Relationship between the Industry Specialist Auditors and Financial Reporting Timeliness under MFRS

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ABSTRACT

This paper aims to identify the association between financial reporting timeliness and the presence of industry specialist auditors. The auditor's report lag (ARL) is used as a proxy for the financial reporting timeliness. The association between the two factors was examined through the resource dependence theory. Data comprise the 2012 annual reports of 796 Malaysian public listed companies and 342 of these companies had fully complied with the Malaysian Financial Reporting Standards (MFRS). From the results noted, it appears that financial reporting timeliness can be improved through the engagement of industry specialist auditors. This outcome contributes to the existing literature in auditing by enlarging the empirical evidence that was assessed with four different methods.

Keywords: Audit report lag, industry specialist auditor, MFRS, timeliness

INTRODUCTION

In an emerging economy such as Malaysia, the issuance of timely financial reporting is a major concern for regulatory bodies because timely financial information is crucial in decision making. Section 169(1)

of the Companies Act 1965 stipulates that company directors are responsible for tabling the company's financial statements at the company's general meeting. This has to be done within 6 months after the financial year ended. The Listing Requirements of Bursa Malaysia, in particular those stated in Chapter Two (para. 2.03(2)) and Chapter Nine (para. 9.23(1)) for public listed companies, state that all public listed companies should issue their annual reports not more than 4 months after the financial year ended (Bursa Malaysia, 2016). Chapter Two and Chapter Nine are

among the 16 Chapters noted in the Listing Requirements that spell out the requirements for companies whose shares are listed on the Main Market. Therefore, companies are required to produce their financial reports soonest possible. In this regard, listed companies have no choice but to be timely in producing their annual reports after the financial year ended.

The issuance of timely annual reporting depends on a few factors which include preparation of the accounts by the management team of the company and the time engaged by auditors to complete the audit assignment. The longer the time taken by auditors to complete the audit assignment, the longer the delay in the issuance of the audited accounts. This delay is known as the ARL, which is the period of time that exists between the fiscal year end and the auditor's report date (Afify, 2009; Alkhatib & Marji, 2012; Ashton et al., 1987; Leventis et al., 2005; Lee & Son, 2009; Owusu-Ansah, 2000).

The ARL is used interchangeably with the audit report delay and audit report lead time (Owusu-Ansah, 2000) because both terms measure the same period of time. Timely issuance of such accounting information can reduce the level of information asymmetry that exists between the management of a company and investors in the capital markets (Yan, 2012). Leventis et al. (2005) claimed that market efficiency could be enhanced when the period between the fiscal year end and the issuance of audited financial statements was reduced. In this regard, it appears that

the ARL is the most appropriate factor that can be used to proxy and measure financial reporting timeliness.

Para 2.03(2) of the Bursa Malaysia Listing Requirements (BMLR) requires financial information to be made available to stakeholders in a timely manner. However, the requirement of the IFRS (International Financial Reporting Standards) that expects lengthier explanations and detailed disclosures can be more burdensome for auditors because these preparations of the financial statements per the requirements of the IFRS are time consuming. In this regard, external auditors need more audit hours to perform the audit assignment. Non-specialist auditors, are auditors who are not experts in particular industries, may take an even longer time to verify all these requirements set forth by the newly acquired IFRS-compliant framework. This full adoption of the IFRS into Malaysian standards took effect on or after January 1st 2012 and replaces the previous FRS (Financial Reporting Standard) that was in place since 2006. This imposition justifies why using industry specialist auditors is more appropriate for companies in coping with the complexity laid down by the Malaysian Financial Reporting Standard that will be fully complied to the IFRS. Industry specialist auditors possess the adequate knowledge about the industry and as experts, they can also offer a competitive edge besides serving as a form of differentiation strategy (when compared to non-specialist auditors) that can attract more clients. Since the timely issuance

of financial reporting is a major concern of regulators and stakeholders, hiring an industry specialist auditor to audit the company's accounts may help to resolve the issue of timeliness. Based on this deduction, the research objective of this paper is to examine if the presence of industry specialist auditors may help to reduce/improve financial reporting timeliness for companies adopting the new MFRS regime that is IFRS compliance. This paper contributes to the existing literature by first, providing empirical evidence which demonstrates the extent of financial reporting timeliness and the influence of industry specialist auditors during the convergence of the IFRS in 2012. Second, by examining the ARL 1 year after the MFRS implementation, this study hopes to detect the immediate impact of the MFRS on the timeliness of financial reporting thereby, extending on the previous works of Ahmad et al. (2016). The outcome of this paper should be of interest to many in the auditing domain but in particular, regulators of Bursa Malaysia and the Securities Commission where the findings could be used as a benchmark to make comparisons of public listed companies that were pre- and post-MRFS compliant.

The remainder of this paper is organized as follows: The introduction paves the background to the study. This is followed by the literature review, which discusses the current topic. The next section discusses the theoretical framework and the development of the hypotheses while the subsequent section emphasizes on the research method used. The analysis of results and discussion follows next. Finally, the conclusion section discusses the implications followed by the limitation and recommendation for future studies.

LITERATURE REVIEW

The issue of corporate reporting timeliness is among the main concerns of many users of financial information such as investors, regulators, and bankers. Owusu-Ansah (2000) argued that the timely reporting of financial information could reduce information leaks, insider trading as well as market rumours. These reasons precisely served as the relevant and appropriate causes that led to the many concerns of the timely issuance of financial information, something very much relied on by bankers, shareholders, and investors as a reliable source of reference that is available in the market. Therefore, as highlighted by Leventis et al. (2005), it is important for companies to ensure the timely issuance of their financial reporting.

