al*. (2015) and Ahmed and Che-Ahmad

(2016). Following the perspective of the agency and resource dependence theory, this study posits the following hypothesis:

H*$_4$*: There is a significant negative relationship between board financial expertise and ARL.

3.4.5 Board Effectiveness

The BOD is responsible for mitigating the conflict of interests between the shareholders and management (Fama & Jensen, 1983). This responsibility includes monitoring the top management's behaviour and ensuring the credibility of financial reporting (Hay, Knechel, & Ling, 2008). Thus, a firm's BOD has to ensure the timeliness in releasing the financial reports to mitigate this conflict (Bakare *et al.*, 2018). Previous researchers have documented that board characteristics including size, independence, meeting frequency, and members' expertise help to explain their effectiveness (Al-Qadasi *et al.*, 2018; Ben-Amar & McIlkenny, 2015; Bin-Ghanem & Ariff, 2016; Johl *et al.*, 2013) and increase the timeliness of financial reporting by reducing ARL (Singh & Sultana, 2011).

Moreover, a board with more independent directors (Afify, 2009), a larger size (Alfraih, 2016), more frequent meetings (Hashim & Rahman, 2012) and more financial experts (Singh & Sultana, 2011) will have adequate experience, knowledge and skills, which, in turn, will help the management to prepare higher quality and more reliable financial reports (Hashim & Rahman, 2012). As a result, this will reduce an auditor's assessment of control risk and reduce the extent of audit procedures (Carcello *et al.*, 2002), consequently reducing ARL and producing timely financial statements.

Previous empirical studies examined the characteristics of the BOD as individual metrics and showed mixed results regarding ARL (Alfraih, 2016; Daoud *et al.*, 2015; Hassan, 2016; Mohamad-Nor *et al.*, 2010; Singh & Sultana, 2011). However, using a composite score for CGM is a more suitable approach as these mechanisms can work as either complements or replacements for each other (Connelly *et al.*, 2012; Ward *et al.*, 2009). In addition, a composite score is a stronger metric for measuring than just for examining these characteristics individually (O'Sullivan *et al.*, 2008).

Stronger corporate governance is seen as leading to improved transparency of financial reporting (O'Sullivan *et al.*, 2008) which impacts the creation of timely information and prevents managers from hiding information (Lara *et al.*, 2007). To support this view, previous studies showed that the effectiveness of the BOD is positively related to performance (Laoworapong *et al.*, 2015), higher quality auditors (Al-Qadasi *et al.*, 2018), voluntary disclosures (Ben-Amar & McIlkenny, 2015), FRQ (Johl *et al.*, 2013), and level financial reporting disclosure practices (Bin-Ghanem & Ariff, 2016).

In line with the agency theory and the discussions, the current study considered the impact of a composite measure for board effectiveness. The expectation is that board effectiveness will positively affect the decision of the external auditor to rely on the work of the IAF. Reducing the extent of audit procedures will lead to an increase in the timeliness of financial reporting. Thus, this study posits the following hypothesis:

H*$_5$*: There is a significant negative relationship between board effectiveness and ARL.

3.4.6 Audit Committee Size

From the resource dependency theory view, effectiveness of the AC improves when the size of the committee increases (Sharma *et al.*, 2009; Shukeri & Islam, 2012). This shows that the bigger the size of the AC, the more efficient it will be to fulfil its monitoring role (Zaman *et al.*, 2011), which leads to an enhanced quality of internal controls. This indicates that a larger AC allows for the selection of members who have a wider competency of knowledge, experience and connections (Sultana *et al.*, 2015).

Furthermore, the broader and differing opinions obtained from a larger group of members would facilitate the committee to act based on their vast experience in solving the disputes between the management and the external auditors (DeZoort *et al.*, 2002). Hence, ACs which are large in size would greatly influence the timeliness of audit reports by resolving the possible and numerous issues related to the financial reporting process (Mohamad-Nor *et al.*, 2010). Nonetheless, a bigger AC is less likely to be effective due to coordination and process issues (Pucheta-Martínez & De Fuentes, 2007). This would most likely influence the period taken to publish the audit report.

There are mixed results relating to the effect of AC size on ARL. Raweh *et al*. (2019) and Chalu (2021) demonstrated a positive relationship between the AC size and ARL, contrary to Durand (2019) who discovered a negative association between the AC size and ARL. Conversely, studies such as Sultana *et al*. (2015), Aldoseri *et al.* (2021), and Oussii and Taktak (2018) discovered an insignificant relationship between AC size and ARL. In Malaysia, Apadore and Mohd-Noor (2013), Mohamad-Nor *et al*. (2010), Wan-Hussin *et al*. (2018), and Shukeri and Islam (2012) showed a negative association between AC size and ARL. However, Baatwah *et al*. (2019) and Wan-Hussin and Bamahros (2013) found no significant connection between the size of AC and ARL.

The expectation is that the greater the size of the AC, the more resources it has, which helps the committee to resolve potential conflict in the financial reporting process and provide the client with a timelier audit report. Thus, the following hypothesis was developed:

***H_6**: There is a significant negative relationship between AC size and ARL.*

3.4.7 Audit Committee Independence

Agency theory and resource dependence theory argued that the role and responsibilities of AC are least likely to be compromised by the higher percentage of outside directors (Sultana *et al.*, 2015). Hence, they would be in a better position to enhance the committee's efficiency and supervisory task in financial reporting (Hashim & Rahman, 2011; Song & Windram, 2004). In addition, independent ACs help to provide a higher quality financial report by balancing the various opinions of external and management auditors (Kusnadi *et al.*, 2016). Thus, the actions and functions of a highly independent AC may reduce the time taken to produce audit reports (Oussii & Taktak, 2018). However, any further audit efforts by auditors are required by the independent AC to identify any potential risk of error or misrepresentation (Habib & Muhammadi, 2018), thereby increasing ARL.

The association between AC independence and ARL was examined in previous research. Nonetheless, the findings of these studies remain inconclusive. For instance, Sultana *et al*. (2015) found that independent ACs are negatively related to ARL.

Likewise, in Malaysia, Baatwah *et al*. (2019) and Wan-Hussin and Bamahros (2013) found a significantly negative association between AC independence and ARL However, Oussii and Taktak (2018) and Raweh *et al*. (2019) did not support any significant association between AC independence and ARL. Apadore and Mohd-Noor (2013), Wan-Hussin *et al*. (2018), and Mohamad-Nor *et al*.(2010) reported that AC independence is not significantly related to ARL. Following the perspective of the agency theory and the resource dependence theory, the following hypothesis was proposed:

***H**$_7$: There is a significant relationship between AC independence and ARL.*

3.4.8 Audit Committee Meetings

For an AC to be effective, it must be active. Thus, when members of the AC meet regularly, it is a signal that they are active in conducting their due diligence (Zaman *et al.*, 2011; Rupley *et al.*, 2011). Regular meetings give an opportunity for the AC to monitor audit quality (Zaman *et al.*, 2011) (for example, ensuring that the audit report is provided on time) and to identify and resolve problems that may be faced by the firm regarding their financial reports (Mohamad-Nor *et al.*, 2010). This action is expected to minimise the time taken to release the audit report (Sultana *et al.*, 2015).

Moreover, an AC with a higher meeting frequency would be more likely to eliminate internal control deficiencies and, as a result, reduce auditor working hours, and eliminate a lot of queries from external auditors (Habib *et al.*, 2019). On the other hand, a higher number of AC meetings indicate issues in accounting and internal control (Kamarudin *et al.*, 2018). Additionally, weak internal control tends to make financial statements more prone to have errors that could increase the risk of the audit

(Zhang, Zhou, & Zhou, 2007). This leads to an increase in the time spent by the auditor to perform his audit and, thus, to an increase in the ARL.

Kusumah and Manurung (2017) showed a negative relationship between AC meetings and ARL, similar to Mohamad-Nor *et al*. (2010) and Baatwah *et al*. (2019) who found a negative relationship between the frequency of AC meetings and ARL in Malaysia. This result is inconsistent with studies by Wan-Hussin and Bamahros (2013), Kaaroud *et al.* (2020), Abed *et al.* (2021) and Kamarudin *et al*. (2018) who showed that ACs with frequent meetings have a positive relationship with ARL. They argued that more financial problems could be identified from the frequent meetings and thus, prolonging the search for solutions to these problems, which would increase the delay in the audit report (Kaaroud *et al.*, 2020). However, Chalu (2021), Habib *et al*. (2019), Raweh *et al*.(2019), Sultana *et al*. (2015), and Aldoseri *et al.* (2021) showed no significant association between AC meetings and ARL, consistent with the findings of Hashim and Abdul Rahman (2012) and Apadore and Mohd-Noor (2013) in Malaysia. Based on agency theory and the direction of the studies that are in line with the theory, the following hypothesis was proposed:

***H*$_8$**: *There is a significant relationship between the frequency of AC meetings and ARL.*

3.4.9 Audit Committee Financial Expertise

From an agency theory perspective, the involvement of members with financial experience increases the effectiveness of the committee's supervisory roles and mitigates disputes between managers and owners (Kusnadi *et al.*, 2016; Oussii & Taktak, 2018; Yatim *et al.*, 2006). In line with the resource dependency theory viewpoint, the existence of financial experts on the AC allows the sub-committee to preserve a greater power over audit judgements and financial accounting information (Sultana *et al.*, 2015). Hence, AC members with a great deal of expertise play an important role in the resolution of conflicts between management and auditors (DeZoort & Salterio, 2001). Thus, this role would significantly reduce the time taken by auditors to undertake their audit work, thus minimising ARL.

It was also argued that financially experienced and knowledgeable members of the AC are more likely to prevent and detect material misstatements (Mohamad-Nor *et al.*, 2010) and are less likely to have internal control weaknesses (Krishnan, 2005; Zhang *et al.*, 2007). Thus, they are likely to exert pressure on their management to release the annual report early (Tauringana *et al.*, 2008). To support this notion, Habib *et al*. (2019) stated that the involvement of a financial expert in the AC decreases the ARL. Sultana *et al*. (2015), Oussii and Taktak (2018), Aldoseri *et al.* (2021), and Raweh *et al*. (2019) empirically provided evidence that members of the AC with financial expertise are associated with shorter ARL.

Studies conducted in Malaysia reported mixed findings. For example, Tazik and Mohamed (2014) showed a negative relationship between AC expertise with ARL. However, other studies by Wan-Hussin and Bamahros (2013), Apadore and Mohd-Noor (2013), Baatwah *et al*. (2019), and Mohamad-Nor *et al*. (2010) reported an insignificant relationship between AC expertise and ARL.

This study assumes that the involvement of the AC members with financial expertise increases the ability of the committee to ensure that the work of the external auditor is carried out competently, thereby reducing the ARL. Thus, the study posited the following hypothesis:

***H*$_9$**: *There is a significant negative relationship between AC financial expertise and ARL.*

3.4.10 Audit Committee Effectiveness

The AC oversees the auditing and the financial affairs of a firm (Habib *et al.*, 2019) and improves the capacity of the BOD to do its role as a monitor of management. The committee does so by providing more detailed knowledge and understanding of financial statements of the firm through the timely presentation of financial reports (Ika & Ghazali, 2012) to mitigate the conflicts resulting from information asymmetry between the firm's managers and shareholders. Hence, the AC plays a vital role as a coordinator for a firm's management and external auditor (Song & Windram, 2004). When the AC is effective in performing its oversight duty in the financial reporting process, it will influence the auditor's assessment of planned audit hours by reducing the auditor's perceptions of the client's business risk (Afify, 2009) and decrease the extent of testing necessary (Cohen & Hanno, 2000). An effective AC may also reduce the risk of any material error, which increases the possibility for the external auditor to rely on an internal auditor (Pizzini, Lin, & Ziegenfuss, 2015). This may lead to the auditor's ability to complete an audit on time (Ika & Ghazali, 2012).

Research in corporate governance has started to use the composite score to assess AC effectiveness, recognising that the effectiveness of a particular mechanism of corporate governance depends on other mechanisms (Connelly *et al.*, 2012; Ward *et al.*, 2009). Ika and Ghazali (2012) argued that using a single characteristic of AC may be inadequate to measure the effectiveness of the AC and its impact on FRQ in terms of timeliness. A combined metric is better because it is likely to avoid measurement errors which may occur through the use of an individual measurement (Srinidhi, He, & Firth, 2014; O'Sullivan *et al.*, 2008). For example, Saleh *et al*. (2007) showed that independent members of an AC with financial expertise but who do not attend meetings would not enhance AC effectiveness. Moreover, the independence of the AC is insufficient if the members are not financial experts (Mustafa & Youssef, 2010).

Previous researchers studied the effectiveness of AC, namely its size, independence, meetings and expertise of the members of the committee (Ben-Amar & McIlkenny, 2015; Bin-Ghanem & Ariff, 2016; Goh, 2009; Ika & Ghazali, 2012; Zaman *et al.*, 2011). Ika and Ghazali (2012) found that AC effectiveness was positively associated with financial reporting timeliness, while Ghafran and Yasmin (2018) found that AC compliance had a negative association with ARL.

In Malaysia, previous studies examined the characteristics of the AC as individual metrics, but these studies have shown inconsistent results concerning ARL (Mohamad-Nor *et al.*, 2010; Wan-Hussin *et al.*, 2018; Wan-Hussin & Bamahros, 2013). Based on the AC effectiveness framework by DeZoort *et al*. (2002), the current study will use an index of the AC characteristics which include size, independence, meetings, and financial expertise as the combined measurement of AC effectiveness. The interactions between these characteristics are likely to have the most impact on audit quality (Zaman *et al.*, 2011); thus, reducing ARL. Based on the views of agency theory and the discussions above, the current study posits the following hypothesis:

***H_{10}**: There is a significant negative relationship between AC effectiveness and ARL.*

3.4.11 Audit Committee Chairman's Accounting Expertise

The complexity of the firm's accounting and financial information requires that the AC to step up its substantial efforts (He & Yang, 2014) to perform its monitoring functions effectively. The agency theory views the existence of participants with accounting expertise as essential to increase the effectiveness of monitoring (Abernathy *et al.*, 2014; Amin *et al.*, 2018) and to enhance the ability of the AC to assure the competency of the external auditor's work (Sultana *et al.*, 2015). Resource dependence theory also shows that the AC member' expertise and knowledge would provide them with a superior capability to understand financial accounting information and audit judgements (Sultana *et al.*, 2015). Thus, accounting expertise helps increase the monitoring role of the AC (Dhaliwal *et al.*, 2010). In other words, to be effective, board committees must include accounting experts instead of only financial experts (Das *et al.*, 2020).

Moreover, the accounting knowledge of the AC members will create efficiency in the preparation of financial reporting mostly when used by the ACC (Abernathy *et al.*, 2014). Therefore, accounting expertise of the ACC is in a better position to understand auditor judgements and mediate disagreements between the external auditors and management (DeZoort & Salterio, 2001; Sultana *et al*. 2015) through interactions with the audit partner and the chief financial officer (Baatwah *et al.*, 2019). These interactions lead to improved communication efficiency between the auditor and the AC by minimising the time needed for the AC to understand, discuss, and evaluate the significant unusual transactions and the accounting policies with the auditor (Abernathy *et al.*, 2014). The AC also supports the management in auditor disputes and resolve these disputes quickly (Salterio, 2012) and, thus, the audit report can be issued on time.

Furthermore, Ghafran and Yasmin (2018) argued that ACC with financial experience will actively reduce delays in the audit report by lessening the risk of client audit as well as encouraging the external auditor to depend on internal auditors in performing specific audits tasks (Baatwah *et al.*, 2019). This is because he/she has the highest responsibility for overseeing financial reporting and is more likely to be held accountable when financial reporting failures occur as compared to other members of the AC (Schmidt & Wilkins, 2013). Abernathy *et al*. (2014) and Baatwah *et al*. (2016) found a negative relationship between the ACC's accounting expertise and ARL, while Ghafran and Yasmin (2018) failed to find a statistically significant relationship between the financial expertise of the ACC and ARL.

In their study on Malaysia's top 100 firms, Baatwah *et al*. (2019) showed that the accounting expertise of the ACC had a negative association with ARL. This current study extended Baatwah *et al*. 's research (2019) by including all non-financial firms. Based on the resource dependency theory and agency theory as well as previous research, this study developed the following hypothesis:

***H*$_{11}$**: *There is a significant negative relationship between the ACC's accounting expertise and ARL.*

3.4.12 Audit Committee Chairman's Tenure

Tenure is an important factor which assesses the effectiveness of AC in its monitoring role. Conflicting hypotheses have been raised in the literature related to the relationship between directors' tenure and monitoring functions (Baatwah *et al.*, 2019). The period spent by directors in a firm will improve managers' dedication in carrying out their duties (Sharma & Iselin, 2012) and to develop their knowledge and experience about the firm (Liu & Sun, 2010). Managers who have also been at a firm a long time may have a high reputation; thus, they have a high level of commitment and willingness to work better (Chan *et al.*, 2012; Liu & Sun, 2010). Maintaining the timeliness and fair presentation of audited financial statements will improve the reputation of managers.

As ACC is more central and pivotal, their knowledge and experience over time will help them to carry out their duty effectively and improve their performance in the financial reporting processes (Ghafran & Yasmin, 2018). As a result, these directors have less need to raise their audit efforts due to their effective supervisory role in the financial reporting processes (Chan *et al.*, 2012). This enables auditor to decrease the degree of testing which leads to a quicker address of contentious accounting issues (Baatwah *et al.*, 2019) which, in turn, will shorten the time required to issue an audit report.

On the other hand, a long time board service can adversely affect the independence and effective monitoring of AC members by establishing a friendly relationship with management over time (Vafeas, 2003). Therefore, the auditor may feel that the efficacy of oversight by the ACC is diminished, which leads to a greater audit effort and an increase in the ARL (Baatwah *et al.*, 2019).

Empirical studies on ACC's tenure have shown inconclusive results. Abernathy *et al.* (2014) found that AC members with long tenure are negatively related to ARL.

Ghafran and Yasmin (2018) reported a negative relationship between the tenure of the ACC and ARL, while Tanyi and Smith (2015) found no significant relationship between ACC's tenure and FRQ. In the Malaysian context, Baatwah *et al*. (2019) found that the ACC's tenure was related to a decrease in the ARL. However, as their data only consisted of the top 100 companies listed in Malaysia, the results could not be generalised to other firms. Thus, this current study overcame this limitation by using all non-financial firms.

The previous discussion showed that there was a greater positive impact of long tenure on FRQ (Chan *et al.*, 2012; Ghafran & Yasmin, 2018). In the current study, personal traits of the ACC, such as tenure, was expected to influence the audit report timeliness. Thus, based on the arguments above, the current study posits the following hypothesis:

H₁₂: *There is a significant negative relationship between the ACC's tenure and ARL.*

3.4.13 Audit Committee Chairman's Multiple Directorships

Directors with multiple board services are often perceived as bringing greater monitoring, resources, and business knowledge to a firm (Fama & Jensen, 1983; Sharma & Iselin, 2012). Thus, additional directorships can improve the reputation of directors (Fama & Jensen, 1983) and may motivate them to perform their duties diligently, provide a better quality of monitoring to protect their reputations (Sharma & Iselin, 2012; Dhaliwal *et al.*, 2010), and assist to publish the audit report on time.

The ACC is considered as a more important member than the other members of the committee (Ghafran & Yasmin, 2018; Sharma *et al.*, 2009), and he/she is the most responsible for the timeliness of a firm's financial reporting (Abernathy *et al.*, 2014).

A view is that if a chairman holds multiple directorships, he/she develops more knowledge and better expertise in different accounting and governance issues about a firm (Baatwah *et al.*, 2019). Therefore, this knowledge will help him/her to work more effectively, especially in audit planning and dispute situations between auditors and management (DeZoort & Salterio, 2001). Moreover, AC members who sit on the BOD of other firms are more likely to be given greater respect by management and, as such, are in a better position to enhance free and clear communication between AC members and both external and internal auditors (Sharma & Iselin, 2012). This may increase the effectiveness of the AC; thus, reducing ARL. Ghafran and Yasmin (2018) also found a positive association between ACC holding multiple committee seats and the timeliness of audit reports.

A contrary view suggests that holding multiple directorships implies an increased workload for directors (Méndez *et al.*, 2017), making them too busy (Benson *et al.*, 2015; Kamardin & Haron, 2011; Sharma *et al.*, 2009). The AC works as a team, and if the ACC is so busy, the time he/she spends in the firm could be reduced which reduces the success of the AC's monitoring role in financial reporting operations (Rickling, 2014; Sharma & Iselin, 2012; Tanyi & Smith, 2015). As a consequence, the ARL is increased. Tanyi and Smith (2015) noted that the chairman's number of additional directorships was negatively related to the FRQ. Similarly, Sharma and Iselin (2012) reported that an AC member with multiple directorships was negatively related to FRQ.

In the Malaysian context, Baatwah *et al*. (2019) showed that ACC with multiple directorships did not influence audit report timeliness. However, their findings may not be generalisable to smaller companies as their data only consisted of the top 100 listed Malaysia. In line with the perspective of both agency and resource dependency theories, the current study posits the following hypothesis:

***H*$_{13}$**: *There is a significant relationship between the ACC's multiple directorships and ARL.*

3.4.14 Separate Risk Management Committee

Board committees have been set up to shield shareholders from conflicts of interest with the firm's management (Fama & Jensen, 1983). Based on the agency theory, the presence of a separate RMC reflects the high quality of the firm's internal monitoring control (Subramaniam *et al.*, 2009). Thus, where auditors believe that firms have better internal management control, the nature of audit tests and the extent of audit procedures would be minimised (Boo & Sharma, 2008; Cohen & Hanno, 2000). This, in turn, reduces the time it takes for the audit to be carried out.

Furthermore, the potential for inefficiencies of the AC will rise due to the complexity of the risks and increasing workload pressure on these committees (Sekome & Lemma, 2014; Subramaniam *et al.*, 2009). However, the formation of a separate RMC will relieve the AC of some of its risk oversight responsibilities (Ishak & Md Yusof, 2013); thus, this permits the AC to work more effectively in performing its oversight functions. Based on this discussion, if the AC is effective in its oversight, this will affect FRQ, which will reduce the time required for the release of audit reports (Ika & Ghazali, 2012).

On the other hand, since auditors are responsive to client risk factors (Cohen & Hanno, 2000), firms with stand-alone RMC will have higher financial reporting risk

(Subramaniam *et al.*, 2009) and operational risk (Lawrence *et al.*, 2018), which leads to increased audit risk. Consequently, a risky client would need further audit work to reduce the audit risk to an appropriate level (Sharma *et al.*, 2008), which leads to an increase of planned testing; thus, increasing ARL. Also, the presence of the RMC is regarded as an additional layer of red tape for the BOD, which may result in a lack of emphasis on risk supervision, and lead to a complete board dependence on this committee (Hines *et al.*, 2015). Therefore, the RMC may also propose a higher demand for external assurance from auditors (Larasati, Ratri, Nasih, & Harymawan, 2019).

Several prior empirical studies have reported that the establishment of a RMC is associated with high quality disclosure (Hassan *et al.*, 2012) and the lower risk of a modified audit opinion (Ishak & Md Yusof, 2013). However, Ali *et al*. (2017) showed that the association between the RMC and financial restatements was positive. Yatim *et al*. (2006) reported an insignificant association between RMC and the audit fees. Given the scarce literature on the association between the RMC and ARL, it can be argued that increasing the monitor on the BOD via the separate RMC, the timeliness of the firm's audit report will be significantly improved. Although previous studies disagreed about the impact of the RMC on audit quality, the current study predicts an association between the separate RMC and ARL. Thus, the following non-directional hypothesis is predicted:

***H*$_{14}$**: *There is a significant relationship between a separate RMC and ARL.*

3.4.15 Family Ownership

As a family firm often appoints family members to be their managers, the agency problem (Type I) between managers and shareholders is diminished (Ali *et al.*, 2007;

Chen, Chen, & Cheng, 2008b). From the agency theory viewpoint, firms that have a higher percentage of family members on the BOD will have lesser diffused ownership (Ghazali & Weetman, 2006). This would reduce audit risks and reduce the probability of auditor litigation because the investors who depend on the client's audited financial information are mainly investors who have inside information (Jaggi & Tsui, 1999). Accordingly, the audit risk will be lower and the auditors will work with less effort by reducing the scope and the extent of audit procedures (Ghosh & Tang, 2015). In this case, the auditor's normal audit procedures will be sufficient to decrease the audit risk to a satisfactory level (Shiri *et al.*, 2018) and less effort from the auditor will reduce the delays of the audit report (Bamber *et al.*, 1993; Ashton *et al.*, 1987).

Furthermore, Shiri *et al*. (2018) noted that family firms present higher quality of financial reporting. Auditors evaluate family firms as having lower financial statement manipulation changes due to direct monitoring by a family member (Wang, 2006). This affects planning the audit and auditors would need to work less to provide assurance (Ghosh & Tang, 2015). However, potential investors believe that family firms are unattractive investment opportunities. Thus, family-owned firms should counter and deal with these damaging negative impressions by appointing high quality auditors (Husnin, Nawawi, & Puteh Salin, 2016), disclosing information to build up their family reputation and emphasising that their firms are good investment opportunities (Alfraih & Almutawa, 2017) through enhanced audit reporting timeliness.

Family firms face more agency problems between the controlling and non-controlling shareholders (Ali *et al.*, 2007; Paiva *et al.*, 2018). The presence of an agency problem (Type II) would imply that family ownership is linked to a lower earnings quality as family members have the potential to manipulate accounting numbers for self-interest activities (Khan, Muttakin, & Siddiqui, 2015). Thus, firms with family ownership would reduce timely information flow to ensure that their private interests can be realised (Hsu *et al.*, 2018). In other words, increased transparency of information may make family members subject to more rigorous scrutiny and weaken their control powers (Hsu *et al.*, 2018). Thus, they work to restrict the stream of information to their investors by reducing the timeliness of the audit report.

Given their ability to access internal information, the management of family firms is expected to disclose less information (Haniffa & Cooke, 2002). This reflects the view that family businesses have an opaque information environment (Lim *et al.*, 2014) and maintaining family interests takes precedence over protecting shareholder interests (Shiri *et al.*, 2018). Thus, to retain family members in management positions, family shareholders may withhold bad news (Ali *et al.*, 2007) by reducing the timeliness of audit reports. Furthermore, strong incentives for fraudulent activities in family firms could increase the risk of audits. Auditors may need to perform more comprehensive audits (Khan *et al.*, 2015). As a result, the auditor may need a longer period to reduce the audit risk and issue an audit report.

Previous literature showed that family-owned firms are negatively associated with ARL (Ghosh & Tang, 2015; Rusmin & Evans, 2017). However, Lim *et al.* (2014) showed that firms with higher family ownership are associated with lower earnings timeliness as measured by the reporting lag. Shiri *et al.* (2018) found that auditors put higher effort into family firms. Jaggi and Tsui (1999) found a statistically insignificant negative relationship between family ownership and ARL. Based on the inconsistent results discussed above, agency theory, and the alignment and entrenchment hypotheses, this study predicts that family ownership is associated with ARL. Hence, the subsequent non-directional hypothesis is predicted:

***H_{15}**: There is a significant relationship between family ownership and ARL.*

3.4.16 Managerial Ownership

Managerial ownership helps align managers and shareholders' interests and reduce the agency problem (Type I) (Jensen & Meckling, 1976). However, high management ownership in the East Asian economies is not a solution to agency conflicts (Type I) because there exists another agency problem (Type II) between controlling owners and outside investors (Claessens *et al*., 2000; Fan & Wong, 2002). Thus, managers with higher ownership are likely to be engaging in opportunistic behaviour with an aim to serve their own best of interests (Shuto & Takada, 2010). They are also motivated to delay the disclosure of unpleasant information or bad news, such as low performance (Mouna & Anis, 2013).

Moreover, firms with managerial ownership rely less on audit reports in evaluating their investments because these managers have easy and straightforward access to the information (Che-Ahmad & Abidin, 2008). To maintain the advantage of having this information, they might discourage timely and detailed public disclosures (Nagata & Nguyen, 2017; Sengupta, 2004). As a result, they might be less likely to dedicate their effort and care to providing financial reports (Srinidhi *et al.*, 2014), which will lead to an increase in audit delays.

In contrast, because managerial ownership serves to realign the interests of managers and shareholders, auditors are less likely need to undertake additional testing and intensive auditing. This is because they have fewer incentives to provide misleading information to shareholders (O'Sullivan, 2000). Furthermore, firms with high managerial shareholdings may motivate the managers to increase their effort to minimise the financial misreporting risk and to enhance earnings information which will mitigate audit risk (Al-Hayale, 2017). This will reduce the audit effort; thus, improving the ARL.

Prior research showed inconsistent findings regarding the relationship between managerial ownership and the ARL. For example, Carslaw and Kaplan (1991) showed a significant and positive relationship between ARL and managerial ownership, but Basuony *et al*. (2016) and Leventis *et al*. (2005) did not find a relationship between managerial ownership and ARL. In the Malaysian context, Che-Ahmad and Abidin (2008) and Puasa *et al*. (2014) found a significant and positive relationship between managerial ownership and ARL. However, Puasa *et al*.'s study (2014) did not find a significant impact on managerial ownership (before the MCCG 2007). In line with the discussion above and the agency theory, the following hypothesis is developed as follows:

***H*$_{16}$**: *There is a significant positive relationship between managerial ownership and ARL.*

3.4.17 Foreign Ownership

Firms with higher foreign ownership where the shareholder's direct control of management activities is lower will lead to a weakness in the internal control (Nelson & Mohamed-Rusdi, 2015). This creates conflicts of interest among the shareholders and the management. Thus, a higher quality monitoring procedure is needed to overcome and mitigate the conflict (Nelson & Mohamed-Rusdi, 2015). Foreign investors may demand that firms produce more timely information to decrease information asymmetry, monitor management performance, make effective decisions and to safeguard their investment (Tazik & Mohamed, 2014).

Foreign investors may also require more timely disclosure of information because the controlling shareholders may conceal their expropriation activities by reducing the transparency of financial statements (Anafiah *et al.*, 2017). As a result, the proportion of foreign ownership is often seen as part of an effective control mechanism that contributes to management monitoring (Aziz *et al.*, 2017) by exerting pressure for transparent accounting information (Ben-Nasr *et al.*, 2015). However, independent directors are less likely to feel pressured to demonstrate the monitoring behaviour in the presence of low foreign ownership (Desender *et al.*, 2016). Soltani (2002) also showed that firms with foreign investors may have a clear interest in providing timely and high quality information to comply with the foreign investors' high international standards. Thus, these firms have an incentive to release audit reports on time.

Previous research showed inconsistent results between the presence of foreign investors and financial reporting. Basuony *et al*. (2016) showed a positive and significant relationship between foreign ownership and ARL. In contrast, an insignificant finding between foreign ownership and ARL was reported by Habib and Muhammadi (2018) and Shin *et al*. (2017). In the Malaysian setting, Tazik and Mohamed (2014) showed that a firm with foreign ownership had reduced its ARL. However, Ishak *et al*. (2010) and Hashim (2017) found an insignificant relationship between foreign ownership and ARL. Based on the previous findings and the agency theory, this study expects that the relationship between foreign ownership and the ARL is negative and, thus, developed the following hypothesis:

***H*$_{17}$*: There is a significant negative relationship between foreign ownership and ARL.*

3.4.18 Audit Partner Tenure

Several deliberations have been undertaken regarding the necessity of having mandatory auditor rotation, or firms can appoint auditors for a long time (Dao & Pham, 2014). One view is that long-term auditing may improve the auditor's competence as the auditor is likely to make his audit decisions based on extensive client knowledge that has been developed over a long period (Carey & Simnett, 2006; Knechel & Vanstraelen, 2007; Lennox & Wu, 2018). As a result, the audit planning processes would be reduced while maintaining a certain audit quality standard (Bedard & Johnstone, 2010) saving both effort and time, resulting in timely audit reports. Furthermore, auditors who have spent a long time in the same firm become more familiar with their client's operations which will improve their ability to detect errors and mistakes in financial reporting resulting in higher audit quality (Chi & Huang, 2005).

