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**KEY AUDIT MATTERS, AUDIT PARTNER TENURE
AND AUDIT REPORTING LAG: EVIDENCE FROM
MALAYSIA**



Master of Science (International Accounting)

Universiti Utara Malaysia,

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**KEY AUDIT MATTERS, AUDIT PARTNER TENURE AND AUDIT
REPORTING LAG: EVIDENCE FROM MALAYSIA**



Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Partial Fulfilment of the Requirement for the Master of Science
(International Accounting)



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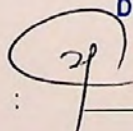
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ABSTRACT

Audit timeliness is one of the most important factors that determine timeliness of financial reporting. Undue delay in audit report would cause delay in financial reporting and consequently affect decision making of the users of financial statement. This study investigates the relationship between Key Audit Matters (KAM) category, which has longer audit reporting lag (ARL) and ARL. This study also examines the moderating effect of audit partner tenure on the relationship between KAM category, which has longer ARL and ARL. The data was collected from 395 companies with financial year end of 31 December 2016 listed on Bursa Malaysia Main Board. The sample was approximately 50 percent from the population of total 795 companies. Descriptive statistics showed that on average, the companies took approximately 92 days to complete their audit report. From mean t-test analysis and univariate analysis, KAM category-receivables was found to be positive and statistically significant in predicting ARL. Using ordinary least squares regression analysis, it was found that KAM category-receivables has a positive and significant relationship with ARL. However, audit partner tenure did not moderate the KAM category-receivables-ARL relationship. Further analysis suggested the potentiality of long-tenured audit partners from Big 4 to reduce ARL. The study shall be interest of the auditors, regulators and management of companies. The findings of the study would help auditors in developing a more realistic audit strategy and alleviate Bursa Malaysia's investigation and enforcement actions, other than serving as a justification basis of regulation reformation in the future. The findings of the study also contribute to the management of companies in developing comprehensive internal audit strategic plan and deploying resources to minimise ARL.

Keywords: audit reporting lag, key audit matters, audit partner tenure, enhanced auditor reporting, audit timeliness.

ABSTRAK

Ketepatan masa audit adalah salah satu faktor yang penting dalam menentukan ketepatan masa pelaporan kewangan. Kelewatan yang keterlaluan dalam mengemukakan laporan audit akan menyebabkan kelewatan pelaporan kewangan dan akibatnya mempengaruhi pembuatan keputusan pengguna penyata kewangan. Kajian ini bertujuan untuk mengkaji hubungan antara kategori Perkara Audit Utama (KAM) yang mempunyai kelewatan pelaporan audit (ARL) yang lebih panjang dengan ARL. Kajian ini turut mengkaji kesan penyederhanaan tempoh rakan kongsi audit ke atas hubungan antara kategori KAM yang mempunyai ARL yang lebih panjang dengan ARL. Data dikumpulkan daripada 395 buah syarikat yang mempunyai tahun kewangan berakhir pada 31 Disember 2016 dan tersenarai di Papan Utama Bursa Malaysia. Sampel kajian adalah merangkumi lebih kurang 50 peratus daripada populasi iaitu 795 buah syarikat. Statistik deskriptif menunjukkan bahawa syarikat mengambil lebih kurang 92 hari secara purata untuk menyiapkan laporan audit masing-masing. Daripada analisis ujian-t dan ujian univariat, kategori KAM-akaun belum terima didapati positif dan signifikan secara statistik dalam menentukan ARL. Dengan menggunakan analisis regresi *ordinary least squares*, didapati bahawa kategori KAM-akaun belum terima mempunyai hubungan positif dan signifikan dengan ARL. Walau bagaimanapun, tempoh rakan kongsi audit tidak menyederhanakan hubungan antara kategori KAM-akaun belum terima dengan ARL. Analisis yang lebih lanjut mencadangkan bahawa rakan kongsi audit *Big 4* yang bertempoh panjang mempunyai potensi untuk mengurangkan ARL. Kajian ini dijangka memberi kepentingan kepada juruaudit, pihak pembuat polisi dan pihak pengurusan syarikat. Dapatan kajian ini membantu juruaudit dalam penyediaan strategi audit yang lebih realistik serta memudahkan pengendalian penyiasatan dan penguatkuasaan oleh Bursa Malaysia, selain daripada berfungsi sebagai asas justifikasi bagi reformasi peraturan pada masa hadapan. Dapatan kajian ini juga menyumbang kepada pihak pengurusan syarikat dalam pembangunan pelan strategik audit dalaman yang komprehensif dan penggunaan sumber bagi meminimakan ARL.

Kata kunci: kelewatan pelaporan audit, perkara audit utama, tempoh rakan kongsi audit, pelaporan juruaudit yang dipertingkatkan, ketepatan masa audit.

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LIST OF ABBREVIATIONS

MASB	Malaysian Accounting Standards Board
ARL	Audit Reporting Lag
IAASB	International Auditing and Assurance Standards Board
ISA	International Standard on Auditing
KAM	Key Audit Matters
MIA	Malaysian Institute of Accountants
SC	Securities Commission Malaysia
ACCA	Association of Chartered Certified Accountants
JOA	Justification of Assessments
FRC	Financial Reporting Council
RoMM	Risks of Material Misstatement
ICAEW	Institute of Chartered Accountants in England and Wales
ACGA	Asian Corporate Governance Association
XRB	External Reporting Board
MCCG	Malaysian Code of Corporate Governance
MFRS	Malaysian Financial Reporting Standards
PCAOB	Public Company Accounting Oversight Board
PwC	PricewaterhouseCoopers
EY	Ernst & Young
REITS	Real Estate Investment Trusts
IFAC	International Federation of Accountants
OLS	Ordinary Least Squares
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Timeliness is a pertinent issue being considered in financial reporting. Timely financial reporting is utmost vital to ensure the delivery of relevant information to stakeholders, allowing informed decision making (Ahmad, Mohamed and Nelson, 2016). Financial information is less relevant to stakeholders if it is subjected to longer preparation period and audit engagement period. For example, one of the objectives of financial reporting is to provide information to ease financial statement users to make economic decisions (MASB, 2011). Financial statement users such as capital providers might decide to buy, sell or hold equity and debt instruments, and to provide or settle different form of credits in the rapid growing and volatile market, based on information provided by financial statement. Therefore, financial statement users such as capital providers would demand for timely information (Ahmad et al., 2016).

Other than timeliness of company's management in preparing accounts, time requirement of external auditor to complete audit engagement is significant in determining financial reporting timeliness (Ahmad et al., 2016). The longer the time external auditor takes to finish off audit engagement, the longer the delay of the issuance of audited financial report, causing audit reporting lag (ARL). ARL is known as the gap between the financial year end of the company and its audit report date (Chambers & Penman, 1984). Due to ARL being one the major determinants in

affecting financial reporting timeliness (Owusu-Ansah, 2000; Leventis, Weetman & Caramanis, 2005; Abbott, Parker & Peters, 2012; Abernathy, Barnes, Stefaniak & Weisbarth, 2017), it has therefore captured the interest of researchers in worldwide. To date, various studies have been carried out worldwide from various perspectives to study the determinants of ARL. Company-specific fundamental attributes have been the main focus of ARL studies while external auditor features and corporate governance have respectively received substantial attention.

In response to strong calls for more relevant and informative information in easing decision making, the International Auditing and Assurance Standards Board (IAASB) issued revised enhanced auditor reporting standards in 2015, effective for financial statements audit with financial year end on or after 15 December 2016. One of the significant changes is the new International Standard on Auditing (ISA) 701, “Communicating Key Audit Matters in the Independent Auditor’s Report”, which require auditors to communicate Key Audit Matters (KAM) tailored to the companies’ circumstances in a new section in the audit report. KAM are “those matters that, in the auditor’s judgment, are of most significance in the audit of the current period financial statements” (IAASB, 2015, p.3). In the same year, Malaysian Institute of Accountants (MIA) fully adopted this standard with the same effective date, with objectives of enhancing understanding of financial statements, providing more useful and relevant information to the capital market and reducing speculation of companies’ performance in the market (SC, MIA & ACCA, 2018).

Nevertheless, the disclosure of KAM is not completely new. It is mandatory for auditors in France to provide Justification of Assessments (JOA), which are identical

to KAM, in audit report since 2003 (Bédard, Gonthier-Besacier & Schatt, 2015). On the other hand, the UK's Financial Reporting Council (FRC) revised its ISA 700 (UK and Ireland) and implemented Extended Auditor Reporting in 2013 (Gutierrez, Minutti-Meza, Tatum & Vulcheva, 2018). Other than disclosing the level of overall and performance materiality and explaining the scope of audit, auditors are required to describe the most significant risks of material misstatement (RoMM), which broadly equivalent to the IAASB's definition of KAM (ICAEW, 2017).

1.2 Problem Statement

Audit timeliness is one of the most important factors that determine timeliness of financial reporting (Sultana, Singh & Van der Zahn, 2015; Afify, 2009; Leventis et al., 2005; Owusu-Ansah, 2000). Timely audit is vital as the completion of external audit processes is the prerequisite for publication of the financial reports (Leventis & Weetman, 2004). Undue delay in audit report would cause delay in financial reporting consequently. Timeliness on financial reporting would affect decision making of the users of financial statement. This is because accounting information might lose its relevance if it is not reported and therefore unavailable to users of financial statement in time to make informed decisions (Eghlaiow, Wickremasinghe & Sofocleous, 2012). Furthermore, timely reporting is perceived to mitigate the occurrence of leak, rumours and unofficial information in the market that might mislead decisions makers (Owusu-Ansah, 2000). Delayed disclosure allows unscrupulous investors to exploit alternative unofficial information at the expense of relatively less informed investors (Bamber, Bamber & Schoderbek, 1993). The significance of financial reporting timeliness to users of financial statement and the

direct effect of ARL towards users of financial statement have therefore made expansion of ARL literature a necessary.

Implementation of the ISA 701 might potentially affect audit timeliness. This is because auditors are required to communicate KAM tailored to companies' circumstances in a new section of the audit report to boost communicative value of it (IAASB, 2015). It would differ from its former boilerplate template and "pass or fail" approach (Bédard et al., 2015). Mandatory disclosure KAM might result in additional audit effort as additional disclosure would increase litigation risk and auditors have to reduce the increased litigation risk through increased effort (DeFond & Zhang, 2014). Other than possible audit delay caused by additional discussion of KAM with management and audit committees (to focus on issues that are insufficiently discussed in the audit committee report) prior to auditor's report issuance, incremental disclosure of KAM might require additional time and effort in determining, preparing language for communication and documenting critical audit matters that would likely to occur near the end of the audit process (Bédard et al., 2015). Therefore, the disclosure of KAM might cause increased audit report delay as the engagement which requires higher audit effort tend to have significantly longer ARL (Knechel & Payne, 2001). Apart of the scarcity of KAM-ARL literature, the relationship between different categories of KAM and ARL has yet to be addressed in the literature.

Substantial knowledge of the client would be gained if the same audit partner is appointed continuously across a period of time, hence less time is required to complete audit engagement (Wan Hussin, Bamahros & Shukeri, 2018). Consequently,

ARL would be reduced. It is therefore expected that longer audit partner tenure moderates the KAM-ARL relationship. Nevertheless, the effects of audit partner rotation on ARL have yet to be the focus of researchers (Knechel & Payne, 2001) and therefore forming a literature gap. Scarcity of audit partner tenure literature is likely to derive from the inability of researchers to identify audit partner change as audit partners' names are not mandated to be disclosed in most countries prior to the implementation of revised enhanced auditor reporting standards in 2015 (Lennox, 2014). Therefore, it is essential to investigate whether the length of audit partner tenure would moderate the KAM-ARL relationship.

1.3 Research Questions

From the previous section, it has become explicit that the literature of ARL shall be extended to take KAM into account due to the implementation of ISA 701 in 2016, despite of the massive empirical research effort in studying determinants of ARL. This study will focus on KAM which might contribute to longer ARL among companies listed on Bursa Malaysia Main Board with financial year end of 31 December 2016. Besides, this study will investigate whether audit partner tenure moderates the relationship between KAM and ARL. There are three research questions designed for this study, which are:

1. Which categories of KAM would have longer ARL among companies listed on Bursa Malaysia?
2. Do these categories of KAM which have longer ARL correlate with ARL?
3. Does audit partner tenure moderate the relationship between these categories of KAM which have longer ARL and ARL?

1.4 Objectives of the Study

The specific objectives of the present research are:

1. To examine the categories of KAM which have longer ARL mean among companies listed on Bursa Malaysia.
2. To examine the relationship between the categories of KAM which have longer ARL and ARL among companies listed on Bursa Malaysia.
3. To examine the moderating effect of audit partner tenure in the relationship between the categories of KAM which have longer ARL and ARL.

1.5 Significance of the Study

Malaysia provides a relevant setting in which to study audit reporting timeliness. Companies in emerging markets disclose less information, other than having relatively longer delay in financial reporting compared to companies in developed markets (Leventis & Weetman, 2004). According to the CG Watch 2016, listed companies in Malaysia are entitled for four months' timeframe to publish audited financial report, compared to three-month period in other markets (ACGA, 2018). ARL of Malaysian companies is relatively longer with average between 98 to 100 days (Apadore & Mohd Noor, 2013; Wan Hussin et al., 2018), compared to 40 to 80 days of ARL in other countries such as US, China, Egypt, Omani, New Zealand, Australia, Iran and Indonesia (Wan Hussin et al., 2018).

Furthermore, the average ARL of Malaysian listed companies is relatively longer than those in other developing countries. For example, the mean ARL of listed companies in China is 87 days (Habib, 2015) while the mean ARL of Egyptian listed companies is 47 days (Khlif & Samaha, 2014), despite of both have the same timeframe with

Malaysia (4 months) to submit annual report to the securities regulatory authority after fiscal year end. On the other hand, the mean ARL is even shorter in Oman (52 days) as the submission of audited financial statements has to be completed within 2 months (Baatwah, Salleh & Ahmad, 2015). Therefore, Malaysia provides a relevant setting in which to examine ARL.

This study contributes to ARL and KAM literature in the context of Malaysia in several ways. First and most importantly, this study extends the literature of ARL and KAM by examining the relationship of different categories of KAM and the ARL of companies listed on Bursa Malaysia Main Board. Timeliness has been a longstanding area of interest for researchers as well as investors, managers, regulators, auditors globally (Abernathy et al., 2017). Despite of the prominence of ARL literature in the international context, robust stream of research emphasises in company characteristics (such as company size; company performance and financial condition; complexity and industry; internal control and corporate governance) in determining ARL (Abernathy et al., 2017). However, the prior studies have yet to consider KAM, which is considered as the “pivotal or revolutionary moment” in auditing profession’s history (Abernathy et al., 2017, p.3), given that ISA 701 has only recently become effective.

Other than that, little focus has been given to ARL in KAM literature. For example, Bédard et al. (2015) studied the implication of JOA towards ARL, audit quality and audit fees, while Bradbury and Almulla (2018) examined the potential audit consequences of KAM in relation to audit fees, audit delay and audit quality in New Zealand context. Majority of the emerging KAM studies such as Gutierrez et

al. (2018); Li, Hay and Lau (2018); Reid, Carcello, Li and Neal (2015); Wei, Fargher and Carson (2017) focus in examining the effects of the Extended Auditors' Reports towards audit quality and audit fees while Lennox, Schmidt and Thompson (2018) investigated whether the introduction of an extended audit reporting is informative to investors. This study would then extend the literature of KAM-ARL. Furthermore, this study would investigate whether the length of audit partner tenure would moderate the KAM-ARL relationship, as the effect of audit partner rotation towards ARL is considered a literature gap (Wan Hussin et al., 2018) and yet to receive more attention.

The manner in which this new audit reporting requirement is imposed may have far-reaching consequences for the audit profession. Audit practitioners have recognised the increased time pressure and limited time allocation for new reporting standard compliance, leaving them less time to perform their regular duties which might in turn sacrificing audit quality (KPMG, 2015). Being informed of the KAM categories which are positively and significantly related to ARL, audit engagement team is able to prepare more realistic audit plan in conducting higher level of fieldwork to evaluate the compliance of processes and procedures in KAM-related areas. It would prevent exacerbation of audit delay. Besides, the role of audit partner tenure in moderating KAM-ARL relationship could interest audit profession, as it could contribute to potential lobbying initiatives of the profession in influencing regulation reformation of audit partner rotation.

On the other hand, regulators have also considered that KAM disclosure could put additional pressure on auditors, which could impact adversely on audit quality (XRB,

2015). Reformation in professional practice that is not well informed and not well grounded faces higher risk in producing unintended and potentially dysfunctional consequences that affect multiple stakeholders (Segal & Maroun, 2014). Investigation of the KAM-ARL relationship would enlighten the regulators, especially in KAM categories that prolong ARL. Consequently, they could take KAM and ARL into account in the decision of amending reporting timeframe of companies. Moreover, the significance of audit partner tenure in moderating KAM-ARL relationship would serve justification basis in the ongoing debate regarding the advantages and disadvantages of mandatory audit partner rotation to inform potential regulation reformation in the future.

1.6 Scope and Limitation of Study

1.6.1 Limited Sample

This study merely focused on 395 companies listed at Bursa Malaysia Main Board with financial year end of 31 December 2016. Only one year of ARL was collected from the sample. The sample used was about 50 percent from the population of total 795 companies listed at Bursa Malaysia Main Board during 2016 as effective implementation of ISA 701 started from 15 December 2016 onwards.

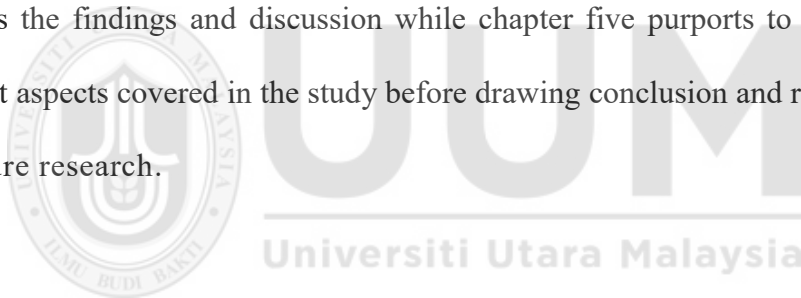
1.6.2 Audit Reporting Lag Measurement

Audit report lag measurement was based on the audit report date, calculating the difference between financial year end of the company and its audit report date.

1.7 Organisation of Study

The present study is organised as follows:

Chapter one presents the background of the study, which is related to ARL and the development of KAM. Besides, it also outlines problem statement, research question, research objectives and significance of the study. The scope and limitation of the study as well as the organisation of the study are also stated. Chapter two provides a review of literature on prior studies related to ARL, KAM and audit partner tenure. Chapter three presents the research methodology of the study. It discusses underpinning theories and theoretical framework, hypothesis development, variable measurement, model specification, data collection and data analysis. Chapter four provides the findings and discussion while chapter five purports to tie together the different aspects covered in the study before drawing conclusion and recommendation for future research.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the relevant literature related to ARL, KAM and audit partner tenure. The first section begins by reviewing the importance of audit reporting timeliness. A review of prominent empirical studies is used to illustrate the prevalence of ARL studies across the globe and to list out three types of determinants of ARL, namely company-specific fundamental attributes, audit and auditor attributes and corporate governance. The section then narrows its focus to look at ARL studies conducted in Malaysia. The next section focuses on recent studies of KAM, followed by the KAM studies which have taken ARL into consideration. The following section focuses on limited studies conducted on audit partner tenure, highlighting the need to examine audit partner tenure in ARL literature.