Some related studies looking at the issuance of financial reporting have been conducted in developed countries such as the United States and New Zealand (see Ashton et al., 1987; Habib & Bhuiyan, 2011; Knechel & Payne, 2001); and in Greece (Leventis et al., 2005). Other studies focused on Egypt (Afify, 2009), Zimbabwe (Owusu-Ansah, 2000), Bahrain (Al-Ajmi, 2009); Jordan (Alkhatib & Marji, 2012), and Malaysia (Abidin & Ahmad-Zaluki, 2012; Che-Ahmad & Abidin, 2001, 2008; Naimi et al., 2010; Nelson & Shukeri, 2011; Yaacob & Che-Ahmad, 2012). With the core of the

study being focused on timeliness, these studies had also utilized various indicators of financial reporting timeliness that include the ARL, financial statement issue delay and annual general meeting delay (Karim et al., 2006). Of these, the ARL is more widely used in previous studies as an indicator of financial reporting timeliness (see Afify, 2009; Alkhatib & Marji, 2012; Ashton et al., 1987; Knechel & Payne, 2001; Leventis et al., 2005; Owusu-Ansah, 2000). In that regard, the importance of the ARL is further exploited in the following section.

Industry Specialist Auditor and Audit Report Lag

In the field of finance and banking, an industry specialist auditor is a term used to refer to a recognized audit firm that has the specific skills and expertise of the industry that is very much higher than any normal auditor (Craswell et al., 1995). These specialist auditors are also known for their compliance with industry-specific regulations and stringent reporting requirements (especially in the finance and banking industries). It is these skills that make these specialist auditors gain greater auditor concentration within such industries (Abidin & Ahmad-Zaluki, 2012). In this regard, their expertise and capability serves as a reasonable supposition that can help to explain why these industry specialist auditors are needed. It is deduced that these specialist auditors will be able to adhere to and complete the audit procedures for public listed companies in a timely manner (Yan, 2012). Such a practice can improve

audit timeliness (Habib & Bhuiyan, 2011; Yan 2012). However, a deduction such as the one made here, may not always be true for Abidin and Ahmad-Zaluki (2012) found that industry specialist auditors do not necessarily perform faster auditing procedures than non-specialist auditors do (Abidin & Ahmad-Zaluki, 2012). In their work, Che-Ahmad and Abidin (2001) noted that there were no significant results in the determination of time taken to complete the audit assignments. Previous studies focusing on the association between industry specialist auditors and the ARL have been diverse in findings. A recent study by Ahmad et al., (2016) documented that industry specialist auditor had a negative association with ARL.

Knechel and Payne (2001) provided examples such as incremental audit effort (e.g., hours), resource allocation of audit team effort measured by rank (partner, manager, or staff) and the provision of non-audit services (management advisory services and tax) as audit-related characteristics that could potentially affect audit delay or financial reporting timeliness. In contrast, Owusu-Ansah (2000) observed that the complexity of operation, company size, company age and month of financial year end could also be significantly associated with the ARL.

Generally, studies looking at the relationship between industry specialist auditors and the ARL, as a proxy for financial reporting timeliness, have been conducted in different geographical segments and markets (Habib & Bhuiyan, 2011; Leventis

et al., 2005; Owusu-Ansah, 2000) and they have produced different findings. This discrepancy suggests that further studies focusing on industry specialist auditors need to be conducted by using different measurements in order to arrive at a more accurate result for such a determinant.

MRFS and Audit Report Lag

A full adoption of the IFRS (MFRS in Malaysia) by companies will probably extend the time taken by auditors to conduct an audit fieldwork. This delay can be attributed to the complexity of the IFRS standards implemented by companies. The adoption of fair value accounting (IFRS 13), for instance, requires the auditor to carry out detailed examinations of the adequacy of the judgment made by the management of the company including their determination of the value of the company. In this regard, auditors need to have an in-depth knowledge and expertise in understanding the adoption of the IFRS.

Since January 1st, 2006, public listed companies in Malaysia have been exposed to a major challenge as a result of the 21 IFRS adoption made by the MASB (Malaysian Accounting Standard Board). It was the MASB's intention to move Malaysia closer to the global convergence of accounting standards (Yaacob & Che-Ahmad, 2012) hence, between 2006 until 2011, there was a piecemeal adoption of the IFRS before full implementation was imposed in 2012. This IFRS-compliant framework applies to all non-private entities for annual periods starting on or after 1 January, 2012 except for the application of MFRS 141 (*Agriculture* and/or Interpretation IC Interpretation 15 *Agreements for the Construction of Real Estate*.)

The implementation of the IFRS increases audit risks (Marden & Brackney, 2009) because auditors have to verify an increased level of managerial judgments that were imposed by the principle-based standard-setting approach pursued by the International Accounting Standards Board (IASB). This practice foisted by the IASB creates more audit procedures and so it increases work hours. Such a process prolongs the ARL as is evident in Yaacob and Che-Ahmad (2012) who found the FRS 138 was complex due to its significant positive association with audit delay. As a result, more audit efforts and time were incurred in completing the audit assignments.

