MANAGEMENT & ACCOUNTING REVIEW

Volume 16 No. 1
June 2017

MANAGEMENT & ACCOUNTING REVIEW

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CONTENTS

1 Determinant of Human Capital Disclosure in the Post IFRS Regime: An Examination of Listed Firms in Nigeria
Mutalib Anifowose, Hafiz Majdi Ab. Rashid and Hairul Azlan Bin Annuar

31 R&D Information and Market Valuation: Empirical Evidence from Malaysian Listed Firms
Sunarti Halid, Amizahanum Adam, Marina Ibrahim, Masetah Ahmad Tarmizi and Prof. Dr. Muhd Kamil Ibrahim

55 Risk Management Practices in Tourism Industry – A Case Study of Resort Management
Nur Rahifah Amirudin, Anuar Nawawi and Ahmad Saiful Azlin Puteh Salin

75 Analysis of Unconditional Conservatism and Earnings Quality on Financial Reporting Practices in Indonesia upon IFRS Convergence
Monica Santi, Evita Puspitasari and Erlane K Ghani

89 The Effect of Corporate Social Responsibility Disclosure and Corporate Governance Mechanisms on Earnings Management and Stock Risk: Evidence from Public Banks in Indonesia
Idrianita Anis and Ancella A. Hermawan

119 Effective Depreciation Model for Commercial Vehicles 119-136 in Malaysia
Alan Lim Khiew Loon, Dr. Krishna Moorthy Manicka and Theresa Wong Lai Har

137 Zakat Fund in Malaysia: Where Does it Go To?
Roshaiza Taha, Mohd Nazli Mohd Nor, Mohd Rodzi Embong and Muhammad Faris Zulkifli

167 Retailers' Behavioural Factors Towards Goods and Services Tax (Gst) Compliance: Sociological and Psychological Approach Study
Norhasliza Zainan, Rohaya Md Noor, Normah Omar, Roszainun Abd Aziz and Soliha Sanusi

189 Corporate Risk Governance and Board of Directors: Evidence from Malaysian Listed Companies
Grace Hwee-Ling, Lee and Angeline Kiew-Heong, Yap

213 The Relevance of Internal Governance Mechanisms to Financial Reports Timeliness
Rahimah Mohamed Yunos

The Relevance of Internal Governance Mechanisms to Financial Reports Timeliness

Rahimah Mohamed Yunos
Faculty of Accountancy,
Universiti Teknologi MARA,
Campus Segamat

ABSTRACT

The objective of the study is to identify the influence of firms' internal governance mechanisms on the timeliness of management and auditor reports. The governance mechanisms examined in this study is Board independence, Board size, CEO duality, audit committee meeting and audit committee expertise. Data was collected from 264 annual reports of listed companies on Bursa Malaysia for a sample period of 2013 to 2014. The results showed that a proportion of independent Directors on the Board, CEO duality and frequent audit committee meetings had significant effects on the timeliness of the reports. The findings indicated that firms' governance mechanisms influence on how fast they were able to release information to the users; hence will promote effective communication and maintain their accountability to the stakeholders. The result of this study is beneficial to the policy makers, company management and stakeholders.

Keywords: *timeliness reporting, management report lag, audit report lag, internal governance, board structure*

ARTICLE INFO

Article History:
Received: 14 May 2017
Accepted: 7 June 2017
Published: 24 November 2017

INTRODUCTION

Increasing the complexity of business operations and the growth of the investment community requires investors to demand for more relevant and more timely information (Vuran & Adiloğlu, 2013). Timeliness is one of characteristics of quality information in which it is made available on time for decision making. Delay in releasing audited financial statements is a very critical factor in emerging and newly developed capital markets because the audited financial statements are the only reliable source of information available for the investors (Leventis & Weetman, 2004).