2.2 Audit Reporting Lag

ARL has captured the interest of investors, managers, regulators, researchers and auditors around the world for several reasons (Abernathy et al., 2017). ARL is considered as the only externally observable indicator of audit efficiency and thus, auditors are under pressure to produce audited annual report in a more timely manner in order to demonstrate audit efficiency (Afify, 2009; Bamber et al., 1993). A thorough understanding the determinants of ARL would allow auditors to identify and respond to factors that are potentially detrimental to audit engagement and other stakeholders (Abernathy et al., 2017). Moreover, ARL is an essential concern to

companies and investors as ARL is the most influential factor in the timeliness of financial reporting (Owusu-Ansah, 2000; Leventis et al., 2005; Abernathy et al., 2017; Abbott et al., 2012) while financial reporting timeliness determines the relevance and reliability of financial information (Rusmin & Evans, 2017). The longer the lag in releasing audited financial statements, the less useful and relevant this financial information would be (Raja Ahmad & Kamarudin, 2003).

ARL affects the timeliness of the earnings announcement of companies as well (Givoly & Palmon, 1982), as most companies would only announce their earnings once the audit report has been released (Bamber et al., 1993). Untimely announcement of financial information in turn reduces investor confidence in capital markets (Ettredge, Li & Sun, 2006) as it signals bad news such as below expectation earnings (Givoly & Palmon, 1982) and negative abnormal returns (Chambers & Penman, 1984) to the markets. Moreover, Bamber et al. (1993) argued that delay in information disclosure is detrimental in terms of equality of information access as it allows unscrupulous wealthy investors to utilise private pre-disclosure information in trading.

2.2.1 Definition and Determinants of Audit Reporting Lag

ARL refers to the gap between financial year end of the company and its audit report date (Mohamad Nor, Shafie & Wan Hussin, 2010; Knechel & Payne, 2001). Existing studies in ARL have been carried out in different geographical areas, in different domains and for different purposes (Eghlaiow et al., 2012). While researchers began to examine ARL in 1970s, studies modelling the relationship between ARL and its determinants (regressing ARL on variables hypothesised to either increase or decrease audit delay) began in 1980s (Durand, 2019). International ARL research could be

categorised into 3 themes, namely company-specific fundamental attributes (e.g., the complexity of organisation, inherent risk of organisation and financial condition), audit and auditor attributes (e.g., size of audit firm, industry specialisation, audit opinion, audit fees, audit tenure, auditing season, non-audit services, internal control function) and corporate governance (e.g., audit committee characteristics, board characteristics, CEO duality and ownership structure) (Abernathy et al., 2017; Habib, Bhuiyan, Huang & Miah, 2019).

Company-specific fundamental attributes are prominent in prior ARL studies (Dyer & McHugh, 1975; Davies & Whittred, 1980; Givoly & Palmon, 1982; Ashton, Graul, & Newton, 1989; Carslaw & Kaplan, 1991; Owusu-Ansah, 2000; Owusu-Ansah & Leventis, 2006; Al-Ajmi, 2008; Bhoor & Khamees, 2016; Chan, Luo & Mo, 2016). For example, Givoly and Palmon (1982), the initial study to investigate the company size-ARL relationship in the context of US, found the association between larger companies and shorter ARL. Dyer and McHugh (1975) found that ARL appear to be longer for smaller Australian companies and those companies with financial year end of June 30. Nevertheless, they could not observe association between profitability and ARL.

On the other hand, replicating the work of Dyer and McHugh (1975), Davies and Whittred (1980) found significant profitability-ARL association. Ashton et al. (1989) also found the sign of net income to be significant ARL determinant, which was subsequently confirmed by more recent studies such as Carslaw and Kaplan (1991); Bamber et al. (1993); Ettredge et al. (2006); Lee, Mande and Son (2009); Habib and Bhuiyan (2011); Dao and Pham (2014); Bhoor and Khamees (2016); Chan et al.

(2016). In the context of New Zealand, the results of Carslaw and Kaplan (1991) indicated that company size and sign of income significantly affected ARL while other variables (industry, extraordinary items, audit opinion, company ownership and debt proportion) significantly affected ARL however in a temporarily manner.

Other than the negative association between company size and ARL, findings of Jaggi and Tsui (1999) showed that companies' weak financial health is associated with longer ARL. With regards of complexity of organization, Ashton, Willingham and Elliott (1987) found a positive and significant relationship between operational complexity (proxied by the number of operating units and product lines) and ARL. Bamber et al. (1993) examined the influence of operational complexity (proxied by the number of business lines) towards ARL however they found that operational complexity did not have significant incremental explanatory power for ARL. Number of subsidiaries is also one of the proxies used to measure operational complexity. Chan et al. (2016), Habib and Bhuiyan (2011), Mohamad Nor et al. (2010), Che Ahmad and Abidin (2008), Jaggi and Tsui (1999) and Ng and Tai (1994) showed that there is a positive relationship between the number of subsidiaries and ARL.

Despite of the expectation that high-technology companies would have longer ARL due to higher level of litigation risk, Ettredge et al. (2006) found that high-technology companies are associated with have shorter delays. Other than indicating positive and statistically significant influence of industry variable towards ARL, Rusmin and Evans (2017) found that ARL is shorter for low-profile industries compared to those companies from mining, basic industry and chemicals and miscellaneous industries. Ahmad et al. (2016) and Raja Ahmad and Kamarudin (2003) found negative and

significant influence of finance industry variable towards ARL, suggesting that regulated industry tend to have shorter ARL. Habib and Bhuiyan (2011) also revealed that finance and investment industry is a significant variable in determining ARL. Similarly, Abidin and Ahmad-Zaluki (2012) found significant association between financial companies and faster audits. On the other hand, Wan Hussin and Bamahros (2013) and Wan Hussin et al. (2018) revealed that companies in plantation or technology industry tend to have shorter ARL.

Another ARL literature stream investigates audit and auditor characteristics such as auditor size, provision of non-audit services, audit tenure, audit partner rotation, auditor changes and audit firm technology. ARL varies by auditor affiliation; for instance, Big 4 vs. non-Big 4 auditors and industry specialist vs. non-specialist (Habib et al., 2019). Well-developed literature generally concluded that Big N auditors provide more timely financial reports, for instance in Greece (Owusu-Ansah & Leventis, 2006; Leventis et al., 2005); Canada (Ashton et al., 1989); Hong Kong (Jaggi & Tsui, 1999); Korea (Lee & Jhang, 2008); Indonesia (Rusmin & Evans, 2017); Jordan (Bhoor & Khamees, 2016); Malaysia (Wan Hussin et al., 2018; Salleh, Baatwah & Ahmad, 2017; Wan Hussin & Bamahros, 2013; Abidin & Ahmad-Zaluki, 2012; Mohamad Nor et al., 2010; Che-Ahmad & Abidin, 2008; Raja Ahmad & Kamarudin, 2003; Che-Ahmad & Abidin, 2001); Nigeria (Ilaboya & Iyafekhe, 2014). This finding could be attributable to the abundance of resources possessed by large accounting firms (Givoly & Palmon, 1982).

Despite of a large number of studies which include Big 4, auditor specialisation subjects to relatively limited exposure in the study of ARL (Habib et al., 2019). Most

of the studies were able to find the ability of industry specialist auditors in offering more effective audit (Habib & Bhuiyan, 2011; Rusmin & Evans, 2017) Contracting with Dao and Pham (2014), Bhoor and Khamees (2016) found that the existence of industry specialist would result in shorter ARL, nevertheless it would not moderate the relationship between audit tenure and AR.

Despite of unable to verify the influence of audit tenure in ARL, Ashton et al. (1987) suggested that ARL would be longer for new auditee due to the longer start-up time to enhance client familiarity. With respect to audit tenure, other studies such as Lee et al. (2009); Dao and Pham (2014) and Habib and Bhuiyan (2011) found that there is a negative relationship between audit tenure and ARL. In terms of the effect of auditor change, Bhoor and Khamees (2016), Che Ahmad and Abidin (2008) and Ettredge et al. (2006) indicated that time required to audit companies would be longer if the incumbent auditor is new to the auditee. On the other hand, Tanyi et al. (2010) has provided a deeper insight into audit partner tenure-ARL relationship. They found that the ex-Andersen auditees who follow ex-Andersen partner to new audit firm have shorter ARL than those non-followers of ex-Andersen partner. This finding highlighted the importance of the audit partner tenure in the ARL literature.

Audit firm characteristics related research also investigated the relationship between provision of non-audit services and ARL (Knechel & Payne, 2001; Lee & Jhang, 2008; Lee et al., 2009; Walker & Hay, 2012). Companies which acquired non-audit services substantially from their auditors would have shorter ARL in subsequent fiscal year as joint provision of non-audit and audit services have created knowledge spillovers (Walker & Hay, 2012). In terms of audit resources and processes, Knechel

and Payne (2001) found that ARL increases when there is presence of incremental audit effort and controversial tax issues, and it decreases when experienced audit personnel is appointed. Researchers have also investigated the effect of audit firm technology in influencing ARL. Newton and Ashton (1989), Bamber et al. (1993) and Jaggi and Tsui (1999) found that companies being audited under structured audit approach would subject to longer ARL. Regarding the audit opinion characteristics, prior studies (Bamber et al., 1993; Leventis et al., 2005; Ettredge et al., 2006; Lee & Jhang, 2008; Afify, 2009; Lee et al., 2009; Nelson & Shukeri, 2011; Wan Hussin & Bamahros, 2013; Khlif & Samaha, 2014; Chan et al., 2016; Bhoor & Khamees, 2016; Salleh et al. 2017; Oussii & Taktak, 2018) found that companies which receive non-standard audit opinions have longer ARL. The issuance of going concern uncertainty opinion was also found to be associated with longer ARL (Ettredge et al., 2006; Mohamad Nor et al., 2010).

The ARL studies have also considered corporate governance determinants. One of the aspects being examined is audit committee characteristics. Empirical evidences support the negative association between audit committees' financial expertise and ARL (Hashim & Abdul Rahman, 2011; Abernathy, Beyer, Masli & Stefaniak, 2014; Puasa, Salleh & Ahmad, 2014; Sultana et al., 2015; Oussii & Taktak, 2018). Furthermore, Abernathy et al. (2014) and Abernathy, Beyer, Masli and Stefaniak (2015) found that public accounting experience is the only source of audit committee's financial expertise that associate with more timely financial reporting. Despite of the resources (members with broader set of qualities to resolve contentious issues) owned by larger audit committee, Oussii and Taktak (2018), Sultana et al. (2015) and Ilaboya and Iyafekhe (2014) found that audit committee size is

insignificantly associated with ARL. Mohamad Nor et al. (2010), Nelson and Shukeri (2011) and Apadore and Mohd Noor (2013), however found that larger audit committees would shorten ARL. In terms of the frequency of audit committee meeting, Abbott et al. (2004) concluded that frequent meeting is more likely to mitigate complex financial reporting decision making. Puasa et al. (2014) and Wan Hussin and Bamahros (2013) both indicated that audit committee meetings are significantly associated with ARL. Nevertheless, Oussii and Taktak (2018), Sultana et al. (2015), Nelson and Shukeri (2011) and Hashim and Abdul Rahman (2011) found that audit committee meeting is insignificantly associated with ARL.

In terms of relationship between audit committee independence and ARL, Sultana et al. (2015) suggested that regulatory requirement of audit committee independence could potentially improve financial reporting timeliness. Similarly, Hashim and Abdul Rahman (2011) proved that audit committee independence could reduce ARL. The findings of Puasa et al. (2014) and Wan Hussin and Bamahros (2013) both indicated that audit committee independence are significantly associated with ARL before the implementation of the Malaysian Code of Corporate Governance (MCCG).

Besides, board characteristics have been scrutinised as it relates to ARL. The results of Fakhfakh Sakka and Jarboui (2016) and Ilaboya and Iyafekhe (2014) revealed that board size exhibits a negative and significant effect on audit reporting timeliness. Mohamad Nor et al. (2010) found that larger board size prolongs ARL, although it was not statistically significant. The findings regarding the effect of board independence on ARL seems contradicting as Afify (2009) found significant negative association while Mohamad Nor et al. (2010) found weak positive relationship

between the composition of independent directors on the board and ARL. Other than board member financial expertise and board member corporate governance experience, Singh and Sultana (2011) found that board member independence is one of the most significant determinants which associated with shorter ARL, according to 500 firm-year observations obtained from the Australian Securities Exchange. On the other hand, Nelson and Shukeri (2011), Ilaboya and Iyafekhe (2014) and Fakhfakh Sakka and Jarboui (2016) found that board independence has no effect on audit reporting timeliness.

With regards to ownership structure, Rusmin and Evans (2017) and Jaggi and Tsui (1999) found negative association between family-owned companies and ARL, however the latter was statistically insignificant. Afify (2009) and Mohammad Hassan (2016) found insignificant association between ownership concentration and ARL respectively in Egypt and Palestine meanwhile Al-Ajmi (2008), Habib and Bhuiyan (2011), Apadore and Mohd Noor (2013) and Fakhfakh Sakka and Jarboui (2016) found that ownership concentration is positive and significant in influencing ARL. In terms the influence of CEO duality towards audit delay, Mohammad Hassan (2016) and Mohamad Nor et al. (2010) found insignificant association between CEO duality and ARL respectively in Palestine and Malaysia. Conversely, Afify (2009) evidenced the significant influence of duality of CEO towards ARL in the context of Egypt.

In terms of internal control quality, Ashton et al. (1987) discovered the association between poor internal control and longer ARL. Similarly, Ettredge et al. (2006) found that internal control deficiency is associated with longer delays. Khlif and Samaha

(2014) found that internal control quality contributes significantly to the reduction of ARL. Contradicting the findings of Wan Hussin and Bamahros (2013), Apadore and Mohd Noor (2013) could not find evidence of significant association between internal audit investments and ARL in the context of Malaysia.

2.2.2 Audit Reporting Lag Studies in Malaysia

Timely reporting in emerging markets is utmost important, as information is relatively limited and less timely in these markets (Afify, 2009; Mohammed Hassan, 2016; Rusmin & Evans, 2017). Furthermore, the most reliable source of financial information which is publicly available in emerging economies is the audited financial statements (Alkhatib & Marji, 2012). Hence, exploring the determinants of ARL is utmost important in developing countries, not only to improve decision making of investors, but to alleviate the formulation of regulation to reduce information asymmetry (Owusu-Ansah & Leventis, 2006; Leventis et al., 2005).

There are a number of ARL studies that have been conducted in emerging markets such as Malaysia. Apadore and Mohd Noor (2013) revealed that the average ARL for 100 randomly chosen listed companies on Bursa Malaysia for 2009 and 2010 was 100 days. The result of this study is similar with Hashim and Abdul Rahman (2011) and Mohamad Nor et al. (2010) which discovered that companies averagely took about 103 days and 100 days respectively to publish audit reports after the financial year end. Comparing to ARL in other countries, such as Athens 97.56 days (Leventis et al., 2005), US 59.36 days (Lee et al., 2009), New Zealand 60 - 64 days (Habib & Bhuiyan, 2011; Walker & Hay, 2012), China 84 - 87 days (Chan et al., 2016; Habib, 2015), Egypt 47 days (Khlif & Samaha, 2014), Oman 52 days (Baatwah et al., 2015), Jordan

58.52 days (Bhoor & Khamees, 2016), Palestine 62.04 days (Mohammed Hassan, 2016), Australia 80 days (Sultana et al., 2015), Ghana 86 days (Agyei-Mensah, 2018), Nigeria 95 days (Ilaboya & Iyafekhe, 2014) and Indonesia 79 days (Rusmin & Evans, 2017), the average ARL of Malaysian companies appear to be longer. It could possibly due to the public listed companies are entitled for relatively longer timeframe (4 months) to submit annual report under the Main Market listing requirement of Bursa Malaysia (Apadore & Mohd Noor, 2013).

Despite of the most recent study such as Wan Hussin et al. (2018) to extend ARL literature by examining the influence of lead audit partner workload towards ARL, as well as examining the moderating effects of audit partner tenure on that relationship, most of the earlier studies concentrated in examining corporate attributes in determining ARL in Malaysia (Raja Ahmad & Kamarudin, 2003; Che-Ahmad & Abidin, 2008). Raja Ahmad and Kamarudin (2003) investigated the influence of company size, industry classification, sign of income, extraordinary item, audit opinion, auditor, year-end and risk in determining audit delay in Malaysia. ARL was positively associated with companies which reported negative income, received unqualified audit opinions and with higher proportion of debt to total asset whilst negatively associated with financial industry, Big 5 auditors and financial year end of 31 December. Che-Ahmad and Abidin (2008) contributed to the ARL literature in Malaysia by examining more corporate attributes (11 variables) in their audit delay model. The findings showed that director shareholdings, total assets, number of subsidiaries, type of auditors, audit opinion and return on equity are important determinants of ARL across sectors (non-financial and financial sector). They also found that director shareholding is particularly significant in financial sector.

Expanding from the investigation of corporate attributes, there are a number of previous studies of ARL in Malaysia which have taken audit committee characteristics into account in their audit delay model (Salleh et al., 2017; Wan Hussin & Bamahros, 2013; Apadore & Mohd Noor, 2013; Nelson & Shukeri, 2011; Hashim & Abdul Rahman, 2011; Mohamad Nor et al., 2010). For instance, Hashim and Abdul Rahman (2011) investigated the association between audit committee characteristics and ARL among the randomly chosen 288 Malaysian public listed companies. The findings of this study proved that audit committee independence and audit committee expertise could reduce ARL.

Hashim and Abdul Rahman (2011) justified that audit committees with more independent audit committee members could monitor the quality of financial reporting in a more effective manner, for instance to ensure management not to withhold information and submit financial statements in a timely manner. Furthermore, audit committee with members who are financial experts would have better ability in challenging the decision of management and auditors. Nevertheless, higher frequency of audit committee meetings would not necessarily improve timeliness of financial reporting. Despite of the contribution of the study, Wan Hussin and Bamahros (2013) suggested that the study might suffer from bias due to omitted variables.

On the other hand, Nelson and Shukeri (2011) examined the impact of corporate governance characteristics on audit report timeliness in Malaysia. Audit report timeliness was found to be influenced by audit committee size, auditor type, firm profitability and audit opinion. However, there was no association between board

independence, audit committee meetings, audit committee members' qualifications and ARL. Similarly, the study had been critique for omitting variables such as firm complexity and financial distress indicators (Wan Hussin & Bamahros, 2013).

In contrast with other archival studies in studying audit committee characteristics, Salleh et al. (2017) limited their scope in examining whether audit committee financial expertise is relevant to ARL. Inconsistent with Hashim and Abdul Rahman (2011), no association was found by Salleh et al. (2017). Furthermore, the relationship was not significantly moderated by the audit committee independence. Salleh et al. (2017) suggested that the results are attributable to the insufficient support from the board and audit committee's priority over the accuracy and reliability of financial information than the timeliness (relevance) of this information.

Mohamad Nor et al. (2010) further expanded this stream of study by examining ARL in Malaysian public listed companies during post-implementation of the MCCG in 2001. By incorporating both characteristics of the board and audit committee, this study has provided new insights as previous ARL conducted prior to the implementation of MCCG (such as Che Ahmad & Abidin, 2008; Raja Ahmad & Kamarudin, 2003) have yet to consider corporate governance. As a whole, the findings of the study highlighted that audit committees characteristics are more important in determining ARL as opposed to the characteristics of the board. The findings indicated that larger and active (with minimum 4 audit committee meetings annually) audit committees enhance ARL. Despite of the expectation of negative relationship between audit committee independence and expertise with ARL, neither of these variables appeared to be statistically significant.