Numerous studies (see Abidin & Ahmad-Zaluki, 2012; Knechel & Payne, 2001; Nelson & Shukeri, 2011; Yaacob & Che-Ahmad, 2012) have examined this issue and these studies have broadly discussed the various company-specific attributes or audit-related attributes that could affect the ARL both in developed and developing countries. As one of the emerging economies, Malaysia is not isolated from the discussion. Che-Ahmad and Abidin (2008) reported that the mean audit delay of public listed companies in Malaysia for 1993 was approximately 114 days, a duration that is longer than that in the United States, which was stated to be 68 days (Knechel & Payne, 2001). In other studies, Abidin and Ahmad-Zaluki (2012),

Nelson and Shukeri (2011) and Yaacob and Che-Ahmad (2012) documented a more consistent finding of 101 days in the Malaysian context.

Despite such studies, little emphasis has been placed on the impact of industry specialist auditors on financial reporting timeliness since 1 January, 2012, when all non-private entities were required to comply with the MFRS. The expectation deduced from the convergence of the MFRS is assumed to prolong the ARL due to the complexity of the MFRS requirements. However, in light of the industry specialist auditor, the ARL is expected to be reduced and this can consequently, lead to an improved financial reporting timeliness. Therefore, this study contributes to the current literature by providing evidence on the influence of industry specialist auditor toward financial reporting timeliness in the period immediately after full MFRS convergence, beginning on or after 1 January, 2012.

Framework and Hypothesis

The Resource Dependence theory has been widely used in organizational theory and strategic management. It is a theory that helps to explain how the behavior of an organization can be affected by the external resources of that organization (Hillman et al., 2009). This means that organizations are not independently self-sufficient, that is, i.e., organizations and the external environments are interdependent. In view of this, the industry specialist auditor acts as an external party who provides resources in terms of knowledge and expertise in their specialized industry. Industry specialist auditors function as the reviewer and auditor of the financial statements of a company. As experts, industry specialist auditors are expected to have the capability to deal with complex issues particularly those related to the MFRS, which are relevant and applicable to the respective industries that they specialize in. Consequently, they should be able to reduce the audit report lag.

Based on the IFRS convergence which occurred in 2012, it is hypothesized that the presence of the industry specialist auditors is able to reduce the ARL. This can lead to a shorter time taken by the company to announce and publish their annual reports and because of this, financial information can be delivered in a timelier manner to shareholders. The hypothesis conjectured is thus as follows:

H: There is a negative relationship between the presence of industry specialist auditors and financial reporting timeliness under MFRS.

METHOD

Sample Selection

As mentioned earlier, the objective of this study is to investigate the association between industry specialist auditors and financial reporting timeliness under the new MFRS regime. The current study will extend the previous findings of Ahmad et al. (2016) by including more measurements for the ARL, that is, by adding the industry specialist auditors as another variable.

Data were manually collected from the 2012 annual reports of 796 public listed companies, following previous studies (Afify, 2009; Ahmad et al., 2016; Che-Ahmad & Abidin, 2008; Habib & Bhuiyan, 2011) and it involved companies listed in 13 sectors as indicated by Bursa Malaysia. The special purpose acquisition company (SPAC) is one sector that was excluded from the sample due to its lack of publicly available information. In the sample, hotels, infrastructure project companies, closed-end fund companies, and mining industries were grouped together under "others" because in total, they comprised less than 10 companies. Table 1 summarizes the sectors, the population, and the MFRS-compliant companies in terms of percentages.

Table 1
Part A: Sectors from the sample

Sector	Population No. (%)	MFRS-compliant companies No. (%)
Construction	43 (5.4)	7 (2.0)
Property	83 (10.4)	5 (1.5)
REIT	17 (2.1)	14 (4.1)
Technology	28 (3.5)	19 (5.6)
Plantation	40 (5.0)	9 (2.6)
Consumer Products	130 (16.3)	47 (13.7)
Industrial Products	241 (30.3)	121 (35.4)
Finance	34 (4.3)	19 (5.6)
Trading/Services	168 (21.1)	94 (27.5)
Others	12 (1.6)	7 (2.0)
N	796	342

Part B: Sample selection

Detail	*N*
Total companies in 2012	801
Less : No publicly available information	5
Companies with available information (net)	796
Less : Companies that are not MFRS compliant in 2012	454
Companies that comply with MFRS (net)	342

The new MFRS framework is IFRS-compliant and it applies to all non-private entities for the annual periods starting on or after 1 January, 2012. To identify the MFRS-compliant companies from other transitioning entities, the information has to be manually transferred from the notes to the financial statements. In that regard, the information would have stated the relevant financial accounting standards, which had been adhered to. These are shown in Table 1 where only 342 companies from various sectors adhered to the MFRS, which is consistent with the findings of Ahmad et

al. (2016). However, there were as much of 454 companies that had deferred the MFRS-compliance from a total of 801 companies available during 2012. This issue was highlighted by PWC (2012) who noted that many companies defer compliance by 1 year.

Measurement of Variables

Dependent Variable. The dependent variable of this study is the ARL (Audit Report Lag). It represents the timeliness factor of financial reporting. The ARL is the length of time noted between the financial year end and the date of issuing of the auditor's report or audit report (Afify, 2009; Alkhatib and Marji, 2012; Ashton et al., 1987; Leventis et al., 2005; Lee & Son, 2009; Owusu-Ansah, 2000).