Timeliness of financial statements, as discussed by the Organisation for Economic Co-operation and Development (OECD), under the disclosure and transparency category is stated below:

> *"…the corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company. Disclosure should include, but not be limited to, material information on: the financial and operating results of the company… information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure… channels for disseminating information should provide for equal, timely and cost efficient access to relevant information by users…"*
>
> (OECD, 2004)

Bursa Malaysia Listing Requirement under Section 9.23 has set out that all public listed companies must submit their annual reports to Bursa Malaysia within six months after the financial year ends. There are penalty charges that will be imposed if the companies fail to fulfil the requirement. The purpose is to ensure that the information provided by the audited financial statements is useful, reliable and accurate. Further empirical and analytical evidence had proven that the timeliness of the financial statements has effect on a firm's value. A study conducted by Edmonds, Edmonds, Vermeer and Vermeer (2017) showed that audit delay and post audit delay had resulted into higher municipal debt cost and reduced bond rating.

Many studies on timeliness of financial reporting conducted in Malaysia (see: Che-Ahmad & Abidin, 2008; Abidin, Kamal, & Jusoff, 2009; Mohamad-nor, Shafie, Wan-hussin, & Building, 2010; Hashim & Abdul Rahman, 2011; Ismail, Mustapha, & Ming, 2012; Apadore & Mohd Noor, 2013; Puasa & Ahmad, 2014; Mohammad, 2015), had shown that delays of auditor report was commonly the cause of delay in releasing audited financial statements. None of the above mentioned prior studies had examined the delay from the management part after the auditor report has been signed. It is however evident in a study conducted by Al Daoud, Ku Ismail and Lode (2015) on Jordanian listed companies as there was a lag period to release the published financial statements after it was signed by the auditor.

This study seeks to identify whether corporate governance influences the timeliness of financial reports, as measured by audit report lag, management report lag and total report lag. The results showed that a proportion of independent Board of Directors, CEO duality, audit committee meeting and audit committee financial expertise had significant effects on the timeliness of the reports. The findings provide useful input to the management of the companies and the stakeholders on the important roles of corporate governance in providing relevant and reliable information.

The next section discusses previous empirical studies, research methods followed by the findings and discussions. The final section concludes the paper with limitations of the study and suggestions for future research.

LITERATURE REVIEW

Corporate Governance and Timeliness of Audited Financial reports

In the past ten years theories and practical observations have witnessed a dynamic increase in legislation and academic fields relating to corporate governance (Scott & Gist, 2013). This is due to a growing concern in respect to corporate accountability, especially in developed countries, and can also be seen by an increasing number of voluntary corporate governance guidelines. The Malaysian Code of Corporate Governance has set out eight

broad principles and 26 recommendations for companies to use as guidance. The following are the principles and recommendations in focus:

1. Establishing a strong foundation for the Board and its committees to carry out their roles effectively
2. Promoting timely and balanced disclosure
3. Safeguarding the integrity of financial reporting
4. Emphasising the importance of risk management and internal controls
5. Encouraging shareholders' participation in general meetings

Based on the new principles and recommendations above, in order to achieve this objective, all the Board members must control and monitor the management consistently. This is because the mechanisms of corporate governance itself will improve the monitoring of management and minimise any erroneous and mismanagement of financial reporting delays (Afify, 2009; Parnes & Parnes, 2011). Moreover, corporate governance is also considered as a mechanism that can influence the quality of information (Mohamad-nor et al., 2010; Klai & Omri, 2011). Therefore, by having good corporate governance, it can help auditors to produce audited reports in a timely manner. In other words, a "special" relationship exists between the timeliness of financial reports and corporate governance characteristics. Therefore, it indicates that having corporate governance is very important as it can promote the timeliness of financial reporting (Sharar, 2006). Previous studies conducted by professional and regulatory bodies in Malaysia showed that corporate governance is significantly related to the audit report lag in which it has become the limelight in investigating the factors that affect audit report lag (Afify, 2009).

The OECD defines corporate governance as follows: "Corporate governance involves a set of relationships between its board, company's management, its shareholders and other stakeholders. Corporate governance also provides the structure which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."(OECD, 2004a: 38).

