

Whether Audit Committee Financial Expertise Is the Only Relevant Expertise: A Review of Audit Committee Expertise and Timeliness of Financial Reporting

Saeed Rabea Baatwah¹

Hadhramout University

Zalailah Salleh

Norsiah Ahmad

Universiti of Malaysia Terengganu

Abstract

This study reviews the literature on audit committee expertise and financial reporting timeliness. Financial reporting timeliness and audit committee expertise are two areas of research gaining the attention of a large number of stakeholders because they contribute to the reliability and the relevancy of financial reporting. Indeed, the focus of this review is primarily on the recent developments in the pertinent literature in order to show the limitations of such research and encourage future research to overcome these limitations. By also looking at the development of the audit committee expertise literature, this study concludes that (1) like most audit committee literature, financial reporting timeliness literature continues to assume the absence of the contribution of expertise other than financial expertise, and ignore the role of audit committee chair; (2) most of this literature fails to find a significant effect because it ignores the interaction among corporate governance mechanisms. Accordingly, this study posits that ignoring the issues raised in such research by future research would lead to major mistakes in reforms relating to how the quality of financial reporting can be enhanced.

Key Words: Financial reporting timeliness, Audit committee expertise.

Introduction

Financial reporting is one important means of providing information to assist external and internal users in economic and financial decision-making. These decisions are significantly influenced by the time value of the information. Prior literature argues that the usefulness of this information can be achieved if such information is provided in a

¹ Corresponding author

timely manner, otherwise it will lose a significant part of its economic value (Abdulla 1996). Accordingly, the timeliness of financial reporting is portrayed as an important qualitative characteristic of financial reporting. The American Accounting Association (1957) and International Accounting Standards Board (2010) emphasize that the timeliness of financial statements should be incorporated into accounting information to achieve its usefulness. This emphasis continues to attract the attention of stakeholders, regulators, professional bodies, researchers, financial analysts, investors and managers, who consider that the timeliness of information in decision-making is critical. For example, presently most capital markets around the world have set deadlines for financial reports that listed companies must comply with; otherwise the capital market authorities will impose penalties against late filers.

Prior literature (e.g. Chambers and Penman 1984, Bamber et al. 1993, Owusu-Ansah 2000, Abdulla 1996) has documented many advantages of providing timely financial reporting and suggests that companies should provide financial reporting to users in a short time. Chambers and Penman (1984) suggest that timely information is the cornerstone of investors' decisions and that investors desire to receive relevant information in a timely manner. Further, it is argued that timely reporting is an important device in mitigating insider trading; leaking information and rumours (Owusu-Ansah 2000); reducing information asymmetry and the opportunity for spreading rumours about the companies' financial health and performance (McLelland and Giroux 2000). Furthermore, recent literature argues the signalling role of financial reporting timeliness regarding the audit risk, management integrity, internal control system, and financial reporting quality (Mande and Son 2011, Carmichael et al. 2011, Asthana 2012). Emerging markets researchers also emphasize the importance of financial reporting timeliness in emerging markets because media releases, news conferences and financial analysts in such markets are not well developed and the regulatory bodies are not as effective as in developed markets (Wallace 1993, Khasharmeh and Aljifri 2010). Despite such importance, companies still delay in publishing their financial reports (Afify 2009, Khasharmeh and Aljifri 2010, Piesse et al. 2012).

It is worth noting that much empirical research has emerged to explore the factors that lead to untimely financial reporting (e.g. Ashton et al. 1987, Bamber et al. 1993, Owusu-Ansah 2000, Leventis et al. 2005). This literature has identified and found that financial reporting timeliness is influenced by company and auditor related factors, such as size, complexity, leverage and performance. Indeed, a growing number of studies have examined the influence of corporate governance mechanisms on the timeliness of financial reporting (e.g. Abdullah 2006, Afify 2009, Mohamad-Nor et al. 2010, Abernathy et al. 2011). This recent literature is motivated by the fact that corporate governance mechanisms should promote the timeliness of financial reporting (Abdullah 2006, Knechel et al. 2012) because providing information to users does not imply a transparent company if such information is not provided in a timely manner. However, the empirical evidence is inconclusive.

