AUDIT LAGS FOR LOCAL AUTHORITIES IN MALAYSIA

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Abstract: This research examines the audit certificates and financial statements of selected local authorities in Malaysia. The researchers investigate the duration of time taken by auditors to certify the annual accounts of selected local authorities, to determine whether the trend of audit lags have improved over time, and to present statistical evidence on audit lags in Malaysia. 59 audited financial statements of the selected local authorities were analysed for eleven years from year 1990 to 2000, i.e. 649 audited financial statements. Timely financial reports indicate that the management gives priority to the preparation of financial statements and disclosing the management of find to the public. The study was conducted by document analysis and statistical investigation. It is revealed that the audit lags in Malaysia during the study period ranges between 2.92 months and 58.13 months. Only 3.7 percent of the audited accounts were certified after two years. This means that many selected local authorities did not emphasise on the importance of timely financial reports. By the end of year 2000, the longest audit lag was 28.89 months. Thus although the situation has improved, the local authorities ought to publish the annual reports and accounts on time because this reflects the efficiency of the management and proves that the local authority is accountable to the public.

INTRODUCTION

Financial reporting should be seen as a part of the process of accountability whereby the public is informed of important issues that have occurred in the last financial year as promptly as possible. The usefulness of information depends on its timeliness, reliability and comprehensibility. Timelines have been recognised as one of the important characteristics of financial statements by the professional bodies, regulatory authorities, financial analysts, investors, managers and the academics (Hossain and Taylor, 1998) [3]. 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 rather, the discipline imposed by timely confirmation of previously available information. Bamber, Bamber and Shoderbeck, (1993) [2] 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 affected by the audit function because the financial statements cannot be issued until the audit is concluded. Obsolete reports will be useless to users because the information cannot be utilized in decision-making.

Objectives of Study

The objectives of this research are:

- 1. To determine the duration of time taken by auditors to audit and certify the annual accounts
- 2. To present descriptive statistical evidence of audit lags
- 3. To provide recommendations for improvement in the financial reporting of these organizations.

Organization of This Paper

Section One provides the background of this research. It highlights the importance of financial reporting. The objectives of this research are listed. Section Two covers the relevant literature of audit lags. This section shows the importance of timeliness in financial reporting and covers the purposes and the users of financial reports in the public sector. Section Two also diagramatically shows the framework of the study.

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Section Three outlines the methods of data collection and data analysis used by the researchers. Section Four presents the in-depth discussion on the findings from this research in relation to audit lags. Section Five provides recommendations to eliminate audit incidents and to improve audit lags. Several future researches are suggested.

Literature Review on Audit Lags

Mayston (1992) [6] argued that meeting user needs is a wider objective than simply providing information for future-oriented decisions. He further grouped the potential users of financial reports in the public sectors as follows:

- Group A: Voters, tax-payers and consumers of the goods and services produced by the public sector;
- Group B: Representatives of those from Group A, such as (in the UK context) MPs. the Public Accounts Committee and Departmental Select Committees, and their advisers;
- Group C: Policy-makers, such as government ministers and their civil service and other advisers;
- Group D: Managers within governmental organizations and public sector agencies;
- Group E: Employees and professionals working in the public sector;
- Group F: Monitoring bodies such as the Audit Commission and the National Audit Office, and regulatory agencies, such as the Office of Telekommunications;
- Group G: Lenders to, and trade and other creditors of public sector bodies.

Other related literature were also referred to as listed in the bibliography, for example Abdul Aziz (2000) [1], Local Government Act 1976 (Act 171) [4] and others.

MATERIALS AND METHODS

Data Collection

The local authorities' annual reports, collected from the National Audit Department, are from the Perak, Selangor, Negeri Sembilan and Sarawak branches. In order to enable the researchers to investigate the audit incidents and audit lag, eleven years of annual reports from each of the selected local authorities were collected. The period of research covers the fiscal years 1990 to 2000. Audit certificates from 59 local authorities in the four states were examined.

Data Analysis (Audit Lag)

From the data gathered, the researcher determines the trend in audit lag to see whether there is improvement in time taken to certify the annual accounts. Descriptive statistics are used to analyse and explain the findings, where the data were analysed using Microsoft Excel 2000 and SPSS 10.0. The data are organised and presented in tables.