Other than the consideration of the effect of corporate governance in most of the ARL literature in Malaysia, Wan Hussin and Bamahros (2013) considered internal audit function as a possible determinant of audit delay. Investigating internal audit function characteristics, Wan Hussin and Bamahros (2013) found a negative relationship between the internal audit costs and audit delay. However, ARL was not significantly different between companies which have in-house and outsourced internal audit function. The study also indicated the influence of greater audit committee independence and longer audit tenure in reducing ARL, as well as that of higher frequency in audit committee meetings and higher misstatements in the preliminary financial results in extending ARL.

Similar to the work of Wan Hussin and Bamahros (2013), Apadore and Mohd Noor (2013) incorporated internal audit into their audit delay model. By looking at randomly chosen 100 companies listed on Bursa Malaysia in 2009 and 2010, the study analysed the relationship between the characteristics of corporate governance and ARL. Audit committee size, profitability and ownership concentration were found significantly associated with ARL. On the other hand, audit committee meetings, audit committee independence, audit committee expertise and types of auditors were found to have insignificant relationship with ARL. However, the findings regarding the insignificance of audit committee independence and audit committee expertise were not consistent with Hashim and Abdul Rahman (2011). Besides, contradicting Wan Hussin and Bamahros (2013), Apadore and Mohd Noor (2013) could not detect the significance of audit committee meetings, audit committee independence and internal audit investment.

Besides, there is another branch of ARL literature which investigates the impact of regulation change towards audit reporting timeliness (Yaacob & Che Ahmad, 2012; Puasa et al., 2014). For example, Yaacob and Che Ahmad (2012) examined the relationship between adoption of FRS 138 and ARL post-adoption of International Financial Reporting Standards (IFRS) in Malaysia by including 12 variables in their audit model. The significant positive relationship between FRS 138 adoption and ARL proved that the complexity of FRS 138 has caused longer time to complete audit.

The study of Puasa et al. (2014) is distinctive as it examines the effect of the implementation of MCCG towards ARL. Puasa et al. (2014) investigated the relationship between audit committee characteristics and ARL for the period before and after the revision of MCCG. It was found that the mean ARL post-implementation of MCCG improves from 111.6 days to 110.42, suggesting the overall effectiveness of audit committee characteristics in enhancing financial reporting timeliness. The 669 firm-years observation for pre-implementation of MCCG indicated that audit committee independence and audit committee meetings are significantly associated with ARL. In the observation of post-implementation of MCCG, composition of solely non-executive directors on the board, company size and financial expertise were significantly associated with ARL. The unexpected positive and significant relationship between composition of solely non-executive directors on the board and ARL highlighted the ineffectiveness of non-executive directors in monitoring financial reporting, possibly due to the time constraint and limited access to internal information of the companies.

Rather than solely examining the characteristics of auditees in determining ARL, there are studies which consider the role of industry specialist auditors in affecting ARL. For instance, Che-Ahmad and Abidin (2001) examined the effect of quality-differentiated auditors and industry specialist auditors on ARL. The study discovered the negative relationship between high quality auditors (Big 5) and ARL. However, the industry specialist auditors was found not to be significantly related to ARL and therefore implied the need for further investigation of this variable.

Abidin and Ahmad-Zaluki (2012) investigated the auditor quality and characteristics and auditee characteristics in improving audit reporting timeliness. Nevertheless, the study failed to detect positive association between industry specialist auditors and audit report timeliness as industry specialist auditors did not statistically compete audit engagement sooner than their non-specialist counterparts. Nevertheless, in consistent with the findings of Che-Ahmad and Abidin (2001), Big 4 were able to complete audit significantly sooner than their non-Big 4 counterparts. Besides, empirical evidence indicated the association of larger company size, profit-reporting companies and financial sector with shorter ARL; whereas qualified audit opinions, higher leverage and reporting of extraordinary income were associated with longer ARL.

On the other hand, Ahmad et al. (2016) examined the association between auditor industry specialisation and ARL under the fully converged Malaysian Financial Reporting Standards (MFRS). Different from Abidin and Ahmad-Zaluki (2012), classifying industry specialist auditors according to total audit fee, Ahmad et al. (2016) used audit clients number to classify industry specialist auditors. Contradicting

Abidin and Ahmad-Zaluki (2012), the results of study indicated the role of industry specialist auditor in reducing ARL despite of the need of rigorous audit effort to audit MFRS-complied companies. Similar to Abidin and Ahmad-Zaluki (2012), company size, profitability and finance sector were associated with shorter ARL; whereas company's complexity and leverage were associated with longer ARL.

2.3 Key Audit Matters

As worldwide regulators have only expanded the content of the auditor's report recently in 2016, reporting of KAM is new to the audit profession in most of the countries. However, the exclusion applies to France and the UK. It is mandatory for auditors in France to provide JOA, which are similar to the concept of KAM, in their report since 2003 (Bédard et al., 2015). As pioneer in KAM literature, Bédard et al. (2015) investigated the largest French companies listed on Euronext Paris SBF 120 index and observed the effects of JOA towards the market reaction (measured by abnormal returns and abnormal trading volume) and on the audit (measured by audit fees, audit report lag and unexpected accruals) over the period from 2000 to 2011. It was concluded that there is no significant effect of KAM on information asymmetry, except for smaller firms during the initial stage of JOA implementation. ARL and audit fees were not significantly affected by the JOA. JOA was found negatively associated with audit quality only during the initial stage of JOA implementation. As a result, they suggested that more detailed audit reports are essentially symbolic and offer limited value to investors.

On the other hand, revised ISA 700 is implemented in the UK in 2013. Other than disclosing the level materiality and explaining the scope of audit, ISA 700's

requirement includes the description of “the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team” (FRC, 2013, p.6), which broadly equivalent to the IAASB definition of KAM (ICAEW, 2017). Gutierrez et al. (2018), Reid et al. (2016) and Lennox et al. (2018) examined the UK’s adoption of disclosure of RoMM. Gutierrez et al. (2018) found no association between the disclosure of RoMM and significant changes in investors’ reaction, audit fees and audit quality. Furthermore, the variations in length of the auditor’s report, total number of risks, number of unique risks and materiality threshold had no incremental effects as well.

Consistent with the findings of Gutierrez et al. (2018) that disclosure of RoMM did not provide incremental information to investors, Lennox et al. (2018) found similar results by using both short-window tests and long-window tests when the enhanced audit reports were released. Other than that, Lennox et al. (2018) expanded the work of Gutierrez et al. (2018), attempting to justify the perception of investors towards the expanded audit reports. One of potential reasons was that the risks disclosed might be irrelevant as these risks had been addressed by the auditor and therefore minimizing financial reporting risks to an acceptable level. The other justification suggested that investors have been informed about the risks from other sources prior to the disclosure of those risks in the expanded audit reports as those risks were recurrent in nature.

In terms of the association of disclosure of RoMM and audit fees, the findings of Guitierrez et al. (2018) were consistent with Reid et al. (2016), highlighting no significant increase in audit fees. Although disclosure of RoMM did not itself cause

changes in audit fees, companies with lengthier auditor's report and larger number of reported risks were found relatively higher audit fees, capturing positive association between audit risks and audit effort (Gutierrez et al., 2018). Gutierrez et al. (2018) found a 6.0 percent increase in audit fees in the first year of expanded auditor reporting implementation in the UK while Reid et al. (2016) indicated a 6.5 percent increase. Reid et al. (2016) argued that the marginal increase in audit fees might attributable to a trend of increasing fees in the market rather than ISA revision. This is because the increase in audit fees from prior year to first year expanded auditor reporting implementation was not significantly greater than the increase of those from 2 years before expanded auditor reporting implementation to prior year of expanded auditor reporting implementation.

Gutierrez et al. (2018) found that expanded audit reporting is not associated with the changes in audit quality. Not only absolute discretionary accruals remained stable throughout four years of observation, its changes were statistically insignificant. The difference-in-difference effect and pre-post effect of audit quality were both statistically insignificant. Despite of the effort to reconcile research design differences to the work of Reid et al. (2016), Gutierrez et al. (2018) could only find reduction in discretionary accruals during the first year new reporting regime. Nevertheless, significant association was not found when the two years of pre and post-adoption and company fixed effects were considered in the research model. Besides, significant association also was not found when the proxy was replaced by the incidence of meeting or beating the analyst forecast consensus.

Diverging from the findings of Gutierrez et al. (2018), Reid et al. (2016) found that the expanded audit report is associated with audit quality improvement as there were significant decreases in both absolute abnormal accruals and the propensity to just meet or beat analyst forecasts in the first year of new reporting regime. The main findings were further supported by strict change analysis, proving that improvement in audit quality was not attributable to the temporal organizational changes that were unrelated to the new reporting regime.

In the context of New Zealand, Bradbury and Almulla (2018) contributes to the emerging KAM literature by studying the potential audit consequences of the enhanced auditor's report in relation to audit effort (audit fees and audit delay), audit quality (abnormal accruals), client firm disclosure and financial statement users (value relevance). By utilizing sample of 132 New Zealand public interest entities, the results of the study revealed that the number of KAM, unique KAM and KAM that are auditor or industry unique are associated with audit fees, both in prior year and the first year of reporting KAM. Initial implementation of KAM disclosure did not result in incremental audit fees, due to the reluctance of companies in paying additional audit fees and the absorption of additional costs by the audit firm. On the other hand, no significant association was found between KAM and abnormal accruals. Bradbury and Almulla (2018) justified that the result might subject to the fact that either audit quality had not been affected by KAM or abnormal accruals were not a substantial proxy to for audit quality at all. KAM were also found to be associated to ARL however the association was weaker.

Nevertheless, Bradbury and Almulla (2018) suggested that the result might be subject to the limitation of sample size, being insufficient to identify the relationship between KAM and ARL. The pressure for more timely reporting from companies may have also confounded the findings. The results also indicated that KAM are value relevant and associated with investor uncertainty. Furthermore, it was found that KAM have no incremental effect as investors have already priced these risks in the year prior to KAM implementation.

Bradbury and Almulla's findings (2018) however were in contrast to Li et al. (2018), which also investigated the impact on audit quality and audit fees upon the adoption of the new reporting regime in New Zealand. Li et al. (2018) findings indicated that the new reporting regime is associated with audit quality improvement, proxied by a reduction in absolute abnormal accruals. Nevertheless, the result for the abnormal accrual additional analysis of voluntary adopters versus non-voluntary adopters could not completely rule out that the significant audit quality improvement was not confounded by temporal organizational changes and others contemporaneous events happened during the implementation of the new reporting regime. Such improvements in audit quality also came along with significant increase in audit fees and hence KAM was found to be associated with audit fees.

The findings of Wei et al. (2018) were consistent with Li et al. (2018), which indicated significant increase in audit fees in the first year of implementation of new reporting regime in Australia. Sub-sample analysis indicated that Non-Big 4 auditees are subject to higher audit fees, implying the transfer of additional cost incurred to them. On the other hand, non-existence of significant fee increases for Big-4 might

imply higher ability of those auditors in absorbing additional cost incurred to comply with new reporting regime. Besides, the sub-sample analysis indicated that higher audit fees occur in non-resource companies. This finding is in line with Bradbury and Almulla (2018), which unique KAM and auditor or industry unique KAM were found to be associated with audit fees. The authors suggested that higher audit fees are attribute to higher level of audit effort due to the variety of the nature of KAM.

Besides, Wei et al. (2018) did not find evidence of lower absolute discretionary accruals in year after the implementation of KAM, indicating insignificant improvement in audit quality. Their additional analysis suggested that most of KAM reported have been communicated either in previous years' financial statements or are related to major events occur in current year which information has been made publicly. Also, KAM reported often matched with the significant accounting policies and estimates identified by the management in the notes of financial statement (Brouwer, Eimers & Langendijk, 2016). Therefore, KAM did not contribute incremental information to enhance usefulness of auditor's report, similar to the findings of Lennox et al. (2018).

2.4 Key Audit Matters and Audit Reporting Lag

Despite of the higher level of attention given to ARL, limited focus has been given to ARL in KAM literature. Bédard et al. (2015) found that the disclosure JOA is not associated with ARL during both of its first year and subsequent years of JOA implementation as the coefficients were not significant. Nevertheless, they found that ARL is 19 percent longer, comparing 2002 to 2003 (first introduction of JOA).

Nevertheless, it was uncertain that the effect was due the initial implementation of JOA or the effect of the adoption of internal control reporting regulation.

Similar to Bédard et al. (2015), Reid et al. (2016) did not find significant changes in ARL from the pre-period to the post-period of new reporting regime. Contrast to Bédard et al. (2015), Bradbury and Almulla (2018) found that KAM are associated with ARL. The coefficients on the number of KAM and condition-related KAM were significant. However, the number of KAM was positively related to ARL whereas the condition-related KAM were negatively related to ARL. Nevertheless, Bradbury and Almulla (2018) suggested that the result might be confounded by the limitation of sample size and the pressures for more timely reporting from companies.

As ISA 701 is applicable on or after 15 December 2016, which is considered recent change in regulation, there is neither KAM nor KAM-ARL related study in the context of Malaysia. There is lacking research evidence regarding the relationship between KAM and ARL. As KAM could be potential determinant of ARL and the significance of ARL to various stakeholders, it is utmost important to investigate the relationship between KAM and ARL.

2.5 Audit Partner Tenure and Audit Reporting Lag

Previous studies found that there is a negative relationship between audit tenure and ARL (Lee et al., 2009; Dao & Pham, 2014; Habib & Bhuiyan, 2011). Lee et al. (2009) suggested that longer tenured auditors are able to audit more efficiently and consequently have shorter ARL. Habib and Bhuiyan (2011) discovered positive and statistically significant association between short audit tenure and ARL. Companies

with short tenured auditors had longer ARL by 6.5 days in average (Habib & Bhuiyan, 2011). Besides, the study also found evidence that industry specialist auditors demonstrate capability in completing audit in shorter timeframe as compared to non-specialist counterparts.

Similar to Habib and Bhuiyan (2011), Dao and Pham (2014) found that the association between short audit tenure and longer ARL. Besides, consistent with Habib and Bhuiyan (2011), auditor industry specialisation was found to moderate the association between short audit tenure and ARL. Therefore, appointment of industry-specialised auditor could be an alternative solution to mitigate the problem of ARL in the initial phase of audit engagement. This is because longer hours are spent by auditors in the initial phase of audit engagement to familiarise themselves to clients' operations (Caramanis & Lennox, 2008; Habib & Bhuiyan, 2011; Dao & Pham, 2014). Auditors might take minimum of 2 to 3 years to be substantially informed of their client's firm operation and processes before the additional resources required to become knowledgeable are no longer needed (GAO, 2003).

Most of the studies (Lee et al., 2009; Dao & Pham, 2014; Habib & Bhuiyan, 2011) suggested the effect of auditor changes in imposing additional costs in the form of delayed audit report and therefore causing informational inefficiencies in financial reporting timeliness. Contradicting to the work of Lee et al. (2009); Dao and Pham (2014) and Habib and Bhuiyan (2011), Karami, Karimiyan and Salati (2017) and Bhoor and Ahmad Khamees (2016) did not find significance association between auditor tenure and ARL, even with auditor industry expertise being taken into consideration.

Compared to the literature on audit tenure, audit partner tenure studies are far more limited. This is attributable to the unavailability of partners' names in the audit report and the occurrence of change of partner could not be identified by researchers (Lennox, 2014; Gul, Ma & Lai, 2017; Bedard & Johnstone, 2010). Furthermore, the empirical study of the relationship between audit partner tenure and ARL is scarce (Wan Hussin et al., 2018). Tanyi et al. (2010), for instance compared the effect of mandatory and voluntary auditor changes by examining ARL after the collapse of Andersen. Partner familiarity effect could be observed from the study of Tanyi et al. (2010) as ex-Andersen clients who followed ex-Andersen partner to new audit firm had shorter ARL in the first year of auditor change. Even though these Andersen partner followers encountered audit firm change, it was not change in substance as they were still engaged with the same audit partner. Nevertheless the "follower effect" was short-lived and did not persist longer than one year as the differences between ex-Andersen partner follower and non-follower were not significant in the second year. Therefore, the study has highlighted the importance of individual relationships, such as audit partner tenure, in the auditing process.

Similar to Tanyi et al. (2010), the findings of Sharma, Tanyi, and Litt (2017) justified the importance of investigation to be conducted at the audit partner level. The empirical evidence of Sharma et al. (2017) suggested that audit partner rotation is costly, in terms of audit fees and timeliness of financial reporting. The results indicated positive and significant association between audit partner rotation and ARL, as well as between audit partner rotation and audit fees, following mandatory audit partner rotation in the US. ARL was longer in the first year of an incoming audit partner's five-year tenure relative to ARL in the last year of the outgoing audit

partner's five-year tenure. Large companies (regardless of having Big 4 or non-Big 4 auditors) and smaller companies which appointed non-Big 4 auditors both experienced longer ARL after the rotation of audit partner. Furthermore, the effect towards audit fee and ARL were similar in the first year of consecutive rotations, indicating that client-specific knowledge accumulated at the audit firm level did not offset the loss of client-specific knowledge at the audit partner level.

The finding of Sharma et al. (2017) regarding longer ARL in the first year of an incoming audit partner could be complemented by the work of Bedard and Johnstone (2010). Bedard and Johnstone (2010) indicated that engagement effort (planned audit engagement hours) increases as audit partner changes, suggesting effort investment of the incoming audit partners to gain client-specific knowledge. Nevertheless, this investment of effort was uncompensated by the clients.

Dodgson, Agoglia, Bennett and Cohen (2018) complements the work of Bedard and Johnstone (2010), as they provided further insights regarding investment of time and effort of the incoming audit partners to gain client-specific knowledge prior to audit planning. Incoming audit partners would start to shadow the outgoing audit partners about 6 to 12 months prior to the official transition date. The incoming partners would familiarise themselves with the management, the operation and risk of the company through attending key meetings (for instance, audit committee meetings, quarterly audit planning and closing meetings) and reviewing prior quarter workpapers. It would allow the incoming engagement partner to execute audit planning right away during the early stage of tenure in order to enhance audit effectiveness.

The literature of audit partner tenure–ARL is further expanded by Grosse, Ma and Scott (2018) who considered the effect of different timing of rotation occurrence on ARL. The study found that pre-annual audit rotation is positive and significantly associated with ARL, increasing an additional 1.57 days lag. On the other hand, pre-interim review rotation was positive and weakly significantly associated with the interim reporting lag.

Besides, Gul et al. (2017) examined the effect of audit partner tenure towards the relationship between busy audit partners and audit quality. The findings suggested that longer audit partner tenure alleviates auditor busyness. Similar with Gul et al. (2017) in looking at the moderating effect of audit partner tenure, Wan Hussin et al. (2018) found that longer audit partner tenure mitigates the adverse effects of ARL due to heavy workload of audit partners. Their findings echoed the importance of client-specific knowledge accumulation. Longer auditor-client tenure contributes in client-specific knowledge accumulation. The client-specific knowledge accumulated over the engagement years is likely to mitigate busyness effect.

MIA mandates the rotation of lead audit partner of Public Interest Entities for every five years. After the 5-year timeframe, the lead audit partner “shall not be a member of the engagement team or be a key audit partner for the client for two years” to eliminate familiarity threats (MIA, 2011, p.99). The audit partner rotation requirement change will be effective from 15 December 2018 onwards, which the 5-year timeframe will be increased to maximum of 7 years while the cooling-off period will be increased to 3 years (MIA, 2018). Consequently, it is utmost essential to narrow down the investigation by looking at the moderating effect of audit partner tenure on

the KAM-ARL relationship, rather than focusing on a broader scope - audit firm tenure.

