

**UNIVERSITI TEKNOLOGI MARA
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**A STUDY ON AUDIT LAG IN FINANCIAL REPORTING
OF SARAWAK LOCAL AUTHORITIES**

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**A dissertation submitted in partial fulfilment of the requirements for The
Degree of Masters of Accountancy in the Faculty of Accountancy, University
Teknologi Mara**

2002

ACKNOWLEDGEMENT

Praise on Allah for giving me the strength to complete this dissertation. I would like to express my sincere gratitude to those who have assisted me in completing this dissertation. I would like to thank the Dean of Faculty of Accountancy UiTM, Professor Dr. Ibrahim bin Kamal for his assistance and advice.

Special thanks to my supervisor who is also the coordinator of this program, Dr. Asmah bt Abdul Aziz for her invaluable time, guidance, patience and advice in bringing this dissertation to its current standard.

I would like to thank En. Mustafa bin Saman, Director of State Audit, National Audit Department of Sarawak, Puan Suria bt Hj. Su'ut from the National Audit Department of Sarawak and En Husni Thamrin Eddie from the Ministry of Environment and Public Health for their time and cooperation in giving the information needed for this dissertation.

My gratitude goes to Universiti Teknologi Mara for granting me the scholarship and giving the opportunity to further my studies.

Special appreciation goes to my companion Abdilah bin Wasli for his love, understanding and constant encouragement throughout the period of this study. I am also grateful to my family and colleagues for their support in completing this dissertation and my study.

ABSTRACT

This study presents and discusses the accounts preparation lags and audit lags of Sarawak local authorities. The importance of timely financial reporting by local government is as important as the private sector as the usefulness of information depends on it.

The objectives of this study is to investigate the duration of time taken by auditors to prepare and certify the annual accounts of Sarawak local authorities, to determine whether the trend of both lags have improved over time, to present statistical evidence on both lags as well as to provide recommendations in improving the financial reporting of Sarawak local authorities.

The study was conducted by document analysis and statistical investigation. It is revealed that the Sarawak local authorities still take quite a long time to prepare and certify their annual accounts and the trend of the accounts preparation lags and audit lags did not show a consistent trend in preparing and certifying the accounts. The multiple regression shows that the hypotheses are opposite from what was expected.

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Chapter One

INTRODUCTION

1.1 BACKGROUND OF STUDY

The usefulness of information depends on its timeliness, reliability and comprehensibility. Timeliness has been recognised as one of the important characteristics of financial statements by the professional bodies, regulatory authorities, financial analysts, investors and managers and the academics (Hossain and Taylor, 1998). The usefulness of the information disclosed in annual reports will decline as the time lag increases. The primary benefit of audited financial statements may not be decision usefulness but the discipline imposed by timely confirmation of previously available information. Bamber, Bamber and Shoderbeck, (1993) referred audit lag as the number of days between the client's fiscal year-end and the audit report date. The importance of timely financial reporting by local governments is as much recognisable as the financial reporting by the private sector. The timeliness of financial reporting is materially impacted by the audit function because the financial statements cannot be issued until the audit is concluded.

Throughout the world, public sector audit offices are directed by statute to report periodically the results of their independent reviews of government operations (Schlachter, 1994). Their reports can help legislators exercise more informed oversight of government. Given the rapid growth in population and increasing rate of urbanisation, local government finance has assumed increasing importance in local government management. This is because financial management determines the efficiency and effectiveness of local authorities operations. Such financial management will ensure that funds are collected, allocated and disbursed in an efficient manner. Due to this the financial reports of local government acknowledge how they manage the public fund entrusted to them. However, it is not possible to release the financial reports unless the Auditor General does not certify it as accurate. Therefore, as commented by Hossain and