Prior corporate governance literature suggests that the board of directors and audit committee play a significant role in practicing good corporate governance. For exam-

ple, the Cadbury Committee (1992) highlights the role of the audit committee as a central mechanism for ensuring good financial reporting and internal control. Dezoort et al. (2002) suggest that an effective audit committee could ensure the reliability of financial reporting, the internal control system, and risk management. Further, Cohen et al. (2011) note that the key responsibility of the audit committee is to monitor the actions of the management and ensure management integrity with respect to the financial reporting process. Therefore, previous literature argues that characteristics, such as independence, size, expertise and activity do contribute to audit committee effectiveness, and, consequently, financial reporting quality (e.g. Abbott et al. 2004, Defond et al. 2005, Krishnain and Visvanathan 2008). However, this literature emphasizes more on audit committee financial expertise assuming that audit committee responsibility only needs directors with extensive financial knowledge and experience (Bédard et al. 2004, Ghosh et al. 2010).

Although audit committee financial expertise has long been recognised as an important audit committee characteristic, a large amount of financial reporting timeliness literature has failed to find a significant effect for financial expertise on financial reporting timeliness (e.g. Mohamad-Nor et al. 2010, Nelson and Shukeri 2011, Knechel et al. 2012, Wan-Hussin and Bamahros 2013). This suggests that audit committees may need more expertise than just financial expertise, and, further, they might need more powerful directors to perform audit committee duties in an effective manner. In addition, audit committee financial expertise could not be effective if other elements of an effective audit committee (e.g. independence) are lacking. Recent audit committee literature suggests that audit committee responsibility is not limited to the oversight and monitoring of the financial reporting process, it should evaluate the risks associated with company operation and industry dynamics (Bédard and Gendron 2010, Dhaliwal et al. 2010). Further, Kalbers and Fogarty (1993) contend that to limit the management power over the financial reporting process, the audit committee needs sufficient power to effectively discharge its responsibilities. Furthermore, it is noted that audit committee independence enhances the role of audit committee financial expertise in financial reporting quality (Dhaliwal et al. 2010).

Since the timeliness of financial reporting significantly contributes to information usefulness and audit committee expertise contributes to financial reporting quality, the purpose of this study is to review the pertinent literature to provide more insights into what factors determine and enhance the timeliness of financial reporting and audit committee expertise. This review concerns the more recent literature relating to financial reporting timeliness and audit committee expertise. This review provides an overview of the principal results of prior literature. It also serves as a direct means for further exploring the issue of audit committee expertise and financial reporting timeliness. Accordingly, the remainder of this paper is organised as follows. The next section reviews the recent literature on audit committee expertise and financial reporting timeliness. Section three provides a discussion and conclusion of the results of this research to provide future research with a way of filling the gaps in the knowledge.

Literature Review

Audit Committee Expertise

Prior literature argues that audit committees are an important part of the decision control system for internal monitoring by the board of directors (Fama 1980, Fama and Jensen 1983) and identifies a number of audit committee responsibilities that mainly focus on enhancing company performance and shareholders' wealth (e.g. BRC, 1999; Cadbury Committee, 1992; DeZoort et al. 2002; SOX, 2002). This literature, however, posits that audit committee responsibilities cannot easily be discharged unless such committees have independent directors and relevant expertise. Thus, Sharma et al. (2011) note that poor audit committee characteristics, such as lacking independence or expertise weakens audit committee oversight, and, consequently, the quality of financial reporting. Further, it is noted that having an independent mind and strong incentives do not guarantee good oversight unless the relevant expertise is presented (Mustafa and Youssef 2010). Therefore, Sharma et al. (2009) contend that audit committees prefer to shift their responsibilities to an external auditor because they lack expertise, power and objectivity to monitor management. Accordingly, it is contended that audit committee expertise sources and enhances the power of the audit committee, and, in turn, financial reporting quality because this power limits the power of management over a variety of financial reporting processes (Kalbers and Fogarty 1993).