Furthermore, the greater familiarity with the client could lead to a reduction of testing due to overconfidence or decreased scepticism (Bedard & Johnstone, 2010), leading to a shorter ARL. Over time a long-term partner's audit programme may become stale and routine (Litt *et al.*, 2014); thus, the procedures of an audit partner become increasingly predictable which makes it easier for a firm to hide misstatements from the auditor (Lennox & Wu, 2018). However, increasing a partner's engagement with a client for more than five years would help the partner to develop a close personal relationship with client management, which might lead to a loss in partner independence (Lennox & Wu, 2018; Litt *et al*., 2014; Daugherty *et al*., 2012).

On the other hand, a shorter term could weaken auditor competencies since the auditor know little about the firm during the early years of an audit (Knechel & Vanstraelen, 2007). As a result, auditors are more likely to experience challenges during the review process (Wan-Hussin *et al*., 2018; Litt *et al*., 2014) and may lose the ability to resolve difficult cases during the audit process (Blankley *et al.*, 2014). Thus, auditor needs to make additional efforts to release the audit reports. In other words, the audit assessment may take longer to complete with a new auditor partner. As a result, the audit profession opposed the partner rotation rule because the rotation could result in the loss of client-specific knowledge and experience that the auditor's learning curve can generate (Litt *et al*., 2014).

Empirical evidence on the relationship between auditor partner tenure and ARL is scarce except for Wan-Hussin *et al*. (2018), Azizkhani *et al.* (2021) and Sharma *et al*. (2017). However, the findings of these studies are inconclusive. Sharma *et al*. (2017) showed a positive association between audit partner rotation and ARL and that each successive partner rotation resulted in less timely audits. In contrast, Wan-Hussin *et al*. (2018) showed no evidence that audit partner term is directly related to ARL in the Malaysian context. A possible clarification for the different results might be connected to lower litigation risks in Malaysia as compared to the United States with high litigation risks that made incoming partners place a lot of audit effort (Wan-Hussin *et al.*, 2018).

Prior studies showed the effect of audit partner tenure on the relationship between the workload of audit partners and audit quality (Wan-Hussin *et al.*, 2018). Gul *et al*. (2017) and Suzuki and Takada (2016) noted that the negative relationship between audit partner workload and audit quality are prone to be weak when a partner has sufficient knowledge and understanding regarding their clients. Likewise, Wan-Hussin *et al*. (2018) suggested that audit partner tenure could alleviate the unfavourable effects of audit partners with numerous public clients regarding ARL within Malaysia. In line with the agency theory and learning curve theory and previous literature, the current study posits the following hypothesises:

H₁₈*: There is a significant negative relationship between audit partner tenure and ARL.*

3.4.19 Financial Restatements

The conflict between shareholders and managers encourages auditors to provide independent assurance to investors and shareholders that the company's financial statements fall within the Generally Accepted Accounting Principles (Kaklar *et al.*, 2012; Watts & Zimmerman, 1983). Thus, high audit quality can discover misstatements in financial reporting (Hussain *et al.*, 2019) and to achieve this, the auditor works with a lot of effort. Low quality audits lead to a loss of confidence among the shareholders in the financial reports which consequently bring about a series of failures in achieving audit goals and also the distortion of audit process credibility (Salehi *et al.*, 2017).

Financial restatements present a greater audit risk; thus, the scope and rigour of audits are likely to be extended by auditors (Hasnan & Hussain, 2015). Therefore, wide-ranging efforts would be required by auditors to lessen such risks to an acceptable level (Lobo & Zhao, 2013). Hence, the auditor would have to spend much time to conclude the audit task in restated firms (Blankley *et al.*, 2014; Ma *et al.*, 2018) and, thus, increasing ARL. Auditors would also negotiate much more with the firms when the financial statements contain higher audit risks (Chan *et al.*, 2016) and a longer delay would be desirable in order to resolve audit issues. Ma *et al*. (2018) showed that firms with bad news such as a restatement usually delay their news.

Financial restatements often result in costly consequences such as a decrease in a firm's value (Du, 2017) and harm the firm's reputation (Graham *et al.*, 2008). Thus, it is in the firm's best interest to provide restated data without delay to reduce the explicit costs of restatement and preserve customer trust in the firm's activities and financial records (Schmidt & Wilkins, 2013). A long audit may signal the concerns of an auditor about poor internal controls, a lack of management integrity, and low quality financial reports (Mande & Son, 2011) and reflect a higher risk of future restatements (Blankley *et al.*, 2014).

Blankley *et al.* (2014) and Mitra *et al*. (2015) showed empirical support that firms with future restatements are more likely to have long ARLs relative to non-restating companies. This might imply that the auditor must attend to more intricate issues (such as financial restatements) that require additional time and superior professional judgement while undertaking the task causing an increase in the audit time (Chiudini & Marques, 2018). Similarly, Dao and Pham (2014) and Knechel and Sharma (2012) showed a positive relationship between financial restatements and ARL. Nan-wei *et al*. (2017) and Chiudini and Marques (2018) also showed that financial restatements lead to long ARLs. Nonetheless, in Malaysia, only a few studies have examined the relationship between financial restatements and ARL. Hence, this present study intends to fill the existing research gap, making it timely.

Based on the agency theory, previous findings and the above discussion, this study posits the relationship between financial restatements and the ARL to be positive. Hence, the following hypothesis was developed.

***H*$_{19}$**: *There is a significant positive relationship between financial restatements and ARL.*

3.4.20 Moderating Effect of the Audit Committee Chairman's Accounting Expertise

The presence of members with accounting experience to increase the effectiveness of monitoring is crucial (Abernathy *et al.*, 2014; Amin *et al.*, 2018) and to enhance the AC's capacity to ensure the performance of external auditors ((Sultana *et al.*, 2015). Based on the resource dependence theory, members of the AC's experience and knowledge will enable them to better understand financial accounting information and audit judgements (Sultana *et al.*, 2015). In other words, the accounting expertise of the members of the AC would make the preparation of financial reporting more effective, especially when ACC has accounting expertise or experience (Abernathy *et al.*, 2014).

Since reassessments involve precise issues relating to accounting (Schmidt & Wilkins, 2013), the ACC with accounting expertise is in a good situation to know auditor judgements and arbitrate disputes between external auditors and management (Sultana *et al*. 2015; DeZoort & Salterio, 2001). Hence, they work to enhance communication effectiveness with the AC by reducing the time required for the AC to identify, converse, and assess significant abnormal transactions as well as accounting policies with the auditor (Abernathy *et al.*, 2014). The AC's knowledge increases the possibility that material errors discovered could be channelled through the AC and appropriate measures taken to address it (DeZoort & Salterio, 2001; Ku Ismail & Abd Rahman, 2011). This would lessen the period undertaken to conclude the audit and improves the timeliness related to financial reporting.

Accordingly, as much as the AC task includes the financial aspects, the ACC should have financial expertise and experience (Shafie & Zainal, 2016). As a result, the chairman will be involved in controlling the financial reporting processes, coupled with the internal audit task, enabling appropriate financial reports which are available for timely audits with fewer errors (Baatwah *et al.*, 2019). Mohamad-Nor *et al*. (2010) asserted that members with the requisite and needed financial expertise are in a better position to prevent and also to detect material misstatements. In other words, accounting expertise on the AC (such as the chairman) will enhance internal control and reduce the severity of accounting errors (Das *et al.*, 2020). This enhances and reduces the auditor task due to the low audit risk, which will lead to a timely report (Baatwah *et al.*, 2019).

Furthermore, Ghafran and Yasmin (2018) argued that ACC, with appropriate financial experience, becomes more active in improving the ARL by reducing the client audit risk and encouraging the external auditor to rely on internal auditors to perform specific audit tasks (Baatwah *et al.*, 2019). However, in a situation the auditor thinks the AC lacks the requisite expertise and knowledge required to identify and offer an accurate outline of financial reporting issues, the auditor may not depend on the support of the AC in the resolution of financial reporting issues (Arel *et al.*, 2006).

Agrawal and Chadha (2005) noted that members who lack an accounting or financial experience are not in a position to rectify financial reporting issues.

In such conditions, among various members of the AC, the chairman is still responsible in the company's misstatement effort (Schmidt & Wilkins, 2013) as well as improving the aptness and timeliness of audit reports (Baatwah *et al.*, 2019). Consequently, this research empirically examines the impact of ACC's accounting expertise as a moderating factor on the relationship between financial restatements and ARL in Malaysia. The following hypothesis was developed based on the discussion above:

H₂₀*: ACC's accounting expertise moderates the relationship between financial restatements and ARL.*

3.5 Research Method and Sample Selection

A quantitative research method was utilised to achieve the objectives of the current study. The sample included all non-financial listed firms in the main market of Bursa Malaysia between 2013-2016, which was after the implementation of the MCCG 2012 and before the implementation of the new MCCG 2017 (effective from 26th April 2017). Firms that were required by the Securities Commission to report the extent of their compliance with the MCCG 2012 were those with a financial year ending 31st December 2012, while firms that do not end their financial year on 31st December issued their annual report in 2013. Thus, the basis of selecting 2013 as the starting time was to ensure that all sampled firms reported their level of compliance with the MCCG 2012. The study duration was limited to four years because this period reflected the most current data available from public listed firms in Malaysia during data collection.

The year 2016 was selected as the concluding date to avoid an overlap with the new MCCG 2017.

The sample excluded the finance-related firms, the Closed-end funds, and the Real Estate Investment Trust (REITs) as they are subjected to other compliance of rules and regulations such as the Financial Services Act 2013 and governed by other regulatory bodies such as the Central Bank of Malaysia in which their submission requirement is relatively earlier than the Bursa Malaysia listing requirements (Puasa *et al.*, 2014). The financial sector also has a different regulatory environment, characteristics, and compliance settings (Ghafran & Yasmin, 2018). The different and stricter regulatory environment of financial firms (Al-Qadasi & Abidin, 2018) may influence their reporting behaviour relative to other industries (Ika & Ghazali, 2012; Kaaroud *et al.*, 2020). The special purpose acquisition company industry with only one firm was excluded from the sample selection and firms with missing financial information, incomplete data on board governance, or whose annual statements were not available.

This study utilised the unbalanced data methodology to investigate the influence of the independent variables on ARL. After applying the selection criteria, a final sample of 540 firms with a total of 2,006 company-year observations were available for analysis. Data was collected from the Thomson Financial DataStream and the annual reports of the selected Malaysian firms listed on Bursa Malaysia over the period 2013-2016. Table 3.1 shows a summary of the study sample.

Table 3.1
Sample of Study

Explanation	**Firms**	**Observations**
Firms listed on Bursa Malaysia Main Market[10]	798	
Less:		
Incomplete annual report in any period between 2009-2016	(196)	
Financial firms	(31)	
REITs	(18)	
Closed-end fund company	(1)	
Firms in sectors with lesser observations or missing data	(12)	
Initial sample	540	
For four years (2013-2016)	x4	
The total expected observations for four years		2160
Missing data		154
Final sample	540	2006

Table 3.2 shows the data distribution by industry. Industrial Products is the largest sector with 168 firms (31.111 per cent) of the total sample followed by Trading/Services with 125 firms (23.148 per cent) and Consumer Products with 91 firms (16.852 per cent). The least number of firms were in the Technology sector with 22 firms (4.074 per cent).

Table 3.2
Summary of Study Sample by Industries

Industry	**Firms**		**Observations**	
	Number	**(Per cent)**	**Number**	**(Per cent)**
Construction	33	6.111	128	6.381
Consumer products	91	16.852	333	16.600
Industrial products	168	31.111	621	30.957
Plantation	36	6.667	134	6.680
Property	65	12.037	238	11.864
Technology	22	4.074	82	4.088
Trading/Services	125	23.148	470	23.430
Total	540	100	2006	100

[10] The population of the study was 798 firms listed as at 7th March 2019 of the Main Market of Bursa Malaysia website: http://www.bursamalaysia.com/ market/.

3.6 Data Collection Procedures

The firms' annual reports were downloaded from the Bursa Malaysia website (http://www.bursamalaysia.com/ market/). Data on the dependent variable, ARL, and the independent variables, BOD' characteristics (size, independence, meetings, financial expertise, and effectiveness), AC's characteristics (size, independence, meetings, financial expertise, effectiveness, chairman's accounting expertise, chairman's tenure, and chairman's multiple directorships), separate RMC, ownership structure (family, managerial, and foreign), audit partner tenure, IAF, Big 4 audit firms, and the industry were obtained manually from the firms' reports. The data on financial restatements, firm size, leverage, profitability, and years were collected from DataStream (see Appendix C for Data sources).

3.7 Measurement of Variables

This section provides the operational definitions and measurements for the variables (dependent, independent, and control) used in this study.

3.7.1 Measurement of Dependent Variable

The dependent variable, ARL, was measured by calculating the number of calendar days between the fiscal year-end to the date of the auditor's report consistent with many other researchers (Afify, 2009; Al-Ebel *et al.*, 2020; Ashton *et al.*, 1987; Baatwah *et al.*, 2019; Bryan & Mason, 2020; Carslaw & Kaplan, 1991; Ghafran & Yasmin, 2018; Habib, 2015; Kaaroud *et al.*, 2020; Meckfessel & Sellers, 2017; Mohamad-Nor *et al.*, 2010; Rusmin & Evans, 2017; Wan-Hussin & Bamahros, 2013; Wan-Hussin *et al.*, 2018). In contrast, Chan *et al*. (2016), Knechel and Sharma (2012), and Sultana *et al*. (2015) used the natural logarithm of ARL.

3.7.2 Measurement of Independent Variables

3.7.2.1 Board Size

Board size was defined as the total number of board members following Mohamad-Nor *et al*. (2010), Al-Qadasi *et al.*(2018), Hassan (2016), and Alfraih (2016). In contrast, Habib *et al*. (2019) used the natural logarithm of the number of board members to measure board size[11].

3.7.2.2 Board Independence

Following previous studies, this research measured board independence as the proportion of independent directors of the total number of board members (Habib *et al.*, 2019; Chan *et al.*, 2016; Mohamad-Nor *et al.*, 2010).

3.7.2.3 Board Meetings

Following Al-Qadasi *et al.*(2018), Habib *et al.*(2019), Omer and Al-Qadasi (2019), and Johl *et al.*(2013), this research measured board meetings as the number of board meetings during a year.

[11] Information related to the BOD, independent non-executive directors, number of directors and financial expertise, as well as independent non-executive directors on ACs, number of ACs members and financial expertise were carefully collected from the section allocated for directors' profile information in the annual reports. In most cases, where there were changes of directors during the financial year, the study took into consideration these changes because this would affect the number of independent non-executive directors, and the number of directors and financial expertise. However, directors that were nominated after the financial year were not considered for that particular financial year (even though their information was available in the directors' profiles of the current companies' annual reports), as well as directors that stayed less than six months on the board of companies in the particular financial year. In keeping with the requirements of the Bursa Malaysia listing requirements, where directors must attend at least 50 per cent of the board meetings, this study decided to use a cut-off period of at least six months tenure for the directors in the financial year. Hence, directors that stayed less than six months on the board of the firms examined in this study were excluded (irrespective of whether the directors were nominated during the financial year or former directors), while the former directors were included if they stayed more than six months on the board in the particular financial year even though their information was not available in the director's profiles of the current annual reports (their information was acquired from the directors' profiles available from the firm's annual reports in the last year).

3.7.2.4 Board Financial Expertise

Financial expertise refers to the experience or qualifications in accounting or finance or having memberships in any professional accounting body (Bedard *et al.*, 2004). Following Al-Qadasi *et al.* (2018) and Singh and Sultana (2011), this study measured the BOD's financial expertise as the percentage of directors with financial expertise to the total number of directors on a firm's BOD.

3.7.2.5 Board Effectiveness

To measure board effectiveness, this study utilised an aggregate index following previous studies (AL-Qadasi *et al*., 2018; Bin-Ghanem & Ariff, 2016; Johl *et al*., 2013; Lara *et al*., 2007). The BOD's characteristics was used to create an effectiveness score which included four characteristics of the BOD': size, independence, meetings, and financial expertise (Al-Qadasi *et al.*, 2018; Johl *et al.*, 2013; Omer & Al-Qadasi, 2019). The composite score of board effectiveness was calculated in two steps. In Step 1, the four features of the BOD were measured individually, while the composite score of board effectiveness was calculated in Step 2. The sum of four characteristics: BOD score, it is ranging from 0-4 with 0 indicating the lowest effectiveness and 4 indicating the highest effectiveness of the BOD. For instance, if the value of the four characteristics (size, independence, meetings, and financial expertise) for an observation is 1, 1, 1, and 0, respectively, this means that the value of the score for this observation is three. Appendix A shows the formula used for dichotomising each of the four characteristics.

3.7.2.6 Audit Committee Size

The size of the AC was measured by the number of AC members as in previous studies (Mohamad-Nor *et al.*, 2010; Kusnadi *et al.*, 2016; Wan-Hussin & Bamahros, 2013; Wan-Hussin *et al.*, 2018).

3.7.2.7 Audit Committee Independence

Following prior studies, this study measured AC independence as the number of independent directors on the AC divided by the total number of AC members (Ghaleb, Kamardin, & Al-Qadasi, 2020a; Al-Rassas & Kamardin, 2016; Wan-Hussin *et al.*, 2018). Other studies measured AC independence as a dummy variable of '1' where all the AC members are independent, and '0' otherwise (Abernathy *et al.*, 2014; Ika & Ghazali, 2012).

3.7.2.8 Audit Committee Meetings

AC meetings are measured as the number of AC meetings during the fiscal year-end following previous studies (Kusnadi *et al.*, 2016; Oussii & Taktak, 2018; Wan-Hussin *et al.*, 2018; Zaman *et al.*, 2011).

3.7.2.9 Audit Committee Financial Expertise

AC financial expertise is measured as the ratio of the number of members with financial expertise to the total number of AC members (Mohamad-Nor *et al.*, 2010; Oussii & Taktak, 2018; Zhang *et al.*, 2007). Financial expertise is defined as the directors who have qualifications or experience in accounting or finance, in addition to directors who have membership in any professional accounting body (Bedard *et al.*, 2004).

3.7.2.10 Audit Committee Effectiveness

This study computes AC effectiveness by four characteristics of the AC: size, independence, meetings, and financial expertise. A composite measure is used to calculate the effectiveness of AC consistent with previous studies (Al-Qadasi *et al.*, 2018; Bin-Ghanem & Ariff, 2016; Ika & Ghazali, 2012; Zaman *et al.*, 2011). This process is similar to the steps carried out to measure the score for board effectiveness. The scores of the four characteristics of the AC were summarised to produce a composite measure of the AC. An aggregate measure of AC effectiveness which ranged from ‘0’ to ‘4’, was developed. A value of ‘4’ indicates high effectiveness, while a value of ‘0’ indicates low effectiveness (see Appendix B).

3.7.2.11 Audit Committee Chairman’s Accounting Expertise

Accounting expertise may be of much importance for AC members compared to other expertise (Dhaliwal *et al.*, 2010). The ACC’s accounting expertise refers to the chairman’s accounting qualification or professional expertise. The meaning or description of accounting expertise is an individual that held a job directly related to accounting or auditing knowledge, such as a certified public accountant, an auditor, chief financial officer, chief financial controller or chief accounting officer (Ghafran & Yasmin, 2018; Krishnan & Visvanathan, 2008; Mustafa & Youssef, 2010). Thus, in examining the relationship between accounting expertise of the ACC with ARL, this study measured expertise as a dummy variable, ‘1’ if the chairman has a degree, expertise or professional qualification in accounting or auditing, ‘0’ otherwise (Schmidt & Wilkins, 2013; Abernathy *et al.*, 2014; Baatwah *et al.*, 2019; Ghafran & Yasmin, 2018).

3.7.2.12 Audit Committee Chairman's Tenure

The MCCG 2012 recommends that the tenure of an independent director is limited and should not exceed a maximum of nine years. If the tenure is over nine years, a director may as well be on the board of the firm as a non-independent director (MCCG, 2012). Furthermore, if the board intends to keep an independent director for over nine years, it has to request an approval from the shareholders during the annual general meeting and past the twelfth year, the board must seek yearly shareholders' accord by a two-tier voting process (MCCG, 2017). The current study measures the ACC's tenure as the length of service on the board as utilised by earlier researchers (Baatwah *et al.*, 2019; Ghafran & Yasmin, 2018; Tanyi & Smith, 2015).

3.7.2.13 Audit Committee Chairman's Multiple Directorships

The new Bursa Malaysia listing requirement has reduced the directorships held by a director in a firm from ten to five directorships on other boards of public listed companies[12]. This study measures the ACC's multiple directorships as a dummy variable which is equal to '1' if the ACC holds two or more directorships at other firms (Al-Absy, Ku Ismail, & Chandren, 2019). This requirement makes known only multiple directorships in publicly listed companies; thus, most firms do not make public their directorships in private companies (Kamardin, 2014). In contrast, other studies have measured multiple directorships as the number of outside directorships that the ACC holds at firms listed on Bursa Malaysia (Baatwah *et al.*, 2019; Tanyi & Smith, 2015).

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[12] Bursa Malaysia listing requirements as of 2nd January 2018.

3.7.2.14 Separate Risk Management Committee

The RMC has the task and responsibility for the firm's risk management. The study considers the existence of a separate RMC if a committee is a stand-alone entity with the title of 'Risk Management Committee' without amalgamation with any other committees, including the AC. However, this study does not consider the existence of the RMC as separate if the functions of risk management are combined with other committees' tasks such as the AC. For this study, a separate RMC is coded with a dummy variable of '1' if a company has a separate RMC and '0' if otherwise (such as, in the case of a combined RMC and AC). This measure was used by prior studies such as Yatim (2010), Subramaniam *et al*. (2009), and Sekome and Lemma (2014).

3.7.2.15 Family Ownership

The high proportion of family members on the BOD indicates the existence of a dominant category of ownership that could strongly impact board decisions. It may also indicate the existence of a substantial shareholder on the board who can appoint family members to the board to protect his interests (Ghazali & Weetman, 2006). Bursa Malaysia listing requirements mandate that every listed firm discloses family relationships with any director in the annual report. Family members include parents, brothers, sisters, spouses, children, as well as the spouses of such children, sisters, or brothers (Section 122A of Malaysia's Companies Act 1965). Based on information from the annual reports, the current study measured family ownership as the proportion of shareholdings owned by family directors over the total number of outstanding shares (Amran & Che-Ahmad, 2013; Hashim & Devi, 2008).

3.7.2.16 Managerial Ownership

Managerial ownership was measured as the proportion of shares held by the executive directors with direct as well as indirect holdings. For a clearer picture of managerial ownership, this study considered the direct and indirect shareholdings for executive directors and their families (Nelson & Mohamed-Rusdi, 2015). In conformity with Section 134 of the Malaysian Companies Act, firms must disclose director shareholdings in their annual reports. It is also mandatory to disclose the directors' information, particularly the family relationship with any major shareholder or director of the firm. This measurement was utilised by prior researchers such as Amran and Che-Ahmad (2013), Kamardin (2014), Mustapha and Che-Ahmad (2011), and Nelson and Mohamed-Rusdi (2015).

3.7.2.17 Foreign Ownership

Foreign ownership was measured as the proportion of shares owned by foreigners (individual or non-individual) to the total shares issued (Alhazaimeh *et al.*, 2014; Ben-Nasr *et al.*, 2015; Ghazali, 2010; Nelson & Mohamed-Rusdi, 2015; Shin *et al.*, 2017) where the definition of a foreign individual is a non-Malaysian citizen. Non-individual foreign ownership can be termed or explained as a firm or organisation registered or incorporated outside Malaysia.

3.7.2.18 Audit Partner Tenure

This study used audit partner tenure rather than firm tenure because Malaysia has implemented mandatory rotation rules of audit partner tenure. Audit partners are also ultimately responsible for audit engagements and have a greater impact on the client and take more responsibility in maintaining the auditor-client relationship (Chen *et al.*, 2008a), and the partner level has a higher effect on auditor behaviours (Gul *et al.*, 2017). Following prior studies, this study measured audit partner tenure by the number of consecutive years an auditor is engaged with the same client (Chu, Dai, & Zhang, 2018; Garcia-Blandon & Argiles-Bosch, 2018; Gul *et al.*, 2017; Wan-Hussin *et al.*, 2018). Following the rule that the partner is barred from being a principal audit partner over five years, the study identified the signing of the partners for five years.

3.7.2.19 Financial Restatements

Financial restatements was defined as a dummy variable which equals to '1' if the firm restates its financial reports for the fiscal year, *t,* in a subsequent year, '0' otherwise (Baatwah *et al.*, 2019; Knechel & Sharma, 2012). The reasons for financial restatements are analysed and classified based on the Thompson Reuters DataStream definition manual as follows:

a) Restatements due to discontinued operations, spin-offs or de-mergers.
b) Restatements due to the adoption of a new accounting policy or policies related to specific item or items.
c) Restatements due to acquisition or mergers.
d) Restatements due to a change in accounting GAAP followed by the company.
e) Restatements due to a change in accounting GAAP followed together with other events.
f) Restatements due to multiple events.
g) Restatements due to reasons other than those noted above.
h) Where the accounts are reclassified.

3.7.3 Measurement of Control Variables

3.7.3.1 Internal Audit Function

The IAF is one of the key internal CGM (Ghaleb *et al.*, 2020a). Previous studies that examined the impact of the IAF on the FRQ showed the increasingly significant role of the internal audit in assisting and supporting the AC to ensure the integrity of financial reporting as well as its quality (Barua, Rama, & Sharma, 2010).

From the agency theory perspective, internal audit task has a key and essential role in terms of improving the internal control system (Al-Rassas & Kamardin, 2016). Thus, a bigger investment in the IAF indicates that the firm has experienced IAF individuals to support the management to create a robust control over financial reporting that would likely make the external auditors depend on the internal audit effort. Dependence on the internal audit effort could lessen the precise evidence obtained by the external auditors (Ho & Hutchinson, 2010; Wan-Hussin & Bamahros, 2013). A robust internal audit role is an indication that will lessen the notion of a probable or possible misappropriation by insiders (Ho & Hutchinson, 2010). Hence, the external auditors are most likely to decrease evidence gathering, enhancing the speedy completion of the audit task (Wan-Hussin & Bamahros, 2013).

Regulators and research practitioners have supported the above scenarios. According to Bursa Malaysia's listing requirements, firms are obliged to disclose their investment in IAF for the financial year. Furthermore, the MCCG (2012) stipulates that, among others, the board should establish an IAF which reports directly to the AC (MCCG, 2012). Hence, the internal audit is considered an important part of good corporate governance and its role in the financial reporting process is critical. This study expects that high investments in the IAF leads to an increase in FRQ, which, in turn, increases the timeliness of audit reports.

Investments in the IAF refers to the amount that a firm has invested in its internal audit services whether outsourced or performed in-house. Thus, in line with previous studies, the IAF was measured by the natural logarithm of the internal audit costs disclosed in the firm's annual reports (Al-Qadasi *et al.*, 2018; Al-Rassas & Kamardin, 2015b; Ghaleb *et al.*, 2020a; Wan-Hussin *et al.*, 2018).

3.7.3.2 Big 4 Audit Firms

Previous studies found that the Big 4 audit firms provide high quality as well as faster audit processes compared with the local auditing firms (Che-Ahmad & Abidin, 2008; Ghafran & Yasmin, 2018; Lee & Jahng, 2011; Leventis *et al.*, 2005; Rusmin & Evans, 2017) because they use higher quality staff (Afify, 2009), and they work more efficiently than small audit firms (Ashton *et al.*, 1989). The Big 4 audit firms are also more motivated to maintain their reputation and submit their audit reports on time (Basuony *et al.*, 2016). To support this view, Habib *et al.* (2019) and Lamptey *et al.* (2021) stated that the Big 4 audit firms would decrease ARL.

On the other hand, as large auditing firms are mostly independent, they are more likely to defy client pressure related to audit issues which might increase the time of negotiation with clients as compared to small audit firms (Habib *et al.*, 2019). Thus, this might increase ARL. Furthermore, large auditors conduct a more comprehensive audit procedure to protect their reputation and avoid litigation, thereby increasing ARL (Shin *et al.*, 2017).

The Big 4 audit firms refer to one of the widely known accounting firms of KPMG, Ernst and Young, PricewaterhouseCoopers (PWC), and Deloitte and Touche (Al-Ajmi, 2008; Habib *et al.*, 2019; Sharma *et al.*, 2017; Sultana *et al.*, 2015; Wan-Hussin *et al.*, 2018) while the non-Big 4 refers to the other accounting firms. The Big 4 audit firm was used as a dummy variable in this study. Equals '1' if the firm is audited by Big 4 auditors and '1' otherwise. This study expects that Big 4 audit firms would have a negative relationship with ARL.

3.7.3.3 Firm Size

Previous studies showed a negative relationship between firm size and ARL (Ghafran & Yasmin, 2018; Habib *et al.*, 2019; Mohamad-Nor *et al.*, 2010; Oussii & Taktak, 2018; Sultana *et al.*, 2015; Wan-Hussin *et al.*, 2018). Numerous reasons have been suggested on why firm size shows a negative relationship to ARL. Firstly, bigger firms have more resources to pay comparatively higher audit fees to affect the audit without any delays (Afify, 2009). Secondly, bigger firms might have robust internal controls, which reduce the possibility of encountering financial statement errors and making auditors rely on internal controls more comprehensively and carrying out a lot of interim work (Carslaw & Kaplan, 1991; Ng & Tai, 1994).

Thirdly, larger firms might be monitored much more strictly by regulatory agencies, trade unions as well as investors and, therefore, encounter larger external pressure to issue a timely or early report (Afify, 2009). Finally, bigger firms which are mostly reliant on external finances and, probably to a great extent, responsive to the needs of the existing as well as potential investors, might insist on satisfactory audit measures (Leventis & Caramanis, 2005). Accordingly, this study predicts a negative effect of firm size on ARL. The natural logarithm of total assets was used to measure the firm size (Afify, 2009; Bamber *et al.*, 1993; Carslaw & Kaplan, 1991; Ghafran & Yasmin, 2018; Wan-Hussin *et al.*, 2018).

3.7.3.4 Leverage

Previous studies used leverage as a determinant of a client's financial position and organisational risk (Abernathy *et al.*, 2018; Durand, 2019; Habib, 2015; Habib & Bhuiyan, 2011; Habib *et al.*, 2019; Raweh *et al.*, 2019; Rusmin & Evans, 2017; Shin *et al.*, 2017). High leverage increases the likelihood of a firm's failure, and the riskier the firm becomes, the more concerned the auditor feels that financial statements may be less reliable; thus, the auditor takes better care to avoid prosecutions. This will lead to having longer ARL (Al-Ajmi, 2008; Carslaw & Kaplan, 1991; Durand, 2019; Habib *et al.*, 2019). Moreover, firms with high debt are likely to prompt an auditor to undertake more care and checks that could contribute to longer ARL (Sultana *et al.*, 2015).

This study expects that leverage will have a positive relationship with ARL. The leverage variable was measured by total debt to total assets as mostly used in previous studies (Al-Ebel *et al.*, 2020; Baatwah *et al.*, 2015; Carslaw & Kaplan, 1991; Bamber *et al.*, 1993; Habib *et al.*, 2019; Lee & Jahng, 2011).

3.7.3.5 Profitability

Several studies have found that profitable firms may be inclined to complete their audit accounts earlier and release their audited annual reports quickly to convey good news (Afify, 2009; Nelson & Shukeri, 2011). In contrast to this, when companies sustain losses, these firms would possibly delay the announcement of their losses through a delay of the audit report (Carslaw & Kaplan, 1991; Lee & Jahng, 2011). In support of this view, Habib *et al.* (2019) reported that profitability would improve the timeliness of audit reports. This current study follows Afify (2009), Habib *et al.* (2019), and Ghafran and Yasmin (2018) in measuring profitability by using net income to total assets and expecting profitability to have a negative relationship with ARL.

3.7.3.6 Industry

This study used the variable, industry, as a control variable similar to other studies, for example, Wan-Hussin and Bamahros (2013) and Wan-Hussin *et al.* (2018) with the expectation that industry has a relationship with ARL. The industry variable was measured by a dummy variable with a value of '1' if the firm is classified under the Technology or Plantation sector and '0' otherwise. This study controlled for firms operating in the Technology and Plantation sectors due to the idiosyncratic nature of these industries marked by smaller product segments and lower inventory levels.