Independent Variable. The independent variable of this study is the industry specialist auditors. Previous studies had shown that two different measurements had been used to determine which audit firm is the industry specialist auditor. This is based on the number of audit clients and the audit fees. Consistent with Ahmad et al., (2016), Iskandar and Aman (2003), and Rahmat and Iskandar (2004), this study utilized the auditor's industry market share by referring to the number of audit clients it had as a measurement to identify the industry specialist auditor. Using audit fees can be another measurement but there are limitations. For example, there could be some bias. The amount of audit fees imposed by the auditor is highly dependent on the number of hours needed to perform the work, as has been documented by Kim et al. (2012). It was shown that audit fees had increased significantly in the post-IFRS period. Furthermore, high audit fees may not be a direct indication that the auditors are specialized in a particular industry. Instead, the high audit fees may be incurred due to the extra hours of work and consultation with the audit client in completing the audit assignment.

On the contrary, utilizing number of audit clients as the base has some bias on large audit firms since large audit firms usually have more resources to meet the demand of auditing for larger clientele. Larger audit firms are also able to create more branches and overcome the geographical disadvantages as compared to small firms. Furthermore, Balsam et al. (2003) pointed out even if an auditor had a number of small clients in the industry, the knowledge base to be a specialist might be captured by having a number-of-client-based measure and not by a sales-based measure. Bonner and Lewis (1990) suggested that task-specific experience and training, often provided the best explanations of auditor expertise. Therefore, industry specialization is acquired when firms gain the industry specific experience from servicing large number of clients in the industry. Based on these arguments, the current study has chosen to utilize number of audit clients as the method of measuring industry specialist auditor.

The following formula of measurement that was derived from the number of audit clients was based on Iskandar and Aman

(2003). The following equation is applied to determine the audit market share and the presence of industry specialist auditors:

$$\frac{\text{The number of audit clients for the firm(s)}}{\text{The number of audit clients for all firm(s)}} \times 100\%$$

In considering the four criteria of the audit market share as a means to determine the industry specialist auditors for each industry studied, this study has an important contribution to offer to the current literature. The four criteria (hereafter, referred as SPEC) adapted from previous studies (Habib & Bhuiyan, 2011; Rahmat & Iskandar, 2004) are summarized in Table 2. They are used to make comparisons when examining their associations with the ARL.

Based on the criteria expressed in Table 2, the industry specialist auditor of each sector can be determined and summarized, as shown in Table 3. According to SPEC 1, as shown in Table 4, Ernst and Young (E&Y) serve as the industry's specialist auditor for eight out of 10 sectors. However, based on SPEC 2, an industry specialist auditor cannot be determined for five sectors (construction, technology, consumer products, industrial products, and finance) because none of the auditors meet this criterion. Based on SPEC 3, E&Y dominates as an industry specialist auditor because it meets this criterion for five sectors: property, REIT, plantation, finance, and others. Finally, in the case of SPEC 4, the results are mixed as E&Y and KPMG were identified as industry specialist auditors for three similar sectors namely REIT, finance, and others. In fact, PricewaterhouseCoopers (PWC) was also identified as an industry specialist auditor for the finance sector. Its record level is the same (more than 20% threshold) as E&Y and KPMG. On the other hand, Crowe Horwath was identified as an industry specialist auditor for the technology sector while E&Y was identified as the only industry specialist auditor for the other

Table 2
Criteria used to identify industry specialist auditor

Independent variable	Criteria for Industry Specialist Auditor	Prior studies
SPEC 1	Audit firm that holds the largest percentage of audit market share in a particular industry.	Habib and Bhuiyan (2011)
SPEC 2	Audit firm that holds: 1) the largest percentage, AND 2) 10% or more of audit market share in a particular industry than the second largest auditor.	Habib and Bhuiyan (2011)
SPEC 3	Audit firm that holds: 1) the largest percentage, AND 2) 30% or more of audit market share in a particular industry.	Habib and Bhuiyan (2011)
SPEC 4	Audit firm(s) that holds 20% or more of audit market share in a particular industry.	Rahmat and Iskandar, (2004); Ahmad et al. (2016)

remaining sectors. Overall, the results imply that E&Y is the most prominent industry specialist auditor appointed by companies in all sectors, as is clearly shown in the

samples. As many as 80 companies from the 342 in total had appointed E&Y as their auditors.

Table 3
Identification of industry specialist auditor for each sector

Sector	Criteria			
	SPEC 1	SPEC 2	SPEC 3	SPEC 4
Construction	E&Y (20.93%)	None	None	E&Y (20.93%)
Property	E&Y (33%)	E&Y (33%)	E&Y (33%)	E&Y (33%)
REIT	E&Y (35.29%)	E&Y (35.29%)	E&Y (35.29%)	E&Y (35.29%) and KPMG (23.53%)
Technology	Crowe Horwath (21%)	None	None	Crowe Horwath (21%)
Plantation	E&Y (52.5%)	E&Y (52.5%)	E&Y (52.5%)	E&Y (52.5%)
Consumer Products	KPMG (19.2%)	None	None	None
Industrial Products	E&Y (24.5%)	None	None	E&Y (24.5%)
Finance	E&Y (35%)	None	E&Y	E&Y (35%), KPMG (21%) and PwC (32%)
Trading / Services	E&Y (26%)	E&Y (26%)	None	E&Y (26%)
Others	E&Y (50%)	E&Y (50%)	E&Y (50%)	E&Y (50%) and KPMG (25%)

Control Variables. Five control variables namely, client size, profitability, industry, audit complexity, and leverage were included into the regression model as they were found to affect the ARL (see Afify, 2009; Che-Ahmad & Abidin, 2008; Leventis et al., 2005; Yaacob & Che-Ahmad, 2012). In this instance, company size may influence the ARL since large companies may have strong internal controls, which auditors can rely on. Consequently, larger company size may reduce the amount of substantive audit procedures that has to be undertaken by the auditors (Che-Ahmad & Abidin, 2008).