The adoption of corporate governance mechanisms in firms is one of the indicators that firms are concerned in reducing the agency conflict, particularly when governance "takes care" of the best interests

of all shareholders (Al Daoud et al., 2015). A well functioning corporate governance structure can improve the monitoring of management and at the same time be able to minimise erroneous reporting and controls managers' misbehaviours (Afify, 2009). Furthermore, effective corporate governance should enhance internal control and mitigate business risks, which would influence shorter audit delay (Alwi, Gajah, Adibah, Ismail, & Kamarudin, 2013). The conflict of interest between the agent and principal discussed in the agency theory emphasised the needs to reduce information gap between the insiders and outsiders of the organisation (Jensen & Meckling, 1976). It was argued that independent Board Directors, separation of CEO-Chairman roles, small Board size, financial expertise in audit committee, and frequent audit committee meetings are among attributes of strong governance; and hence were investigated in this study.

Most studies on Malaysian samples were focused on the audit report lag. Therefore, this study provides an extension to the literature by employing three measures of timeliness, namely audit report lag, management report lag, and total report lag. Figure 1 depicts the research framework of this study. The corporate governance mechanisms examined in this study is Board independence, CEO duality, Board size, audit committee expertise and audit committee meeting.

Board Independence and Timeliness Reports

The independent non-executive Directors are more helpful for the Board to reduce the frequency of misstatement and fraud in financial statements as they have the right set of skills and are viewed as more effective in monitoring management behaviour than inside Directors (Shukeri & Islam, 2012). Independent non-executive Directors who have no business interfering with the exercise of an independent judgment are viewed to be better in monitoring and controlling as compared to Directors in companies (Ibadin, 2012). Braswell, Daniels, Landis and Chang (2012) found that independent Boards indicated strong governance mechanisms, and such boards have a higher tendency to motivate management through their monitoring. Therefore, because of their high degree of impartiality, these independent boards are believed to be willing guardians and protectors of the shareholders' interest via their control and monitoring (Zaitul, 2010). It indicated that the more independent the board is, the better the

company control is and this can reduce their audit business risks because of less conflict between managers and shareholders. When there are more independent directors on board, both managers and shareholders will be treated equally. It is related to the agency theory concept, where the shareholders believe that the managers of the companies will act in their best ofinterests.

Yacob and Che-Ahmad (2012) identified a positive relationship between FRS 138 adoption and audit report lag, suggesting that IFRS complexity had caused auditors to spend more time on the audit work. They reported that the maximum days taken by the auditors were 364 days with an average of 101 days. Shukeri and Islam (2012) who observed 491 companies' annual reports from Bursa Malaysia, found that audit report lag was influenced by audit opinion, total assets, auditor type, firm profitability, audit committee size and audit committee meetings. Revision on the MCCG 2007 had improved the audit report lag as evident by Puasa and Ahmad (2014), suggesting that improvement on the guidelines had increased the effectiveness of the governance structure employed in the firms, and ultimately improve the timeliness of the report. Existing evidence on the influence of independent Boards on report timeliness is mixed. Afify (2009), Mohamad-nor et al. (2010), Hashim and Abdul Rahman (2011) and Al Daoud et al. (2015) found that independent Boards increase the timeliness of audit reports. Insignificant results were obtained by Ibadin (2012) and Shukeri and Islam (2012), while Apadore and Mohd Noor (2013) found that Board independence had reduced timeliness of audit report. The following hypothesis was tested:

H1: Board independence is negatively associated with the timeliness of financial reporting.