3.8 Research Model

The analysis of unbalanced data was utilised to examine the association between board characteristics, AC characteristics, a separate RMC, ownership structure, audit partner tenure, and financial restatements on ARL. Stata statistical software was used to analyse the descriptive and inferential statistics of the data. The study collected four years of data and employed multivariate regression models to examine the coefficient correlation of the independent and dependent variables. Multivariate regression analysis was the most suitable statistical method for this type of research for their coping abilities with multiple variables to understand complex relationships beyond univariate and bivariate methods (Hair, Black, Babin, & Anderson, 2014).

The direct relationship between board size, board independence, board meetings, board financial expertise, AC size, AC independence, AC meetings, AC financial expertise, ACC's accounting expertise, ACC's tenure, ACC's multiple directorships, separate RMC, family ownership, managerial ownership, foreign ownership, audit partner tenure, financial restatements, and control variables on ARL was examined in Model 1.

$ARL_{it} = \beta_0 + \beta_1 BODSIZE_{it} + \beta_2 BODIND_{it} + \beta_3 BODMEET_{it} + \beta_4 BODEXP_{it} + \beta_5 ACSIZE_{it} + \beta_6 ACIND_{it} + \beta_7 ACMEET_{it} + \beta_8 ACEXP_{it} + \beta_9 ACCEXPA_{it} + \beta_{10} ACCTEN_{it} + \beta_{11} ACCMD_{it} + \beta_{12} RMC_{it} + \beta_{13} FOWN_{it} + \beta_{14} MOWN_{it} + \beta_{15} FROWN_{it} + \beta_{16} TENURE_{it} + \beta_{17} RESTATE_{it} + \beta_{18} IAF_{it} + \beta_{19} BIG4_{it} + \beta_{20} SIZE_{it} + \beta_{21} LEV_{it} + \beta_{22} PROF_{it} + INDUSTRY + Year + \varepsilon_{it}$

The relationship between the score for the board and AC effectiveness and ACC's accounting expertise, ACC's tenure, ACC's multiple directorships, separate RMC, family ownership, managerial ownership, foreign ownership, audit partner tenure, financial restatements and control variables with ARL was examined in Model 2.

$ARL_{it} = \beta_0 + \beta_1 BODEFF_{it} + \beta_2 ACEFF_{it} + \beta_3 ACCEXPA_{it} + \beta_4 ACCTEN_{it} + \beta_5 ACCMD_{it} + \beta_6 RMC_{it} + \beta_7 FOWN_{it} + \beta_8 MOWN_{it} + \beta_9 FROWN_{it} + \beta_{10} TENURE_{it} + \beta_{11} RESTATE_{it} + \beta_{12} IAF_{it} + \beta_{13} BIG4_{it} + \beta_{14} SIZE_{it} + \beta_{15} LEV_{it} + \beta_{16} PROF_{it} + INDUSTRY + Year + \varepsilon_{it}$

The effect of the ACC's accounting expertise as a moderating factor on the relationship between financial restatement on ARL was examined in Model 3.

$$ARL_{it} = \beta_0 + \beta_1 BODSIZE_{it} + \beta_2 BODIND_{it} + \beta_3 BODMEET_{it} + \beta_4 BODEXP_{it} + \beta_5 ACSIZE_{it} + \beta_6 ACIND_{it} + \beta_7 ACMEET_{it} + \beta_8 ACEXP_{it} + \beta_9 ACCEXPA_{it} + \beta_{10} ACCTEN_{it} + \beta_{11} ACCMD_{it} + \beta_{12} RMC_{it} + \beta_{13} FOWN_{it} + \beta_{14} MOWN_{it} + \beta_{15} FROWN_{it} + \beta_{16} TENURE_{it} + \beta_{17} RESTATE_{it} + \beta_{18} RESTATE_{it} * ACCEXPA_{it} + \beta_{19} IAF_{it} + \beta_{20} BIG4_{it} + \beta_{21} SIZE_{it} + \beta_{22} LEV_{it} + \beta_{23} PROF_{it} + INDUSTRY + Year + \varepsilon_{it}$$

Where:

ARL	=	Audit report lag.
BODSIZE	=	Board size.
BODIND	=	Board independence.
BODMEET	=	Board meetings.
BODEXP	=	Board financial expert.
ACSIZE	=	Audit committee size.
ACIND	=	Audit committee independence.
ACMEET	=	Audit committee meetings.
ACEXP	=	Audit committee financial expertise.
ACCEXPA	=	Audit committee chairman's accounting expertise.
ACCTEN	=	Audit committee chairman's tenure.
ACCMD	=	Audit committee chairman's multiple directorships.
RMC	=	Separate risk management committee.
FOWN	=	Family ownership.
MOWN	=	Managerial ownership.
FROWN	=	Foreign ownership.
TENURE	=	Audit partner tenure.
RESTATE	=	Financial restatements.
BODEFF	=	Board effectiveness.
ACEFF	=	Audit committee effectiveness.
RESTATE * ACCEXPA	=	The interaction between financial restatement and Audit committee chairman's accounting expertise.
IAF	=	Investment in the internal audit function.
BIG4	=	KPMG, Deloitte, Ernst and Young and PWC.
SIZE	=	The natural logarithm of the total assets.
LEV	=	Total debt to total assets.
PROF	=	Net income to total assets.
INDUSTRY	=	Technology or Plantation sector.
YEAR	=	Year dummy variables.
it	=	Company & Year.
ε	=	Error term.

3.9 Summary

Chapter Three included a discussion on the different theories related to the timeliness of audit reports. The conceptual framework for the study is based on previous literature as presented in Chapter Two. This Chapter also shows the hypotheses development, research design, operational definitions, and measurement of variables, population, and sample selection, while the techniques for analysis and models which were applied to examine the hypotheses were also explained. This study has adopted the quantitative method of research utilising secondary data collected from the Thomson Financial DataStream and the annual reports of the selected Malaysian firms listed on Bursa Malaysia to achieve the research objectives.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

Chapter Four provides the findings and discussion of the study and is structured as follows: Section 4.2 provides descriptive statistics on all variables examined in the research models. Section 4.3 presents the correlation analysis results while the findings of the model specification and diagnostic tests are presented in Section 4.4. Section 4.5 presents the model selection criteria. A multivariate analysis of direct and moderating relationships is reported in Section 4.6. This study conducted further analyses to confirm the main results of the study, and these are presented in Section 4.7 while Section 4.8 concludes the Chapter.

4.2 Descriptive Statistics

This section is a presentation of the descriptive statistics of the dependent, independent as well as control variables outlined in Chapter Three for the study period 2013-2016. Descriptive statistics include frequency distribution, mean, median, standard deviation, minimum, and maximum values to explain the dataset (Sekaran & Bougie, 2016).

4.2.1 Descriptive Statistics of Audit Report Lag

Previous studies have used the ARL in calendar days from the fiscal year-end to the date of the external auditor's report either in its raw form (Al-Ebel *et al.*, 2020; Baatwah *et al.*, 2019; Bryan & Mason, 2020; Kaaroud *et al.*, 2020; Wan-Hussin *et al.*, 2018) or expressed as a natural logarithm (Chan *et al.*, 2016; Habib & Muhammadi, 2018; Khoo *et al.*, 2020; Sultana *et al.*, 2015; Knechel & Sharma, 2012). This study reports the main results using the raw form.

Table 4.1
Descriptive Statistics of ARL by Industry

Industry	Observations		Mean	Median	Std. Dev	Min	Max
	Number	Per cent					
Construction	128	6.381	103.516	108.000	15.088	56	122
Consumer Product	333	16.600	96.505	100.000	18.723	34	122
Industrial Product	621	30.957	100.271	103.000	17.238	41	168
Plantation	134	6.680	93.888	99.000	21.809	53	123
Property	238	11.864	98.647	104.000	17.867	47	121
Technology	82	4.088	91.780	97.500	22.070	49	120
Trade/Service	470	23.430	96.347	102.000	21.789	35	150
Total	2006	100	97.967	102.00	19.279	34	168

Table 4.1 shows the sample composition and the average ARL by industry. The study sample is broadly spread through the industry groups and is in line with the distribution of firms on Bursa Malaysia. Table 4.1 shows that most of the company-year observations are from the Industrial Product sector (30.957 per cent) and the Trading/Service sector (23.430 per cent). Only 10.768 per cent of the firms are from the Plantation and Technology sectors. The remaining firms are from Consumer Products (16.600 per cent), Properties (11.864 per cent), and Construction (6.381per cent).

Table 4.1 also shows the mean for ARL for listed companies is 97.967 days. The mean represents the time required by the external auditors of listed companies to conclude their audit work, 98 days on average with a minimum of 34 days and a maximum of 168 days. The mean of this study is similar to the results reported by Wan-Hussin and Bamahros (2013), Kamarudin *et al.* (2018), Mohamad-Nor *et al.* (2010), and Wan-Hussin *et al.* (2018), who showed that the mean of ARL is 97.83 days, 98.70 days, 100.30 days and 102.88 days, respectively. Baatwah *et al.* (2019) found a mean for ARL of 77.38 days using the top 100 Malaysian firms listed in 2011. This has a high degree of compliance with the corporate governance practices and quality of disclosure (Salleh *et al.*, 2017).

The sample mean of 97.967 days for ARL shows that the listed firms took almost 98 days to issue their audited yearly reports to users of the financial information. This is within the time given by the Bursa Malaysia listing requirements, namely a maximum of four months. However, 62 firm-year observations (3.091 per cent) issued their audit reports over the four-month cut-off period violating the listing requirements. These firms would face the consequences of the delay, such as increased information asymmetry, negative market reactions, and an increased incentive to doubt the performance and financial health of the firm (Abernathy *et al.*, 2017; Al-Ajmi, 2008; Edmonds *et al.*, 2017; Kaaroud *et al.*, 2020). Further examination showed that these firms have issued qualified audit opinions during the current year as well as restatements of their financial statements in subsequent years. For example, Malaysia Steel Works (Kl) Bhd (delay = 168 days; qualified audit opinion), TuriyaBerhad (delay = 122 days; qualified audit opinion as well as restate their financial statements), and Stone Master Corporation Berhad (delay = 130 days; Disclaimer audit opinion). Stone Master Corporation Berhad was subsequently delisted in 2019.

Compared with other studies, the audit delay among listed firms in Malaysia is longer than in other developed and developing countries (Amirul & Salleh, 2014; Wan-Hussin *et al.*, 2018). For example, developed countries have an average ARL that is less than 90 days. The average ARL is 63.49 days in the United States (Dong *et al.* 2018), 63.84 days for United Kingdom firms (Ghafran & Yasmin, 2018), 80.67 days for Australian firms (Sultana *et al.*, 2015), 88 days for firms in France (Khoufi & Khoufi, 2018) and 61 days for firms in New Zealand (Habib & Bhuiyan, 2011). More studies have also shown that the average ARL in developing countries is lower than in Malaysia. For example, the average ARL is 84.34 days for Chinese companies (Chan *et al.*, 2016), 73.33 days for Turkish firms (Ocak & Özden, 2018), 52.9 days for Korean companies (Shin *et al.*, 2017), and 74.72 days for Indonesian companies (Maggy & Diana, 2018).

Similarly, Middle Eastern countries showed lower ARL averages, such as 67.21 days for Egypt (Afify, 2009), 51 days for Oman (Raweh *et al.*, 2019), 65.26 days for Kuwait (Alfraih, 2016), 62.4 days for Palestine (Hassan, 2016), and 68.01 days for Jordan (Daoud *et al.*, 2015). Overall, this indicates that delays in audit reports among the Malaysian firms are higher than those of other countries which affects the timeliness of audit as well as earnings information (Bamber *et al.*, 1993). Thus, shareholders do not get the final audited accounts as quickly as in other markets. This will have an important effect on investment decision-making (Habib *et al.*, 2019).

One reason that may justify the longer ARL in the Malaysian firms is the full convergence to IFRS, which became effective on 1st January 2012. The adoption of the IFRS required more effort and time to complete the audit work (Yaacob & Che-Ahmad, 2012). This increases the ARL, which is negatively related to the timeliness of financial reporting (Amirul & Salleh, 2014). Habib and Bhuiyan (2011) shows that the implementation of IFRS in New Zealand has increased the ARL. Also, Aldoseri *et al.* (2021) show a significant positive association between IFRS and ARL in Saudi companies. This finding is also supported by Amirul and Salleh (2014) who found that the convergence to IFRS lead to longer audit delay in Malaysian setting. This mean that the transition to IFRS poses challenges for companies and auditors (Amirul & Salleh, 2014). Consequently, the adoption of IFRS could increase ARL.

Table 4.1 shows the descriptive statistics of ARL across the different industries on Bursa Malaysia. It shows the highest average ARL of 103,516 days in the Construction sector, while the Technology and Plantation sectors had the lowest average ARL of 91,780 days and 93,888 days, respectively. The Technology and Plantation sectors are comparatively easier to audit due to the idiosyncratic nature of these sectors which are distinguished by the existence of fewer product segments and lower levels of inventory (Wan-Hussin & Bamahros, 2013). The means for these sectors are consistent with the results obtained by Wan-Hussin and Bamahros (2013). Overall, most industries have an average audit delay between 92 and 104 days; thus, the FRQ among Malaysian firms should be more effective and decrease the timeframe for financial disclosures (Salleh *et al.*, 2017).

Table 4.2 shows a descriptive analysis of the ARL for 2013-2016. The means of ARL appear to have decreased from 2013 (mean = 101.745 days) to 2016 (mean = 93.837 days). In 2014, there was a decrease in the ARL (mean = 100.928) which could reflect the impact of the shortened timeframe for the publication of annual reports. For example, ARL dramatically decreased in 2015, as sample companies took an average of 95.708 days to issue the audited report. However, the sampled companies took an average of 93.837 days to make the audited financial statements available to the public in 2016, which is the lowest during the study period. This indicates that there was an improvement in ARL from 2013-2016.

Table 4.2
Descriptive Analysis of ARL by Years

Years	Mean	Median	St.Dev	Min	Max
2013	101.745	111.000	20.544	37	123
2014	100.928	108.000	20.131	37	168
2015	95.708	99.000	18.096	34	122
2016	93.837	96.000	17.164	34	150
Total	97.967	102.000	19.279	34	168

4.2.2 Independent Variables

Table 4.3 shows the descriptive statistics of all continuous variables (before winsorisation of the extreme values), while the descriptive statistics of all dichotomous variables are provided in Table 4.4.

Table 4.3
Descriptive Statistics of Continuous Variables

Variables	Mean	Median	Min	Max	St.Dev
BODSIZE	7.251	7.000	4.000	17.000	1.730
BODIND	0.477	0.444	0.250	0.889	0.122
BODMEET	5.452	5.000	2.000	26.000	1.913
BODEXP	0.335	0.333	0.083	1.000	0.153
BODEEF(Score)	1.596	2.000	0.000	4.000	0.979
ACSIZE	3.232	3.000	3.000	6.000	0.496
ACIND	0.891	1.000	0.600	1.000	0.150
ACMEET	5.038	5.000	2.000	16.000	1.112
ACEXP	0.475	0.333	0.167	1.000	0.198
ACEFF(Score)	1.463	1.000	0.000	4.000	0.873
ACCTEN	9.380	9.000	1.000	36.000	5.577
FOWN (%)	26.350	27.140	0.000	80.980	25.086
MOWN (%)	30.840	32.105	0.000	80.980	23.274
FROWN (%)	9.898	3.230	0.000	82.760	15.752
TENURE	2.270	2.000	1.000	5.000	1.257
IAF(RM)	447697.976	71000.000	2756.000	22600000.000	1481496.313
IAF(LN)	11.564	11.170	7.922	16.933	1.503
SIZE (RM'000)	2194726.859	420104.000	23209.000	132871000.000	8176163.435
SIZE (LN)	13.126	12.948	10.052	18.705	1.467
LEV	0.183	0.159	0.000	0.686	0.152
PROF	0.034	0.033	-1.122	0.883	0.096

Note: BODSIZE = board size, BODIND = board independence, BODMEET = board meetings, BODEXP = board financial expertise, BODEFF= board effectiveness, ACSIZE = AC size, ACIND = AC independence, ACMEET = AC meetings, ACEXP = AC financial expertise, ACEFF= AC effectiveness, ACCTEN = ACC's tenure, FOWN = family ownership, MOWN = managerial ownership, FROWN= foreign ownership, TENURE = audit partner tenure, IAF = internal audit function, SIZE = firm size, LEV= leverage, PROF = profitability

Table 4.3 shows the descriptive results for the BOD's characteristics. The number of directors on the board (BODSIZE) was between 4 to 17 directors. Only one firm had 17 directors, namely Wang-Zheng Berhad. This outcome is similar to previous Malaysian studies that showed board size was in the range of 4 to 14 (or 15) (Abdul Latif *et al.*, 2013; Kamardin, Abdul Latif, Taufil Mohd, & Che Adam, 2014; Wan-Mohammad *et al.*, 2018; Qasem, Aripin, & Wan-Hussin, 2020). The mean board size was 7.251, which is similar to Al-Absy, Ku Ismail, and Chandren's (2018) with a mean of 7.23, but which is slightly lower than in the studies by Al-Absy *et al.* (2019), Mohamad-Nor *et al.* (2010) and Qasem *et al.* (2020) with means of 7.40, 7.64 and 7.85, respectively. Jensen (1993) recommends a board size within the range of 7 – 8 directors for board effectiveness.

The mean for board independence (BODIND) is 0.477, similar to the study conducted by Ghaleb, Kamardin, and Tabash (2020b) and Al-Absy *et al.* (2018). This shows that Malaysian firms are almost near to meet the recommendation of MCCG 2017, which recommended that half of the board members must be independent. However, the minimum for the independent directors is 0.25 because 73 observations had less than 30 per cent independent directors representing 3.639 per cent of this study sample. The minimum value for the independent directors is similar to that reported by Qasem *et al.*(2020) and Al-Rassas and Kamardin (2015a).

The mean for the frequency of board meetings (BODMEET) is 5.452, consistent with Altarawneh, Shafie, and Ishak's (2020) study where the mean is 5.24. This shows that the firms follow the recommendation of the MCCG 2000 of at least four meetings per year. However, ten firms held fewer than the recommended four meetings (for example, FCW Holdings Berhad, Computer Forms (Malaysia) Berhad and Marco

Holdings Berhad). Further analysis showed that the highest number of board meetings was 26 by the BOD of Borneo Oil Berhad.

The mean for board financial expertise (BODEXP) is 0.335. This implies that directors in Malaysian listed firms have the necessary expertise, and that firms are aware that directors' financial knowledge is important to the firm. This average is similar to Nasir, Ali, and Ahmed's (2019) and Omer and Al-Qadasib's (2019) studies conducted in Malaysia. Board's financial expertise may assist in effective monitoring, information reporting and would likely improve the timeliness of audit reports.

Board effectiveness (BODEFF) is measured by the score of four characteristics, namely, size, independence, frequency of meetings, and financial expertise. It is a composite measurement for efficiency and ranges from 0 to 4, with a higher score indicating higher board effectiveness. The mean effectiveness of the board is 1.596; with a minimum of 0 and a maximum of 4, which is slightly higher than those obtained from Al-Qadasi *et al.'s* (2018) and Al-Jaifi, Al-Rassas, and Al-Qadasi's (2019) as they show that the mean is 1.56 and 1.49, respectively. However, it is slightly lower than Johl *et al.* (2013), who reported a mean of 1.89.

Table 4.3 also presents the descriptive statistics for AC characteristics. The mean for AC size (ACSIZE) is 3.232, with a minimum of 3 and a maximum of 6 members. This result is consistent with the recommendation of Bursa Malaysia to have at least three directors serving on the AC, and is also consistent with Al-Rassas and Kamardin (2015b), Al-Absy *et al.* (2019), Ghaleb *et al.* (2020a), and Wan-Hussin *et al.* (2018), who found the mean sizes of 3.24, 3.24, 3.22 and 3.22 members, respectively.

The mean for AC independence (ACIND) is 0.891, which is in line with the MCCG (2007) requirement that the majority of AC members must be independent. The findings are also consistent with previous studies reported by Ghaleb *et al.* (2020a), Al-Rassas and Kamardin (2015a), and Kamarudin *et al.* (2018). The mean of the current study suggests that Malaysian firms are closer to the practices recommended by the MCCG 2017, where the AC should consist solely of independent directors.

The mean for AC meetings (ACMEET) is 5.038 times, with a minimum of 2 and a maximum of 16 times. The mean is similar to Al-Absy *et al.* (2019) and Baatwah *et al.* (2019), at 5.039 and 5.59, respectively. However, it is slightly lower than Al-Rassas and Kamardin (2015b). The result shows that most of the Bursa Malaysia firms have complied with the frequency of meeting requirement which is a minimum of four times in a year. Only three firms had less than four meetings, namely WCT Holdings Berhad, Thong Guan Industries Berhad, and Oriental Food Industries Holdings Berhad. WCT Holdings had only two meetings since being listed on Bursa Malaysia. Thong Guan Industries Berhad held only three meetings due to the lack of quorum following the resignation of two members of the AC while the fourth AC meeting of Oriental Food Industries Holdings Berhad was held after the financial year.

The mean for AC financial experts (ACEXP) is 0.475 with a minimum of 0.167 and a maximum of 1.0. This mean is similar to those obtained from Al-Rassas and Kamardin (2016) and Al-Rassas and Kamardin (2015b) as they show that the mean is 0.48, while Mohamad-Nor *et al.* (2010) reported a mean of 0.38 for the fiscal year ended 2002. This shows an increase of about 10 per cent following the recommendation of the MCCG (revised 2007) where all members of the AC should have financial expertise and at least one director serving on the committee should have a membership in an accounting association or have experience in the relevant bodies.

The mean for AC effectiveness (ACEFF) is 1.463 and the maximum value is four. The mean was measured by the score of four characteristics of the AC, namely, size, independence, meetings, and financial expertise, which ranged from 0 to 4, with higher scores indicating higher efficiency. A mean of 1.463 implies that 36.575 per cent (dividing the mean by 4 and multiplying by 100 per cent, 1.463/4)*100) of the firms have effective ACs, which is similar to the Al-Qadasi *et al.* (2018) study that found a mean of 36% in the Malaysian context. However, it is lower than the mean of 2.3 for a sample of the top 100 firms during 2012-2014 as shown by Al-Dhamari, Almagdoub, and Al-Gamrh (2018). However, Al-Dhamari *et al.* (2018) used different AC characteristics to measure their AC index.

The mean for ACC's tenure (ACCTEN) is 9.380 years which is consistent with Al-Absy *et al.* (2019) but to a certain extent or a little high compared to the finding of Baatwah *et al.* (2019) that reported a mean of 8.80 years for the top 100 firms. The minimum value is one year, and a maximum value is 36 years. The maximum value of 36 years refers to Hong Leong Industries Berhad who has had the same chairman on their AC for over 36 years.

Table 4.3 also demonstrate the descriptive results related to the ownership structure. The mean, minimum and maximum for family ownership (FOWN) are 26.350 per cent, 0 and 80.980 per cent, respectively. The current study's mean is in agreement with that revealed by Kamardin *et al.* (2016), Lean *et al.* (2015), and Ghaleb *et al.* (2020b) with values of 26.05 per cent, 26 per cent and 25 per cent, respectively. Further analysis showed that 54.94 per cent of the companies have family members who owned a minimum of 20 per cent of shares in the company (direct and indirect), consistent with the finding by Ghaleb *et al.* (2020b) of 53.03 per cent. The finding also supports Amran and Che-Ahmad's (2013) study which argued that the Malaysian market is highly concentrated in the hands of family members who control most firms in emerging countries.

The frequency analysis showed that five firms have a high proportion of family shareholdings of between 75.5 per cent to 80.98 per cent, namely Y&G Corporation Berhad, Karambunai Corporation Berhad, Berjaya Land Berhad, I-Berhad, and Lion Forest Industries Berhad. This finding supports Kamardin *et al.*'s (2016) and Saleh, Ibrahim, and Shahar's (2018) studies which found the maximum value of 79.28 per cent and 85 per cent, respectively.

Managerial ownership (MOWN) recorded the highest mean of shareholdings with a value of 30.840 per cent, similar to Nelson and Mohamed-Rusdi (2015) who showed a mean of 30.50 per cent. However, it is slightly lower than Saleh *et al.*'s (2018), Kamardin *et al.*'s (2016), and Che-Ahmad and Abidin's (2008) studies which showed values of 32 per cent, 36.35 per cent and 37 per cent, respectively. In contrast, it is higher than Kamardin (2014), who reported a mean of 23.80 per cent for 112 listed firms on Bursa Malaysia in 2006.

The mean for foreign ownership (FROWN) of 9.898 per cent is similar to the findings reported by Nelson and Mohamed-Rusdi (2015), Saleh *et al.* (2018), and Tazik and Mohamed (2014) with mean values of 9.60 per cent, 11.3 per cent and 11 per cent, respectively. However, the mean in the current study is lower as compared to Ghazali's

(2010) study which showed a mean of 23.83 per cent for 87 non-financial listed companies in 2001. Also, it is higher than Kamardin *et al.* (2016), who showed a mean of 5.562 per cent for a sample of 183 listed firms from 2006-2010.

The mean for audit partner tenure (TENURE) is 2.270 years, with a minimum of one year and a maximum of five years. This mean is similar to that reported by Wan-Hussin *et al.* (2018). Further analysis shows that on average, 81.05 per cent of firms held audit partners for three years or less, while 18.95 per cent of firms held audit partners for more than four years. This result is consistent with the guidelines issued by the MIA's By-Laws on Professional Ethics, that a person may not be the main audit partner for more than five years (effective from 15th December 2011) in connection with the auditing of any public interest entity.

Table 4.4 shows the descriptive statistics for the dichotomous variables. The ACC's accounting expertise (ACCEXPA) was measured as a dichotomous dummy variable which equals '1' if the chairman has a degree, expertise or professional qualification in accounting or auditing, '0' otherwise. The percentage of firms whose ACC has accounting expertise is 65.55 per cent which indicates that most Malaysian firms appoint ACC's accounting expertise. The finding is similar to Al-Absy *et al.* (2019) at 66 per cent but is higher than Baatwah *et al.* (2019) at 54 per cent. This is in line with the proposed draft of MCCG 2016, which suggested that ACC should be a person with accounting expertise.

Table 4.4 also shows that 847 observations appointed ACC who holds two or more seats in other Malaysian public listed firms (ACCMD). This finding is higher than that of Al-Absy *et al.* (2019) who showed that 35 per cent of firms appointed a chairman who has an interlocking directorship in other firms. Further analysis showed that more than half (64.46 per cent) of the ACC has at least one additional directorship during the sample period. This study's finding is consistent with the study by Kamardin and Haron (2011) who showed that more than half of the non-executive directors have at least one additional directorship in other public listed firms in Malaysia.

The current study defined a stand-alone RMC as a specific committee with the title of the "risk management committee", which is separate from any other committee including the AC. Table 4.4 shows that only 21.83 per cent of the firms have a stand-alone RMC as the establishment of a RMC is still voluntary in Malaysia. This finding is consistent with Hassan *et al.'s* (2012) study which showed that 22 per cent of firms have a separate RMC but is lower than Ishak and Mohamad-Nor (2017), who reported that 28 per cent of the firms have a separate RMC in their study.

Table 4.4. shows that 17.60 per cent of the firm-year observations went through financial restatements (RESTATE). The mean of this study is consistent with Altarawneh *et al.* (2020) and Baatwah *et al.* (2019), who showed that about 17 per cent and 18 per cent of Malaysian firms restated their financial statements, respectively. However, it is lower than Qasem *et al.* (2020) with 24.3 per cent from 2008-2013. A potential explanation for the rise in restatements in this study is the negative impact of the global economic crisis of 2008-2009. While the recession badly struck the United States and other developing countries, there was also financial instability in the Malaysian economy (Qasem, Aripin, & Wan-Hussin, 2017).

Table 4.4
Descriptive Statistics of Dichotomous Variables

Variables	Observations	Frequency		Per cent	
		1	0	1	0
ACCEXPA	2006	1315	691	65.55	34.45
ACCMD	2006	847	1159	42.22	57.78
RMC	2006	438	1568	21.83	78.17
RESTATE	2006	353	1653	17.60	82.40
BIG4	2006	991	1015	49.40	50.60

Note: ACCEXPA = ACC's accounting expertise, ACCMD = ACC's multiple directorships, RMC = separate risk management committee, RESTATE = financial restatements, BIG4 = Big 4 audit firms.

4.2.3 Control Variables

Table 4.3 also provides descriptive statistics for the control variables. The mean of the investment in the IAF is RM 447,697.976 with a minimum of RM 2,756 to a maximum of RM 22,600,000. The mean in the current study is similar to the mean reported in earlier studies by Wan-Hussin *et al.* (2018), who documented a mean of RM 436,560 for a sample of 651 companies in 2013. Nevertheless, it is slightly higher than the findings by Wan-Hussin and Bamahros (2013) and Al-Rassas and Kamardin (2016) of RM 371,000 and RM 370,658 in 2009 and 2009-2012, respectively.

The difference in the mean could be the result of a serious trend towards IAF to enhance the FRQ among firms listed on the main market, particularly, after the Bursa Malaysia Corporate Governance Guide in 2009 mandated all listed firms to disclose IAF costs and the sourcing arrangements. However, Johl *et al.* (2013) showed a mean of RM 946,291 in investments in IAF for a sample of 64 companies in 2009-2010, which was slightly lower than what was reported in earlier studies by Johl *et al.* (2013). The reason could be due to sample size where the mean for larger samples could be less than those for smaller samples.

As regards firm-specific characteristics, the study found that the average total assets (SIZE) using the natural logarithm value is 13,126, which similar to Al-Absy *et al.*(2019) and Qasem *et al.* (2020). The mean size of the firms is RM 2.2 million with a minimum of RM 23.2 million and a maximum of RM 132.9 billion. The mean of the current study is similar to How, Verhoeven, and Abdul Wahab's (2014) study of RM 2.4 billion but is lower than the total reported in Wan-Hussin *et al.* (2018).

Table 4.3 also shows that the mean of leverage (LEV) is 0.183, with a minimum of 0 and a maximum of 0.686. The mean of this study is similar to Al-Qadasi *et al.* (2018), Altarawneh *et al.* (2020), and Qasem *et al.* (2020) at 18.8 per cent, 19.03 per cent, and 19.09 per cent, respectively. The mean for firm profitability (PROF) measured by net income to total assets is 0.034, ranging from -1.122 to 0.883. The negative sign implies that firms suffered losses during the period. The mean is similar to Hashim and Devi's (2008) and Hashim and Rahman's (2012) study that showed a mean of 0.03.

Table 4.4 which also represents the external audit quality (BIG4) shows that 991 (49.40 per cent) firm-year observations were audited by the Big 4 audit firms (PWC, Deloitte, Ernst and Young, and KPMG), while 1,015 firms (50.60 per cent) were audited by other audit firms. The findings of this study are in line with Kamarudin *et al.'s* (2018) study that showed 51.49 per cent of firms were audited by the Big 4 audit firms from 2013-2015. Al-Absy *et al.* (2018) also showed similar results with 51.75 per cent of firms in 2014.

4.3 Correlation Analysis

Table 4.5 shows the results of the Pearson correlation coefficients between the dependent variable (audit report lag) and all the independent as well as control variables. Cramer and Howitt (2004) noted that a correlation matrix is an index of the linear relationship of two variables; depending on the sign coefficient, it may be either negative or positive and statistically significant. The results showed that all the BOD characteristics, as expected, were negatively correlated with ARL. These results are considered as an indication of the significant relationship between the BOD characteristics and ARL in multivariate tests. Thus, the characteristics of the BOD play a vital role in reducing ARL. The results also showed that different AC characteristics are correlated with ARL in different directions. For example, size, financial expertise, chairman's tenure, and chairman's multiple directorships are negatively correlated with ARL, whereas independence is positively correlated with ARL.

Table 4.5 also shows that ownership structure affects ARL but in different directions. For example, family and management ownership are positively correlated with ARL, while foreign ownership is negatively correlated with ARL. Table 4.5 also confirms that audit partner tenure is negatively correlated with ARL. This implies that, as auditors are engaged with the company for quite a long time, they are likely to become more familiar with its procedures and controls, contributing to shortening the lag. Furthermore, investments in the IAF, Big 4 firms, firm size, and profitability are negatively correlated to ARL. This suggests that firms which invested in the IAF were audited by the Big 4 firms, or were highly profitable, issued their audited reports on time. However, highly leveraged firms are positively correlated with the ARL suggesting that firms with high debts faced financial problems, requiring auditors to pay more attention and effort, and thus leading to increased ARLs.

Table 4.5 displays the Pearson correlation matrix where the highest correlation was 0.764, which was between firm size and IAF. This shows that the large firms invested more in their IAF. This finding is similar to previous research, such as Al-Qadasi *et al.* (2018), Al-Rassas and Kamardin (2016), and Wan-Hussin *et al.* (2018), who reported a strong correlation between firms size and IAF, at 0.76, 0.76, and 0.70, respectively. The next highest value was found for the correlation between family ownership and managerial ownership is 0.662, suggesting that these ownership structures may overlap.

The variables related to CGM, especially between the BOD and AC showed a significant correlation between AC financial expertise and BOD's financial expertise at 0.600. This is because the AC is a sub-committee of the BOD. Table 4.5 also demonstrates that the correlation involving board meetings with AC meetings is 0.513. This high correlation is because the members of the AC are selected from among the same members of the board; thus, active directors lead to a higher frequency in both the BOD and AC meetings.

Table 4.5 also shows that board effectiveness is positively and significantly correlated with all four of its characteristics, and similar results were found for AC effectiveness with all four of its characteristics. To avoid multicollinearity, this study employed a separate regression equation (Model 2) to analyse board effectiveness, and AC effectiveness. This approach was performed because board effectiveness, and AC effectiveness were each measured as a score of four of its characteristics.

In conclusion, the highest correlation found in this study was 0.764. Thus, there is no evidence of any significant issues with multicollinearity since the value of the correlations does not surpass the threshold of $\pm$0.90 (Hair *et al.*, 2014; Tabachnick & Fidell, 2013).

Table 4.5

Correlations Matrix of Study Variables

Variables	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
(1) ARL	1.000											
(2) BODSIZE	-0.133***	1.000										
(3) BODIND	-0.083***	-0.332***	1.000									
(4) BODMEET	-0.079***	0.135***	0.116***	1.000								
(5) BODEXP	-0.070***	-0.182***	0.082***	-0.001	1.000							
(6) BODEFF	-0.143***	0.240***	0.395***	0.471***	0.395***	1.000						
(7) ACSIZE	-0.200***	0.334***	0.167***	0.209***	-0.076***	0.264***	1.000					
(8) ACIND	0.099***	0.084***	0.380***	-0.028	-0.078***	0.135***	-0.088***	1.000				
(9) ACMEET	-0.001	0.136***	0.068***	**0.513*****	-0.035	0.270***	0.088***	0.052**	1.000			
(10) ACEXP	-0.042*	-0.036*	-0.064***	0.008	**0.600*****	0.208***	-0.153***	-0.022	-0.011	1.000		
(11) ACEFF	-0.094***	0.256***	0.273***	0.263***	0.234***	0.428***	0.447***	0.468***	0.419***	0.436***	1.000	
(12) ACCEXPA	-0.036	-0.045**	-0.001	0.017	0.116***	0.056**	-0.066***	-0.061***	-0.029	0.226***	0.049**	1.000
(13) ACCTEN	-0.064***	0.058***	-0.042*	-0.115***	-0.059***	-0.058***	0.018	-0.025	-0.058***	-0.092***	-0.064***	-0.306***
(14) ACCMD	-0.267***	0.121***	0.083***	0.133***	-0.016	0.156***	0.143***	0.024	0.132***	0.012	0.152***	-0.001
(15) RMC	-0.023	0.186***	0.032	0.211***	0.011	0.173***	0.091***	0.051**	0.158***	-0.021	0.122***	0.068***
(16) FOWN	0.199***	0.052**	-0.289***	-0.167***	-0.116***	-0.239***	-0.140***	0.066***	-0.052**	-0.001	-0.064***	0.026
(17) MOWN	0.227***	0.006	-0.217***	-0.184***	-0.136***	-0.249***	-0.155***	0.160***	-0.036	0.009	-0.021	0.011
(18) FROWN	-0.160***	-0.004	0.045**	-0.045**	-0.005	-0.004	0.048**	-0.053**	-0.034	0.049**	0.029	0.062***
(19) TENURE	-0.102***	0.009	-0.027	-0.020	0.021	0.015	-0.021	-0.018	0.002	0.046**	0.008	0.022
(20) RESTATE	0.025	0.021	0.044**	0.121***	0.008	0.091***	0.049**	-0.019	0.086***	-0.011	0.046**	0.010
(21) IAF	-0.393***	0.311***	0.035	0.273***	0.056**	0.298***	0.235***	-0.110***	0.252***	0.041*	0.211***	-0.044**
(22) BIG4	-0.273***	0.164***	-0.011	0.101***	-0.012	0.110***	0.166***	-0.078***	0.073***	-0.017	0.081***	-0.001
(23) SIZE	-0.334***	0.354***	-0.002	0.261***	-0.017	0.237***	0.235***	-0.063***	0.254***	-0.023	0.194***	-0.053**
(24) LEV	0.052**	0.131***	-0.024	0.149***	-0.048**	0.078***	0.081***	0.019	0.138***	-0.087***	0.044**	-0.028
(25) PROF	-0.237***	0.090***	-0.082***	-0.103***	-0.020	-0.038*	0.061***	-0.082***	-0.091***	0.082***	0.009	0.038*

Table 4.5 (Continued)

Variables	**(13)**	**(14)**	**(15)**	**(16)**	**(17)**	**(18)**	**(19)**	**(20)**	**(21)**	**(22)**	**(23)**	**(24)**	**(25)**
(13) ACCTEN	1.000												
(14) ACCMD	-0.003	1.000											
(15) RMC	-0.099***	0.047**	1.000										
(16) FOWN	0.133***	-0.131***	-0.066***	1.000									
(17) MOWN	0.119***	-0.172***	-0.026	**0.662*****	1.000								
(18) FROWN	-0.008	0.087***	-0.008	-0.105***	-0.116***	1.000							
(19) TENURE	0.019	0.057**	-0.011	-0.002	-0.028	0.059***	1.000						
(20) RESTATE	-0.061***	0.016	0.076***	-0.042*	-0.042*	0.036	-0.005	1.000					
(21) IAF	0.038*	0.306***	0.219***	-0.188***	-0.319***	0.093***	0.057**	0.075***	1.000				
(22) BIG4	0.080***	0.253***	0.108***	-0.016	-0.137***	0.159***	0.072***	0.033	0.422***	1.000			
(23) SIZE	0.052**	0.295***	0.186***	-0.097***	-0.223***	0.100***	0.068***	0.081***	**0.764*****	0.421***	1.000		
(24) LEV	0.014	0.125***	0.085***	-0.083***	-0.095***	-0.117***	0.017	0.057**	0.234***	0.103***	0.379***	1.000	
(25) PROF	0.037*	0.009	-0.011	0.079***	0.096***	0.100***	0.028	-0.045**	0.070***	0.096***	0.102***	-0.250***	1.000

Note: *, **, *** are p-value <.10,.05,.01, respectively.

ARL = audit report lag, BODSIZE = board size, BODIND = board independence, BODMEET = board meetings, BODEXP = board financial expertise, BODEFF= board effectiveness, ACSIZE = AC size, ACIND = AC independence, ACMEET = AC meetings, ACEXP = AC financial expertise, ACEFF= AC effectiveness, ACCEXPA = ACC's accounting expertise, ACCTEN = ACC's tenure, ACCMD = ACC's multiple directorships, RMC = separate risk management committee, FOWN = family ownership, MOWN = managerial ownership, FROWN= foreign ownership, TENURE = audit partner tenure, RESTATE = financial restatements, IAF = internal audit function, BIG4 = Big 4 audit firm, SIZE = firm size, LEV= leverage, PROF = profitability.

4.4 Data Diagnostic Tests

The dataset must meet several assumptions in order for the analysis to be reliable and valid. This section sets out the results of the diagnostic tests which were performed to ensure that all basic regression assumptions were met, such as analysing for outliers, normality, linearity, multicollinearity, heteroskedasticity and autocorrelation. All statistical approaches were tested accordingly before employing multiple regression analysis.

4.4.1 Outliers

Outliers are observations that are significantly different from the main trend of the data (Hair *et al.*, 2014). In line with previous studies, for example, Abernathy *et al.* (2018), Baatwah *et al.* (2019), Clatworthy and Peel (2016), Dong *et al.* (2018), and Sultana *et al.* (2015), the current study adopted a one per cent winsorisation because it was necessary to minimise abnormal skewness and kurtosis to prevent the impact of outliers. Thus, all continuous variables utilised in this study were winsorised at the top and bottom by one per cent.

4.4.2 Normality

Normality is one of the fundamental assumptions of linear regression. It refers to the distribution of the data and whether the shape of the data is normally distributed. According to Hair *et al.* (2014), normality is a vital and fundamental assumption in multivariate analyses, showing the shape of data distribution for a particular quantitative data variable as well as its normal distribution. There are several methods to verify the normality of the data that include graphical and statistical methods. The graphical method uses residual graphs, such as normal probability plots and histograms, although statistical methods may provide more objective results using skewness and kurtosis (Hair *et al.*, 2014).

Figure 4.1 and Figure 4.2 show the standardised normal probability plot and histogram of residuals, respectively, to check for the normality assumption. According to Hair *et al.* (2014), data are deemed normal if the straight diagonal line of the actual data closely follows the diagonal line of the normal distribution. Based on Figure 4.1 and Figure 4.2, the data for the main model is normally distributed.

The current study has a large sample size that can diminish the detrimental effect of non-normality. Hair *et al.* (2014) stated that normality in small samples might have serious effects (less than 50 cases) but the impact is reduced if the sample size reaches 200 cases or more.

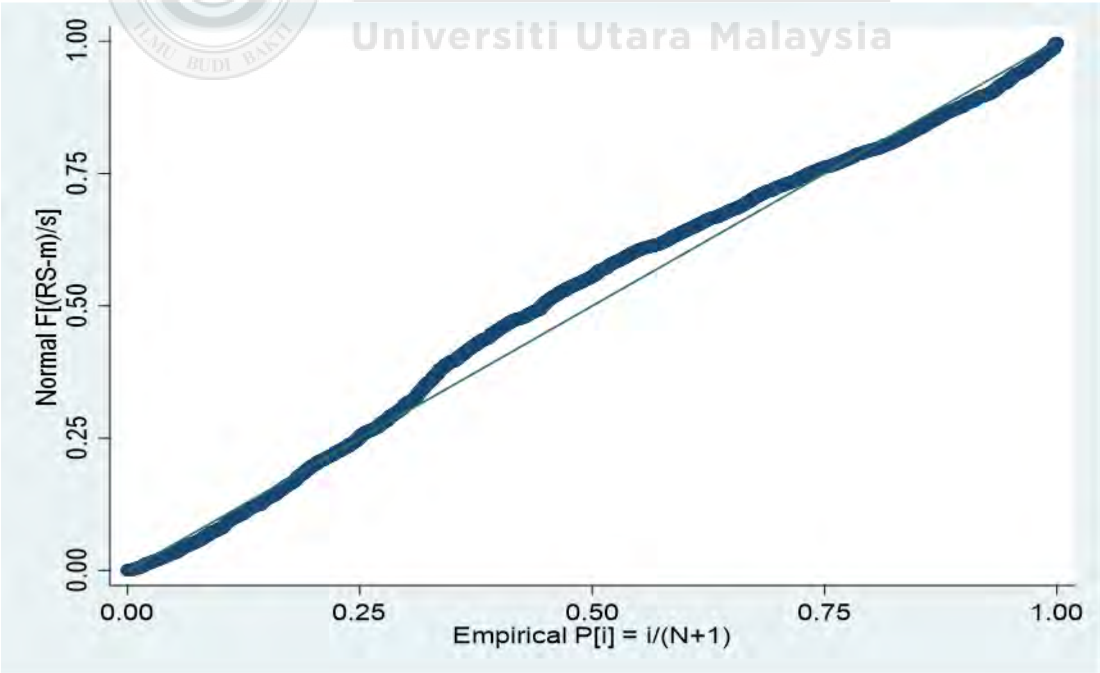

Figure 4.1
Normal Plot of Regression Residuals

Figure 4.2 shows the histogram of the normality test used in the current study. The histogram clearly shows that the residual of the model is normally distributed.

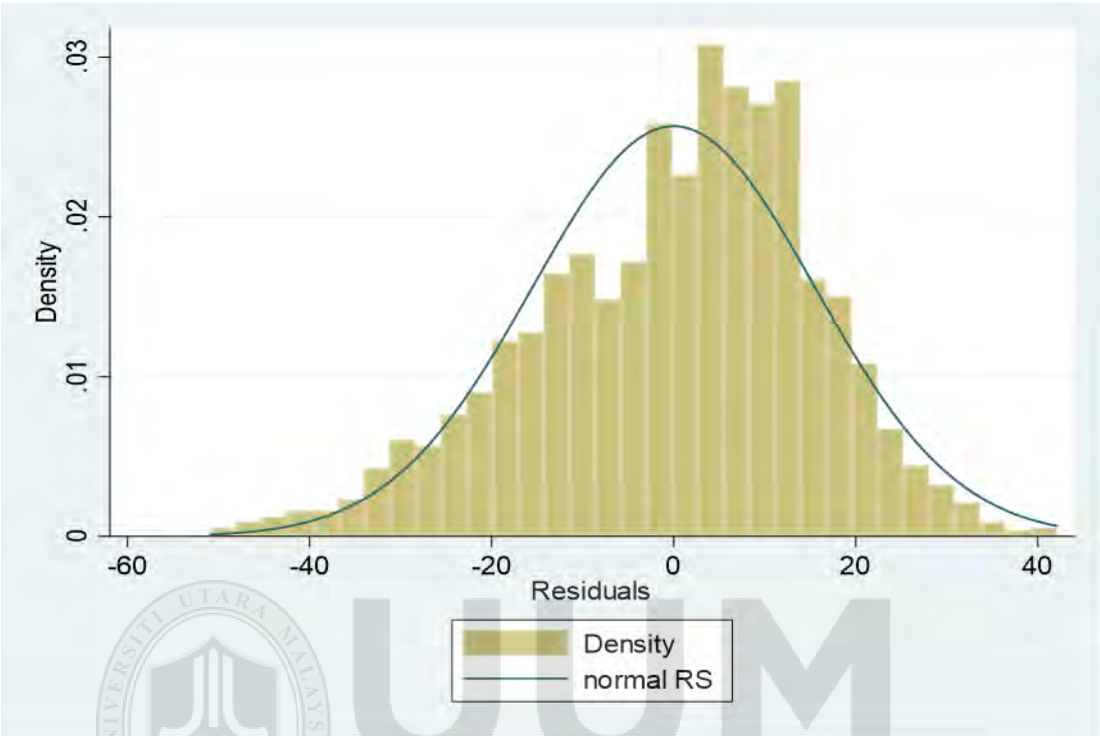

Figure 4.2
Histogram for the Normality Test Result

The normal probability plot and histogram provided a general idea of the shape, but numerical measures of shape, mainly, skewness and kurtosis provide a more precise evaluation for test of normality. Skewness tells the skew's amount and direction whereas kurtosis tells how tall and sharp the central peak is relative to the standard bell curve (Hair *et al.*, 2014). Kline (2015) suggested that kurtosis must be lower than ten, while skewness values must not exceed three. Table 4.6 shows that all skewness values for all model variables are lower than three and the kurtosis is lower than ten. Thus, the results suggest no serious violation of the normality assumption in the dataset of the current study.

Table 4.6
Descriptive Statistics of Skewness and Kurtosis

Variables	Kurtosis	Skewness
ARL	3.088	-0.949
BODSIZE	2.918	0.499
BODIND	2.699	0.555
BODMEET	9.224	2.112
BODEXP	2.808	0.632
ACSIZE	6.306	2.019
ACIND	1.548	-0.686
ACMEET	6.711	1.673
ACEXP	2.945	0.879
ACCEXPA	1.429	-0.655
ACCTEN	2.386	0.369
ACCMD	1.099	0.315
RMC	2.859	1.364
FOWN	1.572	0.257
MOWN	1.761	0.044
FROWN	7.176	2.203
TENURE	2.378	0.684
RESTATE	3.896	1.702
IAF	2.910	0.691
BIG4	1.001	0.024
SIZE	3.396	0.691
LEV	2.470	0.575
PROF	6.945	-0.482

4.4.3 Linearity

The "linearity of the relationship between dependent variable and independent variables represents the degree to which the change in the dependent variable is associated with the independent variables" (Hair *et al.*, 2014. p.179). In other words, it reflects the relationship between two sets of variables (Hair *et al.*, 2014). The linearity of the dependent as well as independent variables in the main model (Model 1) is checked when the standard deviation of the dependent variable is compared to the standard deviation of the residual variable. According to Hair *et al.* (2014), when the standard deviation of the residuals is smaller than that of the dependent variable (audit report lag), linearity is not an issue. Thus, the assumption of linearity is met. Table 4.7 shows the standard deviation of the dependent variable and the residual of the regression, which shows that the standard deviation of the residuals (15.537) is less than the standard deviation of the dependent variable (19.279).

Table 4.7
The Standard Deviation ARL and the Residuals

Variable	Std. Dev Model (1)
ARL	19.279
Residuals	15.537

4.4.4 Multicollinearity

Multicollinearity is a statistical phenomenon that refers to the high correlation between two or more independent variables in a multiple regression model (Sekaran & Bougie, 2016). The presence of multicollinearity harms the results of multiple regressions and makes regression coefficients unreliable. The Pearson correlation matrix is the most popular method of discovering multicollinearity, which emerges when the correlation coefficient is at 0.80 or higher (Gujarati & Porter, 2009; Judge, Hill, Griffiths, Liitkepohl, & Lee, 1982) or 0.90 and above correlations (Hair *et al.*, 2014; Tabachnick & Fidell, 2013). Results as in Table 4.5 show that the multicollinearity of this study is not a serious problem as none of the variable correlation coefficients is greater than 0.80.

Moreover, a high correlation raises concern about the possibility of multicollinearity. Some scholars have argued that the correlation matrix is not adequate to detect multicollinearity and, thus, it is necessary to perform a variance inflation factor (VIF) test to verify that there is no collinearity between variables (Hair *et al.*, 2014). Hair *et al.* (2014) suggest that the VIF of less than ten would indicate the absence of multicollinearity. Table 4.8 shows that the multicollinearity is not detected between the variables in the analysis as the VIF scores for the variables are less than five which is much lower than the cut-off value of ten. In sum, the current study checked the existence of multicollinearity using the Pearson correlation matrix as well as the VIF test, and the results provided evidence that the multicollinearity does not exist in the models of the study.

Table 4.8
Results of the Variance Inflation Factor Test

Variables	Model 1		Model 2	
	VIF	**1/VIF**	**VIF**	**1/VIF**
BODSIZE	1.874	0.534		
BODIND	1.977	0.506		
BODEXP	1.734	0.577		
BODMEET	1.538	0.650		
BODEFF			1.396	0.717
ACSIZE	1.441	0.694		
ACIND	1.567	0.638		
ACMEET	1.437	0.696		
ACEXP	1.771	0.565		
ACEFF			1.278	0.783
ACCEXPA	1.191	0.840	1.130	0.885
ACCTEN	1.178	0.849	1.160	0.862
ACCMD	1.168	0.856	1.161	0.861
RMC	1.136	0.881	1.097	0.911
FOWN	1.925	0.520	1.866	0.536
MOWN	2.070	0.483	2.010	0.498
FROWN	1.097	0.911	1.088	0.919
TENURE	1.017	0.984	1.012	0.988
RESTATE	1.029	0.972	1.023	0.978
IAF	2.812	0.356	2.759	0.362
BIG4	1.328	0.753	1.319	0.758
SIZE	3.015	0.332	2.907	0.344
LEV	1.359	0.736	1.348	0.742
PROF	1.191	0.839	1.152	0.868
Mean VIF	1.584		1.482	

4.4.5 Heteroscedasticity

Heteroskedasticity can be regarded as the constant variation of the residual as the error process is supposed to be homogeneous across the units (Hair *et al.*, 2014). The problem of heteroskedasticity occurs as or if the error variance is not constant over the sample under observation. Baltagi (2011) noted that ignoring heteroskedasticity could lead to inefficient coefficient estimates and biased standard errors.

The current study used the Breusch-Pagan / Cook Weisberg approach to examine heteroskedasticity while checking the null hypothesis that residual variances are homogeneous. Heteroskedasticity is present, and the hypothesis is rejected if the *p*-value is less than 0.05. Table 4.9 shows that the *p*-value of all models is lower than the level of 0.05, and thus, the null hypothesis is rejected. As a result, the data of this study suffers from a heteroskedasticity problem. Therefore, the study had to solve the problem of heteroskedasticity (which was handled when running the regression).

The data used in this study had a heteroskedasticity problem. Stata contains options for the estimation of robust standard errors. Within this context, heteroskedasticity resulted in biased standard errors, and while Ordinary Least Squares (OLS) anticipated errors to be independent as well as identically distributed, robust standard errors relax both or either of the above assumptions. Thus, the robust function also corrects the problem of bias in the standard errors and gives more efficient estimates. Therefore, the study estimates regression with robust standard errors corrected for the issue of heteroskedasticity.

Table 4.9
Heteroscedasticity Test

	$Chi^2(1)$	**Prob > chi^2**
Model 1	122.08	0.0000
Model 2	128.56	0.0000

4.4.6 Autocorrelation

Autocorrelation, also called serial correlation, occurs when two or more variables are correlated. Econometricians have recommended various tests for autocorrelation, such as the Durbin-Watson test (DW) to test for autocorrelation. The value of this DW test could vary between 0 and 4, the *d*-test values close to 4 indicates extreme negative autocorrelation; close to 0 indicates extreme positive autocorrelation; and close to 2 indicates no serial autocorrelation (Gujarati & Porter, 2009).

As a rule of thumb, the *d*-statistic value should be between 1.5 and 2.5 to indicate independence of observations (Hutcheson & Sofroniou, 1999). In this context, the value of DW can be seen by using the Stata programme after generating the time variable (gen time =_*n*) and (tssettime), and regressing the model using dwstat to get the result for the DW value (Durbin-Watson *d*-statistic (23, 2006) = 1.906427). The result shows that the DW value is more than 1.5 and less than 2.5, which shows that autocorrelation does not exist between the study variables.

4.5 Model Selection Criteria

Panel data regression analysis is used where the data are collected from the same unit over time. To choose the best model for the estimation, Baltagi (2005) stated that the first step is to decide whether the Pooled-OLS or the randomised Generalised Least Squares is suitable. This is achieved by estimating heterogeneous (λ) of models using the Breusch and Pagan Lagrangian Multiplier test for a random effect. When the randomised model is taken, the next step is to identify whether the random or fixed effect is more appropriate through the Hausman specification test.

However, the above process is designed for the ideal panel dataset. Where the panel data is extremely unbalanced, Baltagi (2005) suggested the use of Pooled-OLS estimators. The technique can be used for an unbalanced dataset without causing inconsistencies to the estimators. Davis (2002) provided statistical evidence that OLS is sufficient for an unbalanced dataset arises from peculiar instances such as self-selectivity, as was the case of this study. This is because both estimators of Pooled-OLS and Maximum Likelihood estimator produce similar results. The Pooled-OLS model was used in several studies of this nature, such as Habib (2015), Habib and Muhammadi (2018), Kaaroud *et al.* (2020), and Sultana *et al.* (2015). In this view, the Pooled-OLS model was used and discussed to make meaningful inferences throughout the study.

4.6 Results of the Regression Analyses

4.6.1 Multiple Regression Results of the Direct Relationship

After the assumptions of regression were met, the direct regression Model 1 and Model 2 were employed to examine the direct effect of board characteristics, AC characteristics, separate RMC, ownership structure, audit partner tenure, and financial restatements on ARL. Investments in the IAF, the Big 4 audit firms, firm size, leverage, profitability, industry, and years were also included as control variables. Unbalanced data analysis estimation was used to examine these relationships on the sample, which consisted of 2,006 firm-year observations over the period from 2013-2016. Table 4.10 shows the multiple regression results for Model 1 and Model 2 using OLS regression with robust standard errors to investigate the direct relationship between the dependent variable, independent as well as control variables.

Model 1 examined each individual direct relationship between board characteristics: board size (Hypothesis H_1), board independence (Hypothesis H_2), board meetings (Hypothesis H_3) and board financial expertise (Hypothesis H_4), and AC characteristics: AC size (Hypothesis H_6), AC independence (Hypothesis H_7), AC meetings (Hypothesis H_8), AC financial expertise (Hypothesis H_9), ACC's accounting expertise (Hypothesis H_{11}), ACC's tenure (Hypothesis H_{12}) and ACC's multiple directorships (Hypothesis H_{13}) with ARL. The model also examined the separate RMC (Hypothesis H_{14}) and ARL. Finally, this model examined the effect of ownership structure: family ownership (Hypothesis H_{15}), managerial ownership (Hypothesis H_{16}), and foreign ownership (Hypothesis H_{17}), as well as audit partner tenure (Hypothesis H_{18}), and financial restatements (Hypothesis H_{19}) and on ARL. Statistics reported in Table 4.10 showed that the R-squared of Model 1 is 0.331 and p*rob* > chi^2 = 0.000, which is significant at the one per cent level of significance, indicating that the model is statistically valid.

Model 2 includes board effectiveness (Hypothesis H_5) (score of board size, board independence, board meetings, and board financial expertise), AC effectiveness (Hypothesis H_{10}) (score of AC size, AC independence, AC meetings, and AC financial expertise), ACC's accounting expertise (Hypothesis H_{11}), ACC's tenure (Hypothesis H_{12}) and ACC's multiple directorships (Hypothesis H_{13}), separate RMC (Hypothesis H_{14}), family ownership (Hypothesis H_{15}), managerial ownership (Hypothesis H_{16}), and foreign ownership (Hypothesis H_{17}), audit partner tenure (Hypothesis H_{18}) and financial restatements (Hypothesis H_{19}) as independent variables; it also contains all control variables used in Model 1.

As discussed in Chapter Three, the composite measurement approach is based on the idea that CGM are complementary and should be seen as a group structure rather than isolated (O'Sullivan *et al.*, 2008; Omer & Al-Qadasi, 2019; Ward *et al.*, 2009). For governance mechanisms, the use of composite measures can reduce errors resulting from the use of one structural measure (Srinidhi *et al.*, 2014). Also, it is argued that examining CGM as scores provides more accurate measurements than examining them separately (O'Sullivan *et al.*, 2008).

Furthermore, the score construction adopted here is similar to that used by Al-Qadasi *et al.* (2018), Ben-Amar and McIlkenny (2015), Bin-Ghanem and Ariff (2016), Johl *et al.* (2013), and Omer and Al-Qadasi (2019), who combined a number of corporate governance characteristics to produce an aggregate corporate governance measurement. Following the same logic, the current study attempted to extend previous studies on corporate governance by examining the effectiveness of the BOD and its AC by applying scores of four characteristics (large size, more independence, greater diligence and the presence of financial experts) to the ARL.

Table 4.10 shows that Model 2 is significant at the one per cent level of significance (*prob* > $\text{chi}^2 = 0.0000$) with an *R*-squared overall for Model 2 of 0.318, indicating that this research model is also statistically valid. *R*-squared values of the models are common in models predicting ARL in the accounting literature in Malaysia. Kamarudin *et al.* (2018), Wan-Hussin and Bamahros (2013), and Wan-Hussin *et al.* (2018) showed *R*-squared values of 28 per cent, 32 per cent, and 33 per cent, respectively. The following sections explain the relationship of the independent variable with the dependent variables, as well as the control variables with the dependent variables based on the results in Table 4.10.

Table 4.10
Multiple Regression Results of Direct Relationship

ARL	Model 1			Model 2		
	Coef.	**t-value**	**p-value**	**Coef.**	**t-value**	**p-value**
BODSIZE	-0.457	-1.47	0.141			
BODIND	-8.323	-2.01	0.045**			
BODMEET	-0.287	-1.02	0.309			
BODEXP	-7.063	-2.24	0.025**			
BODEFF				-0.182	-0.42	0.677
ACSIZE	-2.152	-2.27	0.023**			
ACIND	4.373	1.45	0.148			
ACMEET	1.566	3.25	0.001***			
ACEXP	3.073	1.27	0.203			
ACEFF				0.065	0.14	0.891
ACCEXPA	-2.016	-2.52	0.012**	-2.045	-2.66	0.008***
ACCTEN	-0.179	-2.57	0.010**	-0.206	-3.00	0.003***
ACCMD	-5.238	-6.71	0.000***	-5.166	-6.55	0.000***
RMC	2.633	2.95	0.003***	2.499	2.79	0.005***
FOWN	0.092	4.39	0.000***	0.101	4.80	0.000***
MOWN	0.011	0.48	0.629	0.031	1.32	0.186
FROWN	-0.064	-2.53	0.011**	-0.064	-2.52	0.012**
TENURE	-0.794	-2.69	0.007***	-0.724	-2.42	0.015**
RESTATE	2.261	2.54	0.011**	2.191	2.43	0.015**
IAF	-2.972	-7.13	0.000***	-3.003	-7.26	0.000***
BIG4	-3.230	-4.24	0.000***	-3.528	-4.64	0.000***
SIZE	-0.850	-1.93	0.053*	-0.871	-1.99	0.046**
LEV	12.932	4.73	0.000***	13.333	4.92	0.000***
PROF	-45.542	-8.95	0.000***	-47.640	-9.39	0.000***
Industry	-2.793	-2.11	0.035**	-2.894	-2.17	0.030**
2014	-0.562	-0.53	0.598	-0.717	-0.67	0.505
2015	-5.809	-5.63	0.000***	-5.918	-5.68	0.000***
2016	-7.837	-7.62	0.000***	-8.006	-7.75	0.000***
Constant	157.103	27.75	0.000***	152.522	37.01	0.000***
Observations		2006			2006	
R-Squared		0.331			0.318	
Prob > chi2		0.000			0.0000	

Note: *, **, *** are p-value <.10,.05,.01, respectively.
ARL = audit report lag, BODSIZE = board size, BODIND = board independence, BODMEET = board meetings, BODEXP = board financial expertise, BODEFF= board effectiveness, ACSIZE = AC size, ACIND = AC independence, ACMEET = AC meetings, ACEXP = AC financial expertise, ACEFF= AC effectiveness, ACCEXPA = ACC's accounting expertise, ACCTEN = ACC's tenure, ACCMD = ACC's multiple directorships, RMC = separate risk management committee, FOWN = family ownership, MOWN = managerial ownership, FROWN = foreign ownership, TENURE = audit partner tenure, RESTATE = financial restatements, IAF = investment in the internal audit function, BIG4 = Big 4 audit firm, SIZE = firm size, LEV= leverage, PROF = profitability, Industry = 1 if the firm is under Technology or Plantation sectors, and 2014,2015,2016 = years dummy variables.

4.6.1.1 Board Size

Hypothesis H_1 predicts that there is a significant relationship between board size (BODSIZE) and ARL. Results as in Table 4.10 shows an insignificant relationship between BODSIZE and ARL (*p*-value =0.141, *t*-value = -1.47); thus, hypothesis H_1 is rejected. This finding suggests that the number of members on the BOD does not decrease ARL and is consistent with other empirical studies on ARL in Malaysia, for example, Salleh *et al.* (2017) and Mohamad-Nor *et al.* (2010), which did not find any relationship between BODSIZE and ARL.

Furthermore, the result of this study is consistent with recent findings from the meta-analysis concluded by Habib *et al.* (2019), which show that BODSIZE has no significant effect on ARL. This result is inconsistent with Alfraih (2016) and Basuony *et al.* (2016), who found that BODSIZE has a negative relationship with ARL or an increase in the timeliness of Middle Eastern audit reports firms.

This insignificant relationship between BODSIZE and ARL in the current study may be attributed to the fact that the size of the AC, which is stronger in enhancing the timeliness of audit reports of public listed firms in Malaysia (as shown by a significant negative relationship between AC size and ARL (*p*-value = 0.023, *t*-value = -2.27)(; thus, reducing the effect of the BODSIZE on reducing ARL. This is likely because the BOD may allocate some responsibilities in financial matters to the AC, including supervision of financial reporting, monitoring of accounting policies, oversight of audit activities, and supervision of internal controls to address the key risks (DeZoort *et al.*, 2002). Hence, board members may have focused on other issues, such as company strategy and legal issues, rather than financial reporting issues. This may also explain why the findings of the current study did not support the agency theory.