RESULTS AND DISCUSSIONS

Definition of Audit Lag

For the purpose of this research, 'audit lag' is defined as the period in months between the end of the financial year and the date when the auditor signed the certificate. According to Section 54 (2) Local Government Act 1976 [4], local authorities must submit their financial report to the AG Office before or on 31^{st} May each year. The AG Office's staff will then audit the financial reports or outsource them to the private audit firms appointed by them. Due to inadequate staff strength, much of the audit work has been outsourced to private auditors.

Performance At The Individual Local Authorities in Malaysia

In Table 1 councils are ordered by means of audit lag in ascending order. Most of Sarawak's local authorities obtained audit lags of less than a year except for Dewan Bandaraya Kuching Utara. Four local authorities in Negeri Sembilan i.e. Majlis Perbandaran Seremban, Majlis Daerah Kuala Pilah, Majlis Daerah Seremban and Majlis Daerah Jempol, are the last four laggards among the selected local authorities.

Table 1: Summary Of Audit Lags For Local Authorities In Malaysia

	1990	1991	1992	1993	1994	1995	1996	197	1998	1999	2000	Mean
MAJUS DAERAH SARIKE	8.66	10.62	9.57	10.69	SET	7.15	453	100	8.03		6.46	726
MAJLIS DAERAH LAWAS	7.80	9.48	9.84	10.23	6.26	7.15	4.6	6.16	7.11	673	6.39	737
MAJLIS DAERAH LUNDU	7.80	8.13	843	9.64	6.46	8.69	7.44	7.64	11 51	623	692	808
MAJUS FERBANDARAN SIBU	9.31	841	10.07	10.69	834	864	708	7 74	RAR	895	7.44	872
MAULIS DAERAH MARADONG & JULAU	8.66	11.02	908	10.66	534	6.56	6 16	10 50	9.15	800	7 25	840
MAULIS DAERAH SRI AMAN	11.80	10.26	11 28	10.23	630	8 10	777	7 74	820		C.40	0.40
MAJUS DAERAH KAPIT	10.45	964	11.02	11.34	541	673	6.0	830	9,02	0.54	9/17	0.65
MAJUS DAERAH KANOA/IT	8.65	10.26	9.31	14.94	7.70	863	6.0	8 05	9.46	7.74	0.77	9.67
MAULIS PERBANDARAN MIRI	931	10.62	11.78	944	7 44	761	7 39	7.64	8/2	14-1	754	0.64
MAILIS DAFRAH BETONG	780	10.69	849	957	6.66	9.21	879	0.00	44 54	4.50	7.01	DCA
MAILIS DAFRAHLIMBANG	895	941	40.75		7 77	761	7.34	7 74	0.04	2 OF	7.00	0.04
MALLIS PERBANDARAN PADAMAN	907	41 41	41.61	G M	830	0.40	777	44 577	7.40	100	7.01	0.75
MAILIS DAFRAHMATU & DARO	840	10.35	10.30	11.05	970	701	405	0.00	1,40 (1,40	7.21	1.11	6.78
MAILIS DAFRAHILIAR BANDAR SIFLI	896	964	10.72	10.62	623	9.63	7 77	0.00	0.40	9.14	8.40	880
MAILIS DAFRAH DALAT&M KAH	RAS	10.62	1075	10.72	6 16	770	7.44	4.5	0.54	0.05	9.40	8.50
MAILIS DAFRAHSERIAN	11.80	1080	11 28	GRI	675	6.94	0.70	n on	40.40	9.40	0.10	0.00
MAILIS DAFRAH BALL		1100	1075	074	044	44 04	G13	8.00	0.54	7.57	0.04	2.32
MAILIS DAFRAH SAMARAHAN		10.67	40.75	A (14	11 Ad	44 74		44 07	104	1.0/	6/9	3.52
MAILIS DAFRAHSI BIS	0.00	0.40		14	40.00	44 74	0.40	11.01	14.30	10.82	11.87	9.00
MA ILIS DAERAH SARATOK	44.44	40.76	8.211.388 CE O	057		11.74	314D	1.04	7,41	643	0.04	80/
	40.72	0.40	ALDI	3.04	0.35	ince	300	TILLER	8.46	8.40	ALC:	3/1
MALLIS BANDADAVA KI MUNC SELATAN	10.05	3041 44 54	0.0	0.44	7.77	8.13	1.08	11.08	10.46	10.95	8.11	8.94