2.6 Summary

A literature review related to ARL showed that considerable work has been undertaken to study the determinants of ARL, which categories them into three types of ARL determinants (company-specific fundamental attributes, audit and auditor attributes and corporate governance). Despite of the higher level of attention given to ARL across the globe, limited focus has been given to ARL in KAM literature. Furthermore, KAM related literature itself is scarce as the reporting of KAM is new to the audit profession in most of the countries. In the context of Malaysia, none of the prior studies examined KAM-ARL relationship nor KAM related studies. Therefore, the current study attempts to fill these literature gaps, not only contributing to the KAM studies but also enriching ARL studies by investigating the relationship between KAM and ARL. Furthermore, the study also complements ARL literature in examining the moderating effect of audit partner tenure on the KAM-ARL relationship.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the methodology of the research, which includes underpinning theory and theoretical framework, hypothesis development, variable measurement, model specification, data collection and data analysis. Summary of the chapter is stated at the last of the chapter.

3.2 Underpinning Theory and Theoretical Framework

This study drew from agency theory and learning theory. The agency theory informed the independent variable and the control variables (company specific factors; auditor-related factors; corporate-governance related factors). This is because auditors are agents appointed by shareholders to protect interests of them. On the other hand, audit partner tenure, which is one of the testing variables, was informed by learning theory.

3.2.1 Agency Theory

Agency relationship is defined as a contractual relationship which arises “when one or more persons (principals) engage another (agents) to perform certain services on their behalf” (Jensen & Meckling, 1976, p. 310), “delegating some decision making authority to the agent” (Jensen & Meckling, 1976, p. 310). It was found that agency problem arises as a result of cooperating parties having different attitudes towards risk (Eisenhardt, 1989) or one that occurs due to cooperating parties having different goals (Jensen & Meckling, 1976). The theory holds that agents (management) will always

act in their own self-interest. This principal-agent conflict is also due to the asymmetrical information between agents and principals (Urquiza, Navarro, Trombetta & Lara, 2010), which is caused by ARL.

Agency costs are the total monitoring costs incurred by the principals, bonding costs borne by the agents and residual loss. Agency loss would be incurred when returns to the principals are less than the amount they would receive if they exercised direct control of the company (Jensen & Meckling, 1976). Reduction of agency loss could be done by rewarding management financially as they successfully maximise shareholder interests. Share option, for example is one of the common mechanisms to align the interests of shareholders and management (Jensen & Meckling, 1976) or any other mechanisms which tie management's compensation to long-run value maximisation of the company (Donaldson & Davis, 1991). In order to alleviate the misalignment of interest between management and shareholders, agency theory also posits the need for proper corporate governance structure (Jensen & Meckling, 1976).

To understand auditor-client relationship, agency theory has also been widely applied in the auditing literature, whereby auditor (the agent) is hired to perform assurance service for the companies (principle) (Vanstraelen, 2000; Lim & Tan, 2010). Antle (1982) highlighted the importance to consider auditor-client relationship in light of agency theory, as both parties (agent and principle) perform based on the compensation contract to maximise financial reward. Companies (principle) would utilise monetary reward to motivate auditors to act in the best interest of the companies (Davis & Solomon, 1987). Both parties tend to manipulate financial statements due to the co-aligned preferences and profit maximisation.

Agency theory suggests that auditors would have their own consideration in terms of interests and motives. For instance, auditors might be risk-averse and being conscious of their potential liability (ICAEW, 2005). Determination of KAM requires high level of auditor's professional judgment to identify the matters that require significant auditor attention in performing the audit of financial statements (MIA, 2015). The number of KAM reported and the adequacy of KAM description are both subjected to auditor's professional judgement (MIA, 2015). To be able to exercise professional judgment, auditors might need to draw on their experience, integrity, objectivity and professional skepticism. It would increase the extent of accountability of auditors towards the clients.

Moreover, whilst auditors are mainly accountable to the shareholders, they are accountable to other stakeholders such as creditors, lenders, credit agencies, customers and employees as these parties may claim an interest in the audit (ICAEW, 2005). KAM disclosure will increase auditor liability towards these stakeholders and associated legal costs (Deloitte, 2013; Ernst & Young, 2016). Being risk adverse and liability-conscious, auditors might perceive audit engagement involves higher litigation risk and therefore exercise more audit effort, which leads to longer ARL.

Agency theory has been employed in prior studies in ARL as it provides unique, realistic and empirically testable perspective on principle agent problems (Bamber et al., 1993). The theory informs the determinants of ARL such as company-related factors (such as company size, number of subsidiaries, going concern opinion and sector); auditor-related factors (for instance, types of auditors) and corporate

governance-related factors (for instance, size and meeting frequency of audit committee, board size and board independence).

3.2.2 Learning Theory

Audit expertise research is important in part because of the interest in understanding regarding the attainment of superior performance and the nature of novice-expert transition phase (Nelson, Tan & Trotman, 2005). By drawing on Anderson's (1982) ACT theory of skill acquisition, Bedard, Chi, Graham and Shanteau (1993) proposed that novices have to learn declarative and procedural domain knowledge and to further refine that knowledge with practice in order to become experts. They concluded that "useful knowledge is not acquired as a set of general propositions, but by active application during problem solving in the context of specific goals" (Glaser & Bassok, 1989, p.659). The key for acquiring expertise is practice, taking account of the number, range and difficulty of problems faced, and the way a person is able to learn from each problem.

According to learning curve theory, workers' performance would not normally ideal in the initial phase of new product launching or new process implementation, which learning phenomenon is taking place. As the experience is gained by repeating identical operation, the performance improves time taken to produce each unit of output reduces. The improvement in productivity is due to learning effect. Applying learning curve theory in the context of auditing, auditors tend to have limited knowledge about the business operation as well as the industry of auditees in the beginning phase of the engagement (Carcello & Nagy, 2004). Similarly, auditors

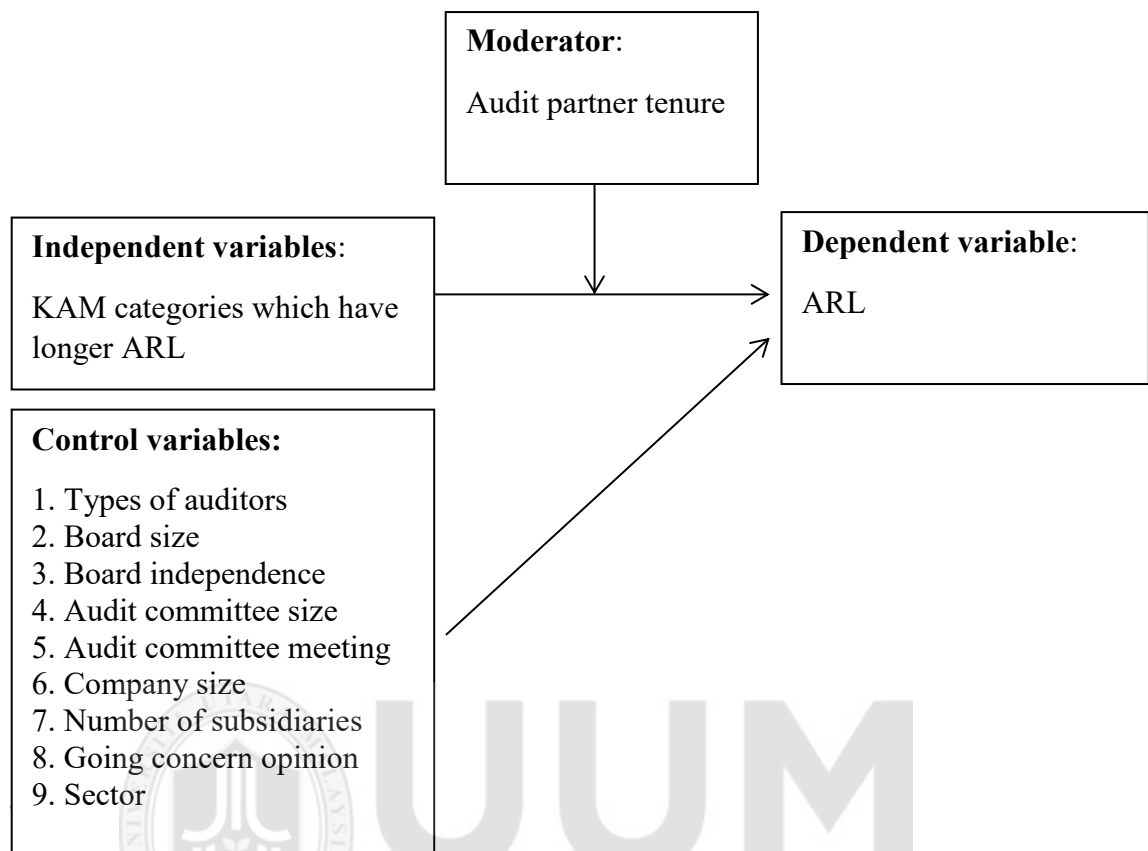
encounter steep learning curve to acquire better understanding of the auditees' business operation and industry (Lim & Tan, 2010).

Despite of inefficiency of initial audit engagement compared to later years of engagement and the lengthy process in familiarising with clients' business operations, audit engagement could be conducted in a more effective manner once these information has been retrieved and be used continually (Barton, 2002). Therefore, shorter ARL is found to be associated with longer audit tenure (Lee et al., 2009). Furthermore, steep learning curve is experienced on new audit engagements, which the audit rotation has caused destruction of institutional knowledge and has rendered auditors to climb a steep learning curve on a regular basis (PCAOB, 2011). Such arguments are supported by evidences which generally conclude that financial reporting quality is lower for companies with shorter audit tenure (Johnson, Khurana & Reynolds, 2002; Myers, Myers & Omer, 2003; Carcello & Nagy, 2004; Stanley & DeZoort, 2007; Chi, Myers, Omer & Xie, 2017).

3.2.3 Theoretical Framework

Figure 3.1 shows the theoretical framework designed to answer the research questions of the study. The dependent variable, ARL, refers to the gap between financial year end of the company and its audit report date. The independent variables are the categories of KAM which have longer ARL among companies listed on Bursa Malaysia Main Board with financial year end of 31 December 2016. Finally, the model includes audit partner tenure as moderator and nine control variables: types of auditors, board size, board independence, audit committee size, audit committee meeting, company size, number of subsidiaries, going concern opinion and sector.

Figure 3.1
Theoretical Framework



3.3 Hypothesis Development

As pioneer in KAM literature, Bédard et al. (2015) investigated largest French companies listed on Euronext Paris SBF 120 index and observed the effects of JOA towards on the market reaction and on the audit over the period from 2000 to 2011. The study concluded that audit efficiency (proxied by ARL) is not significantly affected by the JOA. The disclosure of JOA was not associated with ARL during both of the first year and subsequent years of JOA disclosure as the coefficients were not significant. Nevertheless, they found that ARL is 19 percent longer, comparing 2002 to 2003 (initial year of JOA disclosure). Nevertheless, it was uncertain that the effect is due the initial implementation of JOA or the adoption of internal control reporting regulation in August 2003. Similar to Bédard et al. (2015), Reid et al. (2017) neither

detect significant changes in the ARL from the pre-period to the post-period of new reporting regime. Contrast to Bédard et al. (2015) and Reid et al. (2017), Bradbury and Almulla (2018) found that KAM are associated to ARL in the context of New Zealand. The coefficients on the number of KAM and condition-related were significant. However, the number of KAM was positively related to ARL whereas the condition-related KAM (the type of KAM which relates to whole entity rather than a major transaction) were negatively related to ARL.

As suggested by agency theory, auditors are risk-averse and being conscious of their potential liability. KAM disclosure would increase auditor liability towards the stakeholders, as well as increasing associated legal costs (Deloitte, 2013; Ernst & Young, 2016). Consequently, under the new reporting requirement, auditors might perceive that audit engagement involves higher litigation risk and therefore exercise more audit effort, which leads to longer ARL. Furthermore, KAM disclosure itself requires additional effort in determining, preparing the language to communicate KAM and documenting KAM. ARL would be significantly longer for engagement which incremental audit effort is required (Knechel & Payne, 2001). Furthermore, the drafting of KAM which involve discussion among management, auditor and audit committee regarding KAM nature and extent, could lengthen the completion time of audit engagement and in turn exacerbating ARL (Koehler, Ratzinger-Sakel & Theis, 2016). Therefore it is expected that the inclusion of KAM might as a whole prolongs ARL. Based on the above, the following hypothesis is proposed:

H₁ There is a positive relationship between Key Audit Matters and audit reporting lag.

In line with learning theory, prior studies have indicated that auditor incumbency could enhance efficiencies and reduce audit effort. Gul et al. (2013), Wan Hussin and Bamahros (2013) and Lee et al. (2009) indicated the correlation between auditor tenure and ARL is statistically significant and negative. At the firm level, longer audit firm tenure would allow the auditor to retain client familiarity and accumulate knowledge over the engagement years, mitigating duplication of effort in earlier engagements and reducing ARL (Lee et al., 2009). Increased ARL might result from steep learning curve experience by the newly appointed auditor as the audit team is developing new client knowledge and extra audit hours are needed to gather information and to familiarise with client-specific information (Wan Hussin et al., 2018). The occurrence of audit inefficiency in the beginning phase of engagement compared to later years of engagement is in tandem with the suggestion of learning curve theory, indicating that performance would not normally be at its best when learning phenomenon first takes place. Nevertheless, this adverse effect could be offset by the presence of industry specialist knowledge (Dao & Pham, 2014).

In terms of audit partner, one can retain knowledge of the client and therefore reduces audit effort when he retains with the same auditee (Tanyi et al., 2010). Resources could be focused on auditing key audit areas, which contributes to a more timely completion of the audit and hence shorter ARL. In the case of audit partner rotation, transferability of client specific knowledge is plausible to happen between audit partners within the same audit firm. Nevertheless, Cheuk (2006) argued that the transferability of client specific knowledge between audit partners could, at best, alleviate the loss of knowledge rather than perfect knowledge transfer to successive audit partner. Sharma et al. (2017) evidenced that mandatory audit partner rotation

leads to longer ARL in the period of initial implementation of the rotation and intended to exist in the following rotation. These influences were more significant for non-industry specialists, larger companies and non-Big 4 auditors.

According to learning theories, practices generally improve performances (Wan Hussin et al., 2018). Empirical evidence indicated that auditor work more effectively (with shorter ARL) when longer auditor–client relationship is present (Lee et al., 2009). Audit tenure related studies also found that financial reporting quality is lower for companies with shorter auditor tenure (Johnson et al., 2002; Myers et al., 2003; Carcello & Nagy 2004; Stanley & DeZoort 2007; Chi et al., 2017). In terms of audit partner tenure related studies, Gul et al. (2017) found a negative association between busy audit partners and audit quality is significant only for short tenured audit partners and suggested that the “busyness” effect could be mitigated if substantial client-specific knowledge is accumulated over longer audit tenure.

Extending and complementing Gul et al. (2017), Wan Hussin et al. (2018) found that longer audit partner tenure decreases the negative effect of heavy workload of audit partner on ARL, despite of no direct relationship between audit partner tenure and ARL. It is therefore posited that the presence of long tenured audit partner is expected to minimise audit effort due to lower information asymmetry and therefore moderate the relationship between KAM and ARL. Based on the above discussion, the hypothesis below is proposed:

H₂ The positive relationship between Key Audit Matters and audit reporting lag is weaker with the presence of long tenured audit partner.

3.4 Variable Measurement

3.4.1 Dependent Variables - Audit Reporting Lag

The major focus of the study is on ARL. This variable is measured by computing the gap (number of days) between financial year end of the company and its audit report date. To date, various studies have been carried out worldwide from various perspectives to study the determinants of ARL. Company-specific fundamental attributes have been the primary focus of ARL studies. Another stream of ARL research involves the examination of external auditor features such as auditor size, provision of non-audit services, auditor tenure, audit partner rotation, auditor changes and audit firm technology. Besides, the ARL studies also have considered corporate governance determinants.

3.4.2 Testing Variables

3.4.2.1 KAM Categories which Have Longer Audit Reporting Lag

ISA 701 requires auditors to communicate KAM tailored to the companies' circumstances in a new section in the audit report, in order to provide relevant and meaningful information to users of the auditor's report. KAM are "those matters that, in the auditor's judgment, are of most significance in the audit of the current period financial statements" (IAASB, 2015, p.3). In this study, the KAM disclosed in each audit report were coded against the categories listed in the appendix of ACCA review of the first year implementation of the IAASB's revised auditor reporting standards (ACCA, 2018), being supplemented by the examples of KAM categories provided by Arnold and McGeachy (2017). These KAM categories were loosely based upon the methodology used by the UK FRC in its reporting on the first and second year implementation of KAM disclosure in the UK (UK FRC, 2015; UK FRC, 2016).

3.4.2.2 Audit Partner Tenure

With respect to auditor tenure, other studies such as Lee et al. (2009), Dao and Pham (2014) and Habib and Bhuiyan (2011) found that audit tenure and ARL are inversely related. In terms of the effect of auditor change, Bhoor and Khamees (2016), Che Ahmad and Abidin (2008) and Ettredge et al. (2006) indicated that time required to audit companies would be longer if the incumbent auditor is new to the auditee. Bedard and Johnstone (2010) also found that planned engagement effort would increase followed by audit partner rotation, suggesting the investment of effort by the new audit partner to gain client knowledge during the initial year of audit tenure. In terms of audit partner tenure, Wan Hussin et al. (2018) could not detect direct relationship between audit partner tenure and ARL. Nevertheless, long tenured audit partner would weaken the positive audit partner workload-ARL relationship. This variable is measured by computing the number of years that the company has been consecutively audited by the same audit partner, tracing back from 2016 to 2012.

3.4.3 Control Variables

To take into account of other variables besides KAM categories which have longer ARL, this study also investigates control variables such as types of auditors, board size, board independence, audit committee size, audit committee meeting, company size, number of subsidiaries, going concern opinion and sector.

3.4.3.1 Types of Auditors

Types of auditors could be classified into two groups, namely Big 4 and non-Big 4. The Big 4 refers to Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY) and KPMG, while non-Big 4 refers to small and medium tier accounting firms other

than the Big 4. In relation to ARL, prior studies found a negative relationship between Big 4 and ARL (Owusu-Ansah & Leventis, 2006; Leventis et al., 2005; Ashton et al., 1989; Jaggi & Tsui, 1999; Lee & Jhang, 2008; Rusmin & Evans, 2017; Bhoor & Khamees, 2016; Wan Hussin et al., 2018; Salleh et al., 2017; Wan Hussin, & Bamahros, 2013; Abidin & Ahmad-Zaluki, 2012; Mohamad Nor et al., 2010; Che-Ahmad & Abidin, 2008; Raja Ahmad & Kamarudin, 2003; Che-Ahmad & Abidin, 2001; Ilaboya & Iyafekhe, 2014; Newton & Ashton, 1989; Bamber et al., 1993; Afify, 2009; Hashim & Abdul Rahman, 2011).

Shorter ARL for companies audited by the Big 4 than those audited by non-Big 4 could be attributable to the abundance of resources possessed by large accounting firms (Givoly & Palmon, 1982), such as monitoring ability (Al-Ajmi, 2008), experienced staff (Afify, 2009) and training and technological resources (Newton & Ashton, 1989). Furthermore, big accounting firms such as the Big 4 have specialised experience in auditing listed firms compared to those smaller scale accounting firms (Ashton et al., 1989) and being subjected to pressure to complete audit earlier compared to smaller firms in order to sustain their reputation (Leventis et al., 2005; Afify, 2009; Al-Ajmi, 2008). Dummy variable is used to measure the relationship between types of auditors and ARL, which “1” is assigned if the auditor is among Deloitte, PwC, EY or KPMG and “0” if otherwise.