CEO Duality and Timeliness Reports

According to the agency theory, the positions of CEO and Chairman should be separated as the responsibility of the Chairman is to oversee the CEO of the Board and control the management. In addition, the agency theory also states that CEO duality might impair the value and firm performance as this duality role could prevent the Board from properly monitoring the work of the CEO (Hill & Jones, 1992). The theory recommends separation

of role as CEO and Chairman as this separation may increase the efficiency of monitoring the company's corporate governance. Good corporate governance leads to more transparency and better corporate disclosure in less developed markets (Betah, 2013). A study by Forker (1992) found that the same person holding the CEO and Chairman positions will tend to be a threat for the quality of information disclosure because both positions have different roles. Therefore, the combination of these two roles will have a negative impact, especially on the shareholders' wealth. Separation of the positions of CEO and Chairman is very important as it can avoid conflicts of interest between CEO and Chairman (Jensen, 1993).

Abdullah (2006), Abdelsalam and Street (2007) and Mohamad-nor et al. (2010) found that separating the CEO-Chairman roles had improved timeliness of Internet reporting and audit report lag. Mouna and Anis (2013) however found that, CEO duality was associated with slower timing of published financial statements. The following hypothesis was tested:

H2: CEO Duality is negatively associated with the timeliness of financial reporting.

Board Size and Timeliness Reports

Over the years, the Board size has always been a topic of discussion in the workplace. Lipton and Lorsch (1992) and Jensen (1993) suggested that firms should not appoint too many Directors in the Board and suggested a maximum of seven or eight Directors. It was argued that a large Board tends to involve in less meaningful discussions since too many Directors are involved in the discussion, making it both time consuming and difficult to achieve cohesiveness. Contradicting with the unfavourable effect of a large Board, Klai and Omri (2011) found a significant positive relationship between Board size and financial reporting quality in Tunisian companies. Similarly Abidin et al. (2009) reported that a larger Board size contributes more to company performance because there are more ideas and skills of Board members that can be shared between them. There is no conclusive result on the effect of Board size on timeliness. Mohamad-Nor et al. (2010), Eslami, Armin and Jaz (2015) and Hassan (2016) found that an increase in Board size was associated with an increase in audit report lag. Conversely, Sakka and Jarboui (2016) found that an increase in Board size will reduce

audit report lag and will also delay the management report. Chalaki, Didar and Riahinezhad (2012) however, found no association. Following Lipton and Lorsch's (1992) argument, the following hypothesis was tested:

H3: Board size is negatively associated with the timeliness of financial reporting.

Audit Committee Meeting and Timeliness of Reports

Frequency of audit committee meetings can also help companies produce audit reports on a timely basis.

> *"The revised Code increases the frequency of meetings between the audit committee and the external auditor without the executive board members present. This encourages a greater exchange of free and honest views and opinions between both parties."*
>
> (MCCG, 2016:4)

From the above statements, it indicated that the Audit Committee should meet regularly, with due notice of issues to be discussed, and its conclusions recorded in discharging its duties and responsibilities. Mohamad-nor et al. (2010) revealed that more active and larger Audit Committee members will also shorten the audit timeliness and at the same time, an effective audit committee may enhance the credibility and quality of audited financial statements (Al Daoud et al., 2015). However, a study by Yadirichukwu and Ebimobowei (2013) found that audit committee meetings are not significantly related to timeliness of financial reports. The following hypothesis was tested:

H4: Audit Committee meeting is negatively associated with the timeliness of financial reporting.

Audit Committee Expertise and Timeliness Reports

Audit Committee plays an important role in monitoring the financial reporting process since its fundamental responsibilities is to oversee financial reporting procedures, the internal and external audit process and

risk management practice, and the internal control system of the company. Audit Committee members that have financial expertise are able to improve the quality of the financial statements as they are obliged to monitor both internal and external auditors and the integrity of financial statements, which then result in lower audit delay (Rochmah Ika & Mohd Ghazali, 2012; Mohammad, 2015; Al Daoud et al., 2015).

Hashim and Abdul Rahman (2011) found that the Audit Committee expertise and Audit Committee independence could assist in reducing audit report lag among Malaysian companies. The findings of Yadirichukwu and Ebimobowei (2013) showed that audit committee expertise was associated with better timeliness of financial reports. According to Mohammad (2015), audit committee members with special expertise may help companies to balance divergent views of external auditors and management and hence reduce the time taken to publish the financial statements. The following hypothesis was tested:

H5: Audit Committee expertise is negatively associated with the timeliness of financial reporting.

