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The influence of shariah committee mechanisms on audit report delay: Before and during the COVID-19 crisis

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Abstract

This paper examines the relationship between Shariah committee mechanisms and audit report lag. Specifically, this study examines the relationship between the Shariah committee size, independence, frequency of meetings, and expertise. Furthermore, this study investigates the severe impacts of the COVID-19 crisis on the audit report lag. The panel data analysis analyses the relationship between Shariah committee mechanisms and the audit report lag of Malaysian Islamic banks from 2011 to 2021. The present study discovered that a majority of Islamic banks in Malaysia require a duration of 74 days to complete the issuance of independent auditor reports. The findings of the analysis suggest that there exists a negative correlation between the size of the Shariah committee, the frequency of meetings, and the level of knowledge, and the audit report lag. Furthermore, the investigation has also determined that the COVID-19 situation has had a significant impact on the postponement of audit reports. This study helps guide the policymakers in overseeing violation of the submission guidelines. It also presents the literature on audit report delay and Shariah mechanisms. The efficiency of the Shariah committee mechanisms is examined in this research as an extension of the use of agency theory. It helps to comprehend concerns with the Shariah committee mechanism in Malaysian Islamic banks. Then, this study provides evidence during the COVID-19 crisis and how to deal with a similar situation in the future. Additionally, it helps auditors and top management to better understand the good Shariah committee mechanism and audit report lag in planning audit engagements.

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1. Introduction

The annual report serves as a fundamental source of information for individuals who rely on financial data. The document comprises both qualitative and quantitative data pertaining to the activities and performance of the firm. Ensuring the timely publication of the annual report is of utmost importance, as it furnishes valuable information to stakeholders relying on financial data. The delay in insurance of the annual report will render the provided information devoid of significance. The advantage of usable information is reduced when the publication of the annual report is delayed (Kaaroud, Mohd Ariffin, & Ahmad, 2020).

The audit report is among the factors that contribute to the delay of the annual report's publication (Chalu, 2021; Sultana, Ghosh, & Sen, 2022). The publication of an annual report is contingent upon the availability of an audit report. The potential consequences of a delayed release of an audit report include the amplification of information asymmetry and the generation of misunderstanding, therefore functioning as an indicator of concern for corporations (Chalu, 2021). According to Kaaroud et al. (2020), the extent of the audit report delay for Malaysian Islamic Institutions is two months. Chalu (2021) indicated that the African Central Banks need, on average, 122 days to issue their audited reports. Zulfikar, Bawono, Mujiyati, and Wahyuni (2020) found that the reporting days for Islamic banks in Indonesia are 94 days.

The necessity for expediting financial reporting has triggered an investigation into several variables that contribute to the delay in its finalisation. The objective is to guarantee the timely issuance of the annual report. Researchers commonly use governance attributes, company characteristics, and internal and external auditors (Abdillah, Mardijuwono, & Habiburrochman, 2019; Agyei-Mensah, 2018; Uyob et al., 2022).

Concurrently, the scope of audit report lag has been well examined. However, it is important to note that there is a dearth of prior research on the examination of audit report delays, Shariah governance practices, and the impact of the COVID-19 crises. In addition, research on Islamic financial institutions is also less conducted. Accordingly, this study will fill the gaps in the literature and examine how Shariah committee mechanisms relate to the audit report lag. Timely financial information would be more advantageous for conducting business in these marketplaces. Additionally, considering that Malaysia is one of the world leaders in Islamic institutions and that this justifies the necessity for research in this field, examining the Malaysian Islamic banking environment also makes it possible to perform the current study (Kaaroud et al., 2020).

This research aims to make several contributions to the Shariah committee mechanisms literature. It previously examined the new Shariah committee mechanisms in Malaysia. This research is valuable to academicians and practitioners in the Islamic banking industry. Banking is one of the most significant financial sectors, particularly for emerging nations like Malaysia. Additionally, this study strengthens and broadens the theoretical knowledge of Islamic governance mechanisms for audit report lag. Since there aren't many studies of Islamic banks that examine the processes. This research may contribute to knowledge and theory building by extending the body of knowledge and minimising the literature gap. This study provides information about the reporting days and Shariah mechanism by examining the problems. Besides, this research contributes significantly by examining the impact of the COVID-19 crisis on the timing of audit reports. The results are helpful for policymakers in giving a view on past and contemporary reporting dates and Shariah committee mechanisms. As they review and strengthen the current regulations, the results will assist policymakers in determining whether Islamic banking institutions adhere to the regulations for the submission of financial reporting. This study presents novel ideas or understandings on the theoretical side. In this study, agency theory is used to analyse the effectiveness of the Shariah committee. Earlier Malaysian research focused on board and auditor aspects (Kaaroud et al., 2020) and ignored the committee's function. With the current state of the economy, the Shariah committee's assistance is crucial. As a result, the Shariah committee must be included in this concept.

Additionally, this study will help investors in their decision-making. Based on the results, investors may decide that which Islamic bank should be supported. A corporation that is having trouble could be indicated by a delayed audit report. This study helps auditors understand audit report latency and better Shariah committee methods. Managers and auditors may find this study useful as they get ready for audit engagements.