3.4.3.2 Board Size

The board size is perceived to affect board’s ability in monitoring and evaluating management. Larger boards have collective expertise and therefore serving their roles better (Akhtaruddin, Hossain, Hossain & Yao, 2009). Bradbury, Mak and Tan (2006),

Fakhfakh Sakka and Jarboui (2016), Basuony et al. (2016) and Llaboya and Christian (2014) reported negative and significant effect of board size on ARL. In contrast, Mohamad Nor et al. (2010) evidenced that larger board size seems to prolong ARL, although it is not statistically significant. Meanwhile, Abdul-Rahman and Mohamed-Ali (2006) evidenced a positive board size-ARL relationship. Smaller board might subject to less bureaucratic problem, more functional and therefore perform better financial reporting oversight (Xie, Davidson & Dadalt, 2003). Larger board tend to have communication problem and cause reduced participation, less consensus and less organized, therefore is prone to longer ARL (Mak & Li, 2001; Dalton, Daily, Johnson & Ellstrand, 1999). This variable is measured by computing the number of board members.

3.4.3.3 Board Independence

Malaysian public listed companies have to appoint “at least 2 directors or 1/3 of the board of directors of a listed company, whichever is the higher, are independent directors” (Bursa Malaysia, 2018, p. 1501). The integration of independent directors would enhance the monitoring effectiveness of the board (Llaboya & Christian, 2014). This is because independent directors with no conflict of interest are in better position to monitor management, compared to the executive directors (Ibadin, Izedonmi & Ibadin, 2012). Stronger monitoring might reduce the assessed level of inherent and control risks, leading to a reduction in the extent of verification tests, which in turn reduces the timing and extent of audit work (Shukeri & Islam, 2012).

The results of previous studies are mixed. Some studies indicated positive and significant relationship (Abdelsalam & Street, 2007; Mohamad Nor et al., 2010; Afify,

2009; Azubike & Aggreh, 2014), while some indicated negative and significant relationship (Singh & Sultana, 2011; Basuony et al., 2016). The level of board independence in the study is measured by the proportion of independent directors on board.

3.4.3.4 Audit Committee Size

Despite of the flexibility in determining the size of the audit committee, paragraph 15.09 of the Bursa Malaysia Listing Requirements mandates the requirement to “appoint an audit committee composed of no fewer than three members” (Bursa Malaysia, 2018, p.1504). Wan Hussin et al. (2018), Mohamad Nor et al. (2010), Nelson and Shukeri (2011) and Apadore and Mohd Noor (2013) found that larger audit committees would shorten ARL. However, Oussii and Taktak (2018), Salleh et al. (2017), Sultana et al. (2015) and Ilaboya and Iyafekhe (2014) found that audit committee size is insignificantly associated with ARL. This study measures the size of audit committee by calculating the number of audit committee members.

3.4.3.5 Audit Committee Meeting

An audit committee that has more frequent meetings is more likely to resolve complex financial reporting decision making in an active manner (Abbott et al., 2004). With the finding of negative and significant correlation between audit committee meeting and ARL, Mohamad Nor et al. (2010) argued that frequent audit committee meeting would keep audit committee more informed of accounting or auditing issues. The audit committee would therefore be able to address these issues in a timely manner and causing shorter ARL.

In contrast, Wan Hussin et al. (2018), Wan Hussin and Bamahros (2013) and Abernathy et al. (2011) found that more frequent audit committee meetings are associated to more stringent levels of auditing and therefore causing longer ARL. On the other hand, Oussii and Taktak (2018), Sultana et al. (2015), Apadore and Mohd Noor (2013), Nelson and Shukeri (2011) and Hashim and Rahman (2011) failed to find association between audit committee meetings and audit reporting timeliness. This variable is measured by computing the number audit committee meetings held during the financial year 2016.

3.4.3.6 Company Size

Most of the prior studies indicated a negative company size-ARL relationship (Che-Ahmed & Abidin, 2008; Jaggi & Tsui, 1999; Carslaw & Kaplan, 1991; Hashim & Abdul Rahman, 2011; Afify, 2009; Owusu-Ansah & Leventis, 2006; Knechel & Sharma, 2012; Sultana et al., 2015; Ilaboya & Iyafekhe, 2014; Puasa et al., 2014; Wan Hussin et al., 2018 and Mohamad Nor & Wan Hussin, 2010). It is due to the ability of large companies to exert higher level of pressure on auditors for timely reporting. Furthermore, the internal control system of large companies appears to be more reliable and therefore reduce the amount of audit work to be conducted (Habib & Bhuiyan, 2011). Nevertheless, minority of ARL studies such as Mouna and Anis (2013) found that company size has insignificant association with the timeliness of financial reporting; meanwhile Ibadin et al. (2012) found no association between company size and the timeliness of financial reporting. This study measures company size as the natural logarithm of total assets.

3.4.3.7 Number of Subsidiaries

Previous researches found significant positive relationship between operational complexity and ARL (Ashton et al., 1987; Bamber et al., 1993). The number of subsidiaries is also one of the proxies used to measure operational complexity (Mohamad Nor et al., 2010; Chan et al., 2016; Habib & Bhuiyan, 2011; Salleh et al., 2017; Che Ahmad & Abidin, 2008; Jaggi & Tsui, 1999; Ng & Tai, 1994). Most of the prior studies indicated positive relationship between the number of subsidiaries and ARL. However, Salleh et al. (2017) found that the number of subsidiaries is insignificantly related to ARL. This study measures the number of subsidiaries by calculating square root of the number of subsidiaries.

3.4.3.8 Going Concern Opinion

Previous studies (Bamber et al., 1993; Leventis et al., 2005; Ettredge et al., 2006; Lee & Jhang, 2008; Afify, 2009; Lee et al., 2009; Nelson & Shukeri, 2011; Wan Hussin, & Bamahros, 2013; Khlif & Samaha, 2014; Chan et al., 2016; Bhoor & Khamees, 2016; Salleh et al. 2017; Oussii & Taktak, 2018) found that companies which receive non-standard audit opinions have longer ARL. It was also found that the issuance of going concern uncertainty opinion is associated with longer ARL (Ettredge et al., 2006; Mohamad Nor et al., 2010). Basioudis, Geiger, and Papanatasiou (2006) found that companies which have longer ARL tend to receive going concern opinion, implying the companies which exhibit going-concern uncertainties require more audit engagement time. Financially distressed companies require more significant amount of professional judgement, which in turn causes longer ARL (Geiger & Rama, 2003).

Furthermore, companies which receive non-standard audit opinions might view this as a bad news and become reluctant to respond in a timely fashion to auditor's requests, causing auditor-company conflict to further exacerbate ARL (Carslaw & Kaplan, 1991). Therefore, a positive relationship is expected to exist between the issuance of going concern uncertainty opinion and ARL. This study measures the presence of going concern opinion in the audit report by using dummy variable, assigning "1" if going concern opinion is present and "0" if otherwise.

3.4.3.9 Sector

Based on the classification of Bursa Malaysia, public listed companies were classified into twelve sectors in 2016: construction, consumer products, hotel, industrial product, infrastructure project companies, plantation, properties, mining, REITS, technology, finance and trading/services (Started from 24 Sep 2018, Bursa Malaysia has enhanced the exchange's sector classification and sectoral indices, bringing the number of sector classification to 13 sectors). Despite of the expectation that high-technology companies would have longer ARL due to higher level of litigation risk, Ettredge et al. (2006) found that high-technology companies are associated with have shorter ARL.

On the other hand, Wan-Hussin and Bamahros (2013) and Wan Hussin et al. (2018) evidenced that technology and plantation companies have shorter ARL than companies in other industry classifications. Such companies have been controlled in this study, as they have limited product segments and inventory and therefore easier to audit. Companies which hold limited inventory are associated with shorter ARL (Carslaw & Kaplan, 1991). Inventory is generally perceived to be a difficult area to audit (Ang, 2012). Inventory balance is usually material for manufacturing or trading

company and therefore has a direct impact on profit. The key challenge arises when the auditor has to exercise judgement to determine whether there is a need to provide for inventory obsolescence or to write-down the inventory value. Excessive inventory movements further exacerbate the risk of misstatement of the inventory account. Furthermore, physical inventory counts which involve multiple locations have to be conducted under circumstances which accounting records are not properly documented. Dummy variable is used to categorise sector, which “1” is assigned if the company involves in the sector of plantation or technology and “0” otherwise.

Table 3.1
Summary of Variable Measurement

Variables name	Abbreviation	Definition	Theoretical Direct	Supporting Literature
Dependent variable				
Audit reporting lag	AUDITLAG	The number of days between financial year-end date and audit report date		Wan Hussin and Bamahros (2013); Mohamad Nor et al. (2010)
Test variables				
Key Audit Matters categories which have longer ARL	KAM	KAM categories reported in the audit reports that have been identified to have longer ARL mean compared to other KAM categories.	+	Bédard et al. (2015); Bradbury and Almulla (2018)
Audit partner tenure	TENURE	The number of years the company has been continuously audited by the same audit engagement partner, traced back from 2016 to 2012.	-	Wan Hussin et al. (2018); Fargher, Lee and Mande (2008)

Table 3.1 (Continued)

Variables name	Abbreviation	Definition	Theoretical Direct	Supporting Literature
	KAM* TENURE	The interaction term for KAM and TENURE.	-	Wan Hussin et al. (2018)
Control variables				
Types of Auditors	BIG4	Assign 1 if the auditor is EY, KPMG, Deloitte or PwC; 0 otherwise.	-	Wan Hussin et al. (2018); Mohamad Nor et al. (2010)
Board size	BSIZE	The number of board of director members of the company	+/-	Bradbury, Mak and Tan (2006); Fakhfakh Sakka and Jarboui (2016); Basuony et al. (2016); Llaboya and Christian (2014)
Board independence	BIND	The proportion of independent directors on board.	+/-	Abdelsalam and Street, 2007; Mohamad Nor et al. (2010); Afify(2009); Azubike and Aggreh (2014); Singh and Sultana, (2011); Basuony et al. (2016)

Table 3.1 (Continued)

Variables name	Abbreviation	Definition	Theoretical Direct	Supporting Literature
Audit committee size	ACSIZE	The number of audit committee members	-	Wan Hussin et al. (2018); Mohamad Nor et al. (2010); Nelson and Shukeri (2011); Apadore and Mohd Noor (2013)
Audit committee meeting	ACMEET	The number of audit committee meetings held in the financial year 2016.	+/-	Wan Hussin et al. (2018); Mohamad Nor et al. (2010); Wan Hussin and Bamahros (2013); Abernathy et al. (2011)
Company size	LnSIZE	The natural logarithm of the total assets in the financial year 2016.	-	Che-Ahmed and Abidin (2008); Jaggi and Tsui (1999); Carslaw and Kaplan (1991); Hashim and Abdul Rahman (2011); Afify (2009); Owusu-Ansah and Leventis (2006); Knechel and Sharma (2012);

Table 3.1 (Continued)

Variables name	Abbreviation	Definition	Theoretical Direct	Supporting Literature
				Singh and Sultana (2011); Sultana et al. (2015); Habib and Bhuiyan, (2011); Ilaboya and Iyafekhe (2014); Puasa et al. (2014); Wan Hussin et al. (2018); Mohamad Nor et al. (2010)
Number of subsidiaries	SUBS	Square root of number of subsidiaries.	+	Mohamad Nor et al. (2010); Jaggi and Tsui (1999); Yaacob and Che-Ahmad (2012)
Going concern opinion	CGOPIN	Assign 1 if going concern opinion is issued; 0 otherwise	+	Mohamad Nor et al. (2010)
Sector	SECTOR	Assign 1 if classified under plantation or technology sector; 0 otherwise	-	Wan Hussin and Bamahros (2013); Wan Hussin et al. (2018).

3.5 Model Specification

To test the relationship between dependent, test and control variables, the ARL model below is used.

$$\begin{aligned} \text{AUDITLAG} = & \beta_0 + \beta_1 \text{KAM} + \beta_2 \text{TENURE} + \beta_3 \text{LnKAM} * \text{TENURE} + \beta_4 \text{BIG4} \\ & + \beta_5 \text{BSIZE} + \beta_6 \text{BIND} + \beta_7 \text{ACSIZE} + \beta_8 \text{ACMEET} + \beta_9 \text{LnSIZE} \\ & + \beta_{10} \text{SUBS} + \beta_{11} \text{CGOPIN} + \beta_{12} \text{SECTOR} + \varepsilon. \end{aligned}$$

The model is developed based on prior researches (Wan Hussin et al., 2018; Mohamad-Nor & Wan-Hussin, 2010; Apadore & Mohd Noor, 2013; Bédard et al., 2015; Bradbury & Almulla, 2018). β_0 , is the constraint coefficient of regression; β_1 - β_3 are regression coefficients of ARL (testing variables); β_4 - β_{12} are coefficients of control variables; ε , random error term.

3.6 Data Collection

The study used secondary data gathered from annual reports. Data (audit report date) to compute dependent variable and moderating variable was extracted from the audit reports, while data for independent and control variables was gathered mainly from the audit reports, corporate governance reports, financial statements and notes. In order to collect the data for TENURE, audit reports of the sample have been traced back from 2016 to 2012, to compute the number of years that the company has been consecutively audited by the same audit partner.

The companies listed on Bursa Malaysia are selected for this study because communication of KAM is optional for other entities in Malaysia (MIA, 2017). Specifically, listed companies with financial year end 31 December 2016 have been chosen due to the implementation of ISA 701 is effective from 15 December 2016

onwards. Annual reports of financial year 2016 have been examined and it is found that listed companies with financial year prior to 31 December 2016 have not disclosed KAM in their audit reports.

There was a total of 435 companies with financial year end 31 December 2016 from the population of 795 companies listed on Bursa Malaysia Main Board during 2016. There were 19 companies from the financial services sector. These companies in the financial services sector were excluded from the study as their financial statements being not comparable to those of non-financial companies and being subjected to the high level of industry regulations (for example, the Financial Services Act 2013), monitored by Bank Negara Malaysia. Being in rare and limited circumstances, there were 3 companies with KAM section in their respective audit report nevertheless no KAM being identified and hence no KAM was communicated. As such, they were excluded in the study. Another 3 companies were being issued disclaimer of opinion, which implied that the auditor is unable to form an opinion on the financial statements. ISA 705 states that auditor's report should not include a KAM section when disclaimer of opinion is issued, but it is required for a qualified or adverse opinion (IFAC, 2019). These 3 companies were excluded from the study as well. Other than that, it was found that 15 companies have incomplete data and therefore were excluded. This leaves final sample of 395 companies in the study, which was about 50 percent from the population.

Table 3.2
Sample Selection

Description	Number of companies
Total companies listed on the Bursa Malaysia Main Board with financial year end 31 December 2016	435
Less:	
Companies from financial services sector	19

Table 3.2 (Continued)

Description	Number of companies
No KAM identified	3
Disclaimer of opinion	3
Companies with missing audit report date	12
Companies with missing audit engagement partner name	1
Companies with no audit committee	2
Final sample	395

3.7 Data Analysis

Various statistical tests were employed to examine the hypothesised relationship between variables. Descriptive statistics (mean, minimum, maximum and standard deviation) were applied to describe the control variables. The mean t-test was used to identify KAM categories which have longer ARL, while univariate analysis was conducted to determine the relationship KAM categories which have longer ARL and ARL. It was then followed by assumption tests to provide insight about the normality and heteroscedasticity of data. Furthermore, Durbin-Watson test was used to detect the presence of autocorrelation in the residuals. In multicollinearity test, Pearson correlation coefficient and Variance Inflation Factor were used to check the presence of high level of similarities and therefore inter correlation among independent and control variables. Finally, the ordinary least squares (OLS) regression analysis technique was employed to analyse the relationship between these variables and ARL and to analyse whether audit partner tenure moderate the relationship between the categories of KAM which have longer ARL and ARL.

3.8 Summary

This chapter covers the methodology of the research, which includes underpinning theory and theoretical framework, hypothesis development, variable measurement, model specification, data collection and data analysis. The study is underpinned by

agency theory and learning theory. The proposed theoretical framework involves 2 testing variables (ARL and interaction effect of audit partner tenure and ARL), independent variable (KAM categories which have longer ARL) and 9 control variables. It is hypothesised that there is a positive relationship between KAM categories which have longer ARL and ARL. Besides, it is also hypothesised that the positive relationship between KAM categories which have longer ARL and ARL is weaker with the presence of long tenured audit partner. To test these two hypotheses, secondary data have been gathered from the annual reports. The final sample involved 395 companies in the study, which was about 50 percent from the population of 795 public listed companies listed on Bursa Malaysia Main Board during 2016. Data extracted from the annual reports was analysed by using descriptive statistics, mean t-test, univariate analysis, assumption tests and OLS regression analysis.



CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter, the results of the hypothesis testing are presented and discussed. In order to test the hypothesis, various statistical tests have been utilized. The tests of the research hypotheses using OLS multiple regression technique is then discussed. The summary brings together and summarises the activities and procedures deliberated in this chapter.

4.2 Descriptive Analysis

Table 4.1 indicates the descriptive statistics for ARL of 395 companies listed on Bursa Malaysia Main Board with financial year end of 31 December 2016. According to Table 4.1, the mean score of ARL is 91.78 days with a maximum and minimum day of 150 days and 18 days respectively. This shows that on average, the companies have taken about 92 days to complete their audit report.

According to Chapter 9 Section 9.23 Issue of annual report of Bursa Malaysia Listing Requirements, all public listed companies are mandated to issue their annual report, including annual audited financial statements together with the auditors' and directors' reports, to Bursa Malaysia and shareholders within 4 months after the end of the financial year of the companies. It is found that 99.75% companies are able to fulfil the timeliness of annual report issuance mandated by Bursa Malaysia. Only one company (Perak Corporation Berhad) which fail to complete and filed its annual

report within 4 months, as its ARL is 150 days. This is in line with the statement of Bursa Malaysia which it claims that more than 99% of financial reports are submitted within the stipulated timeframe (Bursa Malaysia, 2018).

Table 4.1
Descriptive Statistics for Audit Reporting Lag

	Minimum	Maximum	Mean	Standard Deviation
AUDITLAG	18	150	91.78	20.42

Notes:

The variable is defined in the Research Methodology section.

N = 395

As a whole, the finding of this study (ARL = approximately 92 days; N = 395) is comparable to previous studies in Malaysia. Nevertheless, the average ARL of this study appear to be shorter. Average ARL among Malaysia public listed companies ranged from 97 days to 114 days within the period of 1993 to 2011 (Puasa et al., 2014). Apadore and Mohd Noor (2013) revealed that the average ARL for 100 randomly chosen listed companies on Bursa Malaysia for 2009 and 2010 is 100 days. The result of this study is similar with Hashim and Abdul Rahman (2011) and Mohamad Nor et. al (2010) which discovered that companies averagely took about 103 days and 100 days respectively to publish audit reports after the fiscal year. Che-Ahmad and Abidin (2001) reported approximately 113 days of average ARL and 114 days of average ARL in their later study (Che-Ahmad and Abidin, 2008). In line with the finding Nelson and Shukeri (2011), Abidin and Ahmad-Zaluki (2012) reported mean ARL of 101 days.

In more recent study, Ahmad et al. (2016) indicated mean ARL of 97.91 days for 342 public listed companies which adhere to MFRS in the financial year of 2012. Wan

Hussin et al. (2018) found that 651 sampled Malaysian companies take approximately 103 days to release their audited annual accounts in 2013. Shorter ARL mean found by this study might due to the amendment of Bursa Malaysia listing requirements by the end of 2013. The timeframe for the issuance of annual reports has been shorten which public listed companies with their financial year ending on or after 31 Dec 2015 are required to issue annual reports within 4 months from the close of the financial year, compared to previous 6-months timeframe to issue annual reports.