In terms of profitability, it was noted that if clients experience low profitability, then business risk is potentially high.

Subsequently, this would push auditors to conduct a more cautious and thorough audit assignment (Che-Ahmad & Abidin, 2008). Auditors should have a high professional skepticism about the company's management so that they can detect intentional fraud or unintentional errors. This practice may literally require more audit work. Previous literature have divided industries into two groups (i.e., financial and non-financial) for analysis purposes as companies in the financial sector are expected to have a shorter ARL than those in the non-financial sector (Afify, 2009). Furthermore, it has been claimed that companies in the financial sector may hold lesser volume of inventory and non-current assets than non-

financial companies such as those in the manufacturing sector (Bamber et al., 1993). Since the former is less complex on auditing, it could also shorten the ARL.

In addition to client size and profitability, another control variable is audit complexity. The number of subsidiaries of the companies have been extensively utilized in previous studies as a proxy for audit complexity (Che-Ahmad & Abidin, 2008; Yaacob & Che-Ahmad, 2012). In this regard, it is expected that the ARL for companies with a significant number of subsidiaries will be longer. This is due to the complexity of auditing that may involve comprehensive inspection of consolidated accounts by the auditors in order to ensure the adequacy of the financial information reported (Habib & Bhuiyan, 2011).

The last variable to be included is leverage (Yaacob & Che-Ahmad, 2011). It is predicted that leverage will have a significant positive relationship on the ARL as companies with higher leverage are expected to bear higher financial risk hence, longer ARL. This is due to the lengthy time needed by the auditors to conduct a transparent audit due to the financial risk potentially faced by the company.

Regression Models

The following regression models are applied to examine the association of the explanatory variables on the ARL, which consequently, influences financial reporting timeliness.

$$ARL = \beta_0 + \beta_1 (SPEC^*) + \beta_2 (SIZE) + \beta_3 (PROFIT) + \beta_4 (IND) + \beta_5 (COMPLEX) + \beta_6 (LEV) + \varepsilon$$

In the aforementioned models, β_0 refers to constraint coefficients, β_1 refers to the coefficients of the independent variables, β_2, β_3, β_4, β_5 and β_6 are the coefficients of the control variables of regression and ε is the error term. There are four models derived from the four specs to measure the industry specialist auditor (SPEC*). Hence, β_1, will be the coefficient representing four different specs. The definition and operational measures of the dependent variable, independent variable and control variables of this study are summarized in Table 4.

Table 4
Summary of variables and its operational measures

Variable	Operational measure
Dependent variable	
Audit Report Lag (ARL)	Number of days from the end of the financial year to the date of audit report.
Independent variable	
Industry Specialist Auditor (SPEC)	Auditor's industry market share based on the number of audit clients and on the fulfillment of one of four criteria (SPEC 1–4) mentioned earlier.
Control variables	
Company Size (SIZE)	Natural log of total assets of company as proxy to measure company size.
Profitability (PROFIT)	Return on equity: proportion of net profit to shareholders' equity.

Table 4 *(continue)*

Variable	Operational measure
Industry (IND_FIN)	A dummy variable coded '1' for financial companies (bank, finance, insurance, securities and investment sectors) and '0' for non-financial companies.
Audit Complexity (COMPLEX)	Square root of the number of subsidiaries as a proxy to measure audit complexity.
Leverage (LEV)	Ratio of total liabilities to total assets.

Here, it is noted that five control variables will be applied and their respective short forms are projected.

RESULTS AND DISCUSSION

Descriptive Analysis

Based on the analysis of the 342 MFRS-compliant listed companies, it can be noted that none of the companies had breached Bursa Malaysia's requirement of 180 days maximum period to lodge the annual report. The timely issuance of the annual report may reduce information asymmetry between the management of the company and investors (Owusu-Ansah, 2000). Overall, the mean ARL of the current study is 98 days, which is lower than what Naimi et al. (2010) and Nelson and Shukeri (2011) had documented—101 days and 100 days, respectively. In the present study, the ARL ranged between a minimum of 8 days to a maximum of 120 days for the entire 342 listed companies. This description complies with the MFRS requirement.

Table 5 provides information on one of the control variables according to industry types—finance and non-finance companies. All other industries were included under the category of "Non-finance" standing at 94.4% while those in the finance industries comprise 5.6%.

Table 5 highlights the reality that most of the companies were non-finance companies. Following this, Table 6 demonstrates that majority of the sample companies were audited by a non-specialist auditor with only 26.6% of the study samples being audited by an industry specialist auditor, based on criterion 1 (SPEC 1), which states that the auditor is assumed to be an industry specialist auditor if it holds the largest percentage of audit market share in that particular industry (Habib & Bhuiyan, 2011).

Table 5
Frequency table

Variable (N = 342)	Category	Frequency	Percentage (%)
IND_FIN	FINANCE	19	5.6
	NON-FINANCE	323	94.4

Note: IND_FIN = Assigned as 1 for financial companies (bank, finance, insurance, securities and investment sectors) and 0 for non-financial companies.