This paper is structured into the following sections. Section 2 provides a concise overview of the contextual factors surrounding the COVID-19 situation. Section 3 of the document provides an overview of the stipulated criteria for the prompt submission of financial reports by Islamic banks operating in Malaysia. Section 4 provides a concise overview of the Shariah governance system implemented by Malaysian Islamic banks, subsequently delving into the theoretical framework. Section 6 of this paper provides an overview of the information review and the formulation of hypotheses. It further outlines the research methodology employed in this study, followed by a comprehensive discussion. The final section of the paper serves as a conclusion, summarising the main findings and offering suggestions for potential avenues of further research.

2. The COVID-19 Crisis

The coronavirus was found in China at the end of December 2019. The health crisis then classified the outbreak as a global pandemic in March 2020 (Bajary, Shafie, & Ali, 2023). This virus has an impact on a nation's economy in addition to its health.

The whole economy is in peril from this epidemic. This epidemic has contributed to global socioeconomic instability and the delay in social, religious, and sporting activities. Others claim that the epidemic has created a "work-from-home revolution" as big businesses have embraced new telecommunications technologies to stop the virus' spread. This result has also been observed in higher education's frequent use of online learning. Business travel and international conferences have also decreased, and virtual alternatives have taken their place. It was never anticipated that so many governments would place some limits on economic activities.

The impact of the enforced movement restriction orders on the auditing industry cannot be disputed. Auditing is a procedure that necessitates an auditor's actual presence. The movement control order will impact the auditor's primary responsibility to present audit evidence. This circumstance also impacted the audit report and caused a delay in the audit report.

Nguyen and Kend (2021) and Kend and Nguyen (2022) examined how COVID-19 affects audits and auditors. However, there hasn't been much research on how COVID-19 affects the timing of audit reports. Donatella, Haraldsson, and Tagesson (2022); Nguyen and Kend (2021); and Sultana et al. (2022) place a greater emphasis on the disclosure of financial reporting auditor audit risk, while Kend and Nguyen (2022); Dakhli and Mtiraoui (2023); and Albitar, Gerged, Kikhia, and Hussainey (2020) focus on audit quality and audit procedures.

Following its impact on the country and the rest of the world, Malaysia entered the endemic transformation phase in April 2022. Restrictions that were previously enforced are now permitted. A disease outbreak is referred to as endemic when it persists and is isolated to a specific location (Bajary et al., 2023). Opening state and inter-ethnic boundaries, lifting the tourist's quarantine, and allowing events to reach capacity all became legal.

3. Demand for Timeliness Reporting for Malaysian Islamic Banks

The COVID-19 crisis struck the whole world and influenced all industries, including the banking industry. Banks in Malaysia have postponed loan payments to assist individuals in coping with COVID-19. As a result, the banking industry has had to control spending and use reserves to remain competitive. Yet, the financial sector is handling the COVID-19 situation admirably.

This suggests that more Shariah-compliant items are being produced. The majority of consumers are choosing Shariah-compliant goods, and as a result, the need for financial reporting has grown. For decision-making, users of financial information require prompt and accurate reporting. Quickly produced financial reporting and audit reports will reduce the knowledge asymmetry brought on by information risk. Also, it will lessen the tension between agents and principals in agency theory.

Moreover, the Islamic banking system's inherent risk of Shariah non-compliance raises the vitality of timely reports. The audit report for the Islamic banking industry incorporates assessments on the effectiveness and adherence of Islamic banking practices to the established Shariah regulations. These assessments encompass evaluations of the efficacy and level of compliance of Islamic banking operations. Financial information users rely mainly on this kind of news. This demonstrates how vital timely financial reporting is in Islamic finance.

4. Shariah Governance System of Malaysian Islamic Banks

Malaysia has two types of banks, namely Islamic banks and conventional banks. The governance system and regulatory frameworks are different. Islamic banks apply Shariah law to common law, while conventional banks exclude Shariah regulations in their daily operations (Kaaroud et al., 2020). Islamic banks should follow the Shariah Governance Policy 2019 issued by Bank Negara Malaysia (BNM). This policy may boost public trust in managerial honesty. This policy paper, broken into seven sections, offers recommendations for Malaysian Islamic banks to implement Shariah Governance in their operations.

An additional oversight body for Islamic banking is the Shariah Committee. The committee serves as an additional body for Malaysian Islamic banks in addition to the audit, remuneration, risk, and nominating committees. Shariah committees are necessary to make sure that Islamic banks follow the law and regulations. For Islamic banks, a Shariah committee serves as an advantageous shareholder oversight board. A Shariah committee is also expected to minimise competition amongst agencies.

5. Theoretical Framework

5.1. *Agency Theory*

Jensen and Meckling (1976) developed agency theory in 1796. This theory differentiates the functions of management and shareholders by giving priority to maximising shareholders' profits (Jensen & Meckling, 1976). According to Bauer, Kourouxous, and Krenn (2018), conflicts of interest can occur when managers and business owners share ownership and control. Management prioritises its profits over shareholders according to agency theory (Dakhli & Mtiraoui, 2023). Since there is little scrutiny of the management's actions, managers will have enough management independence to engage in unethical activities, grow in power and influence, and have an impact on the firm. Unfortunately, managers are unable to lead a group effort.

This theory is suitable because it explains the association oversight function of Shariah committee mechanisms to reduce the delayed audit report and moderate agency issues. The information asymmetry due to the information risk creates agency problems. The annual report should be published early to reduce information asymmetry.