	40.40	1151	0.40	344	4.11	8.07	0.80	70.38	8,46	10.36	15302	10.09
MALLS DAEDALLSEDANS	IU.40	335	0.40		T1.70	1200		7.84	11.74	1.27	8/5	1028
MALLIS DAEDAH SAA NUAN	167.0	14.50	14:59	11.51	10.06	928	11.15	6.66	6.39	7.77	10.13	10.59
	112421	ALD.	TLÆ	TILLO	803	13.50	838	17:02	11.84	10.79	10.23	10.62
MALLS PARDAL DOMONIL	0.00	40.40	1262	/./4	9.02	2,93	7.67	6,89	6.62	9.44	10.59	11.29
	3,55	uр			000	11,64			<u> </u>	11.38	10.23	11.34
	23 10	10.7Z		(9.34	906	9,90	10.82	9/1	8.75	1221
	223.01	200	121UZ		10.70	8 44.00	1.01	0.01	040	6.49	70.92	13.15
	24 11	21.02	10.22			8 11.30	305	8.43	1.54	1,95	839	15,55
	51.14	21.51	(DUG)	8.90	13,11	810	Services and a service of the servic	11.97	9.31	886	9.05	13,43
	10,44	14.02	13.44	2/4	262	8.16	908	11.93		15(6)	2::{::	13.71
		24526	4444 70 (77	11.00	1640/	6.39	1.54	6.60	1.28	7.84	7.18	13:85
	24.02	24.00	22.6/	11.90	0.00	8 9 201	71.34	9.34	6.66	7.84	7.70	1399
	04.00	21.01	22.40	11.04	9.20	8 0.00	11.31	Т. Ф	1.28	9.80	9.05	1543
MALLIS DEPRANDAPANISE AVANC	00,000	20.40 40.00	AE 04	11.00	12.00	3.9/	11.87	mar	/.31	835	823	15.49
MAILIS DAERAHMANILING	22.04	24 24	20.01	44.52		40.00	3.44	10.49		10.79	10.59	15,51
MALLS DAEDAH DEDAK HILID	20164	21.21	200.100	64,000	11.16		11.51	9.41	6.92	88	9.05	147/4
MALLIS DAERAH IELEEL	44.00	46.44	60.60 AE 14	14,000		11.21/		11.9/	8.90	869	8.65	16(80
MAILIS DAERAH SABAK PERNAM	11.20	70.14	10.70	42.11	44.04		1 1/1 B			24318	24741	1566
MALLIS DAERAH CERK			A - 14	10,00	1101	,888.L2::28	8 e.e.	10,48	8.46	780	I.AU	1548
MALLIS DAEDAH HILIB DEDAK	17:04	20.40	221.044	44.00	40.70	8 10.10	10.10	10.60	820	7,84	7.90	16339
	44.05	051.07	203 #D		10.79	8 0 000	30.43	8.62	/.15	8.46	8.13	16,41
MAILIS DAERAH TARAH	498.00	34.07	22.63	13.84 AA 33	111131	330	(,54)	7.51	6.55	8.16	8,10	16.79
MAILIS BANDARAVA IPOH	42.42	2010	40.40	10.01	10.001	1210	9.8/	8.30	6.56	11.11	11.08	16(80)
	70.50	30,10	10, 10 74 44	10.04	- <u></u>	244	20/	2.46	61:55	11.38	1262	16:82
MALLIS DEPRANDARAN KA JANG	70.90	70.00	46 00	10.30 74.07	21631	12.68	CT.11	¥27	8.52	1643	13.64	17.4%
	477.04	A4 40	1000 1000	24.07	14,62	<u> </u>	48.2			10100	15327	19.24
			34.50	21.50	19749	TLEE	30.30	9.21	7.28	931	7.90	19.26
MALLS DAEDALL DOET DOLLARS	20.44	20.49	~~~~	22.62	Paris -	17.57	13.84		1275	15/6	13.64	19,80
MAILIS DAEDALITANEINI	2045	30 15	22.12	16.13	1374	6823	17/64	49	19,94	22/23	23.44	20.22
MALLIS PERPANDARAN & PANC IAVA	294,000	17.04	70.02	10.55	10.5/	11.61	73(90)		1574	2341	16.10	20,79
	24.00	40.00	20.07 90.00	20162 70 m	21.61	10,61	19,31				1991	2168
	04.00	40.40	32.56	23.20	22243	10.46	a contraction of the second	8 K (1	9.15	11,38	6.95	2233
	00.16	42.10	34,16	22.85	19191	11,46	13(6)/	E	9.31	11.15	11.38	272
	21.51	31.74	32.30 	30.62	30,65	23.61	25183	19,58	11.90	11.67	10.92	23.81
	14.09	17 55	17.21	38.10	32.72	20.75	14, 10	3915	33.80	28.66	16.66	24,88
MALLIS DAEDAH IDVON	20.62	- Ki 65	46(15)	53.12 10 E A	46.48	14,56	8,46	19457	19,64	33.41	28.89	25:20
In a characteria		1999	43.04	41.54	- 2Q D/	23.01	24(6)		CC (13)	40.63	23(89)	10 St C 1