Comparing to ARL in other countries, such as Athens 97.56 days (Leventis et al., 2005), US 59.36 days (Lee et al., 2009), New Zealand 60 - 64 days (Habib & Bhuiyan, 2011; Walker & Hay 2012), China 84 - 87 days (Chan et al., 2016; Habib, 2015), Egypt 47 days (Khlif & Samaha, 2014), Oman 52 days (Baatwah et al., 2015), Jordan 58.52 days (Bhoor & Khamees, 2016), Palestine 62.04 days (Mohammed Hassan, 2016), Australia 80 days (Sultana et al., 2015), Ghana 86 days (Agyei-Mensah, 2018), Nigeria 95 days (Ilaboya & Iyafekhe, 2014) and Indonesia 79 days (Rusmin & Evans, 2017), the average ARL of Malaysian companies appear to be longer. It could possibly due to public listed companies are entitled for relatively longer timeframe (4 months) to submit annual report under the Main Market listing requirement of Bursa Malaysia (Apadore & Mohd Noor, 2013).

Table 4.2 presents the descriptive statistics of KAM categories disclosed by the companies. The KAM categories in each annual report are coded against the categories listed in the appendix of ACCA review of the first year implementation of the IAASB's revised auditor reporting standards (ACCA, 2018), being supplemented by the examples of KAM categories provided by Arnold and McGeachy (2017). All

KAM categories have minimum value and maximum value of 0 and 1 respectively as they have been coded as “1” if such KAM categories presented in the audit report and “0” if otherwise. Revenue recognition (excluding any reference to fraud), is the most common KAM, followed by receivables, impairment of goodwill and intangible assets, valuation of inventories and property, plant and equipment impairment. These KAM categories typically involve significant management judgement. The findings regarding the frequency of KAM categories of this study are in line with the review of first year implementation experiences of enhanced auditor’s report conducted by Securities Commission, MIA and Association of Chartered Certified Accountants in Malaysia (SC, MIA & ACCA, 2018).

Table 4.2 also presents the descriptive statistics of audit partner tenure. Due to MIA mandates the rotation of lead audit partner in audit engagement for every five years, the maximum value of TENURE is 5. The minimum value of TENURE is 1 as audit partner at least serve for 1-year duration for the company (consistent with Wan Hussin et al., 2018; Fargher et al., 2008) while the average audit partner tenure is 2.32 years.

Table 4.2
Descriptive Statistics for Testing Variables (Key Audit Matters Categories and Audit Partner Tenure)

	Minimum	Maximum	Mean	Standard Deviation
KAM Categories:				
Revenue recognition	0	1	0.35	0.48
Receivables	0	1	0.34	0.48
Impairment of goodwill and intangible assets	0	1	0.27	0.44
Valuation of inventories	0	1	0.23	0.42
PPE impairment	0	1	0.19	0.39

Table 4.2 (Continued)

	Minimum	Maximum	Mean	Standard Deviation
Impairment of investments	0	1	0.12	0.33
Valuation of investment properties	0	1	0.11	0.32
Contingent liabilities and provisions	0	1	0.07	0.26
Taxation	0	1	0.06	0.23
Going concern & liquidity risk	0	1	0.05	0.21
Biological assets	0	1	0.05	0.21
Fixed assets (capitalisation, useful life, additional purchase)	0	1	0.05	0.21
Others	0	1	0.04	0.20
Acquisitions/disposals	0	1	0.04	0.20
Financial instrument	0	1	0.04	0.19
Development costs	0	1	0.02	0.13
Other liabilities	0	1	0.02	0.12
Asset held for sale	0	1	0.01	0.09
Consolidation & component auditor issues	0	1	0.01	0.09
IT related	0	1	0.01	0.07
Share based payment	0	1	0.00	0.05
Insurance	0	1	0.00	0.05
Suppliers incentives and rebates	0	1	0.00	0.05
TENURE	1	5	2.32	1.24

Notes:

N = 395

Table 4.3 presents the descriptive statistics for all the control variables. The maximum value of types of auditors (BIG4) is 1 while the minimum value of BIG4 is 0. This is because BIG4 is a dummy variable. In this study, 53.6 percent of the sample companies are audited by the Big 4 accounting firms. This result is lower than Hashim and Abdul Rahman (2011) and Apadore and Mohd Noor (2013), who have

documented that 58 percent and 59 percent respectively of their sample companies are audited by the Big 4 accounting firms. It is also lower than Yaacob & Che-Ahmad (2012) and Mohamad Nor et al. (2010) who reported 64.8 percent and 74 percent respectively of the observations are audited by the Big 4 accounting firms. This result is however higher than Wan Hussin et al. (2018) as their finding indicated that the Big 4 accounting firms audited 47 per cent of the 651 sample companies in 2013.

In terms of board size (BSIZE), there is a minimum of 5 directors on the board and maximum of 17 directors on the board. The mean of board size is 7.63, in line with Mohomad Nor et al. (2010) who obtained a mean of board size of 7.6. Hashim and Abdul Rahman (2011) documented average of 8.18. The result (BIND) also shows that 48 percent of the board directors are independent directors. This result is slightly higher than the figures obtained by Mohomad Nor et al. (2010), Nelson and Shukeri (2011) and Apadore and Mohd Noor (2013), which are 40 percent, 44 percent and 45.9 percent respectively. On the other hand, the finding of Salleh et al. (2017) indicated that 50 percent of the board directors are independent directors in their 700 observations of top 100 Malaysian listed companies from 2005 to 2011. Comparison of different studies across years implies that the proportion of independent directors on the board is on increasing trend and it is being more consistent with the requirement of the Bursa Malaysia listing requirement, which requires at least 2 directors or 1/3 of the board of directors of a listed company, whichever is the higher, are independent directors.

In this study, the mean of size of audit committee is 3.42, which is closely related with Wan Hussin et al. (2018), Apadore and Mohd Noor (2013), Nelson and Shukeri

(2011) and Mohamad Nor et al., (2010), who documented mean 3.22, 3.28, 3.26 and 3.51 respectively. The minimum of audit committee size is 3 people while the maximum of audit committee size is 7 people. Averagely, there are at least 5 audit committee meetings held during financial year 2016, in line with Apadore and Mohd Noor's (2013) mean of 4.93. This result is higher than the findings of Nelson and Shukeri (2011) (4.93 times), Hashim and Abdul Rahman (2011) (4.8 times), Mohamad Nor et al. (2010) (4.8 times) and Wan Hussin et al. (2018) (5 times). Malaysian Code of Corporate Governance 2000 recommends best practice of three or four planned meetings and additional ad hoc meetings of audit committee meeting in response to special circumstances based on PRO NED, United Kingdom's Guidelines for Audit Committees (Securities Commission, 2000). Revision of Malaysian Code of Corporate Governance in 2007 provides that audit committee shall meet at least four times a year (Hashim & Abdul Rahman, 2011). This indicates that most of the audit committee of the sample companies discharge their responsibility in accordance with MCCG. There is only 0.27 percent (1 company – Rhone Ma Holdings Berhad) that does not adhere to this recommendation.

Size of the company is proxied by the function of natural logarithm of the total assets (LnSIZE) in the financial year 2016. The average natural logarithm of the total assets is 20.27. The mean for the log total assets of Apadore and Mohd Noor (2013) was 19.23 while the finding of Yaacob and Che-Ahmad (2012) was 19.683. On the other hand, Salleh et al. (2017) indicated that the mean for the log total assets is 21.65. Yaacob and Che-Ahmad (2012) documented the mean square root number of subsidiaries is 3.86 with a minimum of 0 and maximum of 17.69. In line with the

work of Yaacob and Che-Ahmad (2012), the mean square root number of subsidiaries of this study is 3.91.

Mohamad Nor et al. (2010) reported 16 percent of their sample companies receive going concern audit opinions. On the other hand, 8.4 percent and 9.5 percent respectively of the the sample companies of Shukeri and Islam (2012) and Nelson and Shukeri (2011) received qualified audit opinion. Wan Hussin and Bamahros (2013) and Wan Hussin et al. (2018) reported 0.04 mean of their sample companies receive non-standard audit opinions. Similarly, there is only approximately 2 percent of sample companies in this study (0.02 mean) receive going concern audit opinions.

The maximum value of SECTOR is 1 while the minimum value of SECTOR is 0. This is because it is a dummy variable. In this study, 11.0 percent of the sample companies are companies operating in technology and plantation sectors. Similarly, Wan Hussin et al. (2018) reported average of 11.0 percent of their sample companies are companies operating in technology and plantation sectors while only 8 percent of Wan Hussin and Bamahros (2013) sample companies are involved in the plantation and technology sectors.

Table 4.3
Descriptive Statistics for Control Variables

Control Variables	Minimum	Maximum	Mean	Standard Deviation
BIG4	0.00	1.00	0.51	0.50
BSIZE	4.00	17.00	7.63	1.92
BIND	0.29	0.86	0.48	0.12
ACSIZE	3.00	7.00	3.42	0.68
ACMEET	1.00	9.00	5.05	1.03
LNSIZE	10.84	25.25	20.27	1.63

Table 4.3 (Continued)

Control Variables	Minimum	Maximum	Mean	Standard Deviation
SUBS	0.00	21.70	3.91	2.56
CGOPIN	0.00	1.00	0.02	0.14
SECTOR	0.00	1.00	0.11	0.31

Notes:

All the variables are defined in the Research Methodology section.

N = 395

4.3 Mean t-test Analysis and Univariate Analysis

The independent samples t-test has been employed to compare the ARL means of KAM categories in order to determine whether there is statistical evidence that the associated population means are significantly different. The significance value of Levene's Test for Equality of Variances for each KAM categories has been referred to determine its significance ($p < 0.05$) and to determine whether or not to assume equal variances. Following that, significant value ($p < 0.05$) of t-test for Equality of Means has been referred to verify if the means for KAM categories are statistically different or if they are relatively the same.

Among 23 KAM categories, it is found that only ARL mean of 4 KAM categories, namely receivables, valuation of investment properties, taxation, IT related are being unequal to ARL mean of other KAM categories. This is due to significant value of these 4 KAM categories less than 0.05. As $p < 0.05$, unequal variances are assumed and the assumption of homogeneity of variances is violated which implies that the variability of ARL mean of these 4 KAM categories is significantly different from other KAM categories. On the other hand, the significance value of the remaining 19

KAM categories is greater than 0.05 ($p > 0.05$). Therefore, ARL mean of the remaining 19 KAM categories can be treated as equal. By comparing ARL mean, only 1 KAM category – receivables appear to have statistically significantly ($p < 0.01$) longer ARL mean than other KAM categories. In contrast, there other 3 KAM categories (valuation of investment properties, taxation, IT related) have significant shorter ($p < 0.05$) ARL mean than other KAM categories.

Table 4.4
Mean t-test Analysis for Key Audit Matters Categories

KAM Categories	N	ARL mean of the KAM category	ARL mean of other KAM categories	Mean t-test		ARL mean of the KAM category is equal to ARL mean of other KAM categories
				t-value	p value	
Revenue recognition	137	90.61	92.40	0.786	0.433	Accept
Receivables	136	97.33	88.86	4.398	0.000***	Reject
Impairment of goodwill and intangible assets	107	89.48	92.63	-1.366	0.173	Accept
Valuation of inventories	92	94.51	90.95	1.77	0.078	Accept
PPE impairment	75	90.84	92.00	-0.44	0.659	Accept
Impairment of Investments	49	90.31	91.99	-0.54	0.591	Accept
Valuation of investment properties	44	82.77	92.91	-2.04	0.047**	Reject
Contingent liabilities & provisions	29	92.38	91.73	0.16	0.869	Accept
Taxation	23	82.48	92.35	-2.26	0.024**	Reject
Going concern & liquidity risk	19	97.63	91.48	1.28	0.201	Accept

Table 4.4 (Continued)

KAM Categories	N	ARL mean of the KAM category	ARL mean of other KAM categories	Mean t-test		ARL mean of the KAM category is equal to ARL mean of other KAM categories
				t-value	p value	
Biological assets	19	97.37	91.49	1.22	0.222	Accept
Fixed assets (capitalisation, useful life, additional purchase)	19	93.79	91.68	0.44	0.660	Accept
Others	17	93.59	91.70	0.37	0.709	Accept
Acquisitions/disposals	16	85.50	92.04	-1.26	0.210	Accept
Financial instrument	14	86.43	91.97	-0.80	0.435	Accept
Development costs	7	104.71	91.54	1.70	0.091	Accept
Other liabilities	6	95.33	91.72	0.43	0.668	Accept
Asset held for sale	3	95.00	91.75	0.27	0.784	Accept
Consolidation & component auditor issues	3	104.67	91.68	1.10	0.273	Accept
IT related	2	56.00	91.96	-2.50	0.013**	Reject
Share based payment	1	69.00	91.84	-1.12	0.265	Accept
Insurance	1	101.00	91.75	0.45	0.652	Accept
Suppliers incentives and rebates	1	101.00	91.75	0.45	0.652	Accept

Notes:
*** p < 0.01 (two-tailed)
** p < 0.05 (two-tailed)

Table 4.5 presents univariate analysis to determine the correlation between ARL and KAM categories. There are 5 KAM categories, namely receivables, valuation of investment properties, taxation, development costs and IT related that are significant in predicting ARL. The highest correlation coefficient is between KAM category–receivables and ARL (0.000), implying very statistically significant relationship with ARL. Adjusted R square of 3.6% means that 3.6% of the variance in ARL could be explained by receivables. For every standard deviation unit change in KAM category–receivables, ARL will increase by 19.7% of one standard deviation unit. KAM category–development costs is found to be positively associated with ARL at 0.01 or 1% level. Nevertheless, ARL mean of this KAM category is not significantly than other KAM categories according to mean t-test analysis. KAM category–development costs is therefore omitted in the model specification of this study. In contrast, there other 3 KAM categories (valuation of investment properties, taxation, IT related) have significant and negative relationship with ARL and therefore being omitted in the model specification of this study. Therefore, only 1 KAM category, namely receivables (KAM-REV) being included in the proposed model of this study.

Table 4.5
Univariate Analysis for Key Audit Matters Categories

KAM Categories	Unstandardised Coefficients		Standardised Coefficients	Univariate Analysis	
	B	Std. Error	Beta	t-value	p value
Revenue recognition	-1.782	2.160	-0.042	-0.825	0.410
Receivables	8.470	2.123	0.197	3.990	0.000***
Impairment of goodwill and intangible assets	-3.155	2.310	-0.069	-1.366	0.173
Valuation of inventories	3.564	2.427	0.074	1.468	0.143
PPE impairment	-1.157	2.623	-0.022	-0.441	0.659
Impairment of Investments	-1.679	3.120	-0.027	-0.538	0.591

Table 4.5 (Continued)

KAM Categories	Unstandardised Coefficients		Standardised Coefficients	Univariate Analysis	
	B	Std. Error	Beta	t-value	p value
Valuation of investment properties	-10.133	3.230	-0.156	-3.137	0.002**
Contingent liabilities & provisions	0.650	3.944	0.008	0.165	0.869
Taxation	-9.874	4.365	-0.113	-2.262	0.024**
Going concern & liquidity risk	6.150	4.798	0.065	1.282	0.201
Biological assets	5.874	4.799	0.062	1.224	0.222
Fixed assets (capitalisation, useful life, additional purchase)	2.114	4.807	0.022	0.440	0.660
Others	1.892	5.069	0.019	0.373	0.709
Acquisitions/disposals	-6.542	5.208	-0.063	-1.256	0.210
Financial instrument	-5.545	5.557	-0.050	-0.998	0.319
Development costs	13.170	7.770	0.085	1.695	0.091*
Other liabilities	3.611	8.410	0.022	0.429	0.668
Asset held for sale	3.247	11.849	0.014	0.274	0.784
Consolidation & component auditor issues	12.988	11.832	0.055	1.098	0.273
IT related	-35.959	14.381	-0.125	-2.500	0.013**
Share based payment	-22.835	20.441	-0.056	-1.117	0.265
Insurance	9.246	20.468	0.023	0.452	0.652
Suppliers incentives and rebates	9.246	20.468	0.023	0.452	0.652

Notes:

*** p < 0.01 (two-tailed)

** p < 0.05 (two-tailed)

* p < 0.1 (two-tailed)

4.4 Assumption Tests

As mentioned in Chapter 3, ARL model proposed in this study would be tested by using the OLS regression analysis technique to analyse the relationship between these variables and ARL and whether audit partner tenure moderate the KAM-ARL relationship. Thus, before OLS regression analysis is conducted, the assumptions of multiple regression analysis (normality, multicollinearity, autocorrelation and heteroscedasticity) shall be checked for all the variables (Osborne & Waters, 2002).

4.4.1 Normality

Multiple regressions assume that all variables have normal distributions. Non-normally distributed variables (highly skewed variables or variables with substantial outliers) can distort relationships and significance tests (Osborne & Waters, 2002). In this study, skewness and kurtosis value have been used to test the assumption of normality. Data are considered reasonably normal if the values of skewness and kurtosis are lower than 3 and 10 respectively (Kline, 1998). As shown in Table 4.6, most of skewness values of the variables are lower than 3 and the kurtosis values of the variables are lower than 10, except CGOPIN. The high value of skewness and kurtosis of CGOPIN is due extremely low number of sample that being issued going concern opinion (N = 8, mean = 0.02).

Table 4.6
Normality Test - Skewness and Kurtosis

Variables	Skewness		Kurtosis	
	Statistic	Standard Error	Statistic	Standard Error
AUDITLAG	-1.090	0.123	1.091	0.245
KAM-REV	0.658	0.123	-1.575	0.245
TENURE	0.584	0.123	-0.697	0.245
BIG4	-0.036	0.123	-2.009	0.245

Table 4.6 (Continued)

Variables	Skewness		Kurtosis	
	Statistic	Standard Error	Statistic	Standard Error
BFSIZE	0.796	0.123	1.396	0.245
BIND	0.511	0.123	-0.207	0.245
ACSIZE	1.893	0.123	4.133	0.245
ACMEET	0.902	0.123	2.013	0.245
LnSIZE	-0.319	0.123	3.257	0.245
SUBS	2.010	0.123	7.765	0.245
CGOPIN	6.837	0.123	44.978	0.245
SECTOR	2.564	0.123	4.597	0.245

Notes: All the variables are defined in the Research Methodology section.

4.4.2 Multicollinearity

Table 4.7 shows the Pearson Correlation for the proposed ARL model. Multicollinearity problem exists if variables are highly correlated with each other with correlation value above 0.8 (Nunally, 1978). The highest correlation is between the two control variables, company size (LnSIZE) and number of subsidiaries (SUBS) at 0.495 (similar to Mohamad Nor et al., 2010). None of the variables are correlated above 0.8, which suggested that minimal multicollinearity is not a significant threat in jeopardising OLS regression results. The Variance Inflation Factor (VIF) measures the impact of collinearity among the variables in a regression model. Table 4.8 presents VIF measure to complement Pearson Correlation. According to Hair, Black, Babin and Anderson (1998), a tolerance value below 0.1, which corresponds to VIF greater than 10 denotes high multicollinearity. The values of VIF of all variables do not exceed 10 and therefore do not signal serious multicollinearity problem (O'Brien, 2007; Habib & Bhuiyan, 2011; Dao & Pham, 2014 and Al Bhoor & Khamees, 2016).