6. Literature Review

6.1. *Audit Report Delay*

Harjoto and Laksmana (2022), Chalu (2021), and Isa and Lee (2020) noted that the "audit report lag" is the number of days between the start of the subsequent recording periods and the date specified in the audit report. A maximum permissible time frame for publishing an auditor report depends on each nation's regulations—a style towards the earlier publication of the annual reports.

Financial Reports for Islamic Banking Institutions 2019 were released by BNM and are applicable to licenced investment banks and Islamic banks that are allowed to operate according to Islamic banking principles. In this guideline (MFRS), the Malaysian Financial Reporting Standards define and outline the basic requirements for Islamic financial institutions. It also strives to make sure that an Islamic bank discloses adequately in its financial statements in order to enhance comparability for readers of financial statements and make it easier to evaluate an Islamic bank's financial situation, performance, and adherence to Shariah. Islamic banks have to publish annual reports three months after the fiscal year closes (Bank Negara Malaysia, 2019). Islamic banks must issue annual reports following the guidelines 14 days after their annual general meeting. At least two local newspapers should publish the audited annual financial statement in condensed form, and furthermore the organisation's website should provide the entire set.

6.2. *Shariah Committee*

Islamic banks adhere to Shariah regulations, setting them apart from conventional banks. Capital suppliers entrust Islamic banks to manage their money according to Shariah laws. Thus, Islamic banks must have adequate procedures to comply with Shariah. According to Kaaroud et al. (2020) and Shofiyah and Suryani (2020), the Shariah Committee monitors the activity of Islamic institutions and serves as an impartial body for Shariah's problems. BNM announced the Shariah Governance Framework 2010 pertinent to Islamic organisations in Malaysia (Bank Negara Malaysia, 2019). As a result of the framework, governance systems, guidelines, and practices have been institutionalised to support the ultimate Shariah principles in Islamic financial operations. The paper emphasises the Shariah board's increased accountability for the implementation of Shariah governance. Another issue is the Shariah board's objectivity in promoting sound decisions and the effectiveness of internal control structures in effectively managing Shariah violation risks.

The committee must report its purpose, duties, procedures, and topics for judgement or suggestion (Bank Negara Malaysia, 2019). The committee member must be a Muslim who has earned a Shariah degree from an approved university and has taken courses in Islamic or commercial law. Experts from required fields, including finance, banking, and law, may also be a part of the committee, which might help to widen and deepen the discussions around Shariah (Bank Negara Malaysia, 2019). Yet they cannot constitute a lopsided majority on the committee. The committee is also advised to comprise individuals with credentials, knowledge, and comprehension. The policies also underline the obligations of the committee. The person will carry out a Shariah audit and review, advise banks on Shariah compliance in banking operations, and report to the Central Bank in accordance with the job description. According to the following policy excerpts, the committee may involve members from multiple fields, including economics, accounting, and business management. It would be helpful to have a variety of talents for a well-rounded debate. The committee needs to be informed about the real-world problems and business practises of the banks. Zulfikar et al. (2020) and Kaaroud et al. (2020) investigate the connection between board qualities, Shariah expertise, and delayed audit report.

According to research done in Indonesia by Zulfikar et al. (2020), having a Shariah committee might reduce the time it takes to publish an independent auditor report. Nevertheless, Kaaroud et al. (2020) found an insignificant relationship between the committee expertise and the delayed audit report. This implies that the Shariah committee's participation has not sufficiently addressed the delayed audit report in Malaysian Islamic institutions. In a more recent study, Kaaroud et al. (2020) described a committee as an oversight body established by Islamic banks. The audit and effective risk management indicate robust Shariah committee mechanisms (Kaaroud et al., 2020). The utilisation of numerous models and measures could potentially be attributed to the conflicting outcome.

The Shariah Governance Policy (2019) highlights the primary responsibilities of the Shariah Committee, and legislation and recommendations also improve the Shariah Committee's accountability, independence, and competence. It is responsible for the quality and correctness of the committee's judgements and recommendations. The committee is a neutral body that operates internally to deal with Shariah-related issues and non-violations in Islamic banks' activities (Kaaroud et al., 2020; Zulfikar et al., 2020). The committee develops a plan to direct the management operations.

As a result, the following subheadings provide explanations of the Shariah committee's composition, including its size, expertise, number of meetings, and independence.

6.3. *Shariah Committee Size*

The Shariah Governance Policy (2019) which Bank Negara Malaysia implemented, stipulates that the Shariah committee must have a minimum of three members and that full-fledged Islamic banks must have a minimum of five members (Bank Negara Malaysia, 2019). According to Safiullah and Shamsuddin (2018), it is argued that an increased number of Shariah committees leads to more stringent credit, policy, and strategy screening. Important committees may reduce managers' moral hazard of competing with banks by requiring less stringent oversight actions. It implies that a more significant committee would be an additional opportunity to control bank operations' reckless financing and lending activities, reducing bank risk. This hypothesis may be used to assess the success of the Shariah committee. The following is the study's first hypothesis:

H_1: Audit report delay is negatively correlated with Shariah committee size.

6.4. Shariah Committee Expertise

The Shariah member committee's expertise determines its performance in leading and managing Islamic banks. According to Shariah Governance Policy (2019), the committee should include persons who understand accounting knowledge to help with the technical aspects of accounting. Current information provides more evidence for the value of Shariah committee competence in organisations (Kaaroud et al., 2020; Zulfikar et al., 2020). According to Isa and Lee (2020), risk-taking is inversely correlated with the Shariah committee's knowledge (Noordin & Kassim, 2019).

In their recent study, Tazilah, Majid, Awee, and Keang (2021) emphasise the significance of involving Shariah boards in the governance of Shariah banks as a means to ensure the successful application of Islamic principles. The researchers underscore the importance of the board's role in selecting qualified members who possess the necessary qualifications for this purpose. For assessing the efficacy of the board's advice and counsel to Islamic financial institutions, the Shariah expertise of the members is crucial. Individuals with varied experiences and credentials would raise the committee's efficacy. The policy advised the members to include people who understand finance and accounting. Influential Shariah committees may be regarded as another component affecting the audit delay and Islamic business risk. Kaaroud et al. (2020) and Zulfikar et al. (2020) discovered a lousy correlation between the member's knowledge and the audit report's delay. The competence of Shariah committee members in accounting and financial matters may enhance their ability to effectively address Shariah problems pertaining to these domains. The Shariah auditing procedures could move more quickly, reducing the possibility of Shariah violations resolved before the audit report date.

To improve its integrity and strengthen Islamic identification, the Shariah Board, a self-contained entity, supervises Islamic procedures (Kaaroud et al., 2020). Recent research has supported the requirement for Shariah committee roles in Islamic banks. For instance, Zulfikar et al. (2020) indicated that establishing the committee can aid in lowering the lag in audit report production. A Shariah committee expert in accounting may influence the success of Islamic banks.

The credentials of the Shariah members are essential in establishing how effective the board will be in advising Islamic financial enterprises. People with multiple skills and knowledge are expected to participate in that Committee (Kaaroud et al., 2020). The committee should contain accounting expertise to oversee the auditing work on intricate accounting issues (Bank Negara Malaysia, 2019).

The Shariah committees may influence Islamic banks' business risks, particularly the audit report lag. It is because of their vital role in the effective operation of Islamic banks. The Shariah committee may better address Shariah problems, particularly those concerning accounting and financial issues, if it incorporates accounting and financial skills. As a result of their expertise in this area, the Shariah auditing procedures could move more quickly, reducing the possibility of Shariah violation, which must be resolved before the audit report date. Due to their expertise, financial and accounting experts on Shariah committees could complete their work faster and have a substantial impact on audited financial accounts, particularly in cases where accounting challenges are involved.

Besides the problem, Malaysia's Shariah committee is qualified to provide management with guidance and support, particularly regarding Shariah issues relating to Islamic banking sectors and unique financial and accounting concerns. Creating a Shariah committee with proficiency in accounting would cause an audit report to come out later. The Shariah members would perhaps require more days to examine any violations regarding finance. Due to their prior experience, they were able to investigate violation issues in greater detail, which extended the delay in the audit report and caused them to take longer to accomplish their assignment. In this case, agency theory is appropriate. With their knowledge of accounting and finance, the Shariah Committee will perform its auditing responsibilities effectively. The lack of relevant research also illuminates how an auditor assesses overall audit risks in Islamic banks, focussing on the potential for Shariah violations. The second premise of the study is as follows:

H_2: The Shariah committee's expertise adversely influences the audit report's delay.

6.5. Shariah Committee Meeting

The chairperson of the Shariah committee must notify that the right processes are prepared to monitor the discussions and activities of the Shariah committee (Bank Negara Malaysia, 2019). At an Islamic financial institution, a Shariah meeting should be held at least once every two months. Nevertheless, all Islamic banks other than fully fledged ones must hold a Shariah committee meeting twice a year. At least 75% of meetings must be attended by a Shariah committee member each year (Bank Negara Malaysia, 2019). The member is not allowed to choose another person to act for them during meetings of the Shariah committee. Islamic financial institutions must include information in their annual reports about the regularity of meetings during the year as well as the involvement of each committee member.

If the Shariah committee meets frequently, it can perform a more active and effective monitoring role. Kaaroud et al. (2020) and Zulfikar et al. (2020) claim that more vigilant Shariah members can issue early annual reports. This justification claims that by holding more frequent meetings, the committee will stay up-to-date on matters. As a result, the financial reporting procedure can be discovered and resolved at committee sessions.

Conger (1999) asserts that regular meetings improve the board's efficacy since meetings are essential to board activity (Basiruddin & Ahmed, 2020). The likelihood that members will complete their jobs well and spend more time watching management reliability increases with regular meetings (Basiruddin & Ahmed, 2020). More audit committee meetings reported less restatement and earning management. Isa and Lee (2020) identify board meeting frequency as one factor affecting board operations. There will be fewer queues for decisions because there will be more meetings and time for discussion. Agency worries may be reduced by having effective monitoring positions like the Shariah committee, which justifies the need for monitoring components. The link between monitoring function and influencing audit report lag is essential to agency theory. The Shariah committee will know more about accounting concerns if meetings are held more frequently. Almuzaiqer (2018) found a connection between the regular audit and board meetings and the timing of audit reports. Similarly, we predict that shortening the intervals between audit reports will result in holding Shariah committee meetings more frequently. Thus, the study's hypothesis is as follows:

H_5: The frequency of Shariah committee meetings has a negative association with the delayed audit report.

6.6. *Shariah Committee Independent*

A Shariah board has been established as an impartial advisory body to help Islamic banking sectors develop internal Shariah non-violation policies and procedures. The committee or any member of his immediate family may not have had any primary business or other contractual relationships with Islamic banks during the preceding two years (Bank Negara Malaysia, 2019). The Shariah committees are free to debate and share their views on Shariah-related matters. The committees are restricted from any connections that limit their ability to make decisions on behalf of Islamic banks. The independent Shariah committee member will safeguard the interests of the bank's shareholders, minimise agency issues, and provide their experience to raise the bank's value. Consequently, it is suggested that there may be less dangers and more useful auditing operations when a firm's management successfully combines thorough monitoring with a strong strategic vision (Kaaroud et al., 2020).

Aifuwa and Saidu (2020); Kaaroud et al. (2020); Shofiyah and Suryani (2020) and Salehi, Lari Dasht Bayaz, and Naemi (2018) discovered an indirect connection between the reporting days and the neutrality of the board. In particular, the reduction in audit report latency could be attributed to an increase in the number of independent members on the board. The neutrality of the board members and the audit committee is of utmost importance to the committee. Additionally, some of the researchers have suggested an association between the date of the audit report, Islamic banks in Malaysia, and the independence of the Shariah committee. The study's hypothesis are as follows:

H_6: Delay in releasing the audit report negatively correlates with Shariah committee independence.

6.7. COVID-19

Numerous interested parties wanted to identify and assess the crisis's effects as it suddenly manifested and expanded into a pandemic. The academics have specifically conducted a variety of research. Al-Awadhi, Alsaifi, Al-Awadhi, and Alhammadi (2020) evaluated the effects of consistent and documented occurrences of mortality on stock returns within the timeframe of January 10 to March 16, 2020. The analysis encompasses all publicly traded companies within China's capital market. They discovered that the volume of these cases had a detrimental impact on the return of stocks. Ashraf (2020) discovered that the profit declines as the number of confirmed illnesses rises and that the market for shares responds proactively to the rising COVID-19 cases rather than death cases, using data from 64 nations between January 22 and April 17, 2020. Researchers have looked into how the coronavirus affects stock exchanges. For example, Ali, Alam, and Rizvi (2020) noted that the United States (US) and European Union (EU) markets experienced a period of decline, coinciding with a relative stabilisation of the Chinese market.

Additionally, Zaremba, Kizys, Aharon, and Demir (2020) raised concerns about the extent to which governments have the power to control the impact of COVID-19 on stock market fluctuations. They used data from 67 nations worldwide to answer this question. The results showed a link between non-pharmaceutical treatments and changes in the stock market. However, they also discovered that this connection is unrelated to COVID-19's function. Lassoued and Khanchel (2021) studied the COVID-19 impacts on financial reporting and earnings management. The authors found that the companies more actively participated in earning management during the COVID-19 era than in the prior period.

Additionally, it demonstrates the poor quality of reporting during the COVID-19 crisis. Hazaea et al. (2022) investigated the COVID-19 crisis effects on audit function and compensation (Al-Qadasi, Baatwah, & Omer, 2022). The results showed that audit fees increased during the pandemic and statistically influenced the compensation for audit services. It represents the dangers, difficulties, and legal obligations brought on by the

COVID-19 incident, where auditors must put in extra effort. According to Blankley, Hurtt, and MacGregor (2014), the extra effort put forth by the auditors does not always translate into an audit with a high degree of quality; instead, it may indicate a high-risk profile that frequently results in significant audit delays.

It has demonstrated the indirect consequences of the pandemic on the capital markets, as described above. The aforementioned adverse effects also have implications for the financial management and auditing practises of businesses (Accountancy Europe, 2020). All of them have an influence on auditors' jobs because they must take a step back and look more closely at auditing issues that arise in organisations' reporting as a result of COVID-19, which could lengthen the time it takes auditors to conduct audits. Although COVID-19 affects financial and auditing reporting, the study found that few empirical studies looked at the association between COVID-19 and audit report lag. As a result, the following hypothesis is developed by the study:

H_5: COVID-19 is positively and significantly associated with audit report delays.

7. Research Methodology

7.1. Sample Representation

Malaysia has 69 licensed financial institutions, comprised of 27 conventional banks, 16 Islamic banks, 11 investment banks, two other financial institutions, six development financial institutions, and seven other development institutions (Bank Negara Malaysia, 2019). The analysis comprises sixteen licensed Islamic banks. Of the 16 Islamic banks with licences, 11 are domestic institutions, and the others are international.

The data was obtained from the annual reports of 2011-2021 with 169 observations. The study was limited to 169 observations only because the Malaysian Building Society Berhad (MBSB) Bank was a brand-new institution established in 2018 after acquiring Asian Finance Bank. Malaysian Islamic banks were chosen as a sample because it was discovered that the company shortened the audit report delay more than other companies (Barre, 2023; Kaaroud et al., 2020; Uyob et al., 2022). But, due to different reporting styles and regulations, this study excludes conventional banks and takaful companies. Thus, this study focuses on Shariah committee mechanisms.

The year 2011 was chosen because the Shariah Governance Framework was first introduced in that year. This Shariah Governance Framework was later changed to Shariah Governance Policy (2019). The data coverage is from 2011 to 2021 because this research examines the impact of the COVID-19 crisis on the delay of audit reports. The annual report for 2021 is classified as COVID-19 crisis data. Thus, data prior to that was taken into account before the COVID-19 crisis. A panel data analysis is used to thoroughly understand the Shariah committee mechanisms' influence on audit report delay.

7.2. Research Model

This study's regression analysis is performed to investigate the connection between the Shariah committee methods and the delayed audit report. The panel data analysis was used in this research and enabled the analysis to change using concise chronology with repeated observations of sufficient view. The enhancement of data quality, both qualitatively and quantitatively, can be achieved by focusing on either one of these two dimensions when combining time series and cross-sectional data. (Gujarati, Porter, & Pal, 2021).The panel data comprise models with fixed effects, random effects, and models with constant coefficients. The dynamic panel, robust, and covariance structure models fall within this category. In choosing a specific model type, solutions to the heteroskedasticity and autocorrelation issues are essential to consider. A summary of some of the critical features of this kind of technique is presented. However, the data's structure has to be taken into account. In the fixed effects model, unobserved heterogeneity is regarded as time-invariant. A fixed effect model can often accommodate heterogeneous variables like ethnicity, birth year, and place. For this person, the fixed effect is this persistent heterogeneity. The averages of each person's observations may be subtracted from each other before estimating the model, for example, to eliminate this constant from the data.

The superiority of the random effects model over the fixed effects model is contingent upon the accuracy of the random effects assumption. However, the random effects model is inconsistent if this extra premise is false (i.e., if the Hausman test is unsuccessful). The Hausman test is a statistical procedure that evaluates the significance of an estimate in relation to an alternative estimator.

This study used fixed-panel data analysis after conducting several tests. After conducting the pooled regression analysis, the findings of the pooled regression analysis are verified using the Breusch-Pagan Lagrangian Multiplier (LM) Test to determine if further testing for fixed and random effects panel data analysis is necessary. This study uses panel data analysis after conducting the Breusch-Pagan Lagrangian Multiplier (LM). The F-statistic obtained from the LM analysis is 0.006 and exhibits statistical significance, leading to the rejection of the null hypothesis. This study applies the Hausman test to decide whether the random and fixed analysis are adequate. The fixed effect is used when the false hypothesis is not accepted, while the random effect is used when the null hypothesis is supported (Gujarati et al., 2021). The false hypothesis is taken when the low p-value is commonly less than 0.05 (Gujarati et al., 2021). The f-statistic from the Hausman test is pointed at a value of 0.07, indicating that the fixed effect panel data is more suitable for this study.

A Shariah committee's mechanisms include size, independence, number of meetings, and level of expertise. The audit report delay is the dependent variable, whereas Shariah committee mechanisms are demonstrated as independent variables. The control variables are the size and age of the Islamic bank. The regression analysis examines the connection between independent, dependent, and control variables. According to Baatwah, Salleh, and Stewart (2019), the study's control variables are included to ensure that the model is more accurate and that the factors that are not included have no impact on the model's elimination. The equation is shown in the following:

ARD = *f*(Shariah mechanisms).

ARD = $\beta^0 + \beta^1$ (SCSIZE) + β^2 (SINDP) + B^3 (SMEET) + B^4 (SEXP) + B^5 (COVID-19) + B^6 (IBSIZE) + B^7 (IBAGE) + ε

Where:

ARD = Audit report delay.
β^0-β^7 = Regression of Shariah mechanisms.
SCSIZE = Size of Shariah member.
SCINDP = Independent of Shariah member.
SCMEET = Committee meeting.
SCEXP = Expertise member in the committee.
COVID-19 = C19.
IBSIZE = Islamic banks size.
IBAGE = Islamic banks age.

This model investigates the connection between COVID-19 and delayed audit report. The model also depicts how the Shariah committee mechanisms on ARL interact with COVID-19. It is a well-established model built on earlier research (Al-Qadasi et al., 2022; Baatwah et al., 2019). Table 1 shows a list of all model variable definitions. Dependent, independent, control, and moderator variables fall into the four categories of variables employed in this research. In Table 1, these factors are quantified and described.

Table 1. Variable definition and measurements.

Variables	Measurements	Authors
Dependent variable		
Audit report delay (ARD)	The days starting from the beginning of the following accounting period to the date stated in the independent auditor report	Kaaroud et al. (2020); Rasli, Kassim, and Bhuiyan (2020) and Uyob et al. (2022)
Independent variables		
Shariah committee size (SCSIZE)	Quantity of the committee	Rasli et al. (2020) and Uyob et al. (2022)
Shariah committee independent (SCINDP)	Number of independent committees	Rasli et al. (2020) and Uyob et al. (2022)
Shariah committee frequent meetings (SCMEET)	The number of meetings per year	Rasli et al. (2020) and Uyob et al. (2022)
Shariah committee expertise (SCEXP)	The number of Shariah members with an accounting background	Kaaroud et al. (2020); Rasli et al. (2020) and Uyob et al. (2022)
COVID-19 (C19)	Dummy variable; 1 – for 2019, 2020, and 2021 0 - otherwise	Jayaraj, Rampal, Ng, and Chong (2021) and Bajary et al. (2023)
Control variables		
Islamic banks size (IBSIZE)	Total assets' book value	Kaaroud et al. (2020); Eldaia and Hanefah (2022) and Bajary et al. (2023)
Islamic banks age (IBAGE)	Number of years since the Islamic bank's establishment	Eldaia and Hanefah (2022)

8. Result and Discussion

8.1. The Delayed Audit Report

This study employs the duration in days between the commencement of the subsequent accounting period and the dates indicated in the independent auditor's report as a metric for assessing the reporting dates. For this study, the reporting dates are categorised into two clusters. The clusters are identified based on the reporting requirements of Bank Negara Malaysia. Bank Negara Malaysia (BNM) required Malaysian Islamic banks to submit their audited annual reports no later than 90 days after the end of the fiscal year (Bank Negara Malaysia, 2019).

The reports issued within 90 days are classified as on-time statements. The second cluster is for the annual report published after 90 days. Table 2 presents the analysis results for reporting dates for this study.

Table 2. The reporting dates of Malaysian Islamic banks.

Issuance days	N	Percentage (%)
61-90 days	132	78%
Exceeded 90 days	37	22%

Table 2 indicates that 78% of Malaysian licensed Islamic banks comply with the requirements of BNM, and 37 annual reports of Malaysian Islamic banks were published after 90 days of the year-end.

Kaaroud et al. (2020) discovered that only 10% of the audit report is issued after 90 days of the accounting year. According to this survey, 22% of audit reports were published more than 90 days after the financial year. The difference in the study results is due to the difference in the year of the study. The authors analyse the annual report of licensed Malaysian Financial Institutions from 2008 to 2014. This study uses data from 2011 to 2021. This study period contains the years in which the world faces a health crisis due to COVID-19.

8.2. Descriptive Statistics

Briefly, informative coefficients are called descriptive statistics to summarise data (Bougie & Sekaran, 2019). Table 3 shows the analysis of descriptive statistics.

Table 3. Descriptive analysis.

Statistical concept	ARL	SCSIZE	SCIND	SCMEET	SCEXP	C19
Mean	74.31	5.29	4.44	13.86	1.07	0.28
Median	65.50	5.00	4.00	10.00	1.00	0.00
Std. deviation	31.808	0.854	0.923	8.363	0.676	0.451
Minimum	19	3	2	4	0	0
Maximum	211	7	6	30	2	1

The findings show that 74 days is the mean for ARL. The minimum reporting days were 19 days, and the maximum reporting days for Malaysian Islamic banks were 211 days. The results indicate that, on average, Malaysian Islamic banks comply with the requirement of Bank Negara Malaysia. A prior study by Kaaroud et al. (2020) indicates that the reporting period ranges from 7 days to 161 days, with an average reporting period of 74 days. However, this study obtained a higher result than Mathuva, Wachira, and Injeni (2019) for Kenyan listed companies but lower than Chalu (2021), the African Central Banks. The study time and the country under investigation caused different study results.

The results for the independent variables show that the total number of Shariah committees from 2011 to 2021 ranges from 3 to 7 members. The average number of Shariah committees is five. The mean for the Shariah committee is five members. Shariah Governance Policy (2019) requires Islamic institutions to have at least five members and only three members for the Islamic window and foreign branches (Bank Negara Malaysia, 2019).

According to the results, the mean number of meetings each year is 14, which shows that Malaysian Islamic banks abide by the rules. According to Shariah Governance Policy (2019), the committee must have at least six meetings annually (Bank Negara Malaysia, 2019). The exception for an Islamic window and foreign branch required only two meetings annually (Bank Negara Malaysia, 2019). According to the results, the mean number of meetings each year is 14, which shows that Malaysian Islamic banks abide by the rules. The result also indicates that at least one Shariah committee member has experience in finance. When Kaaroud et al. (2020) used data from 2008 to 2014, the outcome was the same.

8.3. Correlation Analysis

The correlation analysis examines the association level between variables and how the variables are connected (Chun & Barnett, 2021). The authors reported that the units of measurement of the variables have no impact on the correlation values, which range from +1 to -1. The outcome of the connection examination is indicated in Table 4. The result shows that the value of the analysis ranges between +1 to -1. The result indicates that the variables are independent and do not correlate.

Another observation on the independence between variables is the multicollinearity problem. According to Gujarati et al. (2021), multicollinearity develops when the correlation between the independent variables is greater than 0.8. It is clear from Table 4 that a strong correlation between the independent variables poses no problem.

The correlation issue can also be observed using the variance inflation factor (VIF) (Linton, 2019). No multicollinearity problem is found because the VIF value is less than two (Linton, 2019). The VIF value was below two, indicating that the multicollinearity problem does not exist.

Table 4. Correlation analysis

	ARL	SCSIZE	SCIND	SCMEET	SCEXP	C19	IBSIZE	IBAGE
ARL	1							
SCSIZE	-0.095	1						
SCIND	-0.033	0.893**	1					
SCMEET	-0.149	0.249**	0.444**	1				
SCEXP	0.269**	-0.087	0.064	0.339**	1			
C19	0.213**	0.014	0.069	-0.005	0.031	1		
IBSIZE	-0.270**	0.381**	0.393**	0.498**	0.215**	0.188*	1	
IBAGE	0.124	-0.157*	0.005	0.196*	0.264**	0.306**	0.290**	1
VIF		1.580	1.705	1.633	1.244	1.157	1.782	1.427

Note: ** Significant at the 0.01 level (2-tailed).
* Significant at the 0.05 level (2-tailed).

8.4. Regression Analysis

This study conducted a regression analysis to examine the hypothesis. That analysis is a mathematical procedure for determining the connections between independent and dependent variables (Gujarati et al., 2021; Linton, 2019).

Table 5 presents fixed data analysis outcomes for Shariah committee mechanisms and the reporting delay. The outcomes indicate that the F-statistic is 4.288 and significant at 0.002. The adjusted R-square value of 29% indicates that the Shariah committee mechanisms and COVID-19 can describe 29% of the variation in audit report delay.

Table 5 reports that there is a negative and express association between reporting delay and the frequency, size, and expertise of Shariah committee meetings. But the relationship between unbiased shariah committees was insignificant.

Table 5. Fixed panel analysis.

(Constant)	Expected relationship	Coefficient	p-value
SCSIZE	Negative	-0.023	0.009**
SCINDP	Negative	0.137	0.457
SCMEET	Negative	-0.157	0.009**
SCEXP	Negative	-0.368	0.000**
C19	Positive	0.235	0.001**
IBSIZE		-0.409	0.000
IBAGE		0.107	0.179
R-squared	53%		
Adjusted R^2	29%		
F-statistic	9.418		
Significant value	0.000		

Note: Significant at 0.01**.

8.5. Discussion of Findings

The findings indicate a statistically significant indirect relationship between the number of Shariah committees and the occurrence of reporting delays. The presence of multiple Shariah committees has been found to be associated with a limited delay in the issuance of audit reports for Islamic banks in Malaysia. Nevertheless, a noteworthy and favourable association between the deferred audit report and the autonomy of the Shariah committees is absent. The aforementioned observation suggests that the autonomy of the Shariah committee does not appear to have any impact on the timeliness of the audit report.

According to H3, holding Shariah committee meetings more frequently would result in a decrease in the number of delayed audit reports. The outcome confirmed and showed that meetings are better for checking financial statements to lower risks and delays in audit reports.

H4 assumes a negative connection between the Shariah committee expertise and the delayed audit reports. H4 is supported. The result showed that the high level of expertise among the committee members would lower the delayed audit report for Islamic financial organisations. Because they must certify that the operations are conducted in line with the purposes and aims of the Islamic banks, this competence trait is crucial to the Shariah committee's expertise. According to the theory of agency, the involvement of members with accounting knowledge strengthens the Shariah committee's ability to oversee accounting concerns. This results in a decrease in the number of internal and external auditors who successfully complete their work within the designated timeframe. The study on the delayed audit report due to the committee's expertise was done by Kaaroud et al. (2020). The findings were contradictory, finding an irrelevant connection between Shariah expertise and audit report lag. It is probably due to the different years of analysis.

Zulfikar et al. (2020) conducted another study on the delay of audit reports. The finding on Indonesian Islamic banks supports previous research that found a relationship between timeliness and the Shariah

Supervisory Board (SSB). The various analyses and measurements are likely to be the primary contributing factors. Their studies concentrate on the members' activities in compliance with Indonesian regulations.

H5 expects that COVID-19 has a strong association with audit report delays. The analysis supported H5 with a P-value of 0.001. The analysis shows that the COVID-19 crisis dramatically affected the audit report lag. The crisis slowed the auditing process and affected the reporting dates of Malaysian Islamic banks.

9. Conclusion

The objective of this research is to examine the relationship between the methods of Shariah committees and the delays in audit reports of Islamic banks in Malaysia. This study aims to examine the impact of the COVID-19 problem on the timeliness of audit reports. Furthermore, this study investigates the extent to which Shariah committee processes contribute to mitigating the impact of the worldwide problem. The study examines the methods of Shariah committees, including their size, independence, frequency of meetings, and level of knowledge. The use of agency theory provides a framework for the formulation of hypotheses that establish relationships between dependent and independent variables.

This study examined the Malaysian Islamic Bank's annual report for eleven years, from 2011 to 2021. The result indicated that the Shariah committee size, number of meetings, and expertise have an indirect and robust connection with the delayed audit report. However, the independence of Shariah committees did not impact the delayed audit reports. This study provides an analysis to investigate whether the COVID-19 crisis affects the audit report lag. The findings indicate that there is a delay in the publication of audit reports. The audit report delay was significantly impacted by the COVID-19 pandemic.

This study has various implications. This paper provides a comprehensive review of the existing scholarly literature on audit report latency. Understanding the issues surrounding the Shariah committee procedure in Malaysian Islamic banks, which distinguishes them from ordinary banks, is beneficial. Furthermore, this study provides advantages to Bank Negara Malaysia. Bank Negara Malaysia, in its capacity as a policymaker, can utilise the findings to enhance the efficacy of guidelines and governance policies. This paper proposes the implementation of a Shariah committee structure for the purpose of monitoring delays in audit reports. This paper presents empirical evidence pertaining to the COVID-19 issue and offers insights into strategies for effectively managing analogous circumstances in subsequent instances.

Nevertheless, it is important to note that this study is limited in scope as it focuses just on Islamic banks in Malaysia. Therefore, it is worth considering other Islamic universities for future research endeavours. The future investigation has the potential to enhance this study by incorporating additional internal and external monitoring mechanisms. In addition, it is important to evaluate a range of research approaches, including questionnaires and interviews.

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