Furthermore, the directors in Malaysian firms might face problems with a lack of knowledge of the business environment (Abdul Rahman & Mohamed Ali, 2006). This lowers their capability to assess the appropriateness of accounting procedures that influence the FRQ and audit report timeliness. In sum, it can be concluded that board size does not contribute toward effective monitoring of enhancing the timeliness of audit reports. This result also highlights the need for the firm to determine the appropriate BODSIZE as recommended by the MCCG and Bursa Malaysia to effectively perform various functions for the benefit of the firm and its business.

4.6.1.2 Board Independence

Hypothesis H_2 predicts that there is a significant relationship between board independence (BODIND) and ARL. The findings as in Table 4.10 shows that the percentage of board independence is significant at the five per cent level (p-value = 0.045, t-value = -2.01). Hence, hypothesis H_2 is supported. This finding support studies by Abdullah (2006), Afify (2009), Alfraih (2016), and Habib and Muhammadi (2018). Similarly, this finding is consistent with recent results from a meta-analysis by Habib *et al.* (2019), which suggested that including the independent directors on the board contributes to timely reporting. This evidence supports the resource dependence and agency theories that independent directors are more capable in monitoring managers' decisions, and mitigating agency issues, and thus, reducing ARL.

This finding supports the view that more independent directors on the board lead them to take greater responsibility for monitoring managers to produce higher quality financial statements (Carcello *et al.*, 2002). It also gives the auditors greater confidence in internal control, reduces the level of substantive testing, and allows the auditor to minimise their work scope (Alfraih, 2016). As a result, the timeliness of audit reports is increased. However, Apadore and Mohd-Noor (2013), Kaaroud *et al.* (2020), Nelson and Shukeri (2011), and Shukeri and Islam (2012) showed that BODIND is not significantly related to ARL.

In sum, board independence is an important factor for firms' effective performance (Wan-Abdullah, Ismail, & Jamaluddin, 2008). The BOD can monitor their role more closely in overseeing the financial reporting process by requiring quality audit service (Salleh, Stewart, & Manson, 2006) that will eventually ensure more timely reporting of the financial statements. Thus, the findings of this study support the view that one-third of the board members should be comprised of independent non-executive directors as recommended by the MCCG (MCCG, revised 2007).

4.6.1.3 Board Meetings

Hypothesis H_3 predicts that there is a significant relationship between the frequency of board meetings (BODMEET) and ARL. Table 4.10 shows that the BODMEET is not significantly related to ARL (p-value = 0.309, t-value = -1.02). Thus, hypothesis H_3 is rejected, and it can be implied that frequent meetings of the board did not decrease the length of time taken by public listed firms to release an audit report.

This result supports the findings by Li *et al.* (2014) and Singh and Sultana (2011), as well as with the meta-analysis findings by Habib *et al.* (2019), which did not find evidence of a significant relationship between BODMEET and ARL. However, it is contrary to other studies that have found a negative relationship (Bakare *et al.*, 2018; Daoud *et al.*, 2015; Hashim & Rahman, 2012) and studies that have found a positive relationship (Salleh *et al.*, 2017). These mixed results from previous studies reflect the demographic characteristics of different BOD across countries, particularly between the United States and Asian countries, such as Malaysia (Habib *et al.*, 2019).

The reason for the insignificant relationship identified in the current study may be that, although the BODMEET is one of the determinants of the board effectiveness, board meetings are not necessarily beneficial because the limited time spent by outside directors was not spent for meaningful exchanges among themselves or with management (Lipton & Lorsch, 1992; Vafeas, 1999). The scheduling of meetings and coming to a consensus at board meetings become more difficult for a large board (Lipton & Lorsch, 1992). This suggests that the increase in BODMEET does not mean that more time is spent discussing financial reporting issues or providing a better monitoring role for financial reporting processes. The meetings may be spent on discussing other issues, strategic planning, or legal issues. As a result, there is less impact on improving the timeliness of audit reports. Other reason more meeting needed/increase meeting frequency may be due to problems/ many serious issues raised thus require more time to complete the task, thus increase ARL.

Furthermore, it is possible that the number of meetings alone does not adequately capture the degree of board activity and that both the number of independent directors and the time expended on supervision are important (Brick & Chidambaran, 2010). This could also explain why the result of the study does not support the theory. In sum, BODMEET (as an internal corporate governance mechanism) may not necessarily provide a better monitoring role to the financial reporting process. In other words, it can be argued that the BODMEET is not an adequate mechanism for improving the timeliness of the audit report among public listed firms in Malaysia. More action is therefore needed to strengthen the role of the board in increasing FRQ.

4.6.1.4 Board Financial Expertise

Hypothesis H_4 predicts that there is a significant negative relationship between the board financial expertise (BODEXP) and ARL. The result of this study shows a negative and significant relationship at the five per cent level (*p*-value = 0.025, *t*-value = -2.24) consistent with the resource dependence and the agency theories, as well as the study's proposition. Hence, hypothesis H_4 is supported. This suggests that the BODEXP improves effective monitoring, which in turn increases the quality of financial reporting by increasing the timeliness of the audit reports.

The result is similar to the study by Singh and Sultana (2011) but is inconsistent with other studies, such as Al Daoud *et al*. (2015) and Ahmed and Che-Ahmad (2016), which found an insignificant board expertise-ARL relationship. The difference in this study's results compared to earlier studies could be attributed to the large sample size of this study.

Board directors with sufficient expertise and knowledge in the accounting or auditing process would be able to better address any financial problems that contribute to an improvement in the FRQ. As such, they are more prone to reduce the delay of audit reports. In sum, it could be inferred that directors' financial expertise is an important mechanism that reduces the ARL in Malaysia. The finding is compatible with the recommendation of the MCCG (2017) in which the appointment of directors should involve persons with skills, knowledge, and experience.

4.6.1.5 Board Effectiveness

Hypothesis H_5 predicts that there is a significant negative relationship between board effectiveness (BODEFF) and ARL. Table 4.10 (Model 2) shows that the coefficient of effectiveness of the board is not significantly related to the ARL (*p*-value = 0.677, *t*-value = -0.42), which is inconsistent with the study hypothesis. Thus, hypothesis H_5 is rejected. This indicates that board effectiveness, as a controlling and monitoring function, has no impact on ARL.

The findings of the study contradict the claims of agency theory and resource dependence theory, which predicted that the more effective the board, the more timely the audit reports. The possible explanation is that the board delegates the oversight roles of quality financial reporting to the AC, whose chairman is responsible for the timeliness of the firm's financial reporting (Abernathy *et al.*, 2014). The result is similar to a study by Omer and Al-Qadasi (2019), who found no relationship between boards' effectiveness and the demand for monitoring costs in Malaysian context.

The other explanation is that the BOD of Malaysian firms is dominated by family and individual controlling shareholders, where the average family shareholding is 26,350 per cent (as shown in Table 4.3). Thus, the controlling shareholders may use their power to utilise the firm's resources to achieve their interests at the expense of minority shareholders. In this context, the findings show the board is less able to do its supervisory role due to the involvement of controlling shareholders, which is often influenced by political relations and family participation (Haniffa & Hudaib, 2006; Omer & Al-Qadasi, 2019). With a high degree of ownership, family boards exercise their supervisory roles less efficiently than in non-family firms. The presence of family shareholders in management would reduce board independence and effectiveness in the performance of their supervisory roles (Omer & Al-Qadasi, 2019).

Controlling shareholders also do not normally depend as much on the BOD to oversee management and this decreases the importance of the boards in its supervisory role (Desender, Aguilera, Crespi, & GarcÍa-cestona, 2013). In this case, board members easily become mere symbols, and their decisions are affected by the majority of family shareholders (Omer & Al-Qadasi, 2019). Independent directors in Malaysia also have limited capacity to monitor when they are controlled and dominated by managers (Abdul Rahman & Mohamed Ali, 2006). As a result, the FRQ is lower. Although firms follow the MCCG and Bursa Malaysia's requirements, the current corporate governance structure does not fulfil its ultimate purpose unless the board directors have the requisite credentials, skills, and expertise (Abdul Rahman & Mohamed Ali, 2006).

4.6.1.6 Audit Committee Size

Hypothesis H_6 predicts that there is a significant negative relationship between AC size (ACSIZE) and ARL. The findings of the regression analysis in Table 4.10 shows that the coefficient for AC size is negatively significant at the five per cent level (*p*-value = 0.023, *t*-value =-2.27), which supports the agency theory and the resource dependence theory, as well as the study's proposition for a negative relationship between ACSIZE and ARL. Thus, Hypothesis H_6 is supported. This suggests that increasing ACSIZE produces greater sharing of expertise and knowledge among AC members and assist in the supervision of the financial reporting process, which eventually decreases the probability that the issuance of the audit report may be delayed.

A large size of the AC would also make it easier for the committee to work effectively by better evaluating the role and duties of the external auditor. The AC would be able to overcome the conflict between management and external auditors (DeZoort *et al.*, 2002; Sultana *et al.*, 2015) by resolving problems and issues in the financial reporting process (Mohamad-Nor *et al.*, 2010). Arguably, ACSIZE is an important mechanism for determining the view of Malaysian public listed firms issuing more timely audit reports. The finding is consistent with Apadore and Mohd-Noor (2013), Durand (2019), Shukeri and Islam (2012), Mohamad-Nor *et al.* (2010), and Wan-Hussin *et al.* (2018). It is also consistent with the MCCG revised 2007 guideline and the listing requirements of Bursa Malaysia (Paragraph, 15.09)[13], which state that the firm should appoint at least three members to its AC.

However, it does not support Raweh *et al.*'s (2019) study which showed a positive relationship between ACSIZE and ARL. The finding also conflicts with other studies that showed an insignificant AC size-ARL relationship (Baatwah *et al.*, 2019; Kaaroud *et al.*, 2020; Oussii & Taktak, 2018; Sultana *et al.*, 2015; Wan-Hussin & Bamahros, 2013).

4.6.1.7 Audit Committee Independence

Hypothesis H_7 predicts that there is a significant relationship between AC independence (ACIND) and ARL. Table 4.10 show that ACIND has an insignificant relationship with ARL (p-value = 0.148, t-value = 1.45). Thus, hypothesis H_7 is rejected. This finding suggests that ACIND does not contribute to effective monitoring activities and does not affect the oversight of the financial reporting process, which does not increase the timeliness of the audit reports.

[13] Bursa Malaysia listing requirements as of 2nd January 2018.

A plausible reason for this finding may be that a majority of the AC is made up of 89 per cent of independent directors (as shown in Table 4.3), which means that the majority of public listed firms have met the requirements of Bursa Malaysia with the sole intention of avoiding penalties (Al-Dhamari *et al.*, 2018). Also, the directors in the AC are independent of management in appearance but not in mental attitude (Chukwu & Nwabochi, 2019), which explains the insignificant results on the relationship between ACIND and ARL.

In Malaysia, the same independent director may serve on both the BOD and the AC because of a lack of qualified independent directors (Hashim & Devi, 2008). As a result, their oversight position relevant to the quality of financial reports is made ineffective due to lack of experience, skills, and knowledge of the market setting (Abdul Rahman & Mohamed Ali, 2006). In other words, when these directors are less qualified, they lack to understand the information on financial reporting. As such, they are unable to solve potential financial problems. This justifies the insignificant result on the relationship between ACIND and ARL.

The result is similar to Apadore and Mohd-Noor (2013), Mohamad-Nor *et al.* (2010), and Wan-Hussin *et al.* (2018), which did not find any relationship between ACIND and ARL in Malaysia. It is also consistent with Al-Ebel *et al.* (2020), Oussii and Taktak (2018), and Raweh *et al.* (2019). In contrast, Sultana *et al*. (2015), Wan-Hussin and Bamahros (2013), and Baatwah *et al*. (2019) argued that AC member's independence will lead to an improvement in the timeliness of audit reports.

In sum, it can be concluded that ACIND is not an important mechanism for improving the timeliness of audit reports in Malaysia. This is not in line with the recommendation of the MCCG 2017, which requires that all AC members to be independent directors.

Thus, there is a need to introduce several enhanced measures to strengthen the independence of the AC.

4.6.1.8 Audit Committee Meetings

Hypothesis H_8 predicts that there is a significant relationship between the frequency of AC meetings (ACMEET) and ARL. Table 4.10 shows that the ACMEET has a significant impact on ARL at the one per cent level (*p*-value = 0.001, *t*-value = 3.25), but the direction is positive. This suggests that an increase in ACMEET contributes to the delay in the audit reports. Thus, hypothesis H_8 is supported, and it can be concluded that frequent AC meetings do not reduce ARL.

The positive relationship between ACMEET and ARL shows that frequent meetings do not improve the timeliness of audit reports and that the high frequency of AC meetings may indicate the presence of problems with the accounting and financial reporting systems (Kamarudin *et al.*, 2018). Moreover, the presence of problems in the firm indicates the existence of an audit risk that caused auditors to require more audit procedures and/or to hold longer negotiations with their clients (Mande & Son, 2011). In other words, when the number of ACMEET increases, more problems and issues could be identified, which could lead to an extension of the search for solutions to these problems. As a result, there is a significant delay in audit reports.

This unexpected finding may be explained by the inefficiency of having more meetings since they may lead to routines that render participants uncritical, and thus, the members serve in a symbolic position (Habbash *et al.*, 2013). Firms with a higher concentration of ownership could influence the independence of directors and contribute to inefficient meetings of the AC (Al-Rassas & Kamardin, 2015b). This result supports the studies by Wan-Hussin and Bamahros (2013), Kaaroud *et al.* (2020), Abed *et al.* (2021), and Kamarudin *et al*. (2018), which showed a positive relationship between ACMEET and ARL in Malaysia. However, Mohamad-Nor *et al*. (2010) and Baatwah *et al*. (2019) showed that the frequency of ACMEET has a negative association with ARL. Also, this finding is contrary to Habib *et al*. (2019), Raweh *et al*. (2019), Aldoseri *et al.* (2021), and Sultana *et al*. (2015), who found an insignificant relationship between ACMEET and ARL.

4.6.1.9 Audit Committee Financial Expertise

Hypothesis H_9 predicts that there is a significant negative relationship between AC financial expertise (ACEXP) and ARL. However, Table 4.10 shows an insignificant relationship between AC members with financial expertise and ARL (p-value = 0.203, t-value = 1.27), which means that the AC members with financial expertise do not improve the timeliness of audit reports. Thus, Hypothesis H_9 is rejected. This is inconsistent with resource dependence and agency theories which argue that the ACEXP enhance the monitoring function of the AC on financial matters (Kaaroud *et al*., 2020), which in turn, could support their external auditors to carry out tasks on time.

The findings are similar to previous Malaysian studies by Wan-Hussin and Bamahros (2013), Salleh *et al*. (2017), Apadore and Mohd-Noor (2013), and Baatwah *et al*. (2019), which reported an insignificant relationship between ACEXP and ARL. They argued that the AC members with financial expertise were unable to enhance the timeliness of the audit reports in Malaysia and that more help was required to ensure the effective participation of ACEXP (Salleh *et al*., 2017). Nevertheless, the result is inconsistent with Sultana *et al*. (2015), Oussii and Taktak (2018), Aldoseri *et al.*

(2021), and Raweh *et al*. (2019), who showed a significant negative relationship between ACEXP and ARL. It is also contrary to Hashim and Rahman's (2012) and Kaaroud *et al*.'s (2020) studies in the Malaysian context.

This result supports the argument that, although having AC members with financial expertise is beneficial and desirable, many economies or countries do not have a sufficient pool of such resources (Habib *et al*., 2019). In this context, Malaysia's independent directors could not conduct their monitoring functions because of lack of experience, lack of skills, or the knowledge of their business environment (Abdul Rahman & Mohamed Ali, 2006). The outcome of this study also supports the argument that the impact of accounting and financial expertise in a market environment of concentrated ownership is weak (Amin *et al*., 2018). This may explain why the result of the study does not support the underlying theories.

In sum, it could be concluded that the AC members with financial expertise is not an effective corporate mechanism (Azhari, Hasnan, & Sanusi, 2020) for improving the timeliness of audit reports in Malaysian publicly listed firms. This result contradicts the guidelines set out in the Bursa Malaysia listing requirements[14], which state that a company must appoint at least one of the members of the AC with accounting expertise. Therefore, it could be inferred that more emphasis be placed on enhancing the expertise of the AC by providing more precise guidance on the criteria of a financial expert and the years of financial experience required to qualify as a financial expert.

[14] Bursa Malaysia listing requirements as of 2nd January 2018.

4.6.1.10 Audit Committee Effectiveness

Hypothesis H_{10} predicts that there is a significant negative relationship between AC effectiveness (ACEFF) and ARL. However, Table 4.10 (Model 2) show an insignificant relationship between AC effectiveness and ARL (p-value = 0.891, t-value = 0.14). Thus, hypothesis H_{10} is rejected. The results suggest that ACs in Malaysia are not an effective governance monitoring tool in reducing ARL. The result contradicts the agency and resource dependence theories and the corporate governance code in Malaysia, which considers the AC as an important governance monitoring mechanism that can protect shareholders' interests.

The fact that the AC has an insignificant role in terms of improving the timeliness of the audit reports implies that the formation of the AC in firms has not yet achieved its intended objective. Although Bursa Malaysia has repeatedly revised corporate governance regulations to improve governance oversight in the Malaysian market, evidence shows that the AC is inefficient, particularly in the area of FRQ (i.e., Al-Rassas, 2015; Ghaleb, 2019). Also, the code stipulates that overseeing the financial reporting process is a main task for the AC. However, this study provides evidence that ACs have not performed their duties effectively (Abdul Rahman & Mohamed Ali, 2006).

A potential reason for the findings is that in a highly ownership concentration context which is a characteristic of publicly listed companies in emerging markets. As a result, if firms have weak external governance mechanisms, corporate governance will be unable to function effectively (Fan & Wong, 2005). In addition, Abdullah *et al.* (2010) argued that AC would not be effective unless its members are qualified to understand the accounting standards. They noted that the stringent conditions for members in the

MCCG, coupled with the roles and responsibilities of the BOD and AC members, are being met for the reason of compliance and is not an effort to ensure effectiveness and efficiency (Hasnan & Hussain, 2015).

The results of this study are consistent with Ghaleb's (2019) study which found that the quality of the AC had an insignificant relationship with real earnings management (measured as a score of AC financial expertise, size, independence, meetings, and ACC's accounting expertise) in Malaysia. The result should be interpreted cautiously as the characteristics of the AC tested (including those examined) may not reflect the true effectiveness of the AC. However, these results contradict studies that showed AC's effectiveness in improving the audit quality (Al-Qadasi *et al.*, 2018; Ika & Ghazali, 2012).

4.6.1.11 Audit Committee Chairman's Accounting Expertise

Hypothesis H_{11} predicts that there is a significant negative relationship between ACC's accounting expertise (ACCEXPA) and ARL. The finding supports this hypothesis and provides evidence that the ACC's accounting expertise is negatively and significantly related with ARL at a significant level of five per cent (p-value = 0.012, t-value = -2.52 in Model 1), and at the one per cent level of significance (p-value = 0.008, t-value = -2.66 in Model 2). The results suggest that accounting experts understand and identify with the audit process, audit risks as well as the auditing measures that are designed to tackle those risks more quickly as compared to members with no expertise, which in turn helps to improve the timeliness of the audit report. Thus, hypothesis H_{11} is supported.

This finding is consistent with the agency theory and the resource dependence theory that suggest accounting expertise leads to greater oversight by the AC, which, in turn, enhances the ability of the AC to ensure that the work of the external auditor is fully implemented through understanding and mediating the disagreements between the corporate management and its auditor (Sultana *et al.*, 2015). Therefore, the ACC's accounting expertise is more effective in reducing the ARL, thus increasing the timeliness of financial reporting.

These results are consistent with previous studies that found a negative relationship between the ACC's accounting expertise and ARL (Abernathy *et al.*, 2014; Al-Ebel *et al.*, 2020; Baatwah *et al.*, 2016; Baatwah *et al.*, 2019); and Schmidt and Wilkins (2013) who showed that the ACC with accounting expertise provides timely disclosures. However, the results are inconsistent with Ghafran and Yasmin's (2018) study which did not show a significant relationship between the ACC's expertise and ARL.

In sum, the result is in line with the proposed draft of MCCG 2016 which recommended that ACC should be a person with accounting expertise. However, this recommendation has not been approved by MCCG (2017). Therefore, this study provides evidence to regulators and policymakers to consider this characteristic as being capable of improving the timeliness of audit reports to enhance FRQ.

4.6.1.12 Audit Committee Chairman's Tenure

Hypothesis H_{12} predicts that there is a significant negative relationship between ACC's tenure (ACCTEN) and ARL. This suggests that ACC with a longer tenure is expected to improve the timeliness of audit reports. Results as in Table 4.10 shows a negative relationship between ACC's tenure and ARL at five per cent level (p-value = 0.010, t-value = -2.57 in Model 1), and at the one per cent level (p-value = 0.003, t-value = -3.00 in Model 2). These findings suggest that the ACC with a longer tenure will shorten ARL. Thus, hypothesis H_{12} is supported.

This result confirms the agency theory and the resource dependence theory where tenure of the AC members is a significant element in evaluating the efficiency of the AC in its monitoring function. Independent directors who have worked on the board for some time might develop improved governance skills as well as bring valuable insight and knowledge to the firm and, hence, are able to monitor management efficiency (Abdul Rahman & Mohamed Ali, 2006). For example, the longer AC tenure will strengthen their supervisory role by better understanding the firm's financial reporting practices and certain accounting issues. This will make it easier for the auditor to reduce the level of review and address controversial accounting issues (Baatwah *et al.*, 2019; Vafeas, 2003). Accordingly, this will contribute to improving the timeliness of audit reports.

This finding is consistent with Ghafran and Yasmin (2018) and Baatwah *et al*. (2019) who found a negative association between the ACC who has worked longer on the board and ARL. It is also consistent with Al-Absy *et al*. 's (2019) study which showed a negative relationship between the tenure of ACC and earnings management, as well as Abernathy *et al*. (2014), who noted that long AC members would have a significant negative influence on ARL. It is also inconsistent with Tanyi and Smith (2015), who did not find a relationship between the AC tenure and FRQ.

4.6.1.13 Audit Committee Chairman's Multiple Directorships

Hypothesis H_{13} predicts that there is a significant relationship between the ACC's multiple directorships (ACCMD) and ARL. Results as in Table 4.10 show that, in both models, ACC's multiple directorships are negatively and significantly associated with ARL at the one per cent level (p-value = 0.000, t-value = -6.71 in Model 1), and (p-value = 0.000, t-value = -6.55 in Model 2). The results suggest that the auditors will take a short time to submit their audit reports to the ACC who also serve on other board firms. Hence, these findings support hypothesis H_{13} and suggest that firms with ACC's multiple directorships tend to have a lower audit delay.

The results support the theory of resource dependence and reputation hypothesis which assumes that executives serving on multiple boards are more experienced in a variety of areas such as financial dimensions, governance practices, and industry knowledge which improves the chairman's ability to address financial reporting and internal control issues (Baatwah *et al.*, 2019). As a result of this vast experience, the time taken to issue the audit report will be reduced. Directors are also concerned about their reputation and are, therefore, concerned about building up their reputation (Benson *et al.*, 2015; Méndez *et al.*, 2017); thus, this will motivate them to perform their duties diligently, which, in turn, ensure timely financial reporting.

The result is consistent with the findings in the United Kingdom that reported a negative relationship between multiple directorships of the ACC and ARL (Ghafran & Yasmin, 2018). Similarly, Tham *et al.* (2019) found that firms with a higher average number of multiple directorships inhibit discretionary earnings management. However, the result of this study is against the view states that multiple directorships reduce the time commitment of the chairman to the AC which could result in lower monitoring of the AC that leads to lower FRQ (Sharma & Iselin, 2012; Tanyi & Smith, 2015). It is also inconsistent with the studies that reported an insignificant relationship between ACC's multiple directorships and ARL (Baatwah *et al.*, 2019), earnings management in Malaysia (Al-Absy *et al.*, 2019), and occurrence of financial restatements (Hasnan & Hussain, 2015). The inconsistent results may be due to the new regulation of multiple directorships in Malaysia with the maximum limit of five directorships in listed firms which was effective beginning 1st June 2013 (Jaafar *et al.*, 2017).

4.6.1.14 Separate Risk Management Committee

Hypothesis H_{14} predicts that there is a significant relationship between a separate risk management committee (RMC) and ARL. Results as in Table 4.10 (Model 1 and Model 2) demonstrate that the coefficient for separate RMC is positive significant at the one per cent level (p-value = 0.003, t-value = 2.95 in Model 1), and (p-value = 0.005, t-value = 2.79 in Model 2). Hence, these findings support hypothesis H_{14} and show that release audit reports are delayed for firms with a separate RMC. The findings support the argument that the establishment of a separate RMC reflects the probability of the existence of complex and higher risks for financial reporting (Subramaniam *et al.*, 2009). As a result, the risk of audit increases resulting in more audit work (Durand, 2019), which increases the ARL.

This study's result is consistent with the results obtained by Ali *et al.* (2017) who reported a positive relationship between RMC and financial restatements in Malaysia. They argued that the RMC might not have a role to play in assisting the board to mitigate the occurrence of such practices, suggesting that the RMC provides less benefit than expected by regulators and policymakers in the prevention of financial restatements. This result is also consistent with the findings of Yatim *et al*. (2006), which showed an insignificant relationship between RMC and audit fees. However, the result of the current study disagrees with the argument that a separate RMC improves the quality of corporate governance by reducing agency costs and information asymmetry (Bhuiyan *et al.*, 2020a). Consistent with this argument, previous studies have shown a positive relationship between the RMC and firm performance (Halim *et al.*, 2017), high quality disclosures (Hassan *et al.*, 2012), and strong board structures (Yatim, 2010).

In sum, the establishment of a separate RMC as a board committee cannot improve the effectiveness of the risk oversight function of the board. This may be because the existence of a separate RMC only adds an additional layer of bureaucracy to the board, which makes the board rely on that committee and lose its focus on risk oversight (Hines *et al.*, 2015). Consequently, auditors become more sceptical about the firm's risk, and they increase their effort through broader audit tests, which in turn, reduces the timeliness of audit reports (Azami & Salehi, 2017; Blankley *et al.*, 2014; Habib *et al.*, 2019; Habib & Muhammadi, 2018).

4.6.1.15 Family Ownership

Hypothesis H_{15} predicts that there is a significant relationship between family ownership (FOWN) and ARL. Table 4.10 (Model 1 and Model 2) shows that FOWN is significantly related with ARL at the one per cent level of significance (p-value = 0.000, t-value = 4.39 in Model 1) and (p-value = 0.000, t-value = 4.80 in Model 2). Hence, this finding supports hypothesis H_{15} and suggests that when family shareholders have high ownership in the firm, audit reports' timeliness is reduced due to a lower need for published information as they have greater access to internal information of the firm (Haniffa & Cooke, 2002). As a result, they would reduce the flow of information on firm activities to ensure that their private interests could be realised (Hsu *et al.*, 2018), which increase the ARL.

The findings of the study agree with the perception that in family firms, public information (such as audit reports) is not a key source of investment assessment, so managers may not take sufficient care to prepare their financial statements (Srinidhi *et al.*, 2014). In this situation, family shareholders are less likely to support an effective governance structure (Omer & Al-Qadasi, 2019). As a result, they would reduce the timely flow of information on corporate activities, preferring an opaque information environment to defraud minority shareholders (Lim *et al.*, 2014), thereby seeking to postpone the audit report.

Another possible reason for delaying audit reports in family firms may be due to the involvement of controlling family shareholders which may raise agency problems (Type II). Controlling shareholders have stronger incentives to expropriate the non-controlling shareholders' interests (Anderson & Reeb, 2003; Ghaleb *et al.*, 2020b). In other words, the separation of ownership as well as control rights could worsen the problems of entrenchment which could lead to expropriation of minority rights (Claessens & Fan, 2002). As a result, these firms have incentives to engage in fraudulent activities that could increase audit risks (Khan *et al.*, 2015). From the auditor's point of view, firms with higher audit risk will motivate auditors to conduct a more comprehensive audit which requires more audit time and increases ARL (Habib *et al.*, 2019). These arguments help to explain the reasons for the positive relationship found between FOWN and ARL in this study.

In the Malaysian context, the study's findings are consistent with the results of Lim *et al.* (2014), which reported that higher family-owned firms are correlated with lower timely earnings. Ismail and Kamarudin (2012) showed that family businesses are correlated with higher audit risks as evidenced by higher audit fees. Haniffa and Cooke (2002) supported that FOWN is negatively related to the level of voluntary disclosure by Malaysian firms. However, Ghosh and Tang (2015) and Rusmin and Evans (2017) reported a significant negative association between FOWN and ARL. This study's result is also inconsistent with Jaggi and Tsui (1999), who found no significant relationship between FOWN and ARL.

4.6.1.16 Managerial Ownership

Hypothesis H_{16} predicts that there is a significant positive relationship between managerial ownership (MOWN) and ARL. However, the results of the regression reported in Table 4.10 (Model 1 and Model 2) showed that the relationship between MOWN and ARL was insignificantly (p-value = 0.629, t-value = 0.48 in Model 1), and (p-value = 0.186, t-value = 1.32 in Model 2). The results suggest that executive directors' proportion of shares could not motivate managers to release their audited financial statements within the required time. Thus, hypothesis H_{16} is rejected.

The findings are consistent with earlier research which showed an insignificant relationship between MOWN and ARL in the Middle Eastern countries, Greece and Malaysia (Basuony *et al.*, 2016; Leventis *et al.*, 2005; Puasa *et al.*, 2014). A plausible explanation of these results is that managers with a high percentage of shares do not need to reduce ARL because of their ability to access firm information. They would prefer to retain their information advantage by discouraging timely and detailed public disclosure to protect their positions (Nagata & Nguyen, 2017; Sengupta, 2004).

However, the results contradict prior studies that showed firms with a high level of MOWN have longer ARLs (Carslaw & Kaplan, 1991; Che-Ahmad & Abidin, 2008).

Another plausible explanation is that as MOWN increases, the interests of managers would be more closely aligned with the owners (Jensen & Meckling, 1976) and that the board's need for intensive monitoring would be reduced (Kelton & Yang, 2008). As a result, there is a low demand for high audit quality in financial reporting that would reduce the pressure on auditors to complete the audit on time. Also, when managerial ownership is high, managers can be motivated to manage profits. In other words, managers are more likely to make choices that benefit themselves to the detriment of other stakeholders (Mustapha & Che-Ahmad, 2011). Thus, they restrict the flow of information to other investors by increasing the delay of audit reports. This may explain the insignificant association between managerial ownership and ARL.

4.6.1.17 Foreign Ownership

Hypothesis H_{17} predicts that there is a significant negative relationship between foreign ownership (FROWN) and ARL. Results of the regression analyses as in Table 4.10 (Model 1 and Model 2) show a negative relationship between FROWN and ARL at a five per cent level of significance in both models (p-value = 0.011, t-value = -2.53 in Model 1), and (p-value = 0.012, t-value = -2.52 in Model 2). The findings suggest that firms with higher FROWN tend to provide timely audit reports to reduce market information asymmetry and send an encouraging signal regarding management integrity. Hence, hypothesis H_{17} is supported. The finding of this study is in line with the agency theory, which argues that foreign shareholding plays a significant role in its ability to control and monitor management behaviour and its effectiveness by reducing the ARL to ensure the quality of the accounting information.

The finding is consistent with Tazik and Mohamed (2014) who reported a significant negative relationship between FROWN and ARL. Nagata and Nguyen (2017) showed that firms that have higher FROWN are more likely to provide management forecast revisions in a voluntary and timely manner. Nonetheless, the findings of this study are inconsistent with studies by Habib and Muhammadi (2018), Hashim (2017), Shin *et al*. (2017), and Ishak *et al*. (2010), which showed an insignificant relationship between FROWN and ARL.