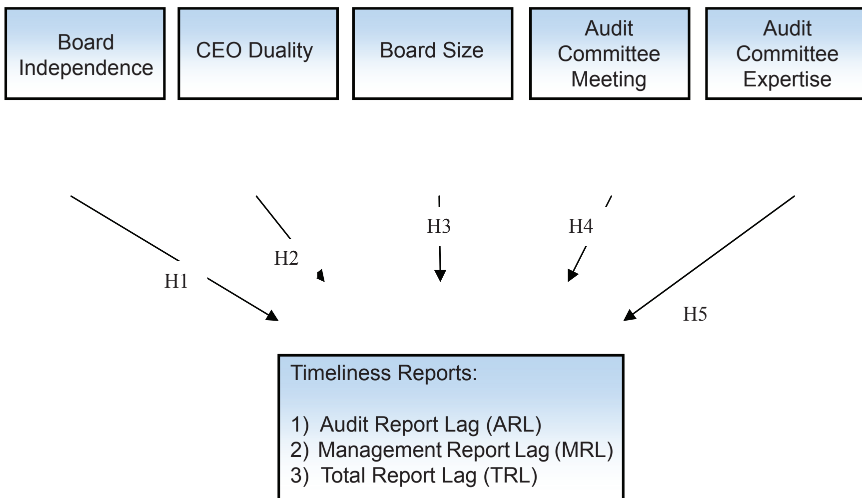

Figure 1: Research Framework

METHODOLOGY

The sample period of this study was between 2013 and 2014 and the sample companies were selected based on the market capitalisation of listed companies on Bursa Malaysia. The best practice of corporate governance guidelines was revised in 2012, thus this study intends to identify if corporate governance influences the timeliness of the reports, upon the revised structure. This study collected data on the governance variables and the time taken by the company to submit the audit report and management report, from the annual reports. The annual reports were downloaded from the Bursa Malaysia website.

During the sample period, a total of 356 companies on the main Board of Bursa Malaysia, based on market capitalisation from nine industries. However, only 264 companies were selected as samples of this study (refer Table 1). Finance related companies were excluded as those industries were subjected to different rules and regulations, and are closely monitored by the regulators with respect to financial reporting (Al Daoud et al., 2015).

This study examined three dependent variables, namely audit report lag (ARL), management report lag (MRL) and total report lag (TRL). Figure 2 illustratesthe computations . The explanation on the computation is presented in Table 2. The independent variables are Board independence (BIND), CEO duality (CEOD), Board size (BSIZ), Audit Committee expertise (ACE), and frequency of Audit Committee meetings (ACM). The control variables adopted in this study are company size (COSIZ), audit firm size (AUDSIZ) and profitability (PROF). The measurements of the variables are presented in Table 2.

Table 1: Distribution of Sample

Industries	2013	2014
Consumer Goods	34	34
Industrials	32	32
Consumer Services	24	24
Oil and Gas	14	14
Healthcare	8	8
Basic Material	6	6
Utilities	6	6
Telecommunications	5	5
Technology	4	4
Total	132	132

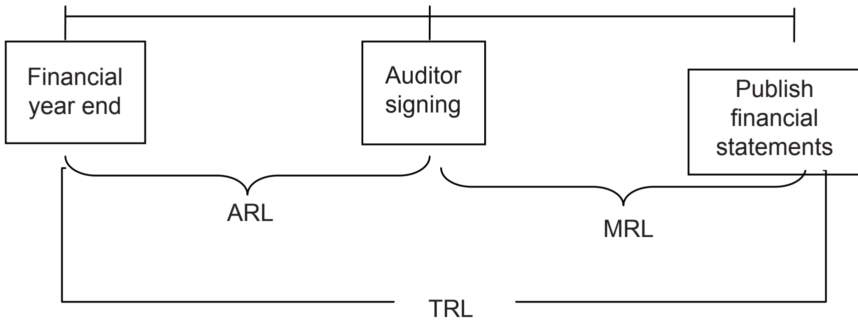

Figure 2: Illustration on the Measurements of the Dependant Variables

This study adopted three regression models as shown below. The models were run by using SPSS to test whether the firms' internal governance structure has significant influence on the timeliness of reports.