Table 2 shows that the longest audit lags range from 23.61 months to 58.13 months, while the shortest time taken by the local authorities ranges from 2.92 months to 8.13 months. In 1997, Majlis Daerah Sarikei took only 2.92 months to certify their accounts while the other local authorities' accounts were certified within a 3 to 6 month period except in 1991 when the shortest audit lag for Majlis Daerah Lundu was 8.13 months. The longest audit lags range between 23.61 months to 58.13 months. Table 2 shows that the audit lag for Majlis Daerah Kinta Selatan improved from 58.13 in 1990 to 46.16 months in 1991. The trend deteriorated in 1993, whereby the longest audit lag was 47.54 months obtained by Majlis Daerah Jempol. For the next three years it showed a declining trend. From 1996 to 1997, the longest audit lags were 33.80 months and 40.89 months respectively. The trend was fluctuating. In year 2000, three local authorities had the longest audit lags at 28.89 months.

rable 2. Shortest and longest Audit Lags In Each Financial	Table 2	2: S	hortest	and	longest	Audit	Lags	In	Each	Financia	y
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Financial Year	Shortest In Month	Council	Longest in Month	Council
1990	4.36	Majlis Daerah Samarahan	58.13	Majlis Daerah Kinta Selatan
1991	8.13	Majtis Daerah Lundu	46.16	Majlis Daerah Kinta Selatan
1992	5.93	Majlis Daerah Rembau	46.13	Majlis Daerah Seremban
1993	4.82	Majlis Daerah Samarahan	47.54	Majlis Daerah Jempol
1994	5.34	Majlis Daerah Maradong & Julau	35.57	Majlis Daerah Jempol
1995	5.64	Majlis Perbandaran Sibu	23.61	Majlis Daerah Jempol
			23.61	Majlis Perbandaran Seremban
1996	3.48	Majlis Daerah Bau	25.93	Majlis Perbandaran Seremban
1997	2.92	Majlis Daerah Sarikei	39.05	Majlis Daerah Kuala Filah
1998	5.48	Majlis Daerah Hulu Selangor	33.80	Majlis Daerah Kuala Filah
1999	5.28	Majlis Daerah Sri Aman	40.89	Majlis Daerah Jempol
2000	5.54	Majlis Daerah Subis	28.89	Majlis Daerah Jempol
		5,	28.89	Majlis Daerah Seremban
			28.89	Dewan Bandaraya Kuching Utara

Performance at the Aggregate Level of Organizations in Malaysia

Table 3 and Table 4 provide a summary of audit lags for organizations in Malaysia from 1990 to 2000. The data are organized in terms of audit lags less than or equal to six months, and then more than six months but less than or equal to nine months. The other groupings are nine months to one year, and from one year until less than or equal to 15 months. Another four groupings include more than 15 months and up to a period of more than two years.

Table 4 shows the cumulative figures of audit lags which are as follows: in the first six months, only 3.7% were certified; within nine months, 31.1% were certified; within one-year period, 64.3% of accounts were being certified and by 18 months, 78.1% of accounts were certified. The balance of 21.9% of accounts were certified after 18 months

Table 4 also shows that in 1990, 20.3% of accounts were certified within nine months. The situation deteriorated in 1991 when there were only 1.7% of the accounts certified within nine months. Most of the accounts took between 9 and 12 months to be certified. As in 1992, 10.2% were certified within nine months. This figure has improved as compared to the previous year. But the trend did not last long since it dropped again in 1993 to 6.8%. For the next seven years, the percentage of audit lags fluctuated but it is still in good condition because the percentage is higher as compared to the previous year. Within 9 months, 39.0% were certified in 1994, 33.9% were certified 1995, 42.4% were certified in 1996, 37.3% in 1997, 50.8% were certified in 1998 and 1999, and lastly it dropped to 49.2% in 2000. Even though the percentages sometimes fluctuated, the performance was good since many accounts could be certified in a much shorter time.