Previously, it has been argued that the financial reporting process is the main audit committee responsibility and that this responsibility can be accomplished by directors with extensive financial knowledge and experience (Bédard et al. 2004, Ghosh et al. 2010). Consequently, many researchers investigate the influence of audit committee financial expertise on a variety of financial reporting quality and audit quality measures. For example, McMullen and Raghunandan (1996) examine 121 companies with financial reporting problems and problem-free companies and report that companies with financial problems are unlikely to have audit committee members with financial expertise. Subsequent studies report the significant positive influence of audit committee financial expertise in enhancing the quality of financial reporting and audit quality (e.g. DeZoort and Salterio 2001, Abbott et al. 2003, Abbott et al. 2004, Saleh et al. 2007, Krishnain and Visvanathan 2008, DeZoort et al. 2008, Goh 2009, Mustafa and Youssef 2010, Sharma et al. 2011, Sharma and Kuang 2013). The recent evidence of this literature posits the positive impact of directors with financial expertise, which was reported by previous literature as being exclusively attributed to accounting and auditing expertise and not to other financial expertise. However, there is evidence indicating that audit committee financial expertise does not significantly promote the effectiveness of the audit committee (Lin et al. 2006, Carcello et al. 2011b).

It is important to note that the above literature has assumed that the oversight financial reporting process is the only responsibility of the audit committee and has ignored other responsibilities, such as advising the CEO, understanding the company's operations and industry dynamics. Recent literature argues that risk evaluation and industry knowledge are important roles for audit committees, and that having the right experts on the audit committee is a vital input to the effectiveness of the audit committee

(Bédard and Gendron 2010, Cohen et al. 2012). Cohen et al. (2004) indicate that the unexpected findings for audit committee financial expertise and financial reporting quality measures are explained by the fact that accounting issues pertaining to the audit committee are more related to industry complexity and that audit committee financial expertise can only help the audit committee in discharging its financial reporting process oversight. They further suggest that the audit committee needs additional expertise to accomplish its roles. This shortcoming has been recognized by a limited number of studies, which contends that expertise other than financial expertise makes a significant contribution to the effectiveness of the audit committee (Dhaliwal et al. 2010, Krishnan et al. 2011, Salleh and Stewart 2012, Cohen et al. 2012).

For example, Krishnan et al. (2011) report that legal expertise on the audit committee enhances the quality of financial reporting and that this quality is more obvious if accounting and legal expertise are combined. Cohen et al. (2012), and Salleh and Stewart (2012), respectively, show that audit committee industry expertise is associated with less financial reporting restatements and plays a greater mediating role in auditor and client disagreement. Despite the significance of other types of expertise to audit committee effectiveness, financial expertise has continued to be the focus of accounting research and regulatory bodies. Therefore, it is imperative to extend such research by employing different measures for financial reporting quality in order to convince researchers, regulators, and other stakeholders that expertise other than financial expertise represents an essential part of audit committee effectiveness. Cohen et al. (2008) posit that directors with industry expertise on the audit committee can improve its ability to assess whether the accounting methods truly echo the fundamental economic substance of transactions, which should produce higher quality financial reporting. Krishnan et al. (2011) suggest that legal expertise makes the audit committee more vigilant about the legal liabilities associated with misreporting.

Importantly, concerns still exist regarding the role of audit committee expertise despite substantial efforts to examine its role. Specifically, the effect of audit committee financial expertise on financial reporting quality is the subject of a large number of empirical tests (e.g. Krishnain and Visvanathan 2008, Mustafa and Youssef 2010). While this literature proves the contribution of audit committee financial expertise on financial reporting quality, empirical investigation reports that audit committee financial expertise is unable to sway the power of management over the financial reporting process (Carcello et al. 2011b, Lisic et al. 2012). Empirical testimony also indicates that audit committee chairs of high profile corporate scandals (e.g. Enron and World-Com) were lacking relevant expertise and that this shortage enables management to control a significant part of the audit committee duties (Batson 2003, Breeden 2003). This suggests that audit committee expertise needs further power to effectively discharge its duties. Although there has been emphasis on the importance of power for the audit committee (Kalbers and Fogarty 1993), limited research proposes mechanisms beyond audit committee independence, expertise and a charter for enhancing the power of the audit committee. Thus, this study posits that expanding the role of financial expertise to the chair position could enhance the power of the audit committee.

Prior literature suggests that the audit committee chair is one of the company's upper echelon positions and that this hierarchical position represents a strong source of power (Hambrick and Mason 1984, Finkelstein 1992, Sharma et al. 2009). Further, Udueni (1999) considers the chair of major board committees (e.g. audit committee) as a powerful person compared to members who do not chair any committees. Indeed, prior literature (Beasley et al. 2009, Sharma et al. 2009) identifies various duties that should be accomplