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The extent of audit report lag and governance mechanisms: Evidence from Islamic banking institutions in Malaysia (Article)

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Abstract

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Purpose: The purpose of this study is to examine the extent of audit report lag and its association with governance mechanisms in the Islamic banking institutions in Malaysia. **Design/methodology/approach:** The extent of audit report lag is defined by the number of days from a company's financial year-end to the signature date on its audit report. The sample of the study comprises 112 observations of Islamic banking institutions' financial reports for the period 2008-2014. A balanced panel data analysis is performed to analyse the association between the extent of audit report lag and governance mechanisms. **Findings:** The findings show that the extent of audit report lag for the sample selected ranges from a minimum period of 7 days to a maximum period of 161 days, and the extent of audit report lag is approximately two months on average. A fixed effects analysis indicates that audit committee expertise and audit committee meeting have significant association with the extent of audit report lag. On the other hand, board independence, audit committee size and Shari'ah board expertise have insignificant association with the extent of audit report lag. In addition, one control variable (Islamic bank size) is found to be significantly associated with longer audit report lag. **Practical implications:** The findings provide useful feedback for Malaysian policymakers on the past and current practices of financial reports and of governance mechanisms. The findings of the study would help the policymakers in monitoring the Islamic banking institutions' compliance with financial reports submission requirements. The policymakers perhaps could relook into governance mechanisms that reduce the extent of audit report lag in the Islamic banking institutions and implement regulations to strengthen them. **Originality/value:** Unlike the majority of prior studies that investigated the association between the extent of audit report lag and governance mechanisms, this study provides two contributions. First, to the authors' knowledge, this study is the first piece of research that examined the association between governance mechanisms and the extent of audit report lag in Islamic banking institutions. Second, the study examined the association of new governance variable, namely, Shari'ah committee expertise which has not been previously examined in the literature of audit report lag. © 2020, Emerald Publishing Limited.

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