Year				Audit Lag	s (Months)				1
	0.0	6-9	9-12	12-15	15-1B	18-21	21-24	>24	Total
1990	1 1 7%	11 18.6%	12 20 3%	3 5 1%	2 3 4%	1 7%	1 7%	28 47.5%	59 100.0%
1991	0 0.0%	1 1.7%	24 40.7%	2 3.4%	2 3.4%	4 6.8%	6 10.2%	20 33 9%	59 100.0%
1992	1 754	5 8 5%	18 30.5%	5 8.5%	11.9%	2 3.4%	9 15.3%	12 20.3%	58 100.0%
1993	1 1 7%	3 5.1%	26 44.1%	10 16.9%	3 5.1%	6 10.2%	3 5.1%	7	59 100.0%
1994	6 10.2%	17 28 8%	12 20.3%	11 18 6%	3 5,1%	3 5.1%	3 5 1%	4 6 8%	59 100 0%
1995	1 1.7%	19 32 2%	28 47.5%	3 5.1%	2 3.4%	3 5.1%	3 5.1%	0 0%	59 100.0%
1996	6 10.2%	19 32 2%	19 32 2%	9 15.3%	1 7.9%	2 3 4%	2 3 4%	17%	59 100.0%
1997	3 5.1%	19 32.2%	24 40.7%	5 8.5%	3 5.1%	1 1.7%	1 1_7%	3 5.1%	59 100 0%
1998	1 1,7%	29 49 2%	17 28.8%	3 5.1%	3 5 1%	3 5.1%	0 0 0%	3 5:1%	59: 100 0%
1999	3 5.1%	27 45_8%	18 30.5%	0 0.0%	5 8.5%	0 0.0%	3 5.1%	3 5.1%	59 100.0%
2000	1.7%	28 47 5%	28 8%	5 8.5%	3 5.1%	0.0%	2 3.4%	3 5 1%	59 100 0%
Distribution of means	0 0.0%	14 23 7%	13 22.0%	7 11.9%	13 22.0%	5 8.5%	4 6.8%	3 5.1%	59 100.0%
	1		Account	s Audited	by Period	Months)			-
Accounts audited by period	24 37%	5-9 178 27 4%	9-12 215 33.1%	56 8.6%	15-18 34 5.2%	18-21 25 3.9%	21-24 33 5.1%	>24 84 12.9%	Total 649 100.0%

Table 3: Summary of Audit Lags For Local Authorities In Malaysia

Table 4: Summary of Cumulative Accounts Audited For Lags In Malaysia

Year	Cumulative Audit Lags (Months)								
	0.4	0-9	0-12	0-15	0-18	0-21	0-24	Total	
1990	1 1 7%	12 20.3%	24 40,7%	27 45.8%	29 49.2%	30 50 8%	31 52 5%	59 100.0%	
1991	0	1	25	27	29	33	39	59	
	0.0%	1.7%	42.4%	45.8%	49.2%	55.9%	66.1%	100.0%	
1992	1.7%	6 10:2%	24 40 7 %	29 49 2%	36 61.0%	38 64,4%	47 79.7%	59 100 0%	
1993	1	4	30	40	43	49	52	59	
	1_7%	6 8%	50.8%	67.8%	72.9%	83_1%	88.1%	100 0%	
1994	6	23	36	46	49	52	55	59	
	10.2%	SB D%	59 3%	78 0%	83.1%	88,1%	93 2%	100 0%	
1995	1	20	48	51	53	56	59	59	
	1.7%	33.9%	81_4%	86.4%	89.8%	94.9%	100.0%	100.0%	
1996	6	25	44	53	54	56	58	59	
	10.2%	42 4%	74 6%	89 8%	91,5%	94.9%	98 3%	100.0%	
1997	3	22	46	51	54	55	56	59	
	5.1%	37 3%	78.0%	86.4%	91 5%	93.2%	94.9%	100_0%	
1998	1	30.	47	50	53	56	56	59	
	1.7%	50.8%	79 7%	84,7%	89.8%	94.9%	94,9%	100.0%	
1999	3	30 50.8%	48 81.4%	48 81.4%	53 89.8%	53 89.8%	56 94.9%	59 100.0%	
2000	1	29	46	51	54	54	56	59	
	1.7%	49.2%	78.0%	86.4%	91.6%	91.6%	94.9%	100.0%	
Distribution of means	0	14	27	34	47	52	56	59	
	0.0%	23.7%	45.8%	57 6%	79.7%	88.1%	94.9%	100.0%	
	Cumulative Accounts Audited by Period (Months)							1	
Accounts audited by period	24 3.7%	0-9 202 31.1%	Q-12 417 64.3%	0-15 473 72.9%	0-18 507 78 1%	532 82.0%	0-24 565 87.1%	Total 649 100.0%	

RECOMMENDATIONS AND CONCLUSION

Overview of Research Results

The research findings show that there are extensive and constant audit lags throughout the research period. Six organizations had never obtained audit lags of less than a year. The data shows that there is a constant pattern.

