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The Effect of Shariah Committee Composition on Malaysian Islamic Banks' Audit Report Lag

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Abstract

Financial reporting is one of the primary sources of information about a company. Financial reports must be issued on time to ensure that the users of financial information receive them on time to allow them to make decisions. Delays in issuing financial reports interfere with users of financial information making decisions. This research aimed to identify the effect of Shariah committee composition on the audit report lag of Malaysian Islamic banks. The study quantitatively analysed the financial reporting of 16 Islamic banks in Malaysia from 2011 to 2020. The analysis revealed that Shariah committee expertise and meeting frequency had significant relationships with audit delay. However, Shariah committee independence and size displayed insignificant relationships. The study's findings support the agency theory hypothesis. The results suggest that principal and agent conflict can be relieved by equipping more members of the Shariah committee with accounting and financial knowledge.

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1. Introduction

On-time provision of accounting information is valuable because timely data is of more use to users' decision-making needs, whereas delayed data is less so. Thus, the concepts of relevance and timeliness are intimately linked. Timely information is essential to avoid users of financial information making decisions based on outdated information. Timeliness is defined by Kaaroud, Ariffin, and Ahmad (2020) as information made available to users while it is still useful in influencing their decisions. Users of accounting data must be able to access information contained in financial statements within the "opportunity" criterion, which means that it must be available as soon as possible; otherwise, the data supplied may no longer be valid. If financial reports are not delivered on time, there is a risk of information asymmetry. Information asymmetry can cause uncertainty around investment decisions to rise, as well as the spread of information among stakeholders. A delay in releasing a financial report may raise an imbalance of expectations and serve as a warning indicator concerning the company's activities (Kaaroud et al., 2020). Delays may threaten the company's independence and accountability. According to the prior literature, the timely availability of financial audit accounts is critical. As a result, researchers have investigated audit report lag, which is an indicator of audit punctuality and efficiency. Research into the audit report lag is relevant to auditors, regulators, corporate directors and investors.

Previous studies have noted that a delay in audit reports is a significant sign of delayed financial reports (Kaaroud et al., 2020; Sultana, Singh, & Van der Zahn, 2015). Financial reports cannot be disclosed until they have been audited and confirmed by external auditors (to ensure they are truthful and fair). The company's operations might be jeopardised by a delay in providing an audit report, leading to information asymmetry and uncertainty (Blankley, Hurtt, & MacGregor, 2015; Kaaroud et al., 2020). Delays may affect the company's independence. In a study conducted in Australia, Sultana et al. (2015) found that independent auditors' average time to produce audited financial reports was about ten weeks. According to Agyei-Mensah (2018), the audit report lag of Ghana's publicly traded enterprises was 86 days. Recent research by Kaaroud et al. (2020) has shown that non-compliant Islamic banks required to submit financial reports on Bursa Malaysia wait up to two months on average for their audited financial reports.

The relevance of the audit report lag has prompted previous researchers to look at a variety of factors that might impact the audit report lag, including profitability, company size and age, the type of audit firm involved, auditor qualifications and peak season period (Kaaroud et al., 2020). Other aspects, such as corporate governance methods, have also been explored. Explanatory factors such as corporate governance, internal auditor duties, and audit committees have been used to examine the effect on the audit report lag in different nations (Farag, 2017; Odjaremu & Jeroh, 2019; Shofiyah & Wilujeng Suryani, 2020).

Meanwhile, report lag has been researched in both developing and developed countries. However, few previous studies have looked at the relationship between audit report delay and Shariah committee composition in financial institutions. Therefore, the goal of this study is to address this gap in the published literature. The key objectives of this research are to determine the scope of audit report lag and its link to various Shariah committee features. The research is inspired by the fact that most Islamic banking institutions are found in developing economies, making it critical to examine the timeliness of these institutions' financial reports, as timely financial reporting benefits business decision-making in the markets of these developing countries. Additionally, Malaysia is one of the most notable countries involved with Islamic banking and finance, necessitating research to be carried out to examine the Malaysian Islamic banking environment. The current study was also inspired by reported challenges or failures involving Islamic financial institutions, which have prompted this deeper empirical inquiry.

