



**FINANCIAL REPORTING TIMELINESS AND
INDUSTRY SPECIALIST AUDITOR: EVIDENCE
DURING MFRS CONVERGENCE**

BY

HAMIDAH BINTI MOHAMED

**A thesis submitted in fulfilment of the requirement for the
degree of Master of Science in Accounting**

**Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia**

SEPTEMBER 2015

ABSTRACT

This study aims to examine the association between the presence of industry specialist auditors and financial reporting timeliness under full convergence with Malaysian Financial Reporting Standards (MFRS). It is argued that the incorporation of International Financial Reporting Standards (IFRS) into MFRS will lengthen the audit report lag (ARL). However, the presence of industry specialist auditors, who are believed to be experts in a particular industry, is able to reduce the ARL and consequently enhance financial reporting timeliness. Hence, this study, investigates the relationship between the presence of industry specialist auditors and financial reporting timeliness under full convergence with MFRS. In this study, ARL which refers to the lag between financial year end to audit report date, is used as a proxy for financial reporting timeliness. This study extracts the data from the 2012 annual reports of Malaysian public listed companies. First, population of 796 companies is selected to determine the industry specialist auditor based on audit market share in each of 13 sectors. Then, out of 796 companies, only 342 are found to fully comply with MFRS in the first year of implementation based on a consideration of the transitioning entities that were given an extension to comply with MFRS beginning on or after 2014. The findings suggest that ARL has a significant negative relationship with the presence of an industry specialist auditor. This suggests that ARL will become shorter when a company utilizes industry specialist auditors to undertake auditing work under full MFRS convergence and that, this should improve financial reporting timeliness. This study contributes to the literature in two ways: First, it focuses on the first year of full MFRS implementation. Second, it focuses on the effects on companies in an emerging economy, Malaysia, of progressively improving accounting standards to fully comply with MFRS after a transition period of 2014.

خلاصة البحث

تهدف هذه الدراسة إلى دراسة العلاقة بين وجود المختصين في قطاع الصناعة من مدققي الحسابات وسرعة إعداد التقارير المالية في ظل التقارب الكامل لمعايير التقارير المالية الماليزية (MFRS)، ويقال: إن إدراج معايير التقارير المالية الدولية (IFRS) في التقارير المالية الماليزية (MFRS) سوف يطيل فترة تقرير تدقيق الحسابات (ARL)، ومع ذلك، فإن وجود المختصين في قطاع الصناعة من مدققي الحسابات الذين يعتقد أن يكونوا خبراء في صناعة معينة قادر على تخفيض (ARL)، وبالتالي تعزيز سرعة إعداد التقارير المالية. بناء على هذا، فإن هذه الدراسة تحقق العلاقة بين وجود المختصين في قطاع الصناعة من مدققي الحسابات وسرعة إعداد التقارير المالية في ظل التقارب الكامل مع (MFRS). في هذه الدراسة، يتم استخدام (ARL) الذي يشير إلى فجوة بين نهاية السنة المالية وتاريخ تقرير التدقيق كبديل لسرعة إعداد التقارير المالية. تم استخراج البيانات لهذه الدراسة من التقارير السنوية للمسجلة من الشركات الماليزية العامة للعام ٢٠١٢م. أولاً، تم اختيار ٧٩٦ شركة لتحديد المختصين في قطاع الصناعة من مدققي الحسابات بناء على حصة سوق تدقيق الحسابات في كل من ١٣ قطاعاً. فمن أصل ٧٩٦ شركة توجد فقط ٣٤٢ شركة تتمثل بشكل كامل بـ (MFRS) في السنة الأولى من التنفيذ على أساس النظر في الكيانات الانتقالية التي أعطيت مهلة إضافية لامتنال (MFRS) بداية من أو بعد العام ٢٠١٤. وتشير النتائج إلى أن هناك علاقة سلبية كبيرة بين (ARL) ووجود مدقق الحسابات المتخصص في قطاع الصناعة. هذا يشير إلى أن (ARL) ستصبح أقصر عندما تستخدم شركة المختصين في قطاع الصناعة من مدققي الحسابات للقيام بأعمال تدقيق الحسابات تحت التقارب الكامل بـ (MFRS)، بالإضافة إلى أن هذا من شأنه أن يؤثر في سرعة إعداد التقارير المالية. وتساهم هذه الدراسة في الدراسات السابقة من وجهين: أولهما، أنها تركز على السنة الأولى من التنفيذ الكامل بـ (MFRS). ثانيهما، أنها تركز على الآثار المترتبة على الشركات في الاقتصادات الناشئة، فماليزيا التي تتحسن تدريجياً في معايير المحاسبة ستمثل بشكل كامل بـ (MFRS) بعد الفترة الانتقالية عام ٢٠١٤.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