Table 4.7
Pearson Correlation

Variables	AUDITLAG	KAM_REV	TENURE	BIG4	BSIZE	BIND	ACSIZE	ACMEET	LnSIZE	SUBS	CGOPIN	SECTOR
AUDITLAG	1.000	.197	-.102	-.259	-.166	.043	-.263	.124	-.324	.087	.106	.025
KAM_REV	.197	1.000	-.059	-.269	-.071	.066	-.035	.004	-.150	.017	-.029	-.008
TENURE	-.102	-.059	1.000	.067	.043	-.017	.052	.024	.086	.045	-.037	.010
BIG4	-.259	-.269	.067	1.000	.308	-.083	.271	.026	.458	.164	-.038	-.006
BSIZE	-.166	-.071	.043	.308	1.000	-.224	.393	.140	.394	.149	-.094	-.006
BIND	.043	.066	-.017	-.083	-.224	1.000	.062	-.003	-.084	.044	.133	-.078
ACSIZE	-.263	-.035	.052	.271	.393	.062	1.000	.026	.296	.056	-.035	-.005
ACMEET	.124	.004	.024	.026	.140	-.003	.026	1.000	.094	.219	-.025	-.018
LnSIZE	-.324	-.150	.086	.458	.394	-.084	.296	.094	1.000	.495	-.148	-.018
SUBS	.087	.017	.045	.164	.149	.044	.056	.219	.495	1.000	.012	-.014
CGOPIN	.106	-.029	-.037	-.038	-.094	.133	-.035	-.025	-.148	.012	1.000	-.050
SECTOR	.025	-.008	.010	-.006	-.006	-.078	-.005	-.018	-.018	-.014	-.050	1.000

Notes: All the variables are defined in the Research Methodology section.

Table 4.8
Multicollinearity Test - Variance Inflation Factor

Variables	Tolerance	VIF
KAM-REV	.910	1.099
TENURE	.988	1.012
BIG4	.716	1.396
BSIZE	.694	1.442
BIND	.894	1.119
ACSIZE	.775	1.290
ACMEET	.934	1.070
LnSIZE	.526	1.900
SUBS	.691	1.446
CGOPIN	.947	1.056
SECTOR	.991	1.010

Notes: All the variables are defined in the Research Methodology section.

4.4.3 Autocorrelation

One of the assumptions of regression is that the observations are independent. Autocorrelation test is used in this study to detect non-randomness in data (Box & Jenkins, 1976). As a fairly conservative rule of thumb, Durbin-Watson value less than 1 or greater than 3 are cause for concern (Field, 2009). As shown in Table 4.9, the value of Durbin-Watson statistic is 1.231 and therefore the data is not autocorrelated.

Table 4.9
Durbin-Watson Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics				
						F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.494 ^a	.244	.222	18.010	.244	11.232	11	383	.000	1.231

4.4.4 Heteroskedasticity

One of the assumptions of OLS regression is that the errors have the same but unknown variance, which is known as constant variance or homoskedasticity. When this assumption is violated, heteroskedasticity problem presents. It would cause the model coefficients estimated by OLS to be biased and the estimation of their variance is not reliable. In order to detect the existence of heteroscedasticity, Breusch Pagan Test has been employed. Table 4.10 indicates that as a whole, p value is less than 0.05. The null hypothesis of homoskedasticity has to be rejected. It is assumed that heteroscedasticity problem presents in the data. Consequently, robust standard errors have been used for OLS regression as the standard errors are biased.

Table 4.10
Breusch-Pagan Test for Heteroscedasticity

Overall:		
chi2(11)	=	46.92
Prob > chi2	=	0.0000

4.5 Multivariate Analysis Universiti Utara Malaysia

Table 4.11 presents the OLS regression results without taking the interaction term KAM-REV*TENURE into account. The p-values (two-tailed) reported in the regression results are based on robust standard error corrected for heteroscedasticity. The F-value (F-value = 7.9, prob. < 0.0001) indicates that the model (without taking the interaction term KAM-REV*TENURE into account) is robust and it has a good explanatory power with R-squared (with robust standard error) of 24.39 percent which is comparable to 24 percent of (Wan Hussin et al., 2018).

Table 4.11
Ordinary Least Squares Regression Results

	Coef.	Robust Std. Err.	t	P>t
_cons	182.566	17.248	10.58	0.000***
KAM-REV	4.904	1.837	2.67	0.008**

Table 4.11 (Continued)

	Coef.	Robust Std. Err.	t	P>t
TENURE	-1.071	0.733	-1.46	0.145
BIG4	-2.606	1.959	-1.33	0.184
BSIZE	0.211	0.571	0.37	0.712
BIND	-0.608	8.484	-0.07	0.943
ACSIZE	-4.567	1.708	-2.67	0.008**
ACMEET	2.100	0.915	2.3	0.022**
LnSIZE	-4.617	0.900	-5.13	0.000***
SUBS	2.107	0.625	3.37	0.001***
GCOPIN	6.960	9.050	0.77	0.442
SECTOR	1.761	2.700	0.65	0.515
N	=	395		
F(11, 383)	=	7.9		
Prob > F	=	0.000		
R-squared	=	0.2439		

Notes:

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.001$, based on two-tailed results.

All the variables are defined in the Research Methodology section.

Table 4.12 presents the OLS regression results for proposed model. The F-value (F-value = 7.22, prob. < 0.0001) indicates that the proposed model is robust. It has slightly better explanatory power with R-squared (with robust standard error) of 24.43 percent which is slightly higher than 24.39 percent of the model that does not consider the interaction term KAM-REV *TENURE. Therefore, it is argued that the proposed model explains ARL better. As adjusted R-squared is not shown by STATA when variables are regressed with robust standard error (Williams, 2015; Torres-Reyna, 2007), adjusted R-squared (with regular standard error) is used to compare with that of prior studies. Adjusted R-squared (with regular standard error) of 22.22 percent is considerably greater than adjusted R-squared reported by previous ARL literature in Malaysia. For example, Raja-Ahmad and Kamarudin (2003), Che-Ahmad and Abidin (2008), Mohamad Nor et al. (2010), Nelson and Shukeri (2011), Shukeri and Islam (2012), Apadore and Mohd Noor (2013) and Ahmad et al. (2016) reported

adjusted R-squared of 14 percent, 20 percent, 16 percent, 12 percent, 21.2 percent, 11 percent and 19.9 percent respectively.

Table 4.12 evidenced that the testing variable, KAM categories-receivables (KAM-REV) has a significantly positive relationship with ARL ($t = 2.67, p = 0.008$). Thus, Hypothesis One is accepted. This finding is tandem with the finding of Bédard et al. (2014) which the coefficient of KAM is positive and statistically significant. This is consistent with the idea that in the first year of implementation of enhanced auditor reporting standard, auditors have to adapt to the changes of standard and require more time to issue audit report (Bédard et al., 2015).

Furthermore, as ARL would be significantly longer for engagement that requires more audit effort (Knechel & Payne 2001), it is suggested that additional audit effort is required to determine KAM, prepare the language for communicating KAM and document KAM in the enhanced auditor's report. This is because determination of KAM requires high level of auditor's professional judgment to identify the matters that require significant auditor attention in performing the audit of financial statements (MIA, 2015).

Moreover, ISA 701 does not specify minimum and maximum number of KAM to be reported (Ismail, Atqa & Hassan, 2018), leaving the extent of KAM reported to auditor's judgement. According to Ismail et al. (2018), Big 4 auditors perceived their experience in communicating highly technical matters in English was more challenging than determining KAMs and it was further compounded by the absence of a prototype report to serve as guideline. Besides, additional audit effort might

derive from the lengthy and detail discussion to reach mutual agreement among management, auditor and audit committee regarding the nature, description and extent of KAM to be reported in the enhanced auditor's report.

The findings of Table 4.12 also indicate that the coefficient of interaction term KAM-REV*TENURE is positive and insignificant, suggesting that longer partner tenure does not moderate the positive effect of KAM on ARL. Thus, based on the full sample, Hypothesis Two is not supported.

Control variables such as LnSIZE and SUBS are statistically significant at 1 percent level respectively while ACMEET and ACSIZE are significant at 5 percent level respectively. As expected, the coefficient of ACSIZE and LnSIZE is negative. This implies the inverse relationship between ARL and these two variables. ARL would appear to be shorter if audit committee size or company size is larger. Consistent with Wan Hussin et al. (2018), Mohamad Nor et al. (2010), Nelson and Shukeri (2011) and Apadore and Mohd Noor (2013), the negative and significant relationship between audit committee size and ARL indicates that companies which have more members on audit committee are more likely to devote substantial time and effort to ensure the timeliness in financial reporting.

Similar to the findings of most prior studies (Che-Ahmed & Abidin, 2008; Jaggi & Tsui, 1999; Carslaw & Kaplan, 1991; Hashim & Abdul Rahman, 2011; Afify, 2009; Owusu-Ansah & Leventis, 2006; Knechel & Sharma, 2012; Sultana et al., 2015; Ilaboya & Iyafekhe, 2014; Puasa et al., 2014; Wan Hussin et al., 2018; Mohamad Nor & Wan Hussin, 2010), it implies that larger companies are likely to be able to exert

more pressure on auditors for timely reporting, in addition of existing strong internal control system that the auditors can rely on, thus reducing the amount of audit procedures.

On the other hand, ACMEET and SUBS have a positive coefficient with ARL, in line with theoretical direct expectation. Consistent with Wan Hussin et al. (2018), Wan Hussin and Bamahros (2013) and Abernathy et al. (2011), it seems that higher frequency of audit committee meetings is related to higher stringency in auditing, therefore causing longer audit delays. This finding is however in contrast with Mohamad Nor et al. (2010). In tandem with Mohamad Nor et al. (2010) and Jaggi and Tsui (1999), the positive and significant relationship between the number of subsidiaries and ARL implies that external auditors require more effort and thus longer time to audit complex companies with more subsidiaries.

Although BIG4 and TENURE both have the expected negative relationship with ARL, the relationships are not significant. Contrasting to most of prior studies, this finding is however in line with that of Bédard et al. (2015). Bédard et al. (2015) found that whether joint audit is conducted by Big 4 or not, it would not affect ARL. Similar to Ocak and Özden (2018); Bhoor and Khamees (2016); Karami et al. (2017) and Wan Hussin et al. (2018), this study also found that audit partner tenure has no direct relationship with ARL. This might due to implementation of Enhanced Auditor's Report was in its initial stage (first-year implementation) in Malaysia. Despite of having substantial client-specific knowledge, auditors have to adapt to the changes of standard and require more time to issue audit report (Bédard et al., 2015). Despite of the mixed findings from previous studies, BIND and BSIZE are found not to be

correlated with ARL. In tandem with the findings of Mohamad Nor et al. (2010), Singh and Sultana (2011) and Basuony Mohamed, Hussain and Marie (2016), this result indicates that having different proportion of independent directors appointed on board and board size would not have effect on ARL.

Besides, the board size of company would neither contribute in the reduction nor increase of ARL. This is similar with the findings of Mohamad Nor et al. (2010), the characteristics of board of directors such as board size, CEO duality, and board independence are insignificant in determining ARL. Neither of SECTOR and GCOPIN is correlated with ARL. It is not in tandem with results of Wan Hussin and Bamahros (2013) as they found negative and significant relationship between ARL and companies categorised in the plantation and technological sectors. On the other hand, the non-existence of correlation between going concern opinion and ARL contradicts most of prior studies (Bamber et al.,1993; Leventis et al., 2005; Ettredge et al., 2006; Lee & Jhang, 2008; Afify, 2009; Lee et al., 2009; Nelson & Shukeri, 2011; Wan Hussin & Bamahros, 2013; Khlif & Samaha, 2014; Chan et al., 2016; Bhoor & Khamees, 2016; Salleh et al. 2017; Oussii & Taktak, 2018; Ettredge et al., 2006; Mohamad Nor et al., 2010).

Table 4.12
*Ordinary Least Squares Regression Results (the interaction term KAM-REV *TENURE being taken into account)*

	Coef.	Robust Std. Err.	t	P>t
_cons	182.480	17.293	10.55	0.000***
KAM-REV	4.918	1.839	2.67	0.008**
TENURE	-1.073	0.735	-1.46	0.145
KAM-REV*TENURE	0.172	0.916	0.19	0.851
BIG4	-2.624	1.964	-1.34	0.182
BSIZE	0.210	0.571	0.37	0.713

Table 4.12 (Continued)

	Coef.	Robust Std. Err.	t	P>t
BIND	-0.581	8.509	-0.07	0.946
ACSIZE	-4.565	1.711	-2.67	0.008**
ACMEET	2.086	0.922	2.26	0.024**
LnSIZE	-4.608	0.903	-5.11	0.000***
SUBS	2.105	0.626	3.36	0.001***
GCOPI	6.985	9.056	0.77	0.441
SECTOR	1.775	2.708	0.66	0.513
N	=	395		
F(12, 382)	=	7.22		
Prob > F	=	0.000		
R-squared	=	0.244		

Notes:

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.001$, based on two-tailed results.

All the variables are defined in the Research Methodology section.

4.6 Further Analysis

In Table 4.13, the sample has been split based on types of auditor. The results for the Big 4 subsample show that there is a mildly significant negative relationship between audit partner tenure and ARL (coefficient = -2.2225, $t = -1.79$, $p < 0.10$). However, for the non-Big 4 subsample, audit partner tenure is not correlated with ARL (coefficient = -1.161781, $t = -1.39$, $p > 0.10$). The findings suggest that audit partners from Big 4 accounting firms are able to utilise clients specific knowledge accumulated over the years to complete audit engagement sooner, as compared to their non-Big 4 counterparts who have fewer clients and resources. This might due to the knowledge and expertise developed over repeated audits for a large number of clients in the same industry helps lessen learning curves which in turn can ease required time to complete audit engagements. This is because prior studies evidenced that short-tenured auditors with no experience in auditing clients but with industry specialisation (for example,

the audit firm has the largest market share in respective industries) would be able to complete audit engagement sooner. Shorter audit lag could be potentially achieved by appointing Big 4 auditors in the manner of longer tenure. It is also interesting to note that going concern opinions only delay audit reporting for companies that are audited by the Big 4 accounting firms.

The findings of Table 4.13 indicate that the coefficient of interaction term KAM-REV *TENURE is significant however positive (coefficient = 1.600528, $t=1.69$, $p < 0.10$) in the subsample of non-Big 4. This finding further supplements the rejection of Hypothesis Two, which moderating effect of the coefficient of interaction term KAM-REV*TENURE has not been observed. In contrast, the interaction term KAM-REV*TENURE is negative and nearly significant at 10 percent (coefficient = -2.7965, $t=-1.55$, $p=0.1220$) and TENURE is negatively significant (coefficient = -2.2225, $t=-1.79$, $p < 0.10$) in the subsample of Big 4. This suggests the potentiality of long-tenured audit partners from Big 4 accounting firms to reduce ARL, in coherent with the negatively and weak relationship between TENURE and with ARL.

Table 4.13

Further Test - Ordinary Least Squares Regression Results (Types of Auditor Subsample)

	Big 4				Non-Big 4			
	Coef.	Robust Std. Err.	t	P>t	Coef.	Robust Std. Err.	t	P>t
_cons	206.879	24.2101	8.55	0.0000***	150.713	18.67332	8.07	0.0000***
KAM-REV	13.2861	2.9584	4.49	0.0000***	-1.240115	1.983903	-0.63	0.533
TENURE	-2.2225	1.2446	-1.79	0.0760*	-1.161781	0.838392	-1.39	0.168
KAM-REV*TENURE	-2.7965	1.7989	-1.55	0.1220	1.600528	0.946066	1.69	0.092*
BFSIZE	1.20906	0.8892	1.36	0.176	-0.568346	0.678802	-0.84	0.404
BIND	7.77812	11.2578	0.69	0.1760	-2.249159	10.81056	-0.21	0.835
ACSIZE	-6.4283	2.0871	-3.08	0.4900	-1.52107	2.412273	-0.63	0.529
ACMEET	1.74099	1.3197	1.32	0.0020**	2.060988	1.417833	1.45	0.148
LnSIZE	-6.1056	1.2452	-4.9	0.1890	-2.926744	1.00013	-2.93	0.004**
SUBS	2.30521	0.7456	3.09	0.0000***	1.945669	0.794073	2.45	0.015**
GCOPIN	25.924	8.2422	3.15	0.0020**	-6.19439	8.831831	-0.70	0.484
SECTOR	5.96157	5.2088	1.14	0.2540	-0.900062	2.430147	-0.37	0.712
N	=	201			N	=	194	
F(11, 189)	=	8.49			F(11, 182)	=	1.91	
Prob > F	=	0.0000			Prob > F	=	0.041	
R-squared	=	0.3259			R-squared	=	0.1201	

Notes:* $p < 0.10$, ** $p < 0.05$, *** $p < 0.001$, based on two-tailed results.

All the variables are defined in the Research Methodology section.

In Table 4.14, the sample has been split based on KAM categories—receivables and KAM categories—non-receivables. Interestingly, the results indicate that BIG4 is negatively significant in affecting audit reporting timeliness for KAM categories non – receivables. This suggests that auditor appointment of Big 4 could enhance audit reporting timeliness if the companies are reporting non-receivables KAM categories. In contrast, BIG4 is positively and significantly correlated with ARL for KAM categories—receivables. This suggests that receivables is a KAM category that requires higher level of audit effort and consequently longer audit engagement timeframe. Confirming accounts receivables is one of the top 10 audit deficiencies claimed by the US Securities and Exchange Commission (Beasley, Carcello and Hermanson, 2001). The numerous audit deficiencies include auditors’ failure to confirm enough receivables, to perform alternative procedures when confirmations are not returned or returned with material exceptions and problems with sending and receiving confirmation requests. Furthermore, overvalued assets or undervalued expenses or liabilities is the third most frequent fraud type in the study of Bonner, Palmrose and Young (1998).

On the other hand, undervalued allowance for bad debts is one of the most frequent fraud schemes (Bonner et al., 1998). As risk assessment is critical to the conduct of all financial statement audits, therefore audit process would be focus on those areas that are most at risk of material misstatement (ICAEW, 2019). Further exacerbating the situation, Big 6 auditors tend to involved in auditor litigation, comparable to their non-Big 6 counterparts (Bonner et al., 1998). Therefore, the audit deficiencies and fraud related to receivables might render Big 4 accounting firms being subjected to the higher litigation risk. With higher level of litigation risk, the auditors have to put forth more

audit effort and consequently, are less able to issue timelier audit reports (Bamber et al., 1993; Leventis et al., 2005).

The number of subsidiaries (coefficient = 2.540418, $t = 4.24$, $p > 0.001$) and company size (coefficient = -4.37436, $t = -4.1$, $p > 0.001$) are statistically significant for only non-receivables KAM categories. Besides, audit committee size (coefficient = -6.50284, $t = -3.32$, $p > 0.10$) and audit committee meeting (coefficient = 2.252631, $t = -2.07$, $p > 0.10$) are significant for only non-receivables KAM categories. This implies ARL for those companies that report other categories of KAM would be shorter if their audit committee size or company size is larger. On the other hand, ARL for those companies that report other categories of KAM would be longer if the number of subsidiaries is bigger or audit committee meeting is frequent. Consistent with the finding of the overall sample, audit partner tenure remains negative and insignificant for both subsamples.

