AN EXAMINATION OF AUDIT DELAY OF SELECTED MAIN BOARD MALAYSIAN COMPANIES

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ABSTRACT

Timeliness is a crucial qualitative attribute of financial statements where it requires the information to be made available to the users as rapidly as possible. This is because, the length of audit work is one of the factors that could affect the timing of earnings announcement. This study is undertaken to provide empirical evidence on the determinants of audit delay in Malaysia. By understanding these determinants, it is expected that this study could provide an explanation of audit delay phenomenon especially in this country. Specifically, the objective of this study is to determine whether there is an association between audit delay and a set of explanatory variables namely company size, industry classification, sign of income, extraordinary item, audit opinion, auditor, year-end and debt proportion.

Multiple regression analysis was performed and the results indicated that six out of the eight explanatory variables are significant which are industry classification, sign of income, audit opinion, auditor, year-end and debt proportion. Out of these variables, the audit delay was positively associated with sign of income, audit opinion and debt proportion whilst negatively associated with the remaining three.

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CHAPTER ONE
INTRODUCTION

1.1 Introduction

Timeliness is a crucial qualitative attribute of financial statements where it requires the information to be made available to the users as rapidly as possible. Hence, the length of audit work is one of the factors that could affect the timing of earnings announcement. It has been claimed that the shorter the time between the end of the accounting year and the publication date, the greater the benefits that can be derived from the annual reports (Abdulla, 1996).

It has been well understood that a financial statement cannot be made public unless it has been audited. In fact, to audit it takes time. Audit and timeliness are joint requirements of public disclosure. Auditing is needed as a protection towards the users of financial statement especially shareholders and it should be done in a timely manner as it is a necessary condition to make the information content useful and relevant for decision making. Nevertheless, there is a trade-off between these two requirements i.e. audit and timeliness. According to Whittred (1980, p. 564), "Indeed, one of the principal side effects of the requirement to audit is a considerable reduction in the timeliness of the annual accounts."

Thus, the extents of audit lag do have some impact on the reporting lag. Givoly and Palmon (1982, p. 491) contended that "the single most important determinant of the timeliness of the earnings announcement is the length of the audit."

According to Davies and Whittred (1980), there are two dimensions of the concept of timeliness in financial reporting. The first one is the frequency of reporting, i.e. the length of the reporting period. The other one is the lag between the end of the reporting period and the date of which the financial statements are issued. Both legislative as well as regulatory provisions of corporate disclosure do address these two issues.