.....
Sherliza Puat Nelson
Supervisor

.....
Maslina Ahmad
Co-Supervisor

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

.....
Fatima Abdul Hamid
Examiner

.....
Hawa Ahmad
Examiner

This dissertation was submitted to the Department of Accounting and is accepted as a fulfilment of the requirement for the degree of Master of Science in Accounting.

.....
Noraini Mohd Ariffin
Head, Department of
Accounting

This dissertation was submitted to the Kulliyah of Economics and Management Sciences and is accepted as a fulfilment of the requirement for the degree of Master of Science in Accounting.

.....
Maliah Sulaiman
Dean, Kulliyah of Economics
and Management Sciences

DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Hamidah Binti Mohamed

Signature

Date

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

**DECLARATION OF COPYRIGHT AND AFFIRMATION
OF FAIR USE OF UNPUBLISHED RESEARCH**

Copyright © 2015 by International Islamic University Malaysia. All rights reserved.

**FINANCIAL REPORTING TIMELINESS AND INDUSTRY
SPECIALIST AUDITOR: EVIDENCE DURING MFRS
CONVERGENCE**

I hereby affirm that the International Islamic University Malaysia (IIUM) holds all rights in the copyright of this Work and henceforth any reproduction or use in any form or by means whatsoever is prohibited without the written consent of IIUM. No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder.

Affirmed by Hamidah Binti Mohamed

.....
Signature

.....
Date

ACKNOWLEDGEMENTS

In the name of Allah, the most Gracious and the most Merciful, Lord of the universe, Peace and blessings be upon Prophet Muhammad (pbuh).

The effort presented here is not possible without great assistance from a number of people. Firstly, I would like to express my sincere gratitude to both of my supervisors, Dr. Sherliza Puat Nelson and Dr. Maslina Ahmad, for their continuous support and advice throughout the completion of the dissertation. Not forgetting my gratitude goes to my lecturers who shared their experience and enabled me to acquire precious knowledge.

Secondly, I would like to record my appreciation to my family especially my husband, Muhamad Zulfikri Bin Jumaat, who has been there through thick and thin in completing the study. I would also like to express my heartiest gratitude to my beloved parent, who has raised me and instilled good values until present. Appreciation is also accorded to all my siblings who have always been supportive for all my undertaking. Finally, many thanks to my friends and the staff of International Islamic University Malaysia (IIUM) for their support and encouragement throughout my studies.

May Allah reward your kindness and assistance.

TABLE OF CONTENTS

Abstract	ii
Abstract in Arabic	iii
Approval Page.....	iv
Declaration	v
Copyright Page.....	vi
Acknowledgements	vii
List of Tables	x
List of Figures	xi
CHAPTER ONE: INTRODUCTION.....	1
1.0 Introduction.....	1
1.1 Background of the Study	1
1.2 The Problem Statement	3
1.3 Objectives of the Study.....	4
1.4 Motivation for the Study.....	5
1.5 Significance of the Study.....	6
1.6 Organization of Chapters.....	7
1.7 Conclusion	8
CHAPTER TWO: LITERATURE REVIEW.....	9
2.0 Introduction.....	9
2.1 Financial Reporting Timeliness and Audit Report Lag.....	9
2.2 Factors Influencing Audit Report Lag.....	12
2.3 Industry Specialist Auditor and Audit Report Lag.....	18
2.4 Full Convergence of MFRS and Effect on Audit Report Lag.....	20
CHAPTER THREE: THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT	26
3.0 Introduction.....	26
3.1 Agency Theory	26
3.2 Resource Dependence Theory	27
3.3 Agency Theory, Resource Dependence Theory, The Industry Specialist Auditor and Audit Report Lag	28
3.4 Hypothesis Development and Factors Influencing Audit Report Lag ...	31
3.4.1 Audit Report Lag, Presence of Industry Specialist Auditor and Full Convergence with MFRS.....	31
3.4.2 Audit Report Lag and Company Size	32
3.4.3 Audit Report Lag and Profitability	33
3.4.4 Audit Report Lag and Industry	33
3.4.5 Audit Report Lag and Audit Complexity.....	34
3.4.6 Audit Report Lag and Leverage.....	34
3.5 Conclusion	35
CHAPTER FOUR: RESEARCH DESIGN AND METHODOLOGY	36
4.0 Introduction.....	36

4.1 Sample Selection	36
4.2 Measurement of Variables	38
4.2.1 Dependent Variable.....	38
4.2.2 Independent Variable	38
4.2.3 Control Variables	42
4.2.3.1 Company size	42
4.2.3.2 Profitability.....	43
4.2.3.3 Industry.....	43
4.2.3.4 Audit complexity	44
4.2.3.5 Leverage	44
4.3 Regression Models.....	44
4.4 Conclusion	46
CHAPTER FIVE: ANALYSIS OF RESULTS AND DISCUSSION	48
5.0 Introduction.....	48
5.1 Descriptive Analysis	48
5.1.1 Univariate Analysis.....	50
5.1.2 Correlation Analysis	52
5.2 Multivariate Analysis.....	58
5.3 Discussion of Research Findings.....	61
5.4 Conclusion	63
CHAPTER SIX: CONCLUSION	64
6.0 Introduction.....	64
6.1 Summary of the Study	64
6.2 Implications of the Study.....	65
6.2.1 Implications for Theory	65
6.2.2 Implication for Stakeholders	66
6.2.3 Implications for Researchers.....	66
6.3 Limitations of the Study	67
6.4 Suggestions for Future Research	68
6.5 Conclusion	68
REFERENCES.....	70
APPENDIX A: TEST OF NORMALITY	74

LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
2.1	Summary of the Studies on Relationship between Industry Specialist Auditor and Financial Reporting Timeliness	22
4.1	Sectors in the Study Sample	37
4.2	Criteria Used to Identify Industry Specialist Auditor	40
4.3	Identification of Industry Specialist Auditor for Each Sector	41
4.4	Summary of Variables	46
5.1	Descriptive Statistics	49
5.2	Comparison with Previous Studies	49
5.3	Frequency Table	50
5.4	Correlation Analysis	54
5.5	Multivariate Analysis	60

LIST OF FIGURES

<u>Figure No.</u>		<u>Page No.</u>
3.1	Research Framework	30
4.1	Formula of measurement based on the number of audit clients	39

CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

This chapter serves as the introductory chapter to the study. First, the background of the study is explained, followed by the problem statement, objectives and motivation of the study. Then the chapter elaborates on the significance of the study. Finally, the organization of the study is presented, followed by a brief conclusion.

1.1 BACKGROUND OF THE STUDY

Transparent and timely financial reporting is important to ensure that relevant information is delivered, particularly to shareholders, so that appropriate investment decisions can be made by investors. The timely issuance of annual reports also demonstrates the readiness of a company to deliver information and report earnings to stakeholders. The timely issuance of financial reporting is essential in ensuring that the capital market is functioning well (Owusu-Ansah, 2006).

Timely financial reporting depends on the auditing process conducted by approved company auditors. As stated in Section 169 (4) of the Malaysian Companies Act 1965, the accounts should be duly audited before the annual general meeting. Section 174 of the Act further highlights the power and duties of auditors to report on the accounts. Basically, the objective of auditing is to allow the external auditor to deliver an audit opinion on whether the information in the financial statements presents a true and fair view and is in accordance with the approved accounting standards (Arens et al., 2010). Audited financial statements are needed so that true information can be reported and transmitted to the users of the financial statements.

However, the auditing process will not achieve its aim if auditors do not fulfil their obligations as highlighted by the auditing standards (such as the International Auditing Standards) and if they do not adhere to a code of professional ethics.

In addition, the timeliness of financial reporting depends a great deal on the preparation of the accounts by the management of the company, the issuance of the accounts to independent auditors for auditing, and the length of time taken by auditors to complete the audit assignment. The longer the time the auditors devote to completing the audit, the longer the delay in the issuance of the audited accounts. According to Ashton (1987), audit delay can affect the release of timely accounting information where there is an association between the market's reaction and the information released. Thus, a study of the factors affecting audit delay may improve our understanding of the reactions of the market to the announcement of accounting information (Ashton, 1987) and the results of such a study may be important to the regulators of emerging capital markets in setting new policies to improve the distributional productivity of their markets (Owusu-Ansah and Leventis, 2006).

The appointment of industry specialist auditors is expected to ensure the timely issuance of financial reporting because, as the name implies, they are expert auditors in their own specialized industry. As posited by Craswell et al. (1995), an audit firm achieves its reputation as an industry specialist by increasing its expertise in a specific industry and consequently increasing the number of clients from that industry. As a result, efficiency can be improved, thereby reducing the cost of issuing financial reports (Craswell et al., 1995).

Furthermore, the effort by many countries worldwide to move toward a globally accepted financial reporting standard, i.e., International Financial Reporting Standards (IFRS) is one of the main issues being discussed in the accounting domain.

Jaafar Sidik and Abd Rahim (2012) claim that the implementation of IFRS provides several benefits such as greater reporting transparency, better comparability with other businesses and many more. However, there are challenges and issues of complexity to overcome in adopting these standards. One of the main challenges is that companies have to incur more costs to train their staff so they are familiar with the standards. Moreover, consultation with company auditors is required in order to ensure that relevant and adequate information is presented under IFRS. Thus, it is thought that industry specialist auditors should be better and able to deal with the complexity of these standards because they should more up to date with them. They are also expected to have an in-depth understanding of the rules and regulations for a particular industry in comparison to the management of the client company and non-specialist auditors.

1.2 THE PROBLEM STATEMENT

Timeliness is a prominent qualitative characteristic of financial statements (Carslaw and Kaplan, 1991). Financial information should be made available to stakeholders of financial statements in a timely manner. However, a move to adopt IFRS, which requires lengthy explanations and detailed disclosures, causes more effort and leads to more audit hours being logged by external auditors in carrying out the audit assignment. Due to the complexity, the preparation of the financial statements is expected to take longer. Also the auditors may take longer to verify compliance with the Malaysian Financial Reporting Standards (MFRS) which is fully IFRS-compliant framework. The use of industry specialist auditors is seen as necessary to cope with the complexity of MFRS that have modifications that suit the Malaysian context. This is because industry specialist auditors are believed to have sufficient knowledge about

an industry and to be experts on the new standards, which is also a competitive advantage and forms part of a differentiation strategy to attract more clients. However, the timely issuance of financial reporting has been a major concern of regulators as well as other stakeholders, particularly investors, with regards to accounting information. Thus, it is questionable whether the existence of industry specialist auditors would be able to shorten the audit report lag. It is because the auditors would have to perform additional audit work due to the complexity of MFRS, which require more assessment to determine the relevancy and appropriateness of judgements made by management. As Marden and Brackney (2009) claim, judgement is important for presentation and reporting because IFRS are more principles-based in than other standards. In other words, the implementation of IFRS, which are more on principles-based than rules-based, requires lengthy explanations. In light of the foregoing, this study is conducted to attempt to answer the following research question:

RQ: What is the impact of the presence of industry specialist auditors on financial reporting timeliness when companies fully comply with MFRS?

1.3 OBJECTIVES OF THE STUDY

The objective of the current study is to examine the association between industry specialist auditors and financial reporting timeliness under the MFRS, effective 1 January 2012. Findings in prior studies regarding the influence of industry specialist auditors on financial reporting timeliness are mixed. Some studies have shown that there is a positive and significant relationship between the presence of industry specialist auditors and the timeliness of financial reporting (Habib and Bhuiyan, 2011), while other studies such as Che-Ahmad and Abidin (2001) and Abidin and Ahmad-Zaluki (2012) have found otherwise. Therefore, apart from contributing to the

existing literature on industry specialist auditors, the current study aims to examine the influence of industry specialist auditors, the identity of which is determined based on audit market share, and whether they are able to improve the timeliness of financial reporting (as represented by audit report lag), one year after all public listed companies in Malaysia were required to comply with the fully converged MFRS, beginning 1 January 2012.

1.4 MOTIVATION FOR THE STUDY

Based on a survey conducted by Jaafar Sidik and Abd Rahim (2012) on accounting practitioners with regards to their perception of the benefits and challenges of Financial Reporting Standards (FRS) adoption in Malaysia, it was discovered that in terms of challenges, staff training was ranked first, followed by engagement with external specialists and the extra cost of audit fees caused by the financial cost incurred in implementing FRS. The complexity of the standards was ranked fourth out of the eight challenges that were described in the study. This suggests that practitioners are most concerned about training their staff to overcome the complexity involved in the implementation of FRS.

The presence of industry specialist auditors may lighten the audit process because such specialists can thoroughly examine the information disclosed in the financial statements and carry out additional audit procedures. Industry specialist auditors are expected to provide advice on matters pertaining to compliance with MFRS to the client company. In addition, they can provide more information to the client company on preparing financial statements due to their greater knowledge about those MFRS that are new to the client company. Although there is additional workload, it is believed that industry specialist auditors can complete audit

assignments within the stipulated time as they are the audit experts within the industry, and consequently that this should shorten the audit delay.

Due to the issues highlighted such as the difficulty of the new standards which leads to provide training to the staff and also the concern of specialist auditor to conduct an audit, these become as motivation for the study to further investigate the association of industry specialist auditor and financial reporting timeliness. In this study, it is expected that the presence of industry specialist auditors will be seen as necessary to cope with the complexity of the new MFRS that fully adopt the IFRS with modifications that suit the Malaysian context. It is also expected that financial reporting timeliness can be improved with the presence of industry specialist auditors.

1.5 SIGNIFICANCE OF THE STUDY

Apart from contributing to the existing literature on the timeliness of financial reporting, this study aims to highlight some significant and practical implications to the stakeholders of audited financial statements such as auditors as practitioners, top management of public listed companies, investors and regulatory bodies. Firstly, it provides empirical evidence on the extent of financial reporting timeliness after one year of fully converged MFRS in Malaysia. Secondly, the results of the study will be useful as a benchmark for regulatory bodies when they review the allowable period before issuance and announcement of financial information after fiscal year end, specifically one year after MFRS became fully compliant with IFRS.

Moreover, practitioners may use the findings of this study to inform their level of specialization and take further initiatives to deepen their knowledge so that they gain and/or retain a competitive advantage over their peers. Finally, for investors, the outcome of this study might be useful as a guide particularly when making

comparisons with other countries in terms of financial reporting timeliness, which might influence the announcement of earnings such as dividend's declaration. This is important before they make any investment decisions in light of the regulations that govern the situation in Malaysia.

1.6 ORGANIZATION OF CHAPTERS

The study is organized as follows:

- Chapter 1: **Introduction.** The introduction presents the background of the study, problem statement, objectives of the study, motivation and significance of the study.
- Chapter 2: **Literature Review.** The first section of the chapter discusses financial reporting timeliness. The next elaborates on the association between financial reporting timeliness and audit report lag in general. The following section reviews the literature on factors influencing audit report lag. Next, discussions on industry specialist auditors and audit report lag as well as on the issue of fully converged MFRS and audit report lag are presented. Finally, the chapter highlights the gap in the literature that will be filled by the current study.
- Chapter 3: **Theory and Hypothesis Development.** This chapter focuses on the theories underpinning the study and the hypothesis developed for the study. The first and second section highlights agency theory and resource dependence theory in general and is followed by a discussion on the association between agency theory, resource dependence theory, the industry specialist auditor and audit report lag. Finally, the chapter

discusses the hypothesis development and other factors influencing audit report lag.

- Chapter 4: **Research Methodology.** This chapter focuses on the research design used in the study. It describes the selection of samples, measurement of the variables and regression models developed and applied in the study.
- Chapter 5: **Analysis of Results and Discussion.** The findings of the study are analysed and discussed in this chapter. First, the descriptive statistics provide details on the variables and samples examined in the study. The next part clarifies the findings based on correlation and regression analysis. Finally, the chapter details the results of hypothesis testing.
- Chapter 6: **Conclusion.** This chapter concludes the overall study. It summarizes the results and findings of the study. The limitations and contributions of the study are also presented. Lastly, the chapter provides some recommendations for future research on financial reporting timeliness.

1.7 CONCLUSION

This chapter provided an overview of the study. The aim of the study is to examine the association between industry specialist auditors and financial reporting timeliness after one year of full convergence with MFRS. Audit report lag is used as an indicator to determine the timeliness of the issuance of financial information to the users of financial statements, while the identification of industry specialist auditors is determined based on the size of their audit market share. In the next chapter, a review of the literature on the timeliness of financial reporting and audit report lag will be presented.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The objective of this chapter is to review the literature on financial reporting timeliness, industry specialist auditors and MFRS. The first section provides an overview of financial reporting timeliness. Following that, the next section contains a discussion regarding the association between financial reporting timeliness and audit report lag (ARL), which is then followed by a discussion of the factors influencing ARL. The next section focuses on the issue of industry specialist auditors and ARL. The following section provides details on the issue of fully converged MFRS and ARL. Next, the gap in the literature that this study intends to fill is highlighted and this is followed by the concluding section of this chapter.

2.1 FINANCIAL REPORTING TIMELINESS AND AUDIT REPORT LAG

Timeliness is regarded as one of the qualitative characteristics of valuable financial information (MASB, 2011). According to the Conceptual Framework for Financial Reporting issued by the Malaysian Accounting Standards Board (MASB) in 2011, timeliness is interpreted as “having information available to decision-makers in time to be capable of influencing their decisions”. According to Vuran and Adiloglu (2013), accuracy and timeliness are the determinants of the usefulness of a company’s financial reports. In general, financial information is less valuable if a longer time is devoted to preparing and submitting it to the external auditor for auditing purposes before it is issued to stakeholders and decision-makers. Investors, for example, demand appropriate and timely data due to the rapid growth of the investment market

and complexity of business operations (Vuran and Adiloglu, 2013). Furthermore, the timely issuance of financial information has also become a crucial consideration among investors as, according to Yan (2012), the uncertainty of the investment decision increases if information is not delivered on time. Therefore, reliable and timely accounting information is necessary in order to ensure there is a strong level of confidence among investors about a company's operations (Leventis et al., 2005) and a company should report its financial information as soon as possible after financial period end.

In an emerging economy such as Malaysia, the issue of timely issuance of financial reporting has become a major concern for regulatory bodies. For instance, according to Section 169(1) of the Companies Act 1965, it is stipulated that the directors of every company have to be responsible for issuing their financial statements within six months after the financial year ended before the date of the annual general meeting. Moreover, Section 169(4) further states that all accounts should be duly audited before they are issued. Furthermore, Bursa Malaysia also draws attention to the timely issuance of financial reporting under the Listing Requirements of Bursa Malaysia, particularly in Chapter Two (2.03(2)) and Chapter Nine (9.23 (1) and (2)) for public listed companies. It is stated in Chapter Nine that all public listed companies should announce their annual reports not more than four months after the financial year end.

Evidently, the issue of corporate reporting timeliness is among the main concern of many users of financial information. Owusu-Ansah (2000) argues that reporting financial information on time might help to reduce information leaks, insider trading as well as rumours in the market. Hence, these might be appropriate and

relevant reasons why many parties are concerned about the timely issuance of financial information.

The timely issuance of an annual report depends on the time taken to complete the audit assignment. Investors rely on information in audited financial statements as these statements are reliable source that is widely available for reference, so this makes timely reporting an important factor in both developed and newly developed countries (Leventis et al., 2005). Some of the indicators of financial reporting timeliness are ARL, financial statement issue delay and annual general meeting delay (Karim et al., 2006). ARL is a prominent indicator as has been proven extensively in prior studies (Ashton et al., 1987; Owusu-Ansah, 2000; Knechel and Payne, 2001; Leventis et al., 2005; Afify, 2009; Alkhatib and Marji, 2012).

ARL can be denoted as the period of time between the fiscal year end and the signing date of the auditor's report or audit report date (Ashton et al., 1987; Owusu-Ansah, 2000; Leventis et al., 2005; Afify, 2009; Lee and Son, 2009; Alkhatib and Marji, 2012). The term of ARL is used interchangeably with audit report delay and audit report lead time (Owusu-Ansah, 2000) as they all have a similar meaning.

The timely issuance of accounting information can reduce the level of information asymmetry that exists between the management of a company and investors in the capital markets (Yan, 2012). Moreover, Leventis et al. (2005) claim that market efficiency can also be enhanced when the gap between the fiscal year end and the issuance of audited financial statements can be reduced. Thus, ARL appears to be the most prominent factor that might influence the timeliness of financial reporting (Yan, 2012).

From the above discussion, it is clear that reducing the ARL can improve the timeliness of financial reporting. Consequently, prompt actions can be taken by

various stakeholders of financial statements to ensure the continuity of a company's operations as well as to make the correct investment decision.

2.2 FACTORS INFLUENCING AUDIT REPORT LAG

Generally, studies related to the timeliness of financial reporting can be categorized into two types. Firstly, there are numerous archival studies that focus on financial reporting lag, including the pattern as well as the determinants of ARL in various companies (Owusu-Ansah, 2000), such as in the United States (Ashton et al., 1987; Knechel and Payne, 2001), New Zealand (Carslaw and Kaplan, 1991; Habib and Bhuiyan, 2011), Egypt (Afify, 2009), Greece (Leventis et al., 2005), Zimbabwe (Owusu-Ansah, 2000), Bahrain (Al-Ajmi, 2009), Jordan (Alkhatib and Marji, 2012) and Malaysia (Che-Ahmad and Abidin, 2001; Che-Ahmad and Abidin, 2008; Mohamad Nor et al., 2010; Nelson and Shukeri, 2011; Abidin and Ahmad-Zaluki, 2012; Yaacob and Che-Ahmad, 2012). The other type of study focuses on the consequences of timely reporting of financial statements on market reactions, such as those by Givoly and Palmon (1982), Chambers and Penman (1984), and Atiase et al. (1989). The current study falls under the first type, which attempts to explain the factors influencing the ARL as an indicator of financial reporting timeliness.

Over the past 30 years, several studies have focused on the corporate-specific attributes and audit-related attributes that affect ARL. Owusu-Ansah (2000) notes that the term company-specific attributes refers to attributes that either enable management to issue a more timely annual report or reduce the costs associated with undue delay in reporting. These attributes include, for instance, company size, profitability, gearing, financial condition, industry type and ownership structure. On the other hand, audit-related factors are those that are likely to hinder or help the auditor in carrying out the

audit assignment and in issuing the audit report promptly, and these factors include auditor type, presence of extraordinary and/or contingent items, audit opinion, month of financial year end and complexity of operations (Owusu-Ansah, 2000). Additionally, Knechel and Payne (2001) provide other examples of audit-related characteristics such as incremental audit effort (e.g., hours), the resource allocation of audit team effort measured by rank (partner, manager, or staff) and the provision of non-audit services (management advisory services (MAS) and tax).

An earlier study conducted by Ashton et al. (1987) utilized mailed questionnaires to collect data on 14 variables that portray the auditor, the client, and a mix of client and auditor characteristics that may influence audit delay. The usable mailed questionnaire collected was 488 companies. Based on their analysis of the collected surveys, the authors found that seven variables are significantly associated with ARL: industry classification, public or non-public companies, month of fiscal year end, overall quality of internal controls, electronic data processing complexity, relative mix of audit work carried out at interim and final dates and type of audit opinion. However, when the overall sample was divided into two sectors, namely industrial and financial sectors, different outcomes were produced. Although the relative mix of audit work carried out at interim and final dates and classification of public or non-public companies have a significant relationship with audit delay, in the case of both subsamples, these two characteristics apparently have less explanatory power for the industrial subsample than for the financial subsample. Meanwhile, two other additional variables, namely reporting complexity and number of years the company has been a client of Peat, Marwick, Mitchell & Co. as well as internal control quality are significant variables for the industrial subsample.