Model 1 - Audit Report Lag

$$ARL_{i,t} = \beta_0 + \beta_1 BIND_{i,t} + \beta_2 CEOD_{i,t} + \beta_3 BSIZ_{i,t} + \beta_4 ACM_{i,t} + \beta_5 ACE_{i,t} + \beta_6 COSIZ_{i,t} + \beta_7 AUDSIZ_{i,t} + \beta_8 PROF_{i,t} + \varepsilon_{i,t}$$

Model 2 - Management Report Lag

$$MRL_{i,t} = \beta_0 + \beta_1 BIND_{i,t} + \beta_2 CEOD_{i,t} + \beta_3 BSIZ_{i,t} + \beta_4 ACM_{i,t} + \beta_5 ACE_{i,t} + \beta_6 COSIZ_{i,t} + \beta_7 AUDSIZ_{i,t} + \beta_8 PROF_{i,t} + \varepsilon_{i,t}$$

Model 3 - Total Report Lag (TRL)

$$TRL_{i,t} = \beta_0 + \beta_1 BIND_{i,t} + \beta_2 CEOD_{i,t} + \beta_3 BSIZ_{i,t} + \beta_4 ACM_{i,t} + \beta_5 ACE_{i,t} + \beta_6 COSIZ_{i,t} + \beta_7 AUDSIZ_{i,t} + \beta_8 PROF_{i,t} + \varepsilon_{i,t}$$

Table 2: Measurement of Variables

Variable	Measurement
	Dependent variables
ARL	Number of days from date of financial year end (FYED) to the date of auditor sign the audit report (ARD). [ARL = ARD – FYED]
MRL	Number of days from date of auditor sign the audit report (ARD) to the date financial statement publish (FSP) to the public [MRL = FSP – ARD]
TRL	Number of days from date of financial year end (FYED) to the date financial statement publish (FSP) to the public [TRL = FSP – FYED]
	Independent variables
BIND	number of independent directors ÷ total number of board members
CEOD	Dummy variables coded: 1 if CEO-Chairman roles combine; 0 if separate
BSIZ	Total board members
ACM	Total number of audit committee meeting held in the financial year
ACE	Total number of audit committee member qualified members accounting professional bodies
	Control variables
COSIZ	Natural logarithm of total assets
AUDSIZ	Dummy variables coded: 1 if big-four auditors; 0 if otherwise
PROF	Dummy variable coded: 1 if profit making company; 0 if loss making company

RESULTS AND DISCUSSION

Descriptive Results

Based on Table 3, the average days taken by the sample companies to produce their audit report (ARL) was 87 days. The time taken is not far different from companies in other countries, for instance, 83 days taken by Tehran Stock Exchange (TSE) companies in 2002-2010 (Banimahd, Moradzadehfard & Zeynali, 2012); 84 days for Chinese listed companies (Li et al., 2014) and 84.7 days, 78.8 days and 65.8 days taken by companies in the Republic of China, European Union (EU) and the USA, respectively (Mcgee & Yuan, 2012).