Table 6
Frequency table

Variable (N = 342)	Category	Frequency	Percentage (%)
SPEC 1	ISA	91	26.6
	NON-ISA	251	73.4
SPEC 2	ISA	33	9.6
	NON-ISA	309	90.4
SPEC 3	ISA	18	5.3
	NON-ISA	324	94.7
SPEC 4	ISA	94	27.5
	NON-ISA	248	72.5

Note: **SPEC 1 =** Assigned as 1 for company audited by industry specialist auditor (audit firm holds largest percentage of audit market share in a particular industry) and 0 otherwise; **SPEC 2 =** Assigned as 1 for company audited by industry specialist auditor (audit firm holds largest percentage and 10% or more of audit market share in a particular industry than second largest auditor) and 0 otherwise; **SPEC 3 =** Assigned as 1 for company audited by industry specialist auditor (audit firm holds largest percentage and 30% or more of audit market share in a particular industry) and 0 otherwise; **SPEC 4 =** Assigned as 1 for company audited by industry specialist auditor (audit firm/firms holds 20% threshold or more of audit market share in a particular industry) and 0 otherwise; **ISA** = Industry specialist auditor; **NON-ISA =** Non-industry specialist auditor.

In the case of the second criterion noted (SPEC 2), the industry specialist auditor is the one that holds the largest percentage and 10% or more than the second largest auditor of the audit market shares in that particular industry (Habib & Bhuiyan, 2011). In this regard, it was observed that 90.4% of the companies being examined in this study were audited by a non-specialist auditor. This proportion increases to 94.7% (324) when assessment is valued based on the third criterion for industry specialist auditor (SPEC 3); the audit firm holds the largest percentage and 30% or more of the audit market share in that particular industry (Habib & Bhuiyan, 2011).

The fourth criterion (SPEC 4) as noted by Ahmad et al. (2016) states that the audit firm/firms should hold 20% or more of the audit market share in that particular industry (Rahmat & Iskandar, 2004). In this study,

the output is similar to Ahmad et al. (2016), showing that 94 companies or 27.5% of the total study sample had engaged an industry specialist auditor.

Overall, it can be deduced that these results indicate that even when different criteria for the industry specialist auditor were used, most companies were still audited by non-specialist auditors. From Table 5b, it can be seen that for all the four criteria (SPEC 1–4) specified, more than 70% of the sample companies were audited by a non-specialist auditor.

Correlation Analysis

Table 7 shows the correlation between the ARL and the industry specialist auditor (SPEC) for all models. Statistics show that there is no concern on multi-collinearity as results show a negative association and are significant at the 5% percent level for Model

Table 7
Correlation analysis

Pearson's Correlation – Model 1 (SPEC1)							
	ARL	ISA_SPEC1	SIZE	PROFIT	IND_FIN	COMPLEX	LEV
ARL	1	−0.141**	−0.133*	−0.275**	−0.271**	0.156**	−0.026
ISA_SPEC1		1	0.018	0.094	0.027	0.011	−0.022
SIZE			1	0.040	0.197**	0.246**	0.220**
PROFIT				1	0.105	−0.058	0.049
IND_FIN					1	0.066	0.321**
COMPLEX						1	0.218**
LEV							1
Pearson's Correlation – Model 2 (SPEC 2)							
	ARL	ISA_SPEC2	SIZE	PROFIT	IND_FIN	COMPLEX	LEV
ARL	1	−0.115*	−0.133*	−0.275**	−0.271**	0.156**	−0.026
ISA_SPEC2		1	0.166**	0.095	−0.079	0.088	0.033
SIZE			1	0.040	0.197**	0.246**	0.220**
PROFIT				1	0.105	−0.058	0.049
IND_FIN					1	0.066	0.321**
COMPLEX						1	0.218**
LEV							1
Pearson's Correlation – Model 3 (SPEC 3)							
	ARL	ISA_SPEC3	SIZE	PROFIT	IND_FIN	COMPLEX	LEV
ARL	1	−0.271**	−0.133*	−0.275**	−0.271**	0.156**	−0.026
ISA_SPEC3		1	0.166**	0.232**	0.286**	0.018	0.110*
SIZE			1	0.040	0.197**	0.246**	0.220**
PROFIT				1	0.105	−0.058	0.049
IND_FIN					1	0.066	0.321**
COMPLEX						1	0.218**
LEV							1
Pearson's Correlation – Model 4 (SPEC 4)							
	ARL	ISA_SPEC4	SIZE	PROFIT	IND_FIN	COMPLEX	LEV
ARL	1	−0.293**	−0.133*	−0.275**	−0.271**	0.156**	−0.026
ISA_SPEC4		1	0.154**	0.059	0.337**	−0.003	0.100
SIZE			1	0.040	0.197**	0.246**	0.220**
PROFIT				1	0.105	−0.058	0.049
IND_FIN					1	0.066	0.321**
COMPLEX						1	0.218**
LEV							1

** Correlation is significant at the 1% level (2-tailed).
* Correlation is significant at the 5% level (2-tailed).
Note: **ARL** = Number of days from the end of the financial year ended to the date of audit report; **ISA_SPEC4** = Industry specialist auditor based on criterion that audit firm/firms holds 20% threshold or more of audit market share in a particular industry (Rahmat & Iskandar, 2004; Ahmad et al., 2016); **SIZE** = Natural log of total assets of company; **PROFIT** = Proportion of net profit to shareholders' equity, which represents return on equity as a proxy for profitability; **IND_FIN** = A dummy variable coded '1' for financial companies (bank, finance, insurance, securities, and investment sectors) and '0' for non-financial companies; **COMPLEX** = Square root of the number of subsidiaries as a proxy to measure audit complexity; **LEV** = Leverage of the company, which is represented by ratio of total liabilities to total assets.