Table 3, shows that 3.7% of the councils had a mean audit lag within six months; 33.1% of councils had a mean audit lag of 12 months or less; and 12.9% of councils had a mean audit lag of more than 24 months. From the selected organizations, those from Sarawak are the best performers, Majlis Daerah Sarikei, being the best local authority in Malaysia, and organizations from Negeri Sembilan are the worst performers especially Majlis Daerah Jempol.

Significance Contribution of this Research

Emphasis is placed on audit delay in the private sector, but not much attention has previously been given to these organizations. To the researchers' knowledge, this is the first extensive study of its kind in Malaysia. It reveals the worrying length of audit lags which have been allowed to continue with little in the way of meaningful penalty or sanction. Excessive audit lags reflect badly on the efficiency of organizations. These organizations have a duty of accountability to the public; timely reports and clean audit certificates would show that they take this duty seriously. Despite the recent improvements mentioned above, questions remain as to why this problem was not spotted or acted upon earlier.

Limitation of study on audit incidents and audit lags

Initially, the study involved the assessments of financial statements and audit certificates for the year 1991 to 2000. However, some of the financial information for the year 1998 to the year 2000 was received very late and some financial reports for the year 2000 were not available, as certificates from the AG's Office had not been issued to these organizations. Calculation of audit lag is based on the date that appears on the audit certificate, i.e. date of audit completion. The date on which the accounts are sent by the council to the auditor is not in the public domain.

Suggestions for Future Research

There are several suggestions that could be undertaken for future research.

Firstly, a study could be performed to analyze causal relationships. Previously this study focused only on the descriptive view. Studies can be conducted on several hypotheses regarding the quality of these organizations. For example, there might be a need to examine if the size of the organization could have a significant effect on the quality of financial reporting.

Secondly, further research could also be done by conducting personal interviews with the accounting staff of the organizations and the auditors, in order to find the reasons for audit lags. Furthermore, the quality of the accounts presented by the council could also affect the audit lags.

The following recommendations are proposed to ensure continuous improvements in the financial accountability of Malaysian organizations.

Firstly, all organizations should establish effective audit committee. In the private sector, the audit committee plays an important role in ensuring effective and efficient internal control, accounting system, and governance in the company. It would be good practice to have an audit committee in the organizations, as their presence will strengthen internal control, financial management and accounting system of the organizations. In addition to the various agenda, they should also emphasise changes in accounting policies and compliance with accounting standards and other legal requirements. Fewer errors would be made and accounts would more likely be prepared in less time. In addition, their presence could perhaps encourage organizations to take audit incidents more seriously. Any

modification should be made as soon as possible to avoid recurrence in the following year or prevent problems from becoming unresolved issues.

An alternative to the audit committee would be to establish an internal audit department. The establishment of such a department would depend on the financial capability of the organization. Big organizations such as the Shah Alam City Council, Johor Bahru City Council, and Seremban Municipal Council would be most appropriate for the adoption of this idea. Most probably they have the required financial capability to establish internal audit departments in their Councils. To ensure the independence of the internal auditors in giving their opinion, they should be answerable to the President.

Conclusion on Audit Lags

The findings show that Malaysian organizations have experienced lengthy audit lags. These findings also imply that annual accounts are rarely utilised by the public for, if they were, the delay would have created more complaints, as would be likely to occur if a quoted company delayed its accounts in such a fashion. As such, it was recognised, using Lüder's model [5] and principal-agent theory, that the stimuli to produce timely and error-free financial information is not as strong in the case of local government as it is in the private sector, where institutional shareholders and Stock Exchange requirements make it imperative that timely information be produced. However, it is still true that having long audit lags does not directly or materially affect these organizations in any manner. These organizations continue to receive financial resources from the government and the public, even if they have their accounts certified very long after the financial year.

More generally, a local authority ought to publish the annual report and accounts on time because this reflects the efficiency of the management and proves that the local authority is accountable to the public. Publishing and distributing the annual reports and accounts on time may also improve its relationship with the local people.

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