Table 3: Descriptive Statistics for Dependent, Independent and Control Variables

	N	Min	Max	Mean
Dependent Variables				
ARL	264	37	122	87.45
MRL	264	5	100	36.76
TRL	264	57	185	124.22
Independent Variables				
BIND	264	0.00	0.83	0.38
BSIZ	264	4	16	8.87
ACM	264	2	6	3.59
ACE	264	0.00	1.00	0.38
Control Variable				
COSIZ	264	8	11	9.23
Dummy variables				
CEOD: - Separated = 92% - Combined = 8%				
AUDSIZ: - Big-4 = 87.5% - Others = 12.5%				
PROF: - Profit making= 94.7% - Loss making = 5.3%				

The longest time taken to complete the audit report was 122 days, which was below the mandatory requirement of 180 days by Bursa Malaysia's Listing requirements. The shortest time taken to produce the audit report was 37 days, but it was relatively higher than those found for Jordanians firms, which was 18 days (AL Daoud et al, 2015) and 8 days for Nigeria Stock Exchange companies (Onwuchekwa & Dibia, 2013). Various factors may have contributed to audit report delay; one that may cause this case is possibly due to the fact that the financial year end falls within the peak period of external auditors. According to Raja Ahmad and Kamarudin (2003), 31 December is a common financial year end for Malaysian companies and therefore auditors are expected to perform audit work on many companies. This study found that more than half of the sample companies' (65%) financial year ended on 31 December. Furthermore, 87% of the sample companies were audited by the big-four auditors that may have caused scheduling problem to the auditors (Carslaw & Kaplan, 1991; Che-Ahmad & Abidin, 2008).

The average time taken in producing a management report (MRL) was 36 days, closely to 34.54 days as reported by Al Daoud et al. (2015) for Jordanian companies. The time taken is reasonably below than that reported by Nour and Al-Fadel (2006) was 69 days in 2001 and 58 days in 2002; and 91.79 days found in Oladipupo and Izendomi (2013). This indicates that Malaysian companies are timelier in producing its financial statements to the public. The shortest day to produce the management report was an impressive 5 days; and surprisingly there were companies that took a longer time, i.e. 100 days to release the financial statements to the public from the date of the signature on the auditor's report. Oladipupo and Izendomi (2013) argued that the delays may be due to the longer time taken in organising the Annual General Meetings before the financial statements can be released to the public.

On average, the sample companies fulfil the six- month period given by the Bursa Malaysia listing requirement; as the mean days taken to publish audited financial statements (TRL) after the financial year ends was 124 days. Some sample companies took only 57 days, and there were companies that exceeded the time limit. Plausibly the background of the company has some influence on the timeliness of the reports. For instance, construction companies have many projects, thus the auditor might take a longer time in performing their audit works. Relative to the findings of Amitabh (2005), the mean value for the total report lag was 255 days, indicating that Malaysian companies have done their best to comply with the requirement of Bursa Malaysia.

Empirical Results and Discussions

The results on the influence of the internal governance on the timeliness of the reports are presented in Table 4.2. The ARL, MRL and TRL models of this study were all significant at 1% level. Therefore, the models adopted in this study were significantly influenced by the variations of firms' internal governance and firm attributes.

It was found that a higher proportion of independent Directors on the Board was inversely associated with audit report lag and total report lag, thus it supports H1.The result was consistent with Afify (2009) and Zaitul's (2010) studies which found that a greater number of independent

Board members will reduce the time taken to prepare the audited financial statements. The results imply that independent Directors are a strong governance tool to promote timelier reporting. Supporting H2, separating the roles of CEO and chairman was associated with timelier management report lag, at 10% significant level. It suggests that if the CEO and Chairman of the Board are different persons, it will take a shorter time to publish the financial statements upon the audit report signed by the auditor. It is presumed that the CEO holds fewer tasks when he is not the Chairman of the Board, thus he can focus on the process of publishing the financial statements. The duality roles have no effect on the timeliness of the auditor's report. H3 was rejected as the Board size had no significant influence on any of the models, implying that timeliness of reporting was not affected by the number of the Board members. This result contradicted with Al Daoud et al. (2015) who found that larger Boards would increase the ARL and MRL; and Abidin et al. (2009) who found that a larger Board size would increase company performance as a whole and reduce the number of audit delay. No conclusive evidence is drawn from the mixed results.

Audit committee meeting was found to be positively associated with management report lag at 5% significance level, rejecting a negative relationship in H4. Though it was expected that frequent meetings lead to timelier reporting because audit committee members are active; the results here suggest that frequent meetings have led to a longer time taken to produce management reports. Arguably it was due to the ineffective conduct of meetings, whereby the same unresolved issue was discussed in meeting and delays the reporting. Audit Committee expertise was found inversely related to management report lag, thus supports H5. The result was consistent with Mohamad-nor et al. (2010) and Hashim and Abdul Rahman (2011) who found that having Audit Committee expertise in the companies will help the management to have better understanding about financial statements. Therefore, it may lead to a better control of making corrections after auditors had audited the financial statements.

The overall findings showed that different governance tools effectively influence different forms of report; and the strongest tool was the independent Directors in ensuring that the published financial statements is released to the public in a short time. From another perspective, other corporate governance characteristics examined in this study had no effect on the timeliness of audit

reports, probably not because they were not effective but there are other factors that had more direct effect on the audit report, such as presented by Turel (2016); that loss making firms or firms that received qualified audit reports tend to delay the bad news to the public.

Table 4: Multiple Regression Analysis on Audit Report Lag (ARL), Management Report Lag (MRL) and Total Report Lag (TRL)

	ARL		MRL		TRL	
Variables	**Coefficient**	**t-value**	**Coefficient**	**t-value**	**Coefficient**	**t-value**
(Constant)	193.063	7.630	2.411	.121	195.475	8.432
BIND	-25.580***	-3.129	3.182	.493	-22.398***	-2.991
CEOD	-.799	-.139	7.487*	1.654	6.688	1.272
BSIZ	-.178	-.252	-.012	-.022	-.190	-.294
ACM	-1.096	-.557	3.092**	1.994	1.996	1.108
ACE	9.152	1.033	-12.756*	-1.801	-3.424	-.422
COSIZ	-6.542**	-2.564	1.083	.538	-5.459**	-2.336
AUDSIZ	-12.002*	-2.607	8.050**	2.217	-3.952	-.937
PROF	-24.168***	-3.563	9.908*	1.852	-14.260**	-2.294
N	264		264		264	
Adjusted R Square	.132		.057		.073	
R Square	.158		.085		.101	
F-value	5.993***		2.979***		3.575***	

***p< 0.01; **p< 0.05; *p<0.10

CONCLUSION

This study provides empirical evidence on the effects of corporate governance mechanisms (Board independence, CEO duality, Board size, Audit Committee expertise and Audit Committee meeting) on the timeliness of financial reports of Malaysian listed companies. Descriptive analysis on time taken to produce audit reports and publish financial statements suggested that the sample companies comply with the Bursa Malaysia listing requirement. Nevertheless, this study highlights that the average time taken by auditors to produce an audit report was longer than those of the management report. It implies that the delay in releasing publish financial statements was consumed mostly by the audit work.

The results reported that corporate governance plays an important role in reducing audited financial statements lag. Independent Directors are a strong governance tool for timelier reports; however frequent Audit Committee meetings do not portray quality and effective discussions in the meeting. Splitting the roles of the CEO and Chairman of the Board is important for timelier management report. More effort is needed to strengthen firms' governance structure so that Malaysian listed companies are able to produce quality audited financial statements on a timely basis. Time taken to produce the audit report relies on the auditor, but a company that has an effective function of independent Directors is able to shorten the time. In general, this study showed that corporate governance determines timelier financial reporting. However, the findings seem to suggest that, except for independent Directors, other mechanisms examined in this study were not effective to influence a faster release of the audit report.

This study suffers with limitation; firstly the sample period was two years, which may capture the minimal effects of corporate governance attributes to the timeliness of financial reports. Secondly, this study examined 264 companies based on market capitalisation. Testing on a broader sample size with a longer period of study may provide a different conclusion. Other mechanisms such as board diligence, board ownership, audit committee independence and compensation committee are also subjects of interest.

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