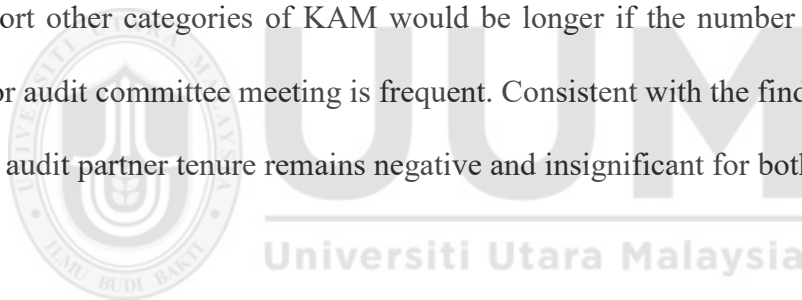


Table 4.14

Further Test - Ordinary Least Squares Regression Results (KAM Categories Subsample)

	KAM categories-Receiveables				KAM categories-Non-Receiveables			
	Coef.	Robust Std. Err.	t	P>t	Coef.	Robust Std. Err.	t	P>t
_cons	169.8068	28.36909	5.99	0.000***	176.0704	20.2371	8.7	0.000***
TENURE	-1.100091	1.025198	-1.07	0.285	-1.14072	0.931215	-1.22	0.222
BIG4	7.562471	3.174943	2.38	0.019**	-7.49738	2.266219	-3.31	0.001**
BSIZE	-0.387787	0.927377	-0.42	0.677	0.580045	0.684277	0.85	0.397
BIND	-11.97385	11.32949	-1.06	0.293	11.09718	10.83057	1.02	0.307
ACSIZE	-1.096137	2.601833	-0.42	0.674	-6.50284	1.960117	-3.32	0.001**
ACMEET	1.131084	1.675762	0.67	0.501	2.252631	1.089592	2.07	0.040**
LnSIZE	-3.303195	1.521468	-2.17	0.032**	-4.37436	1.067143	-4.1	0.000***
SUBS	0.137299	1.157755	0.12	0.906	2.540418	0.599573	4.24	0.000***
GCOPIN	-3.853861	12.96092	-0.3	0.767	9.835513	9.462926	1.04	0.300
SECTOR	-3.645031	3.894314	-0.94	0.351	5.273117	3.82602	1.38	0.169
N	=	136			N	=	259	
F(10, 125)	=	1.39			F(10, 248)	=	10.06	
Prob > F	=	0.1925			Prob > F	=	0.0000	
R-squared	=	0.0976			R-squared	=	0.3223	

Notes:* $p < 0.10$, ** $p < 0.05$, *** $p < 0.001$, based on two-tailed results.

All the variables are defined in the Research Methodology section.

In Table 4.15 the sample has been segregated based on the duration of audit partner tenure. Audit partners who are appointed for only 1 year is categorised as short partner tenure, while those who have been appointed consecutively for 4 or 5 years is categorised as long partner tenure (Wan Hussin et al., 2018). The variable of GCOPIN for the subsample of long partner tenure has been omitted due to collinearity problem.

KAM category-receivables for both subsamples appear to be positive and insignificant, further reinforce the earlier finding regarding no direct relationship between audit partner tenure and ARL. BIG4 is negative and nearly significant at 10 percent (coefficient = -6.4087, $t = -1.62$, $p = 0.111$) for only subsample of long partner tenure. This implies the potentiality of long-tenured audit partners from Big 4 to reduce ARL. Company size, the number of subsidiaries and going concern opinion are statistically significant for only subsample of short partner tenure. Similarly, audit committee size is significant for only subsample of short partner tenure. This implies that these variables could potentially mitigate the adverse impact of KAM on ARL if the company has new incoming audit partners.

Table 4.15

Further Test - Ordinary Least Squares Regression Results (Length of Audit Partner Tenure Subsample)

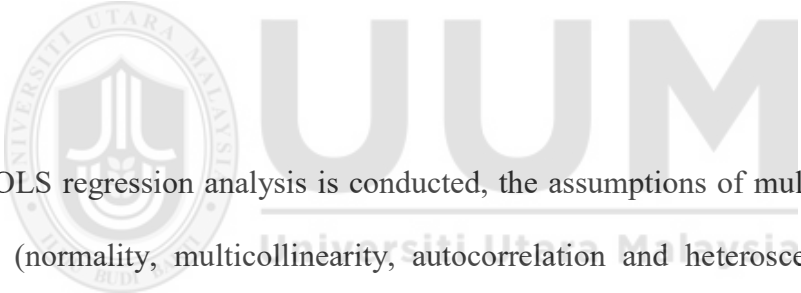
	Short Partner Tenure (1 year)				Long Partner Tenure (4 or 5 years)			
	Coef.	Robust Std. Err.	t	P>t	Coef.	Robust Std. Err.	t	P>t
_cons	237.0787	35.19387	6.74	0.000***	157.12	37.8862	4.15	0.000***
KAM-REV	4.628325	3.108034	1.49	0.139	6.32869	3.89905	1.62	0.109
BIG4	3.919262	3.614605	1.08	0.28	-6.4087	3.96736	-1.62	0.111
BSIZE	-0.5427129	1.223212	-0.44	0.658	1.23586	1.24358	0.99	0.324
BIND	-8.805378	14.65128	-0.60	0.549	-3.4365	16.8508	-0.20	0.839
ACSIZE	-7.333077	3.082253	-2.38	0.019**	-5.1495	3.33179	-1.55	0.127
ACMEET	2.323424	1.603931	1.45	0.15	4.84148	2.0923	2.31	0.024**
LnSIZE	-6.88395	1.828639	-3.76	0.000***	-3.9656	2.01684	-1.97	0.054*
SUBS	3.921351	0.9786637	4.01	0.000***	-0.1851	1.07064	-0.17	0.863
GCOPIN	19.04868	2.64265	7.21	0.000***	0	(omitted)		
SECTOR	-1.682978	4.194784	-0.40	0.689	-0.1468	6.37754	-0.02	0.982
N	=	135			N	=	74	
F(10, 124)	=	12			F(9, 64)	=	4.67	
Prob > F	=	0.0000			Prob > F	=	0.0001	
R-squared	=	0.3549			R-squared	=	0.3405	

Notes:* $p < 0.10$, ** $p < 0.05$, *** $p < 0.001$, based on two-tailed results.

All the variables are defined in the Research Methodology section.

4.7 Summary

This chapter focuses on the analyses of the hypotheses of proposed model, which is the relationship between KAM and ARL and the moderating effect of audit partner tenure on the KAM-ARL relationship. The description statistics of testing variables and control variables are presented in Table 4.1 – Table 4.3. Table 4.4 presents the mean t-test analysis for all KAM categories identified from the sample while Table 4.5 presents univariate analysis of these KAM categories. From mean t-test analysis and univariate analysis, it is found that only KAM category–receivables has positive and statistically significant relationship with ARL. Therefore, only 1 KAM category, namely receivables (KAM-REV) being included in the model specification of this study.



Before OLS regression analysis is conducted, the assumptions of multiple regression analysis (normality, multicollinearity, autocorrelation and heteroscedasticity) have been checked for all the variables. The assumptions tests prove that all variables are acceptable. Nevertheless, Breusch Pagan Test has detected the existence of heteroscedasticity. Consequently, robust standard errors have been used for OLS regression to correct heteroscedasticity.

Table 4.12 presents the OLS regression results. The testing variable, KAM categories- receivables (KAM-REV) has a significantly positive relationship with ARL. Thus, Hypothesis One is accepted. It also indicates that the coefficient of interaction term KAM-REV *TENURE is insignificant, suggesting that longer partner tenure does not moderate the positive effect of KAM on ARL. Thus, based on the full

sample, Hypothesis Two is not supported. Control variables such as LnSIZE and SUBS are statistically significant at 1 percent level respectively, while ACMEET and ACSIZE are significant at 5 percent level respectively. Other remaining variables are insignificant. Further analysis by segregating the sample based on the types of audit firm size, KAM categories and duration of audit partner tenure. The results show mildly significant negative correlation between audit partner tenure of Big 4 and ARL while audit partner tenure of non-Big 4 is not correlated with ARL.

In terms of further analysis, the findings of Table 4.13 further enforces that moderating effect of the coefficient of interaction term KAM-REV*TENURE has not been observed, especially for in the subsample of non-Big 4. Nevertheless, the coefficient of interaction term KAM-REV*TENURE is negative and nearly significant at 10 percent and TENURE is negatively significant in the subsample of Big 4, despite of the rejection of Hypothesis Two in the full sample. This suggests the potentiality of long-tenured audit partners from Big 4 to reduce ARL, in coherent with the negatively and weak relationship between TENURE and with ARL.

The results of Table 4.14 indicate that Big 4 is significant in affecting audit reporting timeliness of non-receivables KAM categories. It therefore suggests receivables is a KAM category that requires higher audit effort and consequently results in less timelier audit reporting. In Table 4.15, the variable of KAM category-receivables for both short and long audit tenure subsamples appear to be positive and insignificant, further reinforcing the earlier finding regarding no direct relationship between audit partner tenure and ARL. However the variable is negative and nearly significant at 10

percent for the subsample of long partner tenure, implying the potentiality of long-tenured audit partners from Big 4 to reduce ARL.



CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Introduction

Being the final chapter of the thesis, Chapter five purports to tie together the different aspects covered in the study. The chapter is divided into four sections. The first section sums up the key findings derived from the study. The second section highlights the implications of the study, followed by the discussion in terms of the limitations of the study and recommendations for future research in this area. This chapter is concluded by overall summary.

5.2 Summary of Key Findings

This study addressed the research question “Which categories of KAMs would have longer ARL among companies listed on Bursa Malaysia?”. Based on the analysis of the mean t-test and univariate test, it is found that KAM category–receivables (KAM-REV) has positive and statistically significant relationship with ARL while the other KAM categories are negligible. In terms of addressing the research question of whether KAM-REV has a relationship with ARL, the OLS regression results (with heteroscedasticity corrected with robust standard errors) show that KAM-REV has a significantly positive relationship with ARL. Thus, Hypothesis One is accepted. The third research question “Does audit partner tenure moderate the relationship between these categories of KAM which have longer ARL and ARL?” has also been answered by the OLS regression results. The insignificance of the coefficient of interaction term

KAM-REV*TENURE suggests that longer partner tenure does not moderate the positive effect of KAM-REV on ARL, therefore rejecting Hypothesis Two.

Table 5.1
Hypotheses and Conclusions Drawn in this Study

Hypotheses	Conclusion
1. There is a positive relationship between Key Audit Matters and audit reporting lag.	Supported
2. The positive relationship between Key Audit Matters and audit reporting lag is weaker with the presence of long tenured audit partner.	Rejected

Conclusion could be drawn that control variables such as LnSIZE, SUBS, ACMEET and ACSIZE are significant while other remaining variables are insignificant, based the OLS regression results. Further analysis shows mildly significant negative relationship between audit partner tenure of Big 4 and ARL while audit partner tenure of non- Big 4 has no relationship with ARL. The coefficient of interaction term KAM-REV *TENURE is negative and nearly significant at 10 percent and TENURE is negatively significant in the subsample of Big 4, despite of the rejection of Hypothesis Two in the full sample. This suggests the potentiality of long-tenured audit partners from Big 4 to reduce ARL, in coherent with the negatively and weak relationship between TENURE and ARL. Further analysis also indicates that Big 4 is significant in affecting audit reporting timeliness of other non-receivables KAM categories. It therefore suggests KAM-REV is a KAM category that requires higher audit effort and consequently results in less timelier audit reporting. The variable of KAM-REV is positive and nearly significant at 10 percent for the subsample of long partner tenure, implying the potentiality of long-tenured audit partners from Big 4 to reduce ARL.

Table 5.2

Conclusions Drawn in this Study – Significant Control Variables

Control variables	Significance
LnSIZE	Statistically significant at 1 percent level.
SUBS	Statistically significant at 1 percent level.
ACMEET	Significant at 5 percent level.
ACSIZE	Significant at 5 percent level.

5.3 Implications of the Study

According to Guetzkow, Lamont and Mallard (2004), demonstration of originality of a research can relate to using a new approach, theory, method, or data; studying a new topic; studying understudied area; or producing new findings. In the context of this study, its contributions mainly pertain to its investigation and application of existing theory to a new research area which has yet to be examined in Malaysia. The following outlines some contributions made by the study in several ways.

5.3.1 Implications to the Literature and Researchers

This study extends the literature of ARL by examining the relationship between KAM categories which have longer ARL and ARL of the companies listed on Bursa Malaysia. Despite of the prominence of ARL determinants literature, robust stream of research emphasises in company characteristics in determining ARL and yet to consider KAM as a potential determinant of ARL, given that ISA 701 has only recently become effective. As far as the researcher is aware, this is the first empirical study in Malaysia to examine ARL by considering KAM as one of the testing variables. This is particularly important as the determinants of ARL in Malaysia might differ from other countries, subjected to differences in terms companies specific characteristics and audit specific characteristics (Habib & Bhuiyan, 2011). Thus, this study makes a significant contribution to the existing ARL literature as well as

providing a pivotal base for other researchers, particularly in Malaysia, to build their studies upon (for example, to examine the relationship between KAM and ARL during second year of KAM implementation). Moreover, the study could be generalised to other countries which share similar KAM implementation phase or countries which share similarity in terms of the most frequent KAM categories disclosed (for example, valuation of loans and receivables is found to be the most frequent KAM categories disclosed in Hong Kong and Singapore).

Other than that, little focus has been given to ARL in KAM literature. Majority of the emerging KAM studies focus in examining the effect of the Extended Auditors' Reports towards audit quality and audit fees, rather than investigating ARL. Beside than ARL literature, this study would then extend the literature of KAM itself. Furthermore, this study also answers the call to direct more attention to the effect of audit partner rotation towards ARL.

5.3.2 Implications to the Auditors

Timeliness has been a longstanding area of interest for researchers as well as auditors. Knowledge of the determinants of ARL is likely to provide more insights into audit efficiency (Leventis et al., 2005). The manner in which the Enhanced Auditors' Report requirement is imposed may have far-reaching consequences for the audit profession. Being informed of the receivables is the KAM category that drives longer ARL (perhaps due to the audit deficiencies in confirming accounts receivables and higher probability of fraud), audit partner is able to establish a more appropriate audit strategy for the engagement.

The audit partner would be more certain of the nature, timing, and extent of resources necessary to perform the engagement for auditees who are likely to disclose receivables as one of its KAM. A more realistic audit plan would then be developed after considering the time consumption in preparing the language for KAM communication and documentation, as well as in lengthy discussion to reach mutual agreement among management, auditor and audit committee. Besides, the finding regarding the potentiality of long-tenured Big 4 audit partners to reduce ARL could serve as a reference for audit profession such as Big 4 accounting firms to lobby and advocate for regulation reformation to increase maximum limit of audit partner tenure.

5.3.3 Implications to the Regulator

Bursa Malaysia makes enquiries and investigates potential breaches of the Business Rules and Listing Requirements. Depending on the conduct involved, the impact of the breach and other facts and circumstances, enforcement actions or management actions could be taken to companies which found to be breach these requirements. The study of the relationship of KAM-ARL would enlighten Bursa Malaysia, especially in identifying of the KAM categories that prolong ARL. This would contribute in investigation and enforcement actions of Bursa Malaysia before issuing public or private reprimand and imposing fines towards companies that for failing to issue the company's annual reports within the required period. Implementation of KAM disclosure could not be used as an excuse of rendering delay in audit reporting and financial reporting. Moreover, the potentiality of audit partner tenure to moderate the KAM-ARL relationship would serve as justification basis of the regulation reformation regarding maximum limit of audit partner tenure and subsequent regulation reformation in the future.

5.3.4 Implications to the Management

Other than researchers, auditors and regulators, the findings of the study should be of interest to management of companies, audit committees and internal auditors who are concerned with the timeliness of financial reporting and make decisions regarding the deployment of internal resources. These parties should be more cautious in examining the determinants of prolonged audit delay in an attempt to reduce or avoid adverse consequences. For instance, audit committee could initiate the communication with auditor to allow early identification of potential KAM and enable the auditor to accommodate the audit process and reporting time frame. Alternatively, those companies which are likely to report receivables as KAM in subsequent years should direct resources and internal audit focus towards receivables-related areas to utilise internal audit function to alleviate ARL. In order to enhance audit efficiencies, receivables-related areas shall be taken into account in developing comprehensive internal audit strategic plan to maximise the potential positive impact of internal audit over external audit process and minimise ARL.

Given the importance of the auditor type in alleviating ARL, the management shall also exercise caution in selecting the appropriate auditor for the company, rather than focusing solely on the criteria of audit fees. Furthermore, significant variables in affecting ARL such as assets and subsidiaries owned by the companies, the number of audit committee meetings and the size of audit committee shall be considered by the management of companies in dedicating resources to ensure greater financial reporting timeliness in continuous manner.

5.4 Limitations of the Study

This study covers only 395 companies with financial year end of 31 December 2016, which are listed on Bursa Malaysia Main Board. The sample is about 50 percent from the population of total 795 companies listed on Bursa Malaysia Main Board during 2016 as the implementation of ISA 701 is effective from 15 December 2016 onwards. The results of the first-year implementation of enhanced auditor reporting (KAM disclosure) might not be generalised for the consecutive periods. Another limitation of the study is that companies in the financial services sector are excluded from the study as their financial statements are not comparable to those of non-financial companies and being subjected to the high level of industry regulations. Therefore, the findings of this study might not be generalised to these companies.

5.5 Future Research

In view of the limitations and findings of study, this section suggests directions for future research to overcome the limitations of the study. In order to investigate the relationship between KAM and ARL and the moderating effect of audit partner tenure on the relationship consecutively, it is recommended for future studies to exploit the change in audit report by using a pre-post regression analysis of the implementation of KAM disclosure as well as investigating the changes in the KAM disclosed in subsequent years. There are possibilities that the findings during the initial stage of the implementation of KAM disclosure would differ from the findings during that of second year (refer to Bédard et al., 2015). The increase of ARL in the first year of the implementation of KAM disclosure might due to auditors' lack of experience and unfamiliarity towards KAM. It takes time for the auditors to adapt to the new standard

and audit quality might increase as the implementation of KAM disclosure progresses. This is not tested in this study but it would be an interesting avenue for future research.

Besides, limitation in terms of generalisability to companies in the financial services sector could be overcome by replicating this study to financial companies. The findings of that could be used to compare with the findings of this study. Likewise, KAM categories which have longer ARL mean among financial companies listed on Bursa Malaysia could be identified. The relationship between the KAM categories which have longer ARL and ARL and the moderating effect of audit partner tenure on the KAM-ARL relationship could be investigated.

5.6 Summary

This study has examined 2 hypotheses regarding the relationship between KAM categories – receivables (KAM category which has longer ARL) and ARL and the moderating effect of audit partner tenure in the relationship between KAM categories – receivables and ARL. Using OLS regression analysis, it is found that Hypothesis One is supported while Hypothesis Two is rejected. Control variables such as company size, the number of subsidiaries owned by the companies, the number of audit committee meetings and the size of audit committee are significant while other remaining variables are insignificant. Further analysis suggests the potentiality of long-tenured audit partners from Big 4 to reduce ARL and to enhance audit reporting timeliness of non-receivables KAM categories.

This study has made a significant contribution to the ARL literature. It provides more insight into ARL by considering KAM as a potential determinant of ARL, which has

received limited attention so far. The study also investigates whether audit partner tenure could moderate the relationship between KAM and ARL. This study extends the stream of KAM research by providing empirical evidence in indicating the relationship between KAM and ARL in the context of Malaysia. This study shall be particular interest of auditors as the KAM category which is significant in delaying audit report timeliness is identified and a more realistic audit strategy for the engagement could be developed. Furthermore, the findings of the study could be used by Bursa Malaysia to alleviate investigation and enforcement actions towards companies that fail to issue annual reports timely. It can also serve as a justification basis of regulation reformation regarding the maximum limit of audit partner tenure and subsequent regulation reformation in the future. The findings of the study should be of interest to management of companies, audit committees and internal auditors to make better decision in developing comprehensive internal audit strategic plan and deploying company resources to minimise ARL. Furthermore, significant variables in affecting ARL such as assets and subsidiaries owned by the companies, the number of audit committee meetings and the size of audit committee shall be considered by management of companies to ensure greater financial reporting timeliness.

This study confronts limitations such as limited sample size (1-year observation) and generalisability to companies in the financial services sector. Therefore, it is suggested that future research should be conducted towards these directions in order to overcome such limitations and look into these outstanding issues. Despite of the limitations, this study has made an important contribution by providing a pivotal base for other researchers, particularly in Malaysia, to build their studies upon.

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