By examining the challenges of Islamic banking and financial institutions, this research contributes to the existing body of knowledge on financial reporting timeliness and Shariah committee features. The study's findings will assist Malaysian officials in offering feedback on historical and present business reporting and governance procedures. More importantly, the study's findings are intended to assist regulators in observing the compliance of Islamic banks with financial reporting audit plan conditions, analysing current Shariah policies, and developing relevant recommendations to reinforce them.

2. Literature Review

2.1. Shariah Committee Requirements

Islamic banks are distinguished from conventional banks by their adherence to Shariah principles. According to Shariah guidelines, capital providers entrust their capital to Islamic banks. Consequently, Islamic banks must have suitable processes to meet Shariah guidelines. The Shariah Committee is an independent body that advises on Shariah issues and follows the Islamic bank's activities (Kaaroud et al., 2020; Shofiyah & Wilujeng Suryani, 2020). The committee enhances the Islamic bank's credibility for the benefit of its investors and bolsters its identification as Islamic. In 2019, Bank Negara Malaysia released a Shariah Governance Framework applicable to Malaysia's Islamic financial institutions. This policy document came into effect in April 2020. The framework has resulted in the institutionalising of governance systems, rules and procedures to encourage Shariah principles in Islamic financial transactions. The framework improved oversight accountability for the Shariah board and Shariah governance implementation. However, one challenge is the objectivity of the Shariah board in encouraging good decisions and the strength of internal control procedures to efficiently manage Shariah non-compliance risks.

The Shariah Committee must have a document that specifies the committee's mandate, responsibilities, processes and areas subject to its judgement or recommendation. A Shariah committee member must be a Muslim with a Shariah degree from a recognised university, including the study of Islamic law or commercial law. The committee may also include experts from critical disciplines like finance, banking and law, who can assist in broadening and deepening the Shariah debates. However, these people must not make up the majority of the committee. Furthermore, it is recommended that the committee include people with a variety of qualifications, experience and understanding. The Shariah committee's tasks and functions are also highlighted in the Guidelines. Their job description includes advising banks on Shariah compliance in bank operations and product offers, performing a Shariah audit and review, and reporting compliance to the Central Bank.

According to the policy, the Shariah committee can thus comprise individuals from various disciplines, including traditional finance and banking, legal, marketing and economics. It is beneficial to have diverse skills to ensure a well-rounded discussion. In addition, the committee should be informed of the banks' operational risks and financial performance, as they are essential factors in developing a thriving financial product.

Zulfikar, Bawono, Mujiyati, and Wahyuni (2020) and Kaaroud et al. (2020) have studied the association between the Shariah board characteristics and audit report delay. In a study in Indonesia, Zulfikar et al. (2020) concluded that the presence of a Shariah committee could reduce audit report delays. On the other hand, Kaaroud et al. (2020) could not conclusively determine a relationship between the Shariah committee and audit report delay. The role of the Shariah committee in the scale of audit report lag in Islamic banks in Malaysia has not yet been effectively understood. Kaaroud et al. (2020) defined a Shariah committee as an independent authority constituted by Islamic financial institutions. Successful mitigation of risk management and the audit report lag indicate an influential Shariah committee (Kaaroud et al., 2020). The inconsistent result can be attributed to the different models and measurements used.

The Shariah Governance Policy 2019 emphasised the Shariah Committee's main tasks. The policy also puts forward laws and suggestions on the Shariah Committee's responsibilities, independence and competency. The Shariah Committee is responsible for the quality, accuracy and soundness of its decisions and recommendations. Kaaroud et al. (2020) defined the Shariah Committee as an autonomous entity that plays the role of an internal control mechanism when dealing with Shariah matters and Shariah compliance in the transactions of Islamic banks. The Shariah Committee must create a strategy to guide the management process, including applicable business and risk practices.

The following subsections detail the various factors of Shariah committee composition, including Shariah committee size, expertise, meeting frequency, and independence.

2.1.1. Shariah Committee Size

Shariah Governance Policy 2019 required Licensed Islamic Banks to have a Shariah Committee comprised of at least five Shariah committee members for full-fledged Islamic banks and three members for Islamic window or foreign branches in Malaysia.