These findings support the argument by Ben-Nasr *et al.* (2015) that foreign investors require higher quality accounting knowledge to avoid misappropriation by insiders. They exert more pressure on management by asking for higher audit quality (Alhababsah, 2019; Jiang & Kim, 2004). To satisfy the demand of the shareholders, particularly foreign investors, firms issue more timely information (Soltani, 2002). Foreign investors are also more likely to employ one of the Big auditors (Guedhami, Pittman, & Saffar, 2009; Kim, Pevzner, & Xin, 2018) who are expected to spend less audit time due to their vast experience (Ghafran & Yasmin, 2018; Habib *et al.*, 2019; Rusmin & Evans, 2017). Thus, increasing the timeliness of audit reports.

4.6.1.18 Audit Partner Tenure

Hypothesis H_{18} predicts that there is a significant negative relationship between audit partner tenure (TENURE) and ARL. This finding as in Table 4.10 (Model 1 and Model 2) show that audit partner tenure is negatively associated with ARL at one per cent level of significance (p-value = 0.007, t-value = -2.69 in Model 1), and at five per cent level of significance (p-value = 0.015, t-value = -2.42 in Model 2). Hence, these findings support hypothesis H_{18} and suggest that a longer tenure decreases the ARL. These findings generally support the positive view that, due to the accumulation of customer-specific knowledge over time, a longer audit tenure leads to a higher quality audit through a learning curve (Singer & Zhang, 2018).

In accordance with the learning curve theory, the auditor's learning time spent trying to understand the client's processes decreases as the auditor's tenure increases; thus, the auditor becomes familiar with the client's operations and controls, saving a lot of work and time throughout the auditing process and, as a result, reducing audit reporting delays. Furthermore, an auditor who is more familiar with the client can easily detect any financial reporting issues. Risk concerns are minimised as well as the length of time to produce the audit reports. However, changing the auditor partner could influence the quality of the audit in the early years of the audit where he/she could face challenges in the audit processes that could slow down the audit (Wan-Hussin *et al.*, 2018).

Overall, the findings support the profession's claim that audit partner's mandatory rotation is costly to stakeholders, including clients, investors, and auditors. The findings are also consistent with the outcome of Sharma *et al.*'s (2017) study which showed a positive relationship between audit partner's rotation and ARL. However, these findings contradict the results of a study by Wan-Hussin *et al.* (2018) that audit partner tenure is not directly related to ARL. This discrepancy could be due to the small sample size and the study period of only a year by Wan-Hussin *et al.* (2018).

4.6.1.19 Financial Restatements

Hypothesis H_{19} predicts that there is a significant positive relationship between financial restatements (RESTATE) and ARL. The results as in Table 4.10 (Model 1 and Model 2) show that financial restatements are positively associated with ARL at five per cent level of significance (*p*-value = 0.011, *t*-value = 2.54 in Model 1), and (*p*-value = 0.015, *t*-value = 2.43 in Model 2) which suggest that firms that restate their financial statements have longer ARL. Thus, hypothesis H_{19} is supported.

This finding is consistent with the agency theory that restatements shows the inefficiency of corporate governance and control in firms (Wan-Mohammad *et al.*, 2018), which suggests that firms that restate their financial reports as a sign of weak internal control quality (Baatwah *et al.*, 2019). From a risk-based viewpoint, the lack of adequate controls and oversight in the financial reporting process of restatement firms is likely to be viewed by auditors (Hasnan & Hussain, 2015). As a result, auditors would expend much time understanding the truth as well as the fairness of the financial statements to alleviate audit risks, thus increasing ARL.

The results support the argument that the financial report, which has been restated, indicates that there are misstatements with regards to the financial statements that might add to the risk of litigation upon the auditor (Durand, 2019). In other words, the restatement is a proxy for audit risk (Feldmann *et al.*, 2009; Mitra *et al.*, 2015). More audit risk can increase the auditor's efforts to address issues raised by the restatement (Blankley *et al.*, 2014). As a result, it can be alluded that auditors might extend a lot of time to lessen audit risk, thus the possibility of increasing ARL. This result is consistent with the finding of previous studies by Blankley *et al.* (2014), Mitra *et al.* (2015), Dao and Pham (2014), Knechel and Sharma (2012), and Abbott *et al.* (2012) that showed a positive and significant relationship between financial restatements and ARL.

4.6.2 Results of Control Variables

This study includes seven control variables, investments in IAF, Big 4 audit firms, firm size, leverage, profitability, industry, and years. All variables showed a significant effect on the timeliness of audit reports in the Malaysian setting. The findings of these variables are discussed in the following sections.

4.6.2.1 Investment in Internal Audit Function

Table 4.10 shows a significantly negative relationship between investments in IAF and ARL at the one per cent level of significance in both models (p-value = 0.000, t-value = -7.13 in Model 1), and (p-value = 0.000, t-value = -7.26 in Model 2). The results suggest that an increase in the investment in IAF contribute to an improvement in the timeliness of the issuance of audited financial reports. These findings are in line with the agency theory which state that larger investments in the IAF offers an effective internal management system and that insiders did not expropriate the firm's resources. As a result, the auditor will minimise his/her monitoring efforts and improve the timeliness of the audit reports. In other words, investments in the IAF reduce audit risks which decreases the external auditor's audit effort, and therefore, the auditor takes a shorter time to audit the company.

These findings are consistent with studies which show that investments in IAF is negatively related to ARL (Wan-Hussin & Bamahros, 2013; Wan-Hussin *et al.*, 2018). Also, the results of Pizzini *et al.*'s (2015) study show that IAF quality reduces ARL. This means that external auditors might depend on the effort made by internal auditors when firms have a higher level of the internal audit task. This reduces the audit work and the time taken by the auditors to complete the audit work.

4.6.2.2 Big 4 Audit Firms

Auditor characteristics can also influence ARL. Therefore, this study controlled for auditor quality by including the Big 4 auditing firms. Table 4.10 shows the negative relationship between the Big 4 audit firms and ARL at the one per cent level of significance in both models (p-value = 0.000, t-value = -4.24 in Model 1), and (p-value = 0.000, t-value = -4.64 in Model 2). These findings are consistent with the argument that the Big 4 audit firms are more likely than other audit firms to provide better monitoring of the financial reporting process. This means that firms audited by the Big 4 audit firms tend to have short audit lags compared to non-Big 4 audit firms. It can be justified by the fact that large audit firms are associated with more knowledge, experienced partners and audit staff (Baatwah *et al.*, 2015).

Furthermore, as the Big 4 audit firms are more concerned about their reputation, they are strongly motivated to provide timely audit reports. In other words, the Big 4 audit firms spend much less time completing a more efficient audit, possibly due to the improved technology available to the Big 4 audit firms (Lee & Jahng, 2011). The significant negative relationship is similar to the results of Ashton *et al.* (1989), Ghafran and Yasmin (2018), Habib *et al.* (2019), Mohamad-Nor *et al.* (2010), and Wan-Hussin *et al.* (2018). However, it is inconsistent with Shin *et al.* (2017), who showed a positive relationship, as well as other studies that did not find any significant relationship (Apadore & Mohd-Noor, 2013; Baatwah *et al.*, 2019; Raweh *et al.*, 2019).

4.6.2.3 Firm Size

This study sought to establish the effect of firm-related variables on the ARL of public listed firms on Bursa Malaysia. Results indicate that firm size is negatively associated with ARL at the ten per cent level of significance (p-value = 0.053, t-value = -1.93 in

Model 1), and at the five per cent level of significance (*p*-value = 0.046, *t*-value = -1.99 in Model 2). This implies that large firms are associated with short ARL. Larger firms may have strong internal controls and advanced accounting systems on which auditors could depend, thereby reducing the amount of audit work required (Afify, 2009; Carslaw & Kaplan, 1991; Habib, 2015; Ng & Tai, 1994). These results support the view that large firms have more resources, more accounting staff, and sophisticated accounting information systems that assist in producing timely annual reports (Owusu-Ansah, 2000). The results are consistent with previous studies that reported a negative relationship between firm size and ARL (Afify, 2009; Ghafran & Yasmin, 2018; Habib *et al.*, 2019; Mohamad-Nor *et al.*, 2010; Oussii & Taktak, 2018; Sultana *et al.*, 2015; Wan-Hussin *et al.*, 2018). However, it is inconsistent with other studies that have reported the relationship to be positive (Leventis *et al.*, 2005; Raweh *et al.*, 2019).

4.6.2.4 Leverage

For the relationship between leverage and ARL, Table 4.10 shows that the relationship is positive and significant at the one per cent level of significance in both models (*p*-value = 0.000, *t*-value = 4.73 in Model 1), and (*p*-value = 0.000, *t*-value = 4.92 in Model 2). These findings suggest that firms that have higher debt tend to take a longer time to be audited by the external auditors due to the higher audit risks associated with these firms (Durand, 2019). The auditors could be further concerned about the credibility regarding the financial statements of these firms which takes more attention and a longer time to complete the audit. This contributes to the delay of the auditor's report (Habib *et al.*, 2019; Sultana *et al.*, 2015). The findings of this study are similar to those of Abernathy *et al.* (2018), Al-Ajmi (2008), Durand (2019), Habib *et al.* (2019), Knechel and Sharma (2012), and Raweh *et al.* (2019), which found a positive relationship between leverage and ARL. However, the studies of Alfraih (2016), Baatwah *et al.* (2015), and Rusmin and Evans (2017) showed that leverage has an insignificant relationship with ARL.

4.6.2.5 Profitability

The results reported in Table 4.10 show that profitability is negatively associated with ARL at the one per cent level of significance in both models (*p*-value = 0.000, *t*-value = -8.95 in Model 1), and (*p*-value = 0.000, *t*-value = -9.39 in Model 2). These results imply that firms would issue audit reports to the general public on time, particularly if the firms recorded profits in that year. This is consistent with the prediction of the current study, suggesting that firms with higher profitability would most likely complete the auditing of their accounts in a timely manner so as to make public their audited corporate yearly reports to transfer "good news". Conversely, there could be an increased business risk to auditors in situations where firms report losses. In addition, firms with losses might be associated with complex audit issues requiring additional empirical evidence to be collected by the auditor (Afify, 2009). As a result, auditors are likely to spend more time issuing an audit report.

The findings are consistent with previous Malaysian empirical studies carried out by Apadore and Mohd-Noor (2013) and Shukeri and Islam (2012), which confirmed the significant negative association between profitability and ARL. These findings are similar to those of Afify (2009), Alfraih (2016), Baatwah *et al.* (2015), Habib *et al.* (2019), and Oussii and Taktak (2018), which found that more profitable firms take a shorter period to issue their audit reports. However, the findings are inconsistent with the results of Kamarudin *et al.* (2018) that found an insignificant relationship between profitability and ARL.

4.6.2.6 Industry

This study controlled for firms operating in the Technology and Plantation sectors due to the idiosyncratic nature of these industries marked by smaller product segments and lower inventory levels (Wan-Hussin & Bamahros, 2013). Table 4.10 shows a negative relationship between the type of industry and ARL, suggesting that firms in the Plantation and Technology sectors take less time to publish their audit reports than those in the other sectors. This outcome is supported by Wan-Hussin and Bamahros (2013), who discovered that firms in the Technology and Plantation sectors appear to spend a shorter time to release their audit reports.

4.6.2.7 Years

Years were included as a dummy variable in the regression analyses. The focus period for this study was for 2013 to 2016 financial years. These years were selected due to the new listing requirements related to the issuance of annual reports. Table 4.10 shows that the coefficients of the Year 2015 and Year 2016 are negatively related to ARL. This is because of the new requirements for the fiscal year on or after 31st December 2015 where firms should issue their annual reports within four months from the close of the fiscal year. However, the coefficient of the Year 2014 is not significant with ARL.

4.6.3 Moderating Effect of the Audit Committee Chairman's Accounting Expertise

Previous literature distinguishes two widely used approaches for measuring the moderating effect of social sciences, mainly moderated multiple regression and sub-sample analysis (Stone-Romero & Anderson, 1994; Sharma *et al.*, 1981). Moderated multiple regression is one of the most preferred and efficient techniques for moderating a test (Aguinis & Stone-Romero, 1997). There are three key components of this approach: the dependent, independent, and interaction variables. To construct an interaction variable, this study multiplied financial restatements with the ACC's accounting expertise (RESTATE*ACCEXPA). A majority of auditing and accounting studies have followed and preferred this approach (e.g., Baatwah, Al-Qadasi, & Al-Ebel, 2020; Knechel *et al.*, 2012; Pronobis & Schaeuble, 2020).

Table 4.11 shows the findings of the interaction of the ACC's accounting expertise on the relationship between financial restatements and ARL. It is also shown that the model is fit and significant at the one per cent level of significance (prob > chi^2 = 0.000, R^2 = 0.332). Consistent with hypothesis H_{20}, which predicts that the ACC's accounting expertise will moderate the relationship between financial restatements and ARL. The study finds that the interaction variable coefficient was negatively and significantly associated with ARL at the ten per cent level of significance (*p*-value = 0.068, *t*-value =-1.82). The negative sign indicates that the ARL is lower for restated companies with the ACC's accounting expertise compared to other restated companies without the ACC's accounting expertise. This finding suggests that the accounting expertise of the ACC has a moderating effect on the relationship between the financial restatements and the ARL. Hence, hypothesis H_{20} is supported.

This result supports the argument that the accounting expertise of the chairman of the AC mitigates the negative consequences of restatements, while the presence of non-accounting financial experts on board committees exacerbates the negative consequences of the restatements (Das *et al*., 2020). These findings also support the study by Schmidt and Wilkins (2013), which found that the accounting expertise of

ACC contributes to resolve financial reporting problems and to providing the most timely disclosures. In addition, firms with greater financial expertise on the part of the AC are less likely to have internal control weaknesses (Zhang *et al.*, 2007). This, in turn, reduces the risk of audits and increases the timeliness of audit reports.

Table 4.11
Moderating Effect of ACC's Accounting Expertise

Independent Variables	**Coef.**	***t*-value**	***p*-value**
BODSIZE	-0.452	-1.46	0.146
BODIND	-8.099	-1.95	0.051*
BODMEET	-0.281	-1.00	0.319
BODEXP	-7.411	-2.35	0.019**
ACSIZE	-2.192	-2.31	0.021**
ACIND	4.022	1.33	0.185
ACMEET	1.587	3.29	0.001***
ACEXP	3.192	1.32	0.187
ACCEXPA	-1.439	-1.67	0.096*
ACCTEN	-0.180	-2.58	0.010**
ACCMD	-5.235	-6.72	0.000***
RMC	2.637	2.96	0.003***
FOWN	0.091	4.36	0.000***
MOWN	0.011	0.47	0.637
FROWN	-0.065	-2.55	0.011**
TENURE	-0.789	-2.67	0.008***
RESTATE	4.501	3.02	0.003***
IAF	-2.993	-7.18	0.000***
BIG4	-3.233	-4.24	0.000***
SIZE	-0.853	-1.94	0.053*
LEV	12.861	4.70	0.000***
PROF	-45.440	-8.92	0.000***
RESTATE * ACCEXPA	-3.381	-1.82	0.068*
Constant	157.287	27.71	0.000***
Industry/Years	Included		
Observations	2006		
R-Squared	0.332		
Prob > chi2	0.000		

Note: *, **, *** are p-value <.10,.05,.01, respectively.
BODSIZE = board size, BODIND = board independence, BODMEET = board meetings, BODEXP = board financial expertise, ACSIZE = AC size, ACIND = AC independence, ACMEET = AC meetings, ACEXP = AC financial expertise, ACCEXPA = ACC's accounting expertise, ACCTEN = ACC's tenure, ACCMD = ACC's multiple directorships, RMC = separate risk management committee, FOWN = family ownership, MOWN = managerial ownership, FROWN = foreign ownership, TENURE = audit partner tenure, RESTATE = financial restatements, IAF = investment in the internal audit function, BIG4 = Big 4 audit firm, SIZE = firm size, LEV= leverage, PROF = profitability, RESTATE * ACCEXPA = interaction term of ACC's accounting expertise and financial restatements, and Industry = 1 if the firm is in the Technology or Plantation sectors, Years = years dummy variables.

In addition, Sharma *et al.* (1981) suggest that the sub-sample technique as one of the analytical techniques that could be used to identify the existence of moderating effects. Sub-sample testing is a means of ensuring that the results of the moderating variables in the study analysis are valid and reliable (Baatwah *et al.*, 2020). In this context, as confirmed by the main result reported in Table 4.11, this study examined the effect of the accounting expertise of the ACC on the relationship between financial restatements and ARL by dividing the study sample into two sub-samples. One sub-sample group consists of firms where the chairman of AC has accounting expertise, and the other sub-sample group consists of firms where ACC does not have accounting expertise, as shown in Table 4.12.

Using this technique, previous studies measured the moderating effect by examining whether the relationship between the independent variable indicated to be influenced by the moderator and the dependent variable differs between the two sub-sample groups (Baatwah *et al.*, 2020; Carslaw & Kaplan, 1991; DeFond *et al.*, 2005; Jaggi & Leung, 2007; Knechel *et al.*, 2012). The current study expects the financial restatements coefficient to be strongly positive for firms without ACC with accounting expertise, and the study expects either the financial restatements coefficient to be insignificant or negative for the sub-sample of firms with ACC with accounting expertise.

Results of the two sub-sample groups as in Table 4.12 show that firms where their ACC does not have accounting experience, have a significant positive financial restatements coefficient with ARL at the one per cent level of significance as predicted (p-value = 0.008, t-value = 2.67). On the other hand, the coefficient of financial restatements for firms whose chairman has accounting experience is insignificant with

ARL (p-value = 0.182, t-value =1.34). These results are consistent with the main analysis outlined in Table 4.11 and support the view that accounting experience may help to improve oversight over-reporting by reducing the likelihood and severity of accounting errors (Das *et al*., 2020). They are more likely to address and identify material misstatements (Zhang *et al*., 2007). In the case of assessing audit risks, superior reporting quality reduces audit risks and the need for increased audit investments (Ghosh & Tang, 2015), which increases the timeliness of audit reports.

On the other hand, non-accounting financial experts among members of the AC are less effective in their role and are unable to detect management manipulation of earnings and to eliminate bias in financial reporting (Das *et al.*, 2020). The weakness of the internal control will also lead to an increase in audit risk. The higher audit risk will cause auditors to take extra effort to plan the audit to address the increase in audit risk, which, in turn, will result in an increased in the ARL (Pham *et al.*, 2014).

Table 4.12
Regression for Sub-samples ACC's Accounting Expertise

Independent Variables	**ACC with Accounting Expertise**			**ACC without Accounting Expertise**		
	Coef.	***t*-value**	***p*-value**	**Coef.**	***t*-value**	***p*-value**
BODSIZE	-0.671	-1.61	0.107	-0.391	-0.82	0.410
BODIND	-8.978	-1.77	0.077*	-9.893	-1.45	0.148
BODMEET	-0.654	-1.71	0.087*	0.545	1.36	0.173
BODEXP	-7.260	-1.81	0.071*	-7.172	-1.36	0.174
ACSIZE	-2.949	-2.34	0.019**	-1.161	-0.83	0.407
ACIND	1.023	0.28	0.777	12.760	2.29	0.022**
ACMEET	1.609	2.66	0.008***	1.354	1.69	0.092*
ACEXP	4.542	1.56	0.118	-2.333	-0.49	0.625
ACCTEN	-0.094	-1.02	0.306	-0.198	-1.84	0.066*
ACCMD	-5.754	-5.73	0.000***	-4.760	-3.88	0.000***
RMC	2.386	2.21	0.027**	2.114	1.38	0.167
FOWN	0.072	2.94	0.003***	0.159	4.06	0.000***
MOWN	0.073	2.66	0.008***	-0.116	-2.71	0.007***
FROWN	-0.084	-2.89	0.004***	-0.030	-0.66	0.511
TENURE	-0.520	-1.49	0.137	-1.279	-2.43	0.015**
RESTATE	**1.471**	**1.34**	**0.182**	**4.002**	**2.67**	**0.008*** **
IAF	-2.982	-5.63	0.000***	-2.498	-3.64	0.000***
BIG4	-0.755	-0.80	0.424	-7.926	-5.78	0.000***
SIZE	-0.503	-0.91	0.366	-1.071	-1.50	0.133
LEV	12.526	3.57	0.000***	13.094	2.94	0.003***
PROF	-50.041	-8.14	0.000***	-36.794	-3.90	0.000***
Constant	155.978	21.74	0.000***	147.893	16.04	0.000***
Industry/Years	Included			Included		
Observations	1315			691		
R-Squared	0.349			0.369		
Prob > chi^2	0.000			0.000		

Note: *, **, *** are p-value <.10,.05,.01, respectively. All variables are as defined in Table 4.10

4.7 Additional Analysis

The current study conducted additional analyses for robustness of the main results reported in the earlier sections. This section reports on the additional tests conducted to check the credibility of the main analysis's primary findings. Through the use of alternative measures to some variables, this analysis re-examines AC independence, family ownership, foreign ownership, and ACC's multiple directorships. Additional tests were also conducted to ensure the reliability and robustness of the key results in Table 4.10 such as the test to verify the correlation problem.

4.7.1 Alternative Measurement for Audit Committee Independence

Results from the main model (Model 1) showed that the percentage of AC Independence (ACIND) has an insignificant relationship with ARL. This study re-examines the effect of AC independence on ARL with an alternative measure for AC independence by using a dummy variable for independent directors on the AC equals '1' if all members in the AC are independent, and '0' otherwise (Al-Qadasi *et al.*, 2018). The results are consistent with the main analysis except that the level of significance for BOD' independence (BODIND) is a level of significance of ten per cent (*p*-value = 0.070, *t*-value = -1.81), while in the main analysis as shown in Table 4.13, it is significant at a level of significance of five per cent (*p*-value = 0.045, *t*-value = -2.01). This shows that the coefficients of all variables are similar to those reported in the main analysis. The findings of the alternative analysis as in Table 4.13 upholds the preliminary results that independent directors on the AC have an insignificant relationship with ARL.

Table 4.13
Alternative Measurement for AC Independence

ARL	AC Independence (Main Model)			AC Independence (as Dummy Variable)		
	Coef.	**t-value**	**p-value**	**Coef.**	**t-value**	**p-value**
BODSIZE	-0.457	-1.47	0.141	-0.419	-1.35	0.178
BODIND	-8.323	-2.01	0.045**	-7.538	-1.81	0.070*
BODMEET	-0.287	-1.02	0.309	-0.290	-1.02	0.306
BODEXP	-7.063	-2.24	0.025**	-7.105	-2.25	0.024**
ACSIZE	-2.152	-2.27	0.023**	-2.129	-2.17	0.030**
ACIND	4.373	1.45	0.148	1.053	1.10	0.271
ACMEET	1.566	3.25	0.001***	1.566	3.25	0.001***
ACEXP	3.073	1.27	0.203	3.125	1.29	0.195
ACCEXPA	-2.016	-2.52	0.012**	-2.049	-2.56	0.010**
ACCTEN	-0.179	-2.57	0.010**	-0.181	-2.59	0.010**
ACCMD	-5.238	-6.71	0.000***	-5.221	-6.70	0.000***
RMC	2.633	2.95	0.003***	2.641	2.96	0.003***
FOWN	0.092	4.39	0.000***	0.092	4.39	0.000***
MOWN	0.011	0.48	0.629	0.013	0.54	0.590
FROWN	-0.064	-2.53	0.011**	-0.064	-2.52	0.012**
TENURE	-0.794	-2.69	0.007***	-0.793	-2.69	0.007***
RESTATE	2.261	2.54	0.011**	2.250	2.52	0.012**
IAF	-2.972	-7.13	0.000***	-2.985	-7.15	0.000***
BIG4	-3.230	-4.24	0.000***	-3.243	-4.25	0.000***
SIZE	-0.850	-1.93	0.053*	-0.854	-1.94	0.052*
LEV	12.932	4.73	0.000***	12.953	4.73	0.000***
PROF	-45.542	-8.95	0.000***	-45.660	-8.97	0.000***
Constant	157.103	27.75	0.000***	159.783	30.70	0.000***
Industry/Years		Included			Included	
Observations		2006			2006	
R-Squared		0.331			0.331	
Prob > chi2		0.000			0.000	

Note: *, **, *** are p-value <.10,.05,.01, respectively. All variables are as defined in Table 4.10.

4.7.2 Alternative Measurements for Family Ownership

Results from the main model (Model 1) shows that family ownership (FOWN) is significantly affecting ARL at one per cent level of significance. To test for the robustness of these findings as in Table 4.10, the analysis was repeated after changing the measurement of FOWN. Relevant literature reported diverse measurements for FOWN. This study measured FOWN by the proportion of family members on the board (Mohamad & Sulong, 2010; Ghazali & Weetman, 2006). However, Abdullah and Ku Ismail (2016) measured FOWN as a dummy variable which equals '1' if members of the family own at least 20 per cent, and '0' otherwise. Also, FOWN was measured by Rodriguez-Ariza, Martínez-Ferrero, and Bermejo-Sánchez (2016) as a value of '1' if the shareholders are members of the family or an individual with more than 10 per cent, and '0' otherwise. Other studies measured family ownership by the percentage of shares owned by family members of not less than 5 per cent (González & García-Meca, 2014).

These distinctions in FOWN measurement might show different impact on financial reporting. Anderson and Reeb (2003) suggested using a binary variable to indicate firms with ownership by family members. Thus, the current study re-examined the relationship between FOWN and ARL using a different measurement. Family ownership as a dummy variable equal '1' if FOWN is more than 5, 10, or 20 per cent, respectively, and '0' otherwise to check the robustness of the findings reported in Table 4.10.

Results as in Table 4.14 shows the absence or no significant difference with the main results as the regression coefficients for FOWN remain positive and significant at the one per cent level of significance with all the measurements.

Table 4.14

Alternative Measurements for Family Ownership

ARL	**Family Per cent**			**Family Dummy 5 Per cent**			**Family Dummy 10 Per cent**			**Family Dummy 20 Per cent**		
	Coef.	**t-value**	**p-value**	**Coef.**	**t-value**	**p-value**	**Coef.**	**t-value**	**p-value**	**Coef.**	**t-value**	**p-value**
BODSIZE	-0.457	-1.47	0.141	-0.534	-1.73	0.084*	-0.528	-1.71	0.088*	-0.501	-1.62	0.106
BODIND	-8.323	-2.01	0.045**	-6.820	-1.64	0.101	-7.196	-1.74	0.083*	-7.967	-1.93	0.054*
BODMEET	-0.287	-1.02	0.309	-0.236	-0.83	0.404	-0.240	-0.85	0.396	-0.275	-0.97	0.331
BODEXP	-7.063	-2.24	0.025**	-6.576	-2.10	0.036**	-6.795	-2.17	0.030**	-7.208	-2.31	0.021**
ACSIZE	-2.152	-2.27	0.023**	-2.109	-2.24	0.025**	-1.966	-2.08	0.038**	-2.000	-2.12	0.034**
ACIND	4.373	1.45	0.148	3.841	1.28	0.202	4.203	1.40	0.162	4.354	1.45	0.149
ACMEET	1.566	3.25	0.001***	1.562	3.25	0.001***	1.550	3.22	0.001***	1.576	3.27	0.001***
ACEXP	3.073	1.27	0.203	2.491	1.03	0.301	2.454	1.02	0.308	2.929	1.22	0.224
ACCEXPA	-2.016	-2.52	0.012**	-2.034	-2.54	0.011**	-2.001	-2.50	0.013**	-2.001	-2.50	0.012**
ACCTEN	-0.179	-2.57	0.010**	-0.192	-2.77	0.006***	-0.183	-2.64	0.008***	-0.191	-2.75	0.006***
ACCMD	-5.238	-6.71	0.000***	-5.042	-6.49	0.000***	-5.067	-6.53	0.000***	-5.214	-6.70	0.000***
RMC	2.633	2.95	0.003***	2.566	2.90	0.004***	2.574	2.90	0.004***	2.567	2.89	0.004***
FOWN	**0.092**	**4.39**	**0.000*****	**5.320**	**5.95**	**0.000*****	**5.260**	**5.82**	**0.000*****	**4.987**	**5.50**	**0.000*****
MOWN	0.011	0.48	0.629	0.027	1.43	0.153	0.025	1.26	0.206	0.020	0.95	0.343
FROWN	-0.064	-2.53	0.011**	-0.063	-2.50	0.013**	-0.063	-2.50	0.012**	-0.066	-2.61	0.009***
TENURE	-0.794	-2.69	0.007***	-0.763	-2.60	0.010**	-0.768	-2.61	0.009***	-0.768	-2.61	0.009***
RESTATE	2.261	2.54	0.011**	2.285	2.58	0.010**	2.291	2.59	0.010**	2.252	2.53	0.011**
IAF	-2.972	-7.13	0.000***	-2.854	-6.86	0.000***	-2.850	-6.83	0.000***	-2.891	-6.94	0.000***
BIG4	-3.230	-4.24	0.000***	-3.003	-3.98	0.000***	-3.058	-4.05	0.000***	-3.066	-4.06	0.000***
SIZE	-0.850	-1.93	0.053*	-0.782	-1.80	0.072*	-0.813	-1.87	0.062*	-0.833	-1.91	0.056*
LEV	12.932	4.73	0.000***	12.049	4.43	0.000***	12.201	4.49	0.000***	12.062	4.42	0.000***
PROF	-45.542	-8.95	0.000***	-45.620	-9.01	0.000***	-46.051	-9.08	0.000***	-46.299	-9.13	0.000***
Constant	157.103	27.75	0.000***	153.702	26.96	0.000***	153.699	26.94	0.000***	155.258	27.42	0.000***
Industry/Years		Included			Included			Included			Included	
Observations		2006			2006			2006			2006	
R-Squared		0.331			0.336			0.336			0.334	
Prob > chi2		0.000			0.000			0.000			0.000	

Note: *, **, *** are p-value <.10,.05,.01, respectively. All variables are as defined in Table 4.10

4.7.3 Alternative Measurement for Foreign Ownership

From the main analysis (Model 1), a negative relationship was found between foreign ownership (FROWN) and ARL at a level of significance of five per cent, where FROWN was defined as the proportion of shares owned by foreign investors to the total number of shares issued. To test the robustness of the findings, the analysis was repeated after changing the measurement of FROWN as a dummy variable equal '1' if it has FROWN, and '0' otherwise.

The results as shown in Table 4.15 are similar to the main analysis except for the level of significance for FROWN is at ten per cent level of significance (p-value = 0.083, t-value = -1.73), while in the main analysis as shown in Table 4.15, FROWN is significant at a five per cent level (p-value = 0.011, t-value = -2.53).

Table 4.15
Alternative Measurement for Foreign ownership

ARL	Foreign Ownership Per cent			Foreign Ownership Dummy		
	Coef.	t-value	p-value	Coef.	t-value	p-value
BODSIZE	-0.457	-1.47	0.141	-0.431	-1.39	0.164
BODIND	-8.323	-2.01	0.045**	-8.384	-2.02	0.043**
BODMEET	-0.287	-1.02	0.309	-0.240	-0.85	0.396
BODEXP	-7.063	-2.24	0.025**	-6.862	-2.17	0.030**
ACSIZE	-2.152	-2.27	0.023**	-2.307	-2.44	0.015**
ACIND	4.373	1.45	0.148	4.575	1.52	0.129
ACMEET	1.566	3.25	0.001***	1.567	3.26	0.001***
ACEXP	3.073	1.27	0.203	3.023	1.24	0.215
ACCEXPA	-2.016	-2.52	0.012**	-2.067	-2.59	0.010**
ACCTEN	-0.179	-2.57	0.010**	-0.177	-2.54	0.011**
ACCMD	-5.238	-6.71	0.000***	-5.213	-6.68	0.000***
RMC	2.633	2.95	0.003***	2.733	3.06	0.002***
FOWN	0.092	4.39	0.000***	0.094	4.48	0.000***
MOWN	0.011	0.48	0.629	0.012	0.51	0.611
FROWN	**-0.064**	**-2.53**	**0.011****	**-1.424**	**-1.73**	**0.083***
TENURE	-0.794	-2.69	0.007***	-0.824	-2.78	0.006***
RESTATE	2.261	2.54	0.011**	2.151	2.41	0.016**
IAF	-2.972	-7.13	0.000***	-2.936	-7.03	0.000***
BIG4	-3.230	-4.24	0.000***	-3.416	-4.47	0.000***
SIZE	-0.850	-1.93	0.053*	-0.837	-1.90	0.058*
LEV	12.932	4.73	0.000***	13.775	5.06	0.000***
PROF	-45.542	-8.95	0.000***	-45.594	-8.91	0.000***
Constant	157.103	27.75	0.000***	156.724	27.67	0.000***
Industry/Years		Included			Included	
Observations		2006			2006	
R-Squared		0.331			0.330	
Prob > chi2		0.000			0.000	

Note: *, **, *** are p-value <.10,.05,.01, respectively. All variables are as defined in Table 4.10.