2. For the other models, result is significant at 1% level. The negative relationship shows that the correlation matrix is consistent with the expected sign of the independent variable and the dependent variable (ARL) of this study. Therefore, results initially support the hypothesis where the presence of an industry specialist auditor is able to shorten the ARL.

In addition, all the criteria for the industry specialist auditor (ISA_SPEC2 to ISA_SPEC4) were noted to have a significant positive relationship with SIZE except for ISA_SPEC1. With regards to the association between PROFIT and all four criteria, results indicate that all of them show a positive sign except ISA_SPEC3 that is significant at 1% level. With regards to the association of the industry specialist auditor criteria and IND_FIN, results appear to vary. For instance, ISA_SPEC3 and ISA_SPEC4 have a significant positive relationship at the 1% level. Meanwhile, ISA_SPEC1 has an insignificant positive association with IND_FIN. In contrast, ISA_SPEC2 has a negative correlation but insignificant relationship with IND_FIN. From the correlation matrix, it can be seen that there is a positive relationship between industry specialist auditor for Model 1, Model 2, and Model 3 and COMPLEX but not for Model 4. Nevertheless, all four models were not significant with COMPLEX.

Apart from that, only ISA_SPEC1 has a non-significant and negative association with LEV, whereas ISA_SPEC2, ISA_SPEC3 and ISA_SPEC4 have a positive association with LEV. In addition, the relationship between LEV and IND_FIN shows a positive association in all models and the highest value for each model was noted to be at 0.321. Model 4 also shows a similar output as that of Ahmad et al. (2016) where IND_FIN and ISA_SPEC4 carry the highest value of correlation at 0.337. This outcome has a significant positive association at the 1%level, suggesting that companies in the finance sector tend to utilize industry specialist auditors unlike those in the non-finance sectors.

Multivariate Analysis

Table 7 provides statistics that demonstrate Model 1 and Model 2 have the same adjusted R^2, that is, at 0.175. This outcome suggests that 17.5% of the variation in the ARL can be explained by the independent variable. There is an increment in the adjusted R^2 for regression in Model 3 and Model 4, at 18.3% and 19.9%, respectively. The current study expanded on the study conducted by Ahmad et al. (2016) by adding Models 1, 2 and 3. Model 4, is similar to Ahmad et al., (2016). This model is slightly more reliable than other models in explaining the variation noted in the ARL. This is because its adjusted R^2 was higher than Model 1 and Model 2.

From the analysis, findings further show that all the criteria applied to the industry specialist auditors (SPEC 1, SPEC 2, SPEC 3, and SPEC 4) are negative and significantly associated with the ARL. This finding is consistent with the work of Habib and Bhuiyan (2011). In the current study, the findings suggest that companies hiring

industry specialist auditors will have lower ARL thus, better timeliness. Therefore, these results support the hypothesis that posits a negative relationship between the presence of industry specialist auditors and financial reporting timeliness, upon full convergence of the MFRS; suggesting the presence of industry specialist auditors may improve the timeliness of corporate reporting. This finding, however, contradicts the findings of Che-Ahmad and Abidin (2001) and Abidin and Ahmad-Zaluki (2012) who found no significant association between industry specialist auditors and audit report timeliness.

Model 4 defines an industry specialist auditor as an audit firm or firms holding 20% threshold or more of the audit market shares in a particular industry (Ahmad et al., 2016; Rahmat & Iskandar, 2004) and so it serves as the best model of all. Consistent with Ahmad et al. (2016), Model 4 has the largest adjusted R^2, with 19.9%. This shows that 19.9% of the variation in the ARL can be explained by the independent variable. Moreover, as reported in Table 7, the correlation of the ARL and ISA_SPEC4 is significant at the 1% level showing a negative association at 0.293. This shows that the industry specialist auditor, under the criteria of Model 4, has a stronger relationship with the ARL than the other models.

As is expected, the control variables encompassing company size (SIZE), company profitability (PROFIT) and classification of the listed company as finance or non-finance-related company (IND_FIN)

are negatively associated with the ARL. This means that as the size and profitability of the company increases, the ARL becomes shorter. Larger and profitable companies may have good governance practices and comply with the enforcement of Malaysian Code of Corporate Governance (MCCG) (Yasin & Nelson, 2012). Furthermore, these companies have to comply with specific rules and regulations implemented by the authority, such as the Bursa Malaysia listing requirements, where it indirectly contributes to the timely reporting. As for finance companies, they have to abide by Section 41 of Banking and Financial Institutions Act 1989 and Section 73 of Development Financial Institutions Act 2002 that specifically require these companies to submit to Central Bank of Malaysia their audited financial statements within 3 months or 90 days, respectively, after the end of each financial year. Subsequently, this explains the significant negative relationships of IND_FIN and ARL in all models. In contrast, company complexity (COMPLEX) and the leverage of the company (LEV) are positively associated with the ARL.