According to Safiullah and Shamsuddin (2018), a big Shariah committee may result in a more stringent loan, policy and strategy screening. To maintain their competitiveness against conventional banks, large committees may also mitigate managers' moral hazard by imposing less strict supervision of borrowers' activities. It suggests that a larger Shariah committee would be more likely to reign in bank management's risky lending and financing practices, cutting bank risk. Regarding the Shariah committee's performance, we rely on the resource dependency hypothesis (Dalton, Daily, Ellstrand, & Johnson, 1998), which suggests that a large committee will provide diverse talents to the Islamic bank's operations. The study's first hypothesis is as follows:

H1: Audit report delay is adversely related to the size of the Shariah committee.

2.1.2. Shariah Committee Expertise

The expertise of the Shariah committee members is an essential aspect of the board's overall effectiveness in directing and guiding Islamic banks. Shariah Policy 2019 recommends that the Shariah committee includes members with expertise in finance and accounting knowledge to provide assistance and supervision on the technical matters of accounting and finance. Recent literature also emphasizes the importance of Shariah committee expertise to organisations (Basiruddin & Ahmed, 2019; Isa & Lee, 2020; Kaaroud et al., 2020; Noordin & Kassim, 2019; Oussii & Boulila Taktak, 2018; Rusmin & Evans, 2017; Zulfikar et al., 2020). Isa and Lee (2020) suggested that the Shariah committee's expertise is negatively related to risk-taking. Noordin and Kassim (2019) and Isa and Lee (2020) recommended that the Shariah committee effectively monitor firm performance and management.

According to Khamar Tazilah, Majid, Awee, and Lee Aik Keang (2021), to ensure the successful implementation of Islamic principles, the Shariah boards advising on the operations of Islamic banks must guarantee that its committee members are sufficiently qualified and are chosen by the board of directors. The Shariah members' expertise is critical to the board's performance in providing guidance and counsel to Islamic financial institutions. Consequently, it is expected that members with different credentials and backgrounds would enhance the Shariah committee's effectiveness. Shariah Policy 2019 recommended that committees include members with finance and accounting knowledge to provide assistance and supervise the audit process on technical matters relating to accounting and finance. Given their critical role in the operation of the Islamic banking sector, the composition of influential Shariah committees is another factor that might impact Islamic banking institutions' business-related risks and audit report lag. Rusmin and Evans (2017), Oussii and Boulila Taktak (2018), Kaaroud et al. (2020) and Zulfikar et al. (2020) found a negative association between Shariah committee expertise and audit report lag. Having accounting/financial knowledge within the Shariah committee may aid the committee in dealing with Shariah concerns, particularly those involving accounting/financial matters. Their knowledge in this field might help speed up the Shariah auditing process and lower the risk of Shariah non-compliance (related to finance and accounting issues), which must be addressed before the independent auditor can issue the audit report.

The Shariah committee is a self-contained institution that serves as an oversight body for Shariah issues and Shariah compliance in Islamic banking activities (Kaaroud et al., 2020), thereby improving the bank's credibility in investors' eyes and reinforcing Islamic identifications. The necessity of a Shariah committee in Islamic financial organisations has recently been validated by the literature. For example, Zulfikar et al. (2020) discovered that having a Shariah committee can help reduce audit report lag. Grassa and Matoussi (2014), on the other hand, discovered that a Shariah committee with accounting/finance competence might have an impact on the performance of Islamic banks.

The Shariah members' qualifications are critical to the board's performance in providing guidance and counsel to Islamic financial institutions. As a result, a board made up of individuals with various degrees and backgrounds is expected to improve the Shariah committee's effectiveness (Kaaroud et al., 2020). Based on the Shariah Governance Framework (Central Bank of Malaysia, 2019), the Shariah committee should include members with accounting and finance competence to help supervise the auditing process on technical accounting and finance problems.