4.7.4 Alternative Measurement for Audit Committee Chairman's Multiple Directorships

Results from Model 1 as in Table 4.10 show a negative relationship between multiple directorships of the ACC and ARL at the one per cent level of significance (*p*-value = 0.000, *t*-value = -6.71).

To check for the credibility of the main results, this study re-examined the main model by measuring multiple directorships of the ACC as the number of outside directorships held by the ACC at firms on Bursa Malaysia (Baatwah *et al.*, 2019). Results show that there is a negative relationship between multiple directorships of the ACC and ARL at the one per cent level of significance (*p*-value = 0.000, *t*-value = -6.82), which confirms the findings of the main analysis. Concerning other independent variables, the results are consistent with the main analysis, except that the level of significance for board independence (BODIND) is at a ten per cent level (*p*-value = 0.059, *t*-value = -1.89) and AC size (ACSIZE) is at the one per cent level of significance (*p*-value = 0.008, *t*-value = -2.67), while in the main analysis (Model 1) as in Table 4.16, it is significant at a five per cent level for both variables.

Table 4.16
Alternative Measurement for ACC's Multiple Directorships

ARL	ACC's Multiple Directorships (Dummy)			ACC's Multiple Directorships (Number)		
	Coef.	**t-value**	**p-value**	**Coef.**	**t-value**	**p-value**
BODSIZE	-0.457	-1.47	0.141	-0.459	-1.49	0.137
BODIND	-8.323	-2.01	0.045**	-7.811	-1.89	0.059*
BODMEET	-0.287	-1.02	0.309	-0.204	-0.73	0.468
BODEXP	-7.063	-2.24	0.025**	-7.120	-2.26	0.024**
ACSIZE	-2.152	-2.27	0.023**	-2.522	-2.67	0.008***
ACIND	4.373	1.45	0.148	3.871	1.29	0.196
ACMEET	1.566	3.25	0.001***	1.592	3.30	0.001***
ACEXP	3.073	1.27	0.203	2.730	1.14	0.256
ACCEXPA	-2.016	-2.52	0.012**	-2.040	-2.55	0.011**
ACCTEN	-0.179	-2.57	0.010**	-0.184	-2.65	0.008***
ACCMD	**-5.238**	**-6.71**	**0.000*** **	**-1.488**	**-6.82**	**0.000*** **
RMC	2.633	2.95	0.003***	2.681	3.01	0.003***
FOWN	0.092	4.39	0.000***	0.097	4.59	0.000***
MOWN	0.011	0.48	0.629	0.001	0.04	0.966
FROWN	-0.064	-2.53	0.011**	-0.065	-2.53	0.012**
TENURE	-0.794	-2.69	0.007***	-0.824	-2.80	0.005***
RESTATE	2.261	2.54	0.011**	2.118	2.39	0.017**
IAF	-2.972	-7.13	0.000***	-3.155	-7.52	0.000***
BIG4	-3.230	-4.24	0.000***	-3.200	-4.20	0.000***
SIZE	-0.850	-1.93	0.053*	-0.680	-1.56	0.118
LEV	12.932	4.73	0.000***	12.617	4.59	0.000***
PROF	-45.542	-8.95	0.000***	-44.698	-8.77	0.000***
Constant	157.103	27.75	0.000***	158.710	28.62	0.000***
Industry/Years		Included			Included	
Observations		2006			2006	
R-Squared		0.331			0.335	
Prob > chi2		0.000			0.000	

Note: *, **, *** are p-value <.10,.05,.01, respectively. All variables are as defined in Table 4.10.

4.7.5 Additional Test to Check Correlation Issue

The correlation matrix shows that the highest correlation values exist between investments in IAF with firm size, and family ownership with managerial ownership at 0.764 and 0.662, respectively. However, previous literature noted that a significant value higher than 0.90 indicates a serious multicollinearity problem (Hair *et al.*, 2014; Tabachnick & Fidell, 2013). Judge *et al.* (1982) argued that a correlation greater than 0.80 or 0.90 between independent variables might reveal multicollinearity.

To further check for the absence of this correlation effect, the study re-examined the main model (Model 1) by excluding both managerial ownership and firm size from the regression. The findings are consistent with those from the main analysis except that board size (BODSIZE) shows a weak significant influence on ARL at a ten per cent level of significance (*p*-value = 0.076, *t*-value = -1.78), while in the main analysis, as shown in Table 4.17, it is insignificant (*p*-value = 0.141, *t*-value = -1.47) indicating that the correlation between investments in IAF and firm size, and family ownership and managerial ownership does not have a significant effect on the regression results.

Table 4.17
Results of the Additional Test to Check Correlation Issue

ARL	Main Model			Excludes MOWN and SIZE		
	Coef.	**t-value**	**p-value**	**Coef.**	**t-value**	**p-value**
BODSIZE	-0.457	-1.47	0.141	-0.545	-1.78	0.076*
BODIND	-8.323	-2.01	0.045**	-8.858	-2.16	0.031**
BODMEET	-0.287	-1.02	0.309	-0.321	-1.14	0.253
BODEXP	-7.063	-2.24	0.025**	-7.303	-2.33	0.020**
ACSIZE	-2.152	-2.27	0.023**	-2.120	-2.24	0.025**
ACIND	4.373	1.45	0.148	4.669	1.57	0.118
ACMEET	1.566	3.25	0.001***	1.536	3.19	0.001***
ACEXP	3.073	1.27	0.203	3.402	1.41	0.157
ACCEXPA	-2.016	-2.52	0.012**	-1.956	-2.45	0.014**
ACCTEN	-0.179	-2.57	0.010**	-0.175	-2.53	0.011**
ACCMD	-5.238	-6.71	0.000***	-5.337	-6.88	0.000***
RMC	2.633	2.95	0.003***	2.687	3.01	0.003***
FOWN	0.092	4.39	0.000***	0.095	5.99	0.000***
MOWN	**0.011**	**0.48**	**0.629**			
FROWN	-0.064	-2.53	0.011**	-0.069	-2.72	0.006***
TENURE	-0.794	-2.69	0.007***	-0.810	-2.75	0.006***
RESTATE	2.261	2.54	0.011**	2.228	2.50	0.012**
IAF	-2.972	-7.13	0.000***	-3.500	-10.67	0.000***
BIG4	-3.230	-4.24	0.000***	-3.485	-4.56	0.000***
SIZE	**-0.850**	**-1.93**	**0.053***			
LEV	12.932	4.73	0.000***	10.954	4.28	0.000***
PROF	-45.542	-8.95	0.000***	-47.079	-9.31	0.000***
Constant	157.103	27.75	0.000***	153.778	28.95	0.000***
Industry/Years		Included			Included	
Observations		2006			2006	
R-Squared		0.331			0.330	
Prob > chi2		0.000			0.000	

Note: *, **, *** are p-value <.10,.05,.01, respectively. All variables are as defined in Table 4.10.

4.8 Summary

This Chapter provides a discussion of the data analysis of the study. Descriptive analysis was performed to characterise the sample of the study as well as the frequency distribution for categorical data. Correlation analysis was also conducted to observe the correlation among the variables in the framework. Multivariate analysis was used to test the hypotheses, and the OLS was estimated for the ARL models as an appropriate estimation for this study. This Chapter also presents the empirical findings of the relationship between CGM, namely, BOD' characteristics (size, independence, meetings, and financial expertise), AC characteristics (size, independence, meetings, and financial expertise) in individual and aggregate tests, and additional tests for the ACC's characteristics, (accounting expertise, tenure and multiple directorships), separate RMC, ownership structure, audit partner tenure, and financial restatements and ARL. Finally, several robustness tests were performed, and the results show support that the ACC's characteristics have an impact on the timeliness of the audit reports.

CHAPTER FIVE

SUMMARY AND CONCLUSIONS

5.1 Introduction

Chapter Five provides a thorough overview of the research objectives, the hypotheses development, the method used in meeting the objectives and the results of the study. It is organised as follows: Section 5.2 summarises the main results of the study while Section 5.3 discusses the potential implications of the research. Section 5.4 outlines the study's limitations, and Section 5.5 provides suggestions for future research in extending the knowledge in the ARL literature. Section 5.6 concludes the study by outlining the overall research findings.

5.2 Summary of the Study

Given the importance of timely financial reporting with its impact on capital markets, Bursa Malaysia has reduced the annual reporting time from six to four months to ensure that investors receive financial information on time. Therefore, it is important that auditors must provide audited financial statements in a timely manner for shareholders and investors to make business decisions. The audited financial reports contain the auditor's opinion on the credibility of the financial statements. Moreover, there are several implications in delaying the publication of financial reports. First, late disclosure of financial reports may lower confidence among investors. Second, delayed release of financial reports, in particular the audit report, may increase information asymmetry in the market. Finally, the delayed release of the audit report reduces the quality of earnings and increases the chances of defrauding investors.

The delay in the release of the audit report issue motivated this study. In this respect, the current study extended the work of previous literature in the Asian economies, especially in the Malaysian context, by highlighting a specific dimension of quality of audit report, namely, ARL, as a measure of FRQ. Specifically, the explicit focus of the current study is to investigate the relationship between ARL and CGM, namely board characteristics, AC characteristics in individual and aggregate tests, and, additionally, tests the ACC characteristics, separate RMC, ownership structure, audit partner tenure and financial restatements. These factors may monitor financial reporting processes, and thereby, are directly associated with enhancing the FRQ and the effect on the timeliness of audit reports. The study also examined the effect of the ACC's accounting expertise as a moderating factor on the relationship between financial restatements and ARL.

A total of 2,006 firm observations were collected from Thomson Financial DataStream and the annual reports of 540 Malaysian firms listed on the main market of Bursa Malaysia from 2013-2016. In line with the agency theory, resource dependence theory, and learning curve theory, twenty hypotheses were proposed. Multivariate analysis was used to test the hypotheses, and the OLS with robust analyses was estimated for the ARL models as an appropriate estimation for this study. Several robustness tests were also conducted to ensure the validity and reliability of the main findings. Table 5.1 shows the results of this study in summary.

The following results are related to the first and second objectives. Firstly, the results for Model 1 of the individual tests of the BOD and AC characteristics. In terms of board characteristics, this study found that two of the four board characteristics, namely board independence and board financial expertise, are negatively related to

ARL. However, the remaining characteristics of the BOD are insignificant. These variables include board size and board meetings, which are not a significant determinant of the timeliness of audit reports in Malaysian public listed firms. Overall, the results indicate that firms with board members that are independent and have greater experience and knowledge are more likely to minimise ARL.

In examining the relationship of the AC characteristics with ARL, the results showed that the size of the AC has a negative and significant relationship with ARL, while the frequency of AC meetings is significant but has a positive relationship with ARL. These results indicate that a long ARL is associated with more frequent meetings by the AC. However, the study did not find any significant evidence to show that AC independence and AC financial expertise have a relationship with ARL.

Secondly, the study considered recent arguments that corporate governance is a combination of mechanisms and that a composite index rather than individual characteristics can best capture the effectiveness of these mechanisms. Based on this argument, this study proposed that increasing the effectiveness of the BOD and its AC will increase their monitoring role in the financial reporting process and therefore improves the timeliness of the audit reports. However, the current study failed to detect or obtain any significant evidence to show that the board and AC effectiveness (score) has a relationship with ARL. The results contradict the hypotheses of this study. This shows that the BOD in public listed firms are less able to exercise their supervisory functions due to the presence of controlled shareholders who are often affected by political relations and family participation (Haniffa & Hudaib, 2006; Omer & Al-Qadasi, 2019). The result is consistent with the arguments that with the presence of substantial shareholders, the structure of the BOD in Malaysian firms may not be a solution to better governance (Yunosa & Ahmad, 2013). The controlling shareholders who are also the management can control the managers of the firms, can access their private data and take advantage of their control in their interests.

The effectiveness of the AC is not significantly associated with ARL. A possible explanation for this result is that the main reason public listed firms in Malaysia set up their AC is to fulfil Bursa Malaysia's listing requirements. Thus, the AC is less likely to be effective in carrying out their duties (Abdullah, 2002). Nonetheless, Malaysian firms can have an effective BOD and ACs but these governance practices might reflect the choice made by the major shareholders that are in line with their interests (Al-Qadasi, 2016). This supports the view that corporate governance in Malaysian firms with concentrated ownership is ineffective (Yunosa & Ahmad, 2013).

Furthermore, the study examined the impact of ACC's characteristics (accounting expertise, tenure, and multiple directorships) on ARL. Results showed that all three characteristics of the ACC are negatively and significantly related to ARL. This indicates that the ACC plays a crucial function in improving the timeliness of audit reports, and this is likely to be much better if the chairman has accounting experience, has been longer at the firm, and has directorships on the BOD in several other firms. This evidence suggests that the ACC is more able to improve the quality and timeliness of audit reports because they have spent a long time with the firm and have more firm-specific knowledge and experience.

For the third research objective, the study showed that the hypothesis of a separate RMC is supported and significant with ARL. The results showed that the ARL was increased when firms have a separate RMC. This result is in line with the claim that stand-alone risk committees just add an additional layer of red tape to the board, that they over-rely on the board and lose their emphasis on risk oversight (Hines *et al.*, 2015). The existence of a risk committee might also suggest that the firm requires additional monitoring on other risks (Hines *et al.*, 2015). Auditors become more sceptical about the firm's risk causing them to increase their effort through wider audit tests, resulting in longer audit delays.

For the fourth objective, this study examined family ownership, managerial ownership as well as foreign ownership as other aspects of the CGM that have an impact on ARL. Contrary to the literature, this study provides empirical evidence on the positive impact of family ownership on ARL. For example, in the case of family firms, the agency problem is not so much related to information asymmetry between owners and managers but between major and minority shareholders. The issue relates to the problem of entrenchment of ownership by large insiders (Duréndez & Madrid-Guijarro, 2018) where the controlling (dominant) shareholders might manipulate the interests of the non-controlling (non-dominant) shareholders to maximise their wealth. Hence, they would work towards reducing timely flow of information about the firm's operations to delay the audit report in an attempt to achieve their personal interests (Hsu *et al.*, 2018).

The current study extends the literature by using agency theory to explain the impact of managerial ownership on time required to publish the audit report. The results did not support the prediction of the agency theory but showed that managerial ownership had a positive but insignificant relationship with ARL. This means that when the level of ownership is high, managers act in the best interest of the firm as any decrease in the firm value is more detrimental to the controlling owners than any other party. Ng and Tai (1994) argued that the management might desire to delay earning announcements that contain bad news because this may convey potentially negative signals about the firm. Thus, they seek to postpone the audit report for private gains. Furthermore, the controlling owners can reject hiring quality auditors to ensure that their private interests can be realised for fear that these auditors will conduct strict monitoring operations.

To examine the impact of foreign ownership, it was assumed that the more the number of shares owned by foreign investors, the shorter the release of the audit report. This study showed that firms that have a higher percentage of shares held by foreign investors take a shorter time to release their audit reports. The presence of foreign investors to the financial markets in emerging economies has created incentives for the firms and their auditors to provide quality financial reporting through more timely audit reports.

For the fifth research objective, the results show a negative relationship between audit partner tenure and ARL. This finding is compatible with the learning curve theory, which emphasises that knowledge of the client's industry will increase with the time spent by auditors in the firm through a 'learning curve effect'(Garcia-Blandon & Argiles-Bosch, 2017; Johnson, Khurana, & Reynolds, 2002). Thus, as auditors spend more time with the client, they become more acquainted with the firm's processes and controls, saving a lot of effort and time in the audit process and reducing ARL. Furthermore, the continuation of an audit is expected to reduce the audit risk due to an awareness of the client's processes and the audit risks associated with the client's industry environment (Carey & Simnett, 2006). Accordingly, firms with lower audit risk are expected to have lower audit report delays. This negative relationship between audit partner tenure and ARL was confirmed by the findings of Sharma *et al.* (2017).

For the sixth research objective, the results showed that financial restatement was positively and significantly associated with ARL. These results suggest that financial restatements relate to audit risk which can be reflected in an external audit risk assessment, leading to more audit work and higher ARL for restated companies. This result is consistent with the arguments that the firms that have restated their reports have inadequate internal controls and longer delays in the audit report (Baatwah *et al.*, 2019).

For the last research objective, this study examined the moderating role of ACC's accounting expertise on the relationship between financial restatements and ARL. The results showed that the interaction between the ACC's accounting expertise and financial restatements are negative and significantly associated with ARL. As the ACC is the person with the greatest responsibility for the control of financial statements, he/she is also the most likely to be blamed for breaches of financial reporting than other members of the committee (Schmidt & Wilkins, 2013). As a result, the expertise of ACC leads him/her to be more active in helping to constrain the ARL and thus to improve the timeliness of financial reporting.

Table 5.1
Summary of the Study Findings

Research Objectives		Hypotheses	Expected sign	Findings
1	H_1	There is a significant relationship between board size and ARL.	+/-	Not Supported
1	H_2	There is a significant relationship between board independence and ARL.	+/-	Supported
1	H_3	There is a significant relationship between the frequency of board meetings and ARL.	+/-	Not Supported
1	H_4	There is a significant negative relationship between board financial expertise and ARL.	-	Supported
1	H_5	There is a significant negative relationship between board effectiveness and ARL.	-	Not Supported
2	H_6	There is a significant negative relationship between AC size and ARL.	-	Supported
2	H_7	There is a significant relationship between AC independence and ARL.	+/-	Not Supported
2	H_8	There is a significant relationship between the frequency of AC meetings and ARL.	+/-	Supported
2	H_9	There is a significant negative relationship between AC financial expertise and ARL.	-	Not Supported
2	H_{10}	There is a significant negative relationship between AC effectiveness and ARL.	-	Not Supported
2	H_{11}	There is a significant negative relationship between the ACC's accounting expertise and ARL.	-	Supported
2	H_{12}	There is a significant negative relationship between the ACC's tenure and ARL.	-	Supported
2	H_{13}	There is a significant relationship between the ACC's multiple directorships and ARL.	+/-	Supported
3	H_{14}	There is a significant relationship between a separate RMC and ARL.	+/-	Supported
4	H_{15}	There is a relationship between family ownership and ARL.	+/-	Supported
4	H_{16}	There is a significant positive relationship between managerial ownership and ARL.	+	Not Supported

Research Objectives		Hypotheses	Expected sign	Findings
4	H_{17}	There is a significant negative relationship between foreign ownership and ARL.	-	Supported
5	H_{18}	There is a significant negative relationship between audit partner tenure and ARL.	-	Supported
6	H_{19}	There is a significant positive relationship between financial restatements and ARL.	+	Supported
7	H_{20}	ACC's accounting expertise moderates the relationship between financial restatements and ARL.	+/-	Supported

5.3 Implications of the Study

The present study has some theoretical and practical implications, which are discussed in the following sub-sections.

5.3.1 Theoretical Implications

Although several studies have addressed the issue of CGM and ARL using the agency theory, resource dependence theory, and learning curve theory, most of these researchers examined the relationship in developed economies with a different environment from developing countries. Thus, this study may enrich the literature by adding and understanding these issues and theories in an emerging economy where the agency conflicts is more complex, and corporate governance effectiveness is affected by the ownership concentration. This study highlights the relationship between CGM and ARL in Malaysia which was chosen for its unique and concentrated business environment (Mustapha & Che-Ahmad, 2011). In addition, this study provides empirical evidence during the years after several revisions of the corporate governance code, mainly, MCCG 2007 and MCCG 2012. Most of the previous studies in Malaysia selected their sample from the pre-MCCG 2012 while others examined only a year of data. This study used four years of data, from 2013 to 2016.

Agency theory, resource dependence theory, and learning curve theory are the underpinning theories highlighted in this study. According to the agency theory, the relationship between the owners (principal) and managers (agents) may be subject to dispute due to the divergent interests of both parties resulting in information asymmetry. To solve such problems, the agency theory suggests establishing appropriate incentives for the managers, and strong monitoring (Jensen & Meckling, 1976). The agency theory further argues that the key function of financial reporting is to monitor the management, stressing the need for sound governance systems to ensure that managers behave in the best interests of shareholders (Jensen & Meckling, 1976). However, a question arises about the effectiveness of these mechanisms in terms of solving the agency conflict in a high ownership concentrated context (such as Malaysia), where owners themselves are in management, and agency problems arise is Type (II), which is between major and minor shareholders.

Many firms in Malaysia are faced with the agency problem (Type II) where the majority and minority shareholders are in conflict. This conflict of interest can give rise to information asymmetry and result in agency costs. To protect the shareholders' interests, managers must be monitored by a third party; thus, external auditing is recognised by the agency theory as the most effective control practice for resolving agency issues (Fama & Jensen, 1983; Watts & Zimmerman, 1983). However, the delay in issuing audit reports tends to increase information asymmetry and expand the risk of spreading rumours about the financial health and performance of companies (Afify, 2009; Al-Ajmi, 2008; Owusu-Ansah & Leventis, 2006). Thus, understanding the determinants of ARL can contribute to reduce the information asymmetry, thereby mitigating the agency problem.

The contribution of this study also can be seen from different viewpoints. First, based on the agency theory and the resource dependence theory, the AC and its chairman are considered to be responsible for the timeliness of the firm's financial reporting. The current study extends the work of Baatwah *et al.*(2019) and Ghafran and Yasmin (2018) by examining the impact of the ACC's characteristics on ARL. The study showed that the ACC with expertise in accounting and a long tenure in the firm reduced information asymmetry and effectively carried out his/her responsibility and decreased ARL. The findings also extended previous studies by demonstrating that accounting expertise is needed by the ACC to improve the timeliness of the audit report.

The study also contributes to the body of knowledge by providing empirical evidence on the relationship between multiple directorships held by the ACC and ARL in Malaysia. Findings of the regression analyses showed that ACC's multiple directorships has a significant negative relationship with ARL. The significant impact of the ACC's multiple directorships on ARL supports the resource dependency theory, which suggests that board multiple directorships is one of the mechanisms through which a firm can access resources (ideas, information, capital) from the external environment (Haniffa & Hudaib, 2006). The theory argues that the interlocked directors may acquire additional contextual background, knowledge, skills and experience to conduct their oversight responsibilities and, thus, positively influence the timeliness of audit reports.

Overall, the results showed that the chairman's characteristics (accounting expertise, tenure, and multiple directorships) affect ARL. Therefore, this finding supports the notion that, among members of the AC, the chairman's characteristics is more likely to constrain the ARL, thus, improving the timeliness of the audit report.

Results also showed that board independence and board financial expertise are negatively related to ARL; thus, firms with a high percentage of independent directors on the board and greater financial expertise are less likely to reduce ARL. As a result, the agency problems could be mitigated and safeguard the shareholders' interest through the release of timely audited annual reports. In this aspect, it can be argued that the significant negative relationship found between board independence and board financial expertise with ARL are in line with the views of the agency theory and resource dependence theory.

Second, and based on the multiple regression analysis in Model 2, the results showed that the effectiveness of the board and AC, as important internal governance mechanisms, did not decrease the ARL. This does not support the agency theory which suggests that the effectiveness of the board and AC can control agency issues and improve the timeliness of the audit report. This suggests that a promising area for future research would be to explore the various aspects of the board and AC effectiveness and impact on ARL. These results are consistent with Claessens and Fan (2002), who argued that CGM in Asian countries (including Malaysia) are not effective in addressing agency problems. Moreover, the unique characteristic of Malaysian firms with its high level of ownership could hinder and impede the efficient governance of firms.

Third, this study makes an important contribution to corporate governance studies on the impact of ownership structure among Malaysian firms using agency theory. Previous literature was unclear as to whether research findings based on agency theory in western countries have an equivalent effect on Asian countries. In this context, this study investigates the impact of ownership structure, a unique feature of the Malaysian market, on ARL. It is one of the few that explains the association between family ownership and ARL by drawing on the alignment hypothesis and the entrenchment hypothesis. This study found that family-owned firms have long audit reporting lags.

As mentioned earlier, the entrenchment effect could have been the reason for the longer ARL in family-owned firms. According to the entrenchment hypothesis, family firms have incentives to maximise their interests and influence the financial reporting process, thereby increasing agency costs (Shiri *et al.*, 2018). Therefore, taking into account higher agency costs, firms will have higher risks which will require auditors to increase their efforts, thus, increasing the ARL. This study also contributes to the understanding of agency theory in an emerging economy where firms are under the influence of major shareholders, and the agency relationships are distinct compared to those in the developed economies.

This study extends the literature on organisational structure by using agency theory to explain the effects of managerial and foreign ownership on ARL. Results that showed that managerial ownership has an insignificant and positive association with ARL does not support the prediction of the agency theory. In contrast, the results showed that firms with a higher percentage of foreign ownership are negatively related to ARL. Foreign ownership has been argued as one of the effective governance structure mechanisms for monitoring management. Thus, the firm's management would experience greater pressure from foreign owners asking for high quality audits to minimise information asymmetry and to obtain accurate financial statements. Consequently, this would motivate management to provide more timely information.

Fourth, the study provides new knowledge on the relationship between RMCs as well as audit quality, particularly the timeliness of audit reports. Surprisingly, the results showed that the existence of a separate RMC increases ARL. The finding contributes to the knowledge and literature that the existence of a separate RMC has implications on the ARL, specifically in the Malaysian environment. This result is aligned with the idea that a separate RMC reflects the risk profile of a company that requires higher oversight and leads to further audit efforts (Hines *et al.*, 2015). This also raises the amount of time spent by auditors to reduce the audit risks resulting in a longer ARL. However, the finding is inconsistent with the expectation of the study that the existence of a separate RMC can increase the timeliness of audit reports.

Fifth, this study is extending the previous literature and the body of knowledge by showing an empirical evidence on the relationship between audit partner tenure and ARL. In contrast to Wan-Hussin *et al.*'s (2018) study that found no direct relationship between audit partner tenure and ARL, this study showed evidence that firms with longer audit partner tenure have shorter ARLs. The result supports the justification that the auditor's expertise would increase over a longer period through a 'learning curve effect.' Increased client knowledge can contribute to higher audit efficiency, as client knowledge can be used to strengthen audit decisions based on less substantial evidence (Bedard & Johnstone, 2010). This substantially reduces the time spent by auditors in carrying out their audit work and therefore minimises ARL.

Lastly, given the importance of the ACC as a focal point for AC effectiveness, this study is the first of its kind that documents the moderating effect of the ACC's accounting expertise on the relationship between financial restatements and ARL. Previous studies, for example, Blankley *et al.* (2014), Mitra *et al*. (2015), Dao and Pham (2014), and Abbott *et al.* (2012), showed the positive effects of financial restatements on ARL. However, studies on how to mitigate negative effects are scarce. This study showed a significant results positive relationship between financial restatement and ARL provide support to the agency theory and resource dependence theory. The ACC's accounting expertise places him/her in a better position to carry out the activities of the committee effectively and to reduce agency costs. This would prevent financial restatements, and thus, improve the timeliness of audit reports.

5.3.2 Practical Implications

This study responds on time to the latest requirements of Bursa Malaysia regarding the timeframe for the release of financial reports. The results of this study, therefore, provide policymakers, regulators, managers, and investors with insights into improving corporate governance practices and the quality of the audit report among public listed firms. In particular, the findings of this study may assist Bursa Malaysia to address the factors that have an impact on ARL and to improve the publication of financial reports by reducing audit report delays. Regulators and policymakers can, therefore, use the findings of this study as empirical support for continuous developments of regulations and for further recommendations on the corporate governance and the timeliness of audit reports.

Results show an ineffective role in the effectiveness of the BOD in reducing ARL. This outcome should draw the attention of policymakers, regulators, and investors on the negative impact of controlling shareholders on board effectiveness as they dominate management decisions in their interests at the expense of minor shareholders. These findings indicate that regulators and policymakers should enhance the ability of internal governance to maintain a balance of power within the BOD and its committees, revise the composition of the board and focus on the quality of external directors in terms of their financial, auditing, and legal competence.

Results also showed that AC effectiveness (score) did not have an insignificant impact on ARL. This suggests that the AC does not play an active role in improving the FRQ. Thus, regulators should take these findings to AC members of the importance of their responsibility in improving FRQ. In other words, these results reinforce the need for regulators to establish requirements that provide the ACs with sufficient authority to fulfil their role. The regulators may also consider the potential effect of ownership concentration on CGM, particularly the AC and revise the procedure on appointing members to the committee. Despite the high percentage of outside directors on the ACs, their independence in reducing ARL was not established in this study, which should be considered as another issue in updating the MCCG.

The findings also showed that ACC's characteristics have an impact on the delay in the audit report. These results can assist policymakers as well as regulatory bodies in their effort to improve the role of the ACC in reducing the period of the audit report. These findings support previous research, which showed that the ACC with expertise in accounting assists in the timely completion of the audit report.

In line with this finding, there is a tendency in some countries, such as Germany, Spain, and Singapore, to appoint an ACC with expertise in accounting (Al-Absy *et al.*, 2019).

This requirement is absent in the MCCG 2000, MCCG 2007, MCCG 2012, and MCCG 2017; thus, policymakers and regulators need to rethink about this attribute to improve the timeliness and quality of the audit report. In negotiating the audit findings with the management, the ACC with experience in accounting worked to resolve disputes between the external auditor and the management on contentious accounting issues, leading to a shorter ARL. The results of this study will therefore have an impact on the auditors in this negotiation process.

This study found that the practice of holding multiple directorships by the ACC to be negatively related to ARL. The finding may be relevant to the regulators to review their current position in regulating multiple directorships in public listed firms. The existing Bursa Malaysia guidelines only mention a recommendation on interlocking status where a board member can hold not more than five directorships on listed companies at the same time. Results also show that the ACC with a long tenure is more effective in reducing the time taken to publish the audit report. Thus, policymakers should develop specific guidelines or policies concerning the ACC's tenure.

This study also showed that a separate RMC is positively associated with ARL, consistent with Ali *et al.* (2017), who showed that the existence of risk management has a positive relationship with financial restatements incidence. This finding suggests that a separate RMC provides less value than anticipated for regulators and policymakers to improve the quality of the audit report. Since the establishment of a separate RMC is still voluntary in Malaysia, these findings can provide input to the legislative authorities and other interested parties on the status of corporate governance practices and the application of the MCCG to the listed firms in Bursa Malaysia.

This study provides a clear view of the effect of the ownership structure on the quality of the audit report among Malaysian public listed firms. It provides evidence for the potential role of foreign ownership concentration in reducing ARL, unlike that of family and managerial shareholders. This will help regulators in Malaysia, such as the Securities Commission, to assess the current listing requirements and to evaluate the existing ownership structure in Malaysian firms. This study also provides the agencies and related parties with awareness and understanding as to whether current corporate governance practices in firms produce the expected outcome. In addition, this study serves as an approach for policymakers and regulators in formulating policies and strategies for the timeliness of audit reports.

Foreign ownership was shown to have a significant role in ensuring the timeliness of the audit report. This finding has implications for regulatory bodies, such as the Securities Commission, to encourage the participation of investors of this type in the capital markets. However, given the fact that family firms are dominant in Asian markets, regulators and Bursa Malaysia should recognise that they play an important role in increasing ARL. Consequently, this study recommends that Malaysian regulators focus more on enhancing the governance role in family firms. Besides, regulators should impose practical regulations to lessen the power of family investors over the corporate governance system, including the AC, to protect the interests of minority shareholders.

The study also sought to assess the impact of the audit partner's tenure on the quality of the audit report. Recent regulatory MIA rules in Malaysia have been changed from a five-year rotation requirement to a seven-year rotation requirement. The findings of the study are, thus, fundamental and important, as it provides a rare insight into the influence of the audit partner tenure on the quality of the audit report.

5.4 Limitations of the Study

Like other studies, several limitations of this study which are addressed in this section might offer potential avenues for future research. First, this study only included non-financial firms listed on the Bursa Malaysia main market in the sample. Therefore, one of the limitations of this study is the exclusion of financial firms which are more regulated than the other sectors. The findings of the current study cannot be generalised to this sector. Second, the sample period covered only four years from 2013-2016 as this period is closest to the most recent requirements of Bursa Malaysia regarding the timeframe for issuance of annual reports which was shortened from six to four months. Thus, these results cannot be generalised to other periods. The generalisation of these results to other periods could be a cause for concern.

Third, this study applied the agency theory, resource dependence and learning curve theories to explain the relationship between corporate governance and ARL. Future studies could use other theories (such as signalling theory) to explain the relationship between corporate governance and other variables. Fourth, this study focused on specific CGM variables, namely board characteristics (size, independence, meetings, financial expertise, and effectiveness), AC characteristics (size, independence, meetings, financial expertise, effectiveness, chairman's accounting expertise, chairman's tenure, and chairman's multiple directorships) and separate RMC. It is possible that other CGM such as gender diversity of the boards, ethnic diversity, AC ownership, chief executive officer characteristics, age of board directors, and board tenure that were not examined in this study may contribute to improve the timeliness of audit reports.

Fifth, based on previous studies by Al-Qadasi *et al*. (2018), Johl *et al*. (2013), and Omer and Al-Qadasi (2019), this research focused solely on specific features, namely size, independence, meeting, and financial experience, to improve the index of effectiveness of the BOD and AC. However, there are other aspects of effectiveness that were not discussed in the current study, such as tenure (Al-Dhamari *et al.*, 2018). Sixth, this study examined only the three types of ownership structure (family, managerial, and foreign ownership), while other types of ownership structures, such as the institutional shareholders, and the government shareholders were not included. It is expected that these other types of ownership structures may affect ARL.

Seventh, the present study used the annual reports as the main source of data; thus, the data for this study is quantitative in nature. Qualitative information on the BOD and AC directors were omitted, for example, from the personal-social association between the board and AC members or owners.

Despite the above limitations, it should not detract from the value of this study because the results of this study provided a comprehensive understanding of how CGM and financial restatements are affecting ARL among public listed firms in Malaysia. These limitations, however, should grab more attention to improvements in future research.

5.5 Suggestions for Future Research

Despite the study limitations, the results of this study provide some evidence that several characteristics of the CGM are significantly related to ARL. Nonetheless, several aspects were not covered in this study, which might be relevant to the corporate governance as well as to improve ARL. Thus, to cover these aspects and overcome the limitations of this study, a few suggestions for future research to extend the current study are discussed as follows.

Future studies may extend this work to include all sectors in the Malaysian market and cover a longer period following the introduction of the MCCG 2017. Future studies are also recommended to conduct a comparative analysis, for example, between the Malaysian market and other markets in East Asia (for example, Hong Kong, Indonesia, Thailand, and Singapore) that have similar characteristics to provide greater insight into the topic. This would establish whether firms in these countries employ a similar corporate governance system to improve the timeliness of audit reports, and to provide evidence whether the role of monitoring mechanisms in emerging countries differ.

This study used secondary data collected from the company's annual reports as the main source. In the future, researchers may use different methods for collecting data, such as interviews with auditors and managers. In addition, a qualitative approach could be employed to investigate many more characteristics of the directors serving on the board and its committees, such as the personal-social relationship among the board members.

The current study examined the characteristics of the ACC, such as multiple directorships, accounting expertise, and tenure as factors that might reduce the ARL in Malaysia. Thus, future studies could incorporate other variables that may have an impact on ARL, such as other characteristics of the chairman (age as a proxy of experience, and former audit partner). In addition, other types of ownership specific to

Malaysian firms (institutional ownership, politically-related company) may also be explored in future research.

Furthermore, future studies could be conducted to explore the effect of dimensions other than CGM on the timeliness of audit reports, such as other audit characteristics. For example, the current study focused only on audit partner tenure. However, a few researches that examined the effect of audit partner specialisation on ARL have been conducted. The current study examined the underlying factors for the delay in issuing the audit report through the review of CGM. Future research may examine the negative impact of a longer period of audit reports on audit reporting in subsequent years, such as audit opinions and financial restatements.

5.6 Conclusion

The study examined the effect of CGM, namely board characteristics, AC characteristics, separate RMC, ownership structure, audit partner tenure, and financial restatements on ARL among public listed firms in Malaysia. It also examined the moderating effect of ACC's accounting expertise on the relationship between financial restatements and ARL. The study provides an evidence about the significant negative relationship between board independence, board financial expertise, AC size, ACC's accounting expertise, ACC's tenure, ACC's multiple directorships, foreign ownership, and audit partner tenure and ARL. In contrast, AC meetings, separate RMC, family ownership, and financial restatements have a positive relationship with ARL. Nevertheless, the study did not provide any support for the role of the elements measured for board and AC effectiveness when aggregated in enhancing the timeliness of audit reports among firms listed on the Bursa Malaysia main market.

The interaction of ACC's accounting expertise with financial restatements and ARL contributes to improve the timeliness of the audit report. This is because the ACC's accounting expertise reduces the time needed to discuss, understand, and assess important accounting practices and irregular transactions with the external auditor. In addition, the chairman will have the ability to resolve audit-client disputes and accounting issues which decreases the time required to conduct the audit and improve the timeliness of the audit report. The findings of the current study could assist shareholders, policymakers, investors, and researchers to recognise the role of each mechanism of the corporate governance and, thus, make the necessary adjustments to enhance the efficiency of corporate governances' practices which may ultimately lead to an improvement in the quality and timeliness of the audit report. The study also suggests new avenues for research on ARL and corporate governance.

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APPENDICES

Appendix A: Measuring the Board Effectiveness

Variable	Acronym	Measurement and Sources	Theories
Board size	BODSIZE	A dummy variable equals '1' if the BODSIZE (number of board members) is above the sample median, and '0' otherwise (Al-Qadasi *et al.*, 2018).	Agency theory and resource dependence theory
Board independence	BODIND	A dummy variable equals '1' if the BODIND ratio (the ratio of independent members on the board) is greater than the median of a sample, and '0' otherwise (Al-Qadasi *et al.*, 2018; Bin-Ghanem & Ariff, 2016).	Agency theory and resource dependence theory
Board meetings	BODMEET	A dummy variable equals '1' if the BODMEET (the number of board meetings) is above the sample median, and '0' otherwise (Al-Qadasi *et al.*, 2018; Johl *et al.*, 2013).	Agency theory and resource dependence theory
Board financial expertise	BODEXP	A dummy variable equals '1' if the BODEXP ratio (the ratio of the members with financial expertise on the board) is greater than the median of a sample, and '0' otherwise (Al-Qadasi *et al.*, 2018; Johl *et al.*, 2013).	Agency theory and resource dependence theory
Board effectiveness (score)	BODEFF	An aggregate measure of four board characteristics (BODSIZE, BODIND, BODMEET and BODEXP), ranging in values from 0 to 4, with 4 indicating the highest and 0 indicating the lowest BODEFF (Al-Qadasi *et al.*, 2018; Johl *et al.*, 2013).	Agency theory and resource dependence theory

Appendix B: Measuring Audit Committee Effectiveness

Variable	Acronym	Measurement and Sources	Theories
Audit committee size	ACSIZE	A dummy variable equals '1' if the ACSIZE (number of audit committee members) is above the sample median, and '0' otherwise (Al-Qadasi *et al.*, 2018; Bin-Ghanem & Ariff, 2016).	Agency theory and resource dependence theory
Audit committee independence	ACIND	A dummy variable equals '1' if all audit committee members are independent, and '0' otherwise (Abernathy *et al.*, 2014; Al-Qadasi *et al.*, 2018; Ika & Ghazali, 2012).	Agency theory and resource dependence theory
Audit committee meetings	ACMEET	A dummy variable equals '1' if ACMEET (the number of audit committee meetings) is above the sample median, and '0' otherwise (Al-Qadasi *et al.*, 2018; Bin-Ghanem & Ariff, 2016).	Agency theory and resource dependence theory
Audit committee financial expertise	ACEXP	A dummy variable equals '1' if the ACEXP ratio (the ratio of the audit committee members with financial expertise) is greater than the median of a sample, and '0' otherwise (Al-Qadasi *et al.*, 2018; Bin-Ghanem & Ariff, 2016).	Agency theory and resource dependence theory
Audit committee effectiveness (score)	ACEFF	A composite measure of four audit committee characteristics (ACSIZE, ACIND, ACMEET and ACEXP), ranges from 0 to 4 with 4 indicating the highest and 0 the lowest ACEFF (Al-Qadasi *et al.*, 2018).	Agency theory and resource dependence theory

Appendix C: Summary of Variable Measurements

Variable	Acronym	Sources of Data	Measurement and Sources
Audit report lag	ARL	Annual reports	The number of days between the financial year-end date and audit report date (Afify, 2009; Ashton *et al.*, 1987; Ghafran & Yasmin, 2018; Wan-Hussin *et al.*, 2018).
Board size	BODSIZE	Annual reports	The total number of directors (Al-Qadasi *et al.*, 2018; Alfraih, 2016; Hassan, 2016; Mohamad-Nor *et al.*, 2010).
Board independence	BODIND	Annual reports	Number of independent directors to the total number of directors (Chan *et al.*, 2016; Habib *et al.*, 2019; Mohamad-Nor *et al.*, 2010).
Board meetings	BODMEET	Annual reports	The number of board meetings in a year (Al-Qadasi *et al.*, 2018; Habib *et al.*, 2019; Johl *et al.*, 2013).
Board financial expertise	BODEXP	Annual reports	Percentage of directors on the board who are classified as a financial experts (Al-Qadasi *et al.*, 2018; Singh & Sultana, 2011).
Board effectiveness (score)	BODEFF	Annual reports	An aggregate measure of four board characteristics (BODSIZE, BODIND, BODMEET and BODEXP), ranging in values from 0 to 4, with 4 indicating the highest and 0 indicating the lowest BODEFF (Al-Qadasi *et al.*, 2018; Johl *et al.*, 2013).
Audit committee size	ACSIZE	Annual reports	The number of audit committee members (Kusnadi *et al.*, 2016; Wan-Hussin & Bamahros, 2013; Wan-Hussin *et al.*, 2018).
Audit committee independence	ACIND	Annual reports	The proportion of independent members on the audit committee (Wan-Hussin *et al.*, 2018).
Audit committee meetings	ACMEET	Annual reports	The number of audit committee meetings (Kusnadi *et al.*, 2016; Oussii & Taktak, 2018; Wan-Hussin *et al.*, 2018; Zaman *et al.*, 2011).
Audit committee financial expertise	ACEXP	Annual reports	The proportion of audit committee members who have accounting or financial expertise (Mohamad-Nor *et al.*, 2010; Oussii & Taktak, 2018; Zhang *et al.*, 2007).

Variable	Acronym	Sources of Data	Measurement and Sources
Audit committee effectiveness (score)	ACEFF	Annual reports	A composite measure of four audit committee characteristics (ACSIZE, ACIND, ACMEET and ACEXP), ranges from 0 to 4 with 4 indicating the highest and 0 the lowest ACEFF (Al-Qadasi *et al.*, 2018).
Audit committee chairman's accounting expertise	ACCEXPA	Annual reports	Dummy variable equals '1' if the chairman has degree or professional qualification in accounting or auditing, '0' otherwise (Abernathy *et al.*, 2014; Baatwah *et al.*, 2019; Ghafran & Yasmin, 2018; Schmidt & Wilkins, 2013).
Audit committee chairman's tenure	ACCTEN	Annual reports	Length of service on the board (Ghafran & Yasmin, 2018; Tanyi & Smith, 2015).
Audit committee chairman's multiple directorships	ACCMD	Annual reports	A dummy variable equals '1' if the audit committee chairman holds two or more seats at other firms, and '0' otherwise (Al-Absy *et al.*, 2019).
Separate risk management committee	RMC	Annual reports	A dummy variable equals '1' if the firm has a separate risk management committee, and '0' otherwise (Sekome & Lemma, 2014; Subramaniam *et al.*, 2009; Yatim, 2010).
Family ownership	FOWN	Annual reports	The percentage of shareholdings owned by family directors over the total number of outstanding shares (Amran & Che-Ahmad, 2013; Hashim & Devi, 2008).
Managerial ownership	MOWN	Annual reports	The proportion of shares held by the executive directors (directly and indirectly) to the total number of shares outstanding at the end of the current fiscal year (Kamardin, 2014; Mustapha & Che-Ahmad, 2011; Nelson & Mohamed-Rusdi, 2015).
Foreign ownership	FROWN	Annual reports	The proportion of shares owned by foreign investors to the total number of shares issued (Ben-Nasr *et al.*, 2015; Ghazali, 2010; Nelson & Mohamed-Rusdi, 2015; Shin *et al.*, 2017).

Variable	Acronym	Sources of Data	Measurement and Sources
Audit partner tenure	TENURE	Annual reports	The number of consecutive years the firm has been audited by the same audit partner (Wan-Hussin *et al.*, 2018).
Financial restatements	RESTATE	DataStream	A dummy variable equals '1' if the company restates its financial reports for the fiscal year *t* in a subsequent year, and '0' if otherwise (Baatwah *et al.*, 2019; Knechel & Sharma, 2012).
Investment in internal audit function	IAF	Annual reports	The natural logarithm of the internal audit cost (Wan-Hussin & Bamahros, 2013).
Big 4 Audit Firms	BIG4	Annual reports	A dummy variable equals '1' if the audit firm is KPMG, Ernst and Young, Deloitte or PWC, and '0' otherwise (Habib *et al.*, 2019; Sultana *et al.*, 2015; Wan-Hussin *et al.*, 2018).
Firm Size	SIZE	DataStream	The natural logarithm of the total assets (Afify, 2009; Wan-Hussin *et al.*, 2018).
Leverage	LEV	DataStream	Total debt to total assets (Al-Ebel *et al.*, 2020; Habib *et al.*, 2019).
Profitability	PROF	DataStream	The net income to total assets (Ghafran & Yasmin, 2018; Habib *et al.*, 2019).
Industry	INDUSTRY	Annual reports	Dummy variable equals '1' if the firm is classified under the Plantation or Technology sector, and '0' otherwise (Wan-Hussin & Bamahros, 2013; Wan-Hussin *et al.*, 2018).

Appendix D: Malaysia Code of Corporate Governance 2000

Principle	Broad Principles (PART 1)	Best Practices (PART 2)
The board	Every listed company should be headed by an effective board which should lead and control the company.	Six principal responsibilities of the board: 1. Reviewing and adopting a strategic plan. 2. Overseeing and evaluate the managers' decisions. 3. Identifying principal risks to manage. 4. Appointing, training, fixing the compensation policy. 5. Developing and implementing a policy for investor and shareholder relations. 6. Reviewing the integrity of the company systems.
Board balance	The board should include a balance of executive directors and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the board's decision-making.	A decision to combine the roles of chairman and CEO should be publicly explained. Further, where the roles are combined there should be a strong independent element on the board.
		Independent non-executive directors need to make up at least one-third of the membership of the board.
		In company with a significant shareholder, the board should include a number of directors who reflect the minority shareholders.
Board procedures	Not mentioned	Every board should examine its size, meet regularly and provide an orientation and education programme for new recruits to the board.
Relationship of the board to management	Not mentioned	The board, together with the CEO, should develop position descriptions for the board and for the CEO, involving definition of the limits to management's responsibilities. In addition, the board should approve, or develop with the CEO, the corporate objectives, which the CEO is responsible for meeting.
Supply of Information	The board should be supplied in a timely fashion with information in a form and of a quality appropriate to enable it to discharge its duties.	Directors should have access to all information within a company whether as a full board or in their individual capacity, in furtherance of their duties. The chair of the board shall undertake primary responsibility for organising

Principle	Broad Principles (PART 1)	Best Practices (PART 2)
		information necessary for the board to deal with the agenda and for providing this information to directors on a timely basis. Directors should appoint as secretary someone who is capable of carrying out the duties.
Appointments to the board	There should be a formal and transparent procedure for the appointment of new directors to the board	The board should establish a nominate committee which composed exclusively of non-executive directors, a majority of whom are independent.
		This committee should be responsible of appoint directors by recommend directors to the board.
		The board should implement a process, to be carried out by the nominating committee annually for assessing the effectiveness of the board as a whole
Re-election	All directors should be required to submit themselves for re-election at regular intervals and at least every three years.	Nothing new
Remuneration procedure, level and disclosure	-Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. - Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully. It should be structured so as to link rewards to the individual performance for executive directors and experience and level of responsibilities for non-executive directors - The company's annual report should contain details of the remuneration of each director.	Boards should appoint remuneration committees, consisting wholly or mainly of non-executive directors, to recommend to the board the remuneration of the executive directors in all its forms, drawing from outside advice as necessary. Executive directors should play no part in decisions on their own remuneration. Membership of the remuneration committee should appear in the directors' report. The determination of remuneration packages of non-executive directors, including non- executive chairmen should be a matter for the board as a whole. The individuals concerned should abstain from discussion of their own remuneration.

Principle	Broad Principles (PART 1)	Best Practices (PART 2)
Dialogue between companies and investors	Companies and institutional shareholders should each be ready, where practicable, to enter into a dialogue based on the mutual understanding of objectives.	Nothing new
The AGM	Companies should use the AGM to communicate with private investors and encourage their participation.	Nothing new
Accountability and audit; financial reporting, internal control and relationship with the auditors	The board should: (i) present a balanced and understandable assessment of the company's position and prospects;	The board should establish an AC of at least three directors, a majority of whom are independent. The chairman of the AC should be an independent non-executive director.
	(ii) maintain a sound system of internal control to safeguard shareholders' investment and the company's assets; (iii) establish formal and transparent arrangements for maintaining an appropriate relationship with the company's auditors.	ACs should: (i) appointment, communicate with and review the external auditor duty; (ii) review the quarterly and year-end financial statements; (iii) meet regularly with the normally attend of the finance director, head of internal audit and representative of external auditors; (v) determine the remit of the internal audit function, if it exist.
The relationship between the board and shareholders	Not mentioned	Boards must maintain an effective communications policy that enables both the board and management to communicate effectively with its shareholders, stakeholders and the public generally. This policy must effectively interpret the operations of the company to the shareholders and must accommodate feedback from shareholders, which should be factored into the company's business decisions.

Source: Malaysia Code of Corporate Governance (2000).

Appendix E: Malaysia Code of Corporate Governance 2007

Principle	Broad Principles (PART 1)	Best Practices (PART 2)
The board	No update	No update
Board balance	No update	No update
		No update
		No update
Board procedures	No update	No update
Relationship of the board to management	No update	No update
Supply of Information	No update	No update
Appointments to the board	No update	No update
		No update, except for that when nominate committee recommend a candidate, it should consider: his/her skills, knowledge, expertise and experience; professionalism; integrity; and evaluate the candidates' ability, who will be independent, to discharge his duty.
		No update, except for that the nominating committee should evaluating the whole directors, including the independent non-executive directors and chief executive officer. Further, the assessments and evaluations should properly be documented.
Re-election	No update	No update
Remuneration procedure, level and disclosure	No update	No update
Dialogue between companies and investors	No update	No update
The AGM	No update	No update

Principle	Broad Principles (PART 1)	Best Practices (PART 2)
Accountability and audit; financial reporting, internal control and relationship with the auditors	No update	No update, expect of that: the whole members of the AC should be non-executive directors and should be financially literate, where at least one should be a member of an accounting association or body
	No update	No update, except for that: (i) an AC should meet with the external auditors without executive board members present at least twice a year; (ii) the chairman of the AC should continuously communicate with senior management, such as the chairman, the CEO, the finance director, the head of internal audit and the external auditors to kept informed on firm's matters; (iii) board should disclose details of the AC activities, number of meetings held, attendance of each director and relevant training attended by each director; (v) requiring all companies to have an internal audit function and identify a head of internal audit who reports directly to the AC.
The relationship between the board and shareholders	No update	No update

Source: Malaysia Code of Corporate Governance (2007).

Appendix F: Malaysia Code of Corporate Governance 2012

Principle	Rec	Recommendation of MCCG 2012	2007 Code
1. Establish clear roles and responsibilities	1.1	The board should establish clear functions reserved for the board and those delegated to management.	Exist
	1.2	The board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions.	Exist
	1.3	The board should formalise ethical standards through a code of conduct and ensure its compliance. The code of conduct should include appropriate communication and feedback channels which facilitate whistleblowing.	Not exist
	1.4	The board should ensure that the company's strategies promote sustainability.	Not exist
	1.5	The board should have procedures to allow its members access to information and advice.	Exist
	1.6	The board should ensure it is supported by a suitably qualified and competent company secretary.	Exist
	1.7	The board should formalise, periodically review and make public its board charter.	Not exist
2. Strengthen composition	2.1	The board should establish a nominating committee which should comprise exclusively of non-executive directors, a majority of whom must be independent. The chair of the nominating committee should be the senior independent director identified by the board.	Exist. However, the chair is not required to be a senior independent director
	2.2	The nominating committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of directors. The board should establish and disclose its gender diversity policy and target to achieve it.	Exist. However, disclose of gender diversity policies not required
	2.3	The board should establish formal and transparent remuneration policies and procedures to attract and retain directors. The remuneration committee should consist exclusively or a majority of non-executive directors.	Exist

Principle	Rec	Recommendation of MCCG 2012	2007 Code
3. Reinforce independence	3.1	The board should undertake an assessment of its independent directors annually.	Not exist
	3.2	The tenure of an independent director should not exceed a cumulative term of nine years. Upon completion of the nine years, an independent director may continue to serve on the board subject to the director's re-designation as a non-independent director.	Not exist
	3.3	The board must justify and seek shareholders' approval in the event it retains as an independent director, a person who has served in that capacity for more than nine years.	Not exist
	3.4	The positions of chairman and CEO should be held by different individuals, and the chairman must be a non-executive member of the board.	Exist. However, it was voluntary. Further, chairman not required to be non-executive
	3.5	The board must comprise a majority of independent directors where the chairman of the board is not an independent director.	Exist. However, board was required to have at least one-third independent directors
4. Foster commitment	4.1	The board should set out expectations on time commitment for its members and protocols for accepting new directorships.	Not exist
	4.2	The board should ensure its members have access to appropriate continuing education programmes.	Exist
5. Uphold integrity in financial reporting	5.1	The AC should ensure financial statements comply with applicable financial reporting standards.	Exist
	5.2	The AC should have policies and procedures to assess the suitability and independence of external auditors.	Exist
6. Recognise and manage risks	6.1	The board should establish a sound framework to manage risks "Internal controls are important for risk management".	Exist
	6.2	The board should establish an internal audit function which reports directly to the AC.	Exist

Principle	Rec	Recommendation of MCCG 2012	2007 Code
7. Ensure timely and high quality disclosure	7.1	The board should ensure the company has appropriate corporate disclosure policies and procedures.	Not exist
	7.2	The board should encourage the company to leverage on information technology for effective dissemination of information.	Not exist
8. Strengthen relationship between company and shareholders	8.1	The board should take reasonable steps to encourage shareholder participation at general meetings.	Exist
	8.2	The board should encourage poll voting.	Not exist
	8.3	The board should promote effective communication and proactive engagements with shareholders.	Exist

Source: Malaysia Code of Corporate Governance (2012).

Appendix G: Malaysia Draft Code of Corporate Governance 2016

	No.	Practices of MCCG 2016	2012
Principle A. Supporting board leadership and effectiveness	1	**Responsibilities of the Board**	
	1.1	The board discharges its responsibilities.	Exist
	1.2	The company has a formal schedule of matters which clearly identifies matters reserved for the board and those for management.	Exist
	1.3	The board has a board charter and executes its functions according to it. The board charter is periodically reviewed and made available on the company's website.	Exist
	1.4	The chairman leads and ensures the effectiveness of the board by among others, encouraging healthy debates by all directors, allowing sufficient time for discussion of issues and ensuring that the board's decisions fairly reflect board consensus.	Exist
	1.5	The board is proactive in upholding good ethics and integrity including establishing, reviewing and implementing policies and procedures on anti-corruption and whistleblowing.	Exist
	1.6	The board has full and unrestricted access to a company secretary who is equipped with the skills and expertise to provide sound CG advice and ensure compliance with legal and administrative matters.	Exist
	1.7	Board members receive meeting materials at least 5 business days in advance.	Exist, unlimit ed.
	2	**Board Composition**	
	2.1	The nominating committee has in place and discloses in the annual report, a board skills matrix which provides information on the skills required and how it has been satisfied by the current board composition.	Exist
	2.2	The board establishes a diversity policy formalising its approach to boardroom diversity. The board through its nominating committee takes steps to ensure that women candidates are sought and considered in its recruitment exercise. The board explicitly discloses in the annual report its gender diversity policies and targets and the measures taken to meet those targets.	Exist
	3	**Independence**	
	3.1	The positions of chairman and CEO are held by different individuals, and the chairman is a non-executive member of the board.	Exist

	No.	Practices of MCCG 2016	2012
	3.2	The board comprises a majority of independent directors where the chairman of the board is not an independent director.	Exist
	3.3	A nine-year tenure limit for an independent director which starts from the first day of the director's appointment as an independent director. Upon completion of nine years, the independent director may continue to serve on the board subject to the director's re-designation as a non-independent director. In the event the board intends to retain an independent director for more than nine years, the board seeks shareholders' approval.	Exist
	3.4	The board undertakes an assessment on the independence and objectivity of its independent directors annually.	Exist
	3.5	The board appoints a senior independent director among the independent board members, by considering factors such as seniority in terms of years spent on the board and/or industry experience.	Exist
	4	**Nomination and Election**	
	4.1	External independent service provider or adviser is used to identify candidates for the nomination of non-executive directors.	Exist
	4.2	For appointment and re-appointment of directors, the company discloses in the notice of general meeting why the board supports the appointment or re-appointment of the particular director and how the skills and experience of the director contributes to the needs of the company.	Exist
	4.3	Companies inform shareholders in advance of the general meetings on potential vacancies of directorship(s). The company sets out the criteria required for nominations of candidates and allows shareholders to submit nomination of candidate(s) to fill such vacancy for the nominating committee's consideration.	Not Exist
	5	**Remuneration**	
	5.1	The company has in place policies and practices regarding the remuneration of directors and key senior management.	Exist
	5.2	There is detailed disclosure on the remuneration of individual directors on a named basis.	Exist
	5.3	The nominating committee discloses the relationship between 'pay and performance' for both executive directors and senior management's remuneration packages.	Not Exist

	No.	Practices of MCCG 2016	2012
	6	**Assessment**	
	6.1	Financial performance of the company and sustainability indicators are considered in assessing the board and senior management.	Exist
	6.2	Board evaluation is facilitated by a professional and independent party at least once every three years.	Not Exist
B. Safeguarding the integrity of financial and corporate reporting	7	**Audit Committee**	
	7.1	All members of the AC are able to read and understand financial statements and ask pertinent questions about the company's financial reporting process.	Exist
	7.2	The chair of the AC is a person with accounting expertise or relevant work experience.	Not Exist
	7.3	The AC is chaired by an independent director, who is not the chair of the board.	Not Exist
	8	**Independence of External Auditors**	
	8.1	The AC has policies and procedures to assess the suitability and independence of the external auditor. The policies include among others, the types of non-audited services that are prohibited and limits to the level of fees for non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.	Exist
	8.2	The company has a policy to govern the circumstances under which former key audit partners of the present and former external auditor(s) can be appointed to the board or be employed by the company. This includes a policy on cooling-off period to govern the independence of such appointments.	Not Exist
	8.3	The company has a policy of rotating its external audit firm.	Not Exist
	9	**Corporate Reporting**	
	9.1	The company has internal corporate disclosure policies and procedures which are clear, comprehensive and accurate. In formulating and reviewing these policies and procedures, the company is guided by best practices.	Exist
	9.2	The company adopts integrated reporting based on a globally recognised framework.	Not Exist
C. Managing risks to preserve and create value	10	**Internal Audit**	
	10.1	The internal audit function is carried out in accordance with the standards set by nationally or internationally recognised bodies.	Exist
	10.2	The head of internal audit or the outsourced internal auditor is a member of a professional body, qualified and has internal audit experience	Not Exist

	No.	Practices of MCCG 2016	2012
		and received relevant training for executing the function.	
	10.3	The AC approves the budget for the internal audit function and decides on the appointment and removal of the head of the internal audit or the outsourced internal audit provider.	Not Exist
	11	**Risk Management**	
	11.1	The board establishes a board level committee which is responsible for overseeing the company's risk management framework and policies.	Not Exist
	11.2	The board establishes a risk management framework which is periodically reviewed and discloses in the annual report, the main features of the risk management framework.	Exist
	11.3	The company adopts the elements embodied in internationally recognised risk management standards or frameworks.	Not Exist
D. Relationship with shareholders	12	**Shareholder Participation at General Meetings**	
	12.1	Notice for the AGM is served at least 28 days prior to the meeting.	Exist, unlimited
	12.2	The company utilises technology in AGM which may include electronic voting and real time broadcasting.	Exist
		Communication and Engagement with Shareholders	
	13.1	Companies establish a dedicated investor relations function.	Not Exist

Source: Malaysia Draft Code of Corporate Governance (2016).

Appendix H: Malaysia Code of Corporate Governance 2017

	No.	Practices of MCCG 2017	2012
Principle A. board leadership and effectiveness	I	**Board Responsibilities**	
	1.1	The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and other stakeholders are understood and met.	Exist
	1.2	A Chairman of the board who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.	Not Exist
	1.3	The positions of Chairman and CEO are held by different individuals.	Exist
	1.4	The board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.	Exist
	1.5	Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting (at least 5 business days). Upon conclusion of the meeting, the minutes are circulated in a timely manner.	Not Exist
	2.1	The board has a board charter which is periodically reviewed and published on the company's website.	Exist
	3.1	The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering. The Code of Conduct and Ethics is published on the company's website.	Exist
	3.2	The board establishes, reviews and together with management implements policies and procedures on whistleblowing.	Exist
	II	**Board Composition**	
	4.1	At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent director.	Modified
	4.2	The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director. If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual	Exist

	No.	Practices of MCCG 2017	2012
		shareholders' approval through a two-tier voting process.	
	4.3	The board has a policy which limits the tenure of its independent directors to nine years.	Not Exist
	4.4	Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.	Modified
	4.5	The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.	Modified
	4.6	In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing board members, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.	Modified
	4.7	The Nominating Committee is chaired by an independent director or the Senior Independent Director.	Modified
	5.1	The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome. For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.	Modified
	III	**Remuneration**	
	6.1	The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.	Exist
	6.2	The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management. The Committee has written Terms of Reference which deals with its authority and duties and these terms are disclosed on the company's website.	Exist
	7.1	There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.	Not Exist

	No.	Practices of MCCG 2017	2012
	7.2	The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.	Not Exist
	7.3	Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.	Not Exist
B. effective audit and risk management	IV	**Audit Committee**	
	8.1	The Chairman of the AC is not the Chairman of the board.	Not Exist
	8.2	The AC has a policy that requires a former key audit partner to observe a cooling-off period of **at least two years** before being appointed as AC member.	Not Exist
	8.3	The AC has policies and procedures to assess the suitability, objectivity and independence of the external auditor.	Exist
	8.4	The AC should comprise solely of independent directors.	Modified
	8.5	Collectively, the AC should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the AC including the financial reporting process. All members of the AC should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.	Exist
	V	**Risk Management and Internal Control Framework**	
	9.1	The board should establish an effective risk management and internal control framework.	Exist
	9.2	The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.	Exist
	9.3	The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.	Not Exist
	10.1	The AC should ensure that the internal audit function is effective and able to function independently.	Exist
	10.2	The board should disclose whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence; the number of resources in the internal audit department; name and qualification of the person responsible for internal audit; and whether the internal audit function is carried out in accordance with a recognised framework.	Modified

	No.	Practices of MCCG 2017	2012
C. integrity in corporate reporting and meaningful relationship with stakeholders	VI	**Communication with Stakeholders**	
	11.1	The board ensures there is effective, transparent and regular communication with its stakeholders.	Exist
	11.2	Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.	Not Exist
	VII	**Conduct of General Meetings**	
	12.1	Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.	Modified
	12.2	All directors attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.	Modified
	12.3	Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate: Voting including voting in absentia; and remote shareholders' participation at GM.	Modified

Source: Malaysia Code of Corporate Governance (2017).