Based on the results presented in Table 8, it can be said that all the four models described a negative significant association between the ARL and the industry specialist auditors. This leads to an improvement in financial reporting timeliness. The occurrence can be attributed to the fact that when industry specialist auditors were engaged as auditors, the ARL of the company's financial report would be reduced. Subsequently, this leads to a timely

Table 8
Multivariate analysis

	Variable (N=342)	Expected sign with ARL	Model 1 Co-efficient	Model 1 t value	Model 1 p value	Model 2 Co-efficient	Model 2 t value	Model 2 p value	Model 3 Co-efficient	Model 3 t value	Model 3 p value	Model 4 as per Ahmad et al. (2016) t value	Model 4 as per Ahmad et al. (2016) p value
	(constant)			16.114	0.000		15.532	0.000		15.714	0.000	16.268	0.000
Independent Variable	SPEC	Negative	−0.112	−2.256	0.025*	−0.114	−2.257	0.025*	−0.153	−2.904	0.004**	−3.953	0.000**
Control	SIZE	Negative	−0.129	−2.48	0.014*	−0.111	−2.108	0.036*	−0.113	−2.171	0.031*	−2.117	0.035*
Variables	PROFIT	Negative	−0.226	−4.527	0.000**	−0.224	−4.493	0.000**	−0.205	−4.066	0.000**	−4.749	0.000**
	IND_FIN	Negative	−0.247	−4.688	0.000**	−0.265	−4.996	0.000**	−0.213	−3.946	0.000**	−3.376	0.001**
	COMPLEX	Positive	0.181	3.506	0.001**	0.186	3.582	0.000**	0.177	3.437	0.001**	3.33	0.001**
	LEVERAGE	Positive	0.051	0.953	0.341	0.058	1.085	0.279	0.056	1.047	0.296	0.987	0.324
	N			342			342			342		342	
	F Value			13.018			13.018			13.694		15.15	
	Adjusted R²			0.175			0.175			0.183		0.199	
	R²			0.189			0.189			0.197		0.213	

**, *, significant at the 1%, 5% level (one-tailed).

issuance of the financial information. The timely issuance of the company's annual report signals that financial reporting timeliness has improved. This finding supports the hypothesis of this study, thus it can be used as a benchmark by regulators to compare listed companies when reviewing the reports during the pre and post MFRS compliance days.

CONCLUSION

The objective of the current study was to investigate the relationship between the presence of industry specialist auditors and financial reporting timeliness, under the full convergence of the MFRS where industry specialist auditors were expected to reduce the ARL.

This study used the Resource Dependence theory to define the association between industry specialist auditors and the ARL. From the perspective of the Resource Dependence theory, industry specialist auditors were deduced to be acting as an external party that contributes external resources in terms of skills, knowledge, and expertise to public listed companies by performing audit tasks. The results of the current study indicate that given their resources and expertise, industry specialist auditors were able to perform audits efficiently during the first year of the implementation of the new standards by the MFRS. Even though findings were derived from the year 2012, they were still relevant as accounting standards were frequently being updated. Furthermore, the findings gained from this study could be useful for

future MFRS adoption studies, especially those transitioning entities and have deferred their adoption to a later period. The results, hereby, confirm that the mean ARL of public listed companies that adopted the MFRS in 2012 is better (i.e., 98 days) albeit marginal when compared to the population of all the public listed companies within the same year (i.e., 100 days). A negative association between the ARL and the industry specialist auditors was noted. This implies that the ARL will become shorter when companies utilize industry specialist auditors to conduct audits. This finding is consistent with the results shown by Habib and Bhuiyan (2011).

Further to that, the findings of this study show that E&Y is a prominent industry specialist auditor that has been appointed by the sampled companies to conduct audits. According to SPEC 1, E&Y is the industry specialist auditors in eight out of 10 industries. The industry specialist auditors in the other two industries are KPMG and Crowe Howarth. It appears that E&Y is also the industry specialist auditors in five out of 10 industries according to SPEC 2 and SPEC 3. There is no industry specialist auditor in the other five industries. Likewise, E&Y is also the industry specialist auditors in eight out of 10 industries according to SPEC 4. There is no industry specialist auditor in the consumer product industry. However, for the technology industry, the industry specialist auditor is Crowe Howarth. This finding can serve as an indicator to the competitors of E&Y to show that they need to enhance their expertise and knowledge in order to expand their services to potential clients

as they (other than E&Y) are also capable of becoming industry specialist auditors. The outcome of this study also impacts on other audit firms such that they too need to expand their market share and become experts themselves. This may enhance the quality of financial reporting in general and its timeliness in particular, for the benefit of the company and investors in the capital market. Furthermore, it will create more varieties for choosing an expert or specialist, and contribute positively to the earnings quality of their clients as documented by Balsam et al. (2003). In addition, a client's choice of an industry specialist auditor can also serve as a signal of enhanced disclosure quality (Dunn & Mayhew, 2004).

This study may have significant implications for researchers with regards to how the research can be diversified. Future research may examine other determinants of the ARL such as types of audit opinion, or nature of the industry and its impact on financial reporting timeliness. In addition, a more extensive time series studies needed to consider the full adoption of the MFRS while also incorporating more variables since larger sample size or a longitudinal study may provide different insights into timeliness. This can subsequently lead the non-industry specialist auditors to become as efficient as the industry specialist auditors after the adoption of the MFRS.

The study is subject to two main limitations. First, the data used for the current study was a 1-year data, namely 2012, which was the first year of MFRS implementation. This one year's worth of data is limited in terms of exploring the impact of the implementation of MFRS since no comparison with data from other financial years could be conducted. Second, the use of number of audit clients as a measure for specialist auditors also posed as a limitation of the study. There are many measures of industry specialist auditors and the alternative measures of specialists do not reflect the same attributes of specialization. The choice of measurements may have substantial impact on research findings, thus the selection of alternative measure is very important but pose difficult decision (Neal & Riley, 2004).

The findings of the current study show that the presence of industry specialist auditors has a significant relationship on the ARL, which thus leads to an improvement in the financial reporting timeliness. Therefore, it can be assumed that the resources provided by the industry specialist auditors can assist the performance of audits in more efficient ways particularly, when the implementation of the new standards such as the MFRS is imposed.

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