Influential Shariah committees can be considered a system that might affect Islamic banking institutions' business-related risks, particularly the level of audit report lag, due to their critical role in the successful operation of Islamic banking institutions. Incorporating accounting/financial knowledge within the Shariah committee may aid the committee in dealing with Shariah concerns, particularly those involving accounting/financial matters. Their knowledge in this field might help speed up the Shariah auditing processes, lowering the risk of Shariah non-compliance (related to finance and accounting issues), which must be addressed before the independent auditor can issue the audit report. When encountering issues related to finance and accounting that may directly affect the audited financial reports, financial and accounting experts on Shariah committees would be able to do the work more efficiently than those without such competence, especially when dealing with issues that require accounting and financial expertise, which can have a significant effect on audited financial statements, contributing toward the scale of audit report lag.

In Malaysia, the Shariah committee's competence is geared towards advising and assisting the management, mainly on Shariah concerns specific to the Islamic banking sector and specialised finance and accounting challenges. However, it may be argued that establishing a Shariah committee with accounting/financial competence may result in a longer audit report lag. Any Shariah non-compliance concerns involving accounting or finance would likely take longer for the Shariah committee to address. Because of their experience, they may examine non-compliance concerns in greater depth, taking longer to finish their task and, as a result, increase the audit report lag. Agency theory is applicable in this scenario. A Shariah committee equipped with accounting and finance expertise is expected to carry out its auditing duties efficiently. However, especially when encountering issues that require accounting and finance expertise that may directly impact the outcome of the audited financial reports, it may contribute to the scale of audit report lag. Furthermore, there is a lack of relevant studies describing how an independent auditor considers the risks of Shariah non-compliance when analysing overall audit risks in Islamic financial firms. The following is the study's second hypothesis:
H2. The expertise of the Shariah committee negatively relates to the audit report lag.

2.1.3. Shariah Committee Meeting Frequency

Shariah Governance Policy 2019 required the Shariah committee chairman to ensure appropriate procedures to oversee the discussions and operations of the Shariah committee. A Shariah committee meeting must take place at least once every two months in an Islamic financial institution. Furthermore, an Islamic financial institution operating in Malaysia as an Islamic window or foreign branch must meet with its Shariah committee twice a year. A Shariah committee member must attend at least 75% of meetings each fiscal year. They are not permitted to designate someone else to represent them at Shariah committee sessions. Islamic financial institutions must declare the number of Shariah committee meetings throughout the financial year and the participation of each Shariah committee member in their annual report.

The Shariah committee plays a more effective and active monitoring function if it has regular meetings. According to Zulfikar et al. (2020) and Kaaroud et al. (2020), more vigilant audit committees can publish audited financial statements on time. The rationale is that the committee will keep up to date on matters by meeting more frequently. Any flaws in the financial reporting process can thus be discovered and remedied during committee meetings.

According to Conger (1999), more regular board meetings increase a board's performance since meetings constitute a fundamental component of board actions (Basiruddin & Ahmed, 2019). Boards that meet more frequently are more likely to carry out their responsibilities in the best interests of shareholders (Basiruddin & Ahmed, 2019) and dedicate more time to monitoring management integrity. According to audit committee literature, companies with more audit committee meetings have fewer financial restatements and fewer earnings management instances. According to Isa and Lee (2020), the frequency of board meetings is one aspect that contributes to board operation efficacy. There will be less delay in making decisions due to more meetings and more time to deliberate on matters.

The demand for monitoring is related to the mitigation of agency problems by having practical monitoring functions like the Shariah committee. It is relevant to agency theory, which describes the relationship between monitoring function and audit report lag. The more frequent the meetings, the more up-to-date the Shariah committee will be about accounting and Shariah issues. Almuzaiqer (2018) discovered a relationship between audit and board meeting frequency and audit report delays. Similarly, we anticipate that increasing the frequency of Shariah committee meetings will reduce the time between audit reports. Based on the discussion, we developed the following hypothesis:

H3 The Shariah committee's meeting frequency correlates negatively with audit report lag.

2.1.4. Shariah Committee Independence

The primary goal of a Shariah board as an unbiased body is to help Islamic banking institutions produce internal Shariah-compliant guidelines and procedures. According to Shariah Policy 2019, within the previous two years, a Shariah board member or their close relative must not have had any direct or indirect interaction with Islamic banks or affiliates, nor any primary business or other contractual relationship with them. This recommendation ensures that the Shariah committee can argue and express their opinion on Shariah issues freely. As an independent committee, it is free of any business or non-business relationships that would impair its capacity to act in the Islamic bank's best interests via independent judgement. Independent Shariah committee members serve as protectors of shareholders' interests, mitigate agency problems, and use their expertise to further improve the bank's value. As a result, it is proposed that when a firm's governance structure successfully implements robust monitoring and an independent strategic viewpoint, there may be a link between fewer firm-related risks, better audit planning and more efficient auditing work (Kaaroud et al., 2020).

Salehi, Bayaz, and Naemi (2018), Odjaremu and Jeroh (2019), Kaaroud et al. (2020) and Shofiyah and Wilujeng Suryani (2020) discovered a negative correlation between audit report delay and board independence. Specifically, the audit report lag is reduced when the board contains a higher percentage of independent members. The independence of Shariah committee members plays a significant role in both board independence and audit committee independence. However, there is a lack of relevant literature on the correlation between the Shariah board's independence and the audit report lag of Malaysian Islamic banks. The following is the study's hypothesis:

H4: The independence of the Shariah committee has a negative association with audit report lag.

2.2. Reporting Delay

Audit report lag is defined as the length of time from a company's fiscal year-end to the audit report date (Chalu, 2021; Ishaku, Abdulkarim, & Mohammed, 2021; Ismail, Mansour, & Sayed, 2022; Kaaroud et al., 2020; Zulfikar et al., 2020). The maximum legal period to issue an audit report varies according to the country's respective laws. Still, there is a trend toward shorter legal times for the issuance of financial statement reports and audit reports.

Financial Reporting for Islamic Banking Institutions 2019 was published by Bank Negara Malaysia and applies to licenced Islamic banks and licenced investment banks permitted to conduct Islamic banking operations. This guideline defines and establishes minimum standards for Islamic financial institutions using the Malaysian Financial Reporting Standards (MFRS). It also strives to guarantee that Islamic financial institutions make appropriate disclosures in their financial statements to increase comparability for financial statement users and make it easier to assess an Islamic financial institution's financial status, performance and Shariah compliance. According to the guidelines stipulated, an Islamic banking organisation must provide its financial report to Bank Negara Malaysia within three months of the end of the financial year. The guideline requires Islamic financial institutions to publish their audited annual reports no later than fourteen days after their annual general meeting. The audited annual financial statement should be published in an abridged format in at least two local newspapers and in full on its website.

3. Research Methodology

The sample included all sixteen Islamic banks operating in Malaysia from 2011 to 2020. Islamic banks were chosen because previous research found that financial institutions have a shorter audit report lag than other industries. This study excluded conventional banks, takaful and licensed takaful companies because of the differences in their regulatory restrictions, which may influence how they report.

3.1. Sample Representation

The data utilised in the empirical research were gathered from the 2011–2020 annual reports of 16 licenced commercial Islamic banks available on the Bank Negara Malaysia website. Islamic banks were chosen because they have a shorter audit report lag than other sectors (Kaaroud et al., 2020). The study eliminated other sectors and related financial bodies, including conventional banks, takaful and licensed takaful companies, due to differences in regulatory requirements, which may influence their reporting behaviour. In all, 153 Islamic banks' annual reports were used. Data from Malaysia Building Society Bank Berhad (MBSB) was only included starting in 2018, the first year of its establishment as an Islamic bank.

3.2. Research Model

The panel data analysis was the basis for the regression analysis. The dependent variable was audit report lag, while the independent variables were the various aspects of Shariah committee composition. The following OLS model was used (Kaaroud et al., 2020; Zulfikar et al., 2020).

ARL= *f* (Shariah committee composition variables)

$ARL = \beta_0 + \beta_1 (SCSIZE) + \beta_2 (SCEXP) + \beta_3 (SCMEET) + \beta_4 (SCIND) + \varepsilon$

Where:

β_0 = coefficient of panel regression.

β_{1-4} = regression coefficient of Shariah committee composition variables.

ε = random error term.

Table 1 details the definitions and measurements of the variables. The dependent variable for this study was audit report lag (ARL). Following the example of previous studies, we measured this as the number of days from a company's fiscal year-end to the audit report date (Kaaroud et al., 2020; Zulfikar et al., 2020). The study's independent variables were Shariah committee size (SCSIZE), Shariah committee expertise (SCEXP), Shariah committee meeting frequency (SCMEET) and Shariah committee independence (SCIND). Shariah committee size was measured as the Islamic bank's number of Shariah committee members (Kaaroud et al., 2020; Zulfikar et al., 2020). Shariah committee expertise was measured as the number of committee members with knowledge in the accounting and finance fields. Shariah committee meeting frequency was measured as the number of meetings held within a year. Finally, the Shariah committee's independence was measured as the number of independent committee members.

Table 1. Definition and measurement of variables.

Variables		**Measurement**
Dependent variable		
ARL	Audit Report Lag	The number of days from a company's fiscal year-end to the audit report date
Independent variables		
SCSIZE	Shariah Committee Size	Number of Shariah committee members
SCEXP	Shariah Committee Expertise	Number of Shariah committee members with accounting and finance certificates
SCMEET	Shariah Committee Meetings	Number of meetings the Shariah committee conducted during the fiscal year
SCIND	Shariah Committee Independence	Number of independent members of the Shariah committee

4. Results and Discussion

4.1. The Scale of Audit Report Lag

The sample composition shown in Table 2 is based on the audited financial statement dates. The audited financial statement dates are divided into three groups. The first group is the timely report. It includes the Islamic banking organisations that submitted audited annual reports within a month of the end of the fiscal year. The second group is the on-time report and includes the Islamic financial institutions that provided audit reports within one month of the pre-determined deadline (90 days). The third group, the delayed report, consists of those whose audited financial reports were not released until after the 90-day deadline. The overall findings show that most Islamic banking institutions met the three-month Bank Negara Malaysia financial reporting requirement. Of the 153 observations, 118 had on-time audited annual report dates, reflecting the most significant percentage of the sampled Islamic banking institutions (77%). Thirty-five observations (22%) had audited financial report dates within the delayed-reports category, including Islamic banking institutions with audit report lags of 76 days, over a month longer than the Bank Negara Malaysia requirement.

Table 2. Audit report lag categories based on reporting dates.

Issuance Lag	**N**	**Rate (%)**
30 days	5	4%
31 – 90 days	113	73%
Exceeded 90 days	35	23%

4.2. Descriptive Statistics

The descriptive statistics for the entire sample are presented in Table 3. The average audit report lag is 76 days, with a standard error of 33 days. The audit report gap of Islamic banks in this study is more substantial than that revealed by Kaaroud et al. (2020) in prior research. Kaaroud et al. (2020) found that the average delay in the audit report was 64 days. However, the number is lower than the delays reported by Chalu (2021) and Arda, Gororo, Grochalska, and Mohlala (2018) for African Central Banks, as well as that revealed by Zulfikar et al. (2020) in Indonesia.

Concerning the Shariah committee composition of Islamic banking institutions, the average Shariah committee size was five members and the average number of independent non-executive members was five. In this sample, an average of one member had accounting and financial knowledge. The mean number of meetings conducted during the year was 13.

The Jarque-Bera test was performed to assess the skewness and kurtosis and the p-value of the data distribution. The evaluation found that the variables were not randomly distributed. The analysis in Table 4 shows that the data was highly skewed and leptokurtic.

Table 3. Descriptive statistics

Variables	N	Min	Max	Mean	SD	Skewness	Kurtosis
Audit Report Lag	153	19	209	76.54	33.097	1.177	1.432
SC Size	153	3	9	5.57	1.146	1.731	3.095
SC Independence	153	3	9	5.44	1.123	1.951	4.434
SC Expertise	153	0	4	0.99	0.946	1.917	4.368
SC Meetings	153	5	44	13.43	8.384	2.220	4.845
Valid N (listwise)	153						

4.3. Correlation Analysis

Kaaroud et al. (2020) suggested that a multicollinearity difficulty existed when the relationship assessment between independent variables surpassed 0.8. Table 4 shows no excessive relationship or correlation between the independent variables except for Shariah committee independence and Shariah committee size. The variance inflation factor (VIF), as shown in Table 5, of Shariah committee expertise and Shariah committee meeting frequency is lower than two. According to Johnson (1984), if the VIF is below two, there is no severe problem in terms of multicollinearity. The results for Shariah committee expertise and Shariah committee independence, however, show severe multicollinearity issues. VIFs greater than five indicate critical levels of multicollinearity where the coefficients are poorly estimated (Johnson, 1984).

Table 4. Correlation result

Variables	ARL	SCSIZE	SCIND	SCEXP	SCMEET
ARL	1	-0.35	0.003	-0.278**	0.284**
SCSIZE	-0.035	1	0.956**	0.420**	-0.259**
SCIND	0.003	0.956**	1	0.303**	-0.294**
SCEXP	-0.278**	0.420**	0.303**	1	-0.121
SCMEET	0.284**	-0.259**	-0.294**	-121	1

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

4.4. Regression Analysis

The hypotheses were examined using regression analysis. The fixed effects panel data approach was better suited to this investigation. It summarises the hypothesis testing since the Hausman Test findings were significant with chi-square equal to 16.29 and probability greater than 0.022.

Table 5. Fixed panel evaluation

Hypotheses	Predictable Relationship	Coef.	T-value	p-value	VIF
(Constant)		2.154	2.874	0.05	
Independent variables					
H1 SCSIZE	Negative	-0.94	-0.326	0.745	14.912
H2 SCIND	Negative	0.269	0.965	0.336	13.825
H3 SCEXP	Negative	-0.283	-3.176	0.002***	1.414
H4 SCMEET	Negative	0.304	3.856	0.000***	1.109
R-squared	16.9%				
Adjusted T-squared	14.7%				
F-statistics	7.539				
Prob (F-statistics)	0.000***				
No. of observations	153				

Notes: Significant at 0.01***.

The relationships between the Shariah committee composition variables and audit report lag are shown in Table 5, which reports the fixed effect model results. The F-statistics value is 7.539 and significant at 0.000. The adjusted R2 value of 14.7 shows that the model has a suitable descriptive power for the change in audit report lag induced by the individual variables, similar to prior research (Kaaroud et al., 2020; Shukeri & Nelson, 2011; Zulfikar et al., 2020).

Table 4 displays all the regression coefficients for the model. The results indicate that SCEXP and SCMEET had a significant association with audit report lag. In contrast, SCSIZE and SCIND were insignificantly associated with the audit report lag.

4.5. Discussion of Findings

H1 predicted a negative association between the size of the Shariah committee and the audit report lag of Malaysian Islamic banks. This implies that the larger the Shariah committee, the more successfully its supervising processes can be anticipated to operate, impacting the work of independent audits (Kaaroud et al., 2020; Safiullah & Shamsuddin, 2018; Zulfikar et al., 2020). Therefore, information asymmetry and agency problems will be minimised due to the reduction in the audit report lag. The findings support H1, though not significantly. According to the data, Shariah committee size was negatively associated with audit report lag.

H2 predicted that Shariah committee independence would reduce the audit report lag of Islamic banks. According to the findings, the greater the independence of the Shariah committee, the longer it takes to provide audited financial reports. The outcome contradicts the study's hypothesis. As a result, H2 is rejected.

H3 predicted that the expertise of the Shariah committee would reduce audit report delays. The results of the analysis strongly support H3. According to the findings, Islamic banking institutions with highly competent committee members produced more timely audited financial reporting by decreasing audit report lag. Because they must verify that financial activities are conducted according to Islamic banking institutions' purposes, goals and principles, this expertise is critical to the Shariah committee's performance. The agency theory states that having members with financial/accounting competence improves the audit committee's monitoring role over financial concerns, which might help external auditors accomplish their responsibilities on time. The result contradicts Kaaroud et al. (2020), who found no evidence of an association between highly competent Shariah committee members and audit report lag. They concluded that Shariah committee expertise could not successfully resolve the audit report lag of Islamic banks in Malaysia. Our findings confirmed agency theory since Shariah committee expertise plays a role in the Islamic financial institutions' monitoring process. Nonetheless, the Shariah Governance Policy 2019 states that the Shariah committee is intended to supervise Shariah matters relating to the institution's business activities and operations, which is accomplished through Shariah review and audit duties. Internal Shariah audit functions may be more critical since they may influence the timeliness of Islamic banking organisations' financial reporting.

H4 proposed a negative relationship between the frequency of Shariah committee meetings and audit report lag. Based on the findings, H4 is rejected as they show a positive association between the frequency of Shariah committee meetings and audit report lag. The conclusion indicates that Malaysian Islamic banks take more time to deliver audited financial reports when there is an increased number of audit committee meetings. This result contradicts the study's hypothesis, and H4 is therefore rejected. Audit committee meetings are appropriate for analysing financial accounts and reducing risks or difficulties, a plausible justification for such a robust favourable connection. Consequently, the frequency of meetings may reflect the audit committee's thoroughness in carrying out its duties. From another perspective, such a significant positive relationship might be due to the committee having difficulty in responding to particular financial situations. More issues may be uncovered when the frequency of audit committee meetings rises, delaying the search for answers. This study's findings appear consistent with Kaaroud et al. (2020), who said that the number of yearly meetings to deal with accounting difficulties is associated with increased audit report delays.

Overall, this study has empirically shown that Malaysian Islamic banks' audit report lag is affected by Shariah committee composition, particularly Shariah committee expertise and size.

5. Conclusion

This study has aimed to provide a distinct perspective on audit report lag in a specific situation. Notably, the study has observed the association between audit report lag and the composition of the Shariah committee in Islamic banks in Malaysia. The Shariah committee's size, independence, meeting frequency and expertise were the studied Shariah committee composition variables. The audit report lag was defined as the number of days between the end of the accounting period and the date of the auditor report. The study used the theory of agency to direct its hypotheses. Agency theory was also used to interpret how the various aspects of Shariah committee composition affected the audit report lag of Islamic banks. The study examined the annual reports of 16 Malaysian Islamic banks from 2011 through 2020. The analysis of the data revealed that the mean audit report lag was 76 days. The results showed that Shariah committee expertise and meeting frequency were significantly associated with audit report lag.

In contrast, however, the Shariah committee's size and independence were not significantly related to the audit report lag. The Shariah committee's expertise had a negative impact on the audit report delay, but the Shariah committee's meeting frequency impacted the audit report delay positively. The findings of the research supported the assumption of the theory of agency. The results suggest that principal and agent conflict could be eliminated by equipping more members of the Shariah committee with accounting and financial knowledge. This would contribute to improving the efficiency of the Shariah committee operations concerning financial processes.

The study's conclusions may benefit Malaysian policymakers such as Bank Negara Malaysia. Bank Negara Malaysia could apply the results in the future enhancement of Shariah committee and financial reporting standards and policies. The results are also relevant to the significance of on-time financial reporting. The results showed that 25% of the Islamic banks in Malaysia are non-compliant with the requirement of the Financial Reporting for Islamic Institutions to distribute their auditor report within 90 days of the fiscal date. This may be a sign of obstacles to the monitory body regarding the importance of timely financial reports. Additionally, the study may help improve Shariah Governance policy by determining the association between Shariah committee composition and audit report lag. The results suggest that including more members with finance and accounting experience could ensure adequate monitoring following the requirements of Shariah Governance Policy 2019 and enhance the timeliness of financial reports among Malaysian Islamic banks.

The research, like other studies, has certain limitations. Among these, the nominated sample and its size are notable constraints. Because other institutions were not included in the study, the findings can only be applied to Islamic financial institutions. Future research might broaden the current research scope by including other financial institutions. It should also be mentioned that the research was limited to the Malaysian environment. Consequently, the study's conclusions may not apply to nations with differing organisational environments and legal constraints. Future research might look at conducting a comparable study in other countries with Islamic financial institutions. It is further worth noting that this study only looked at four aspects of Shariah committee composition to see if they were linked to audit report lag. Other aspects might be added to see whether they have any relationship with audit report delays. Finally, other data methods, such as interviews, may help gain a better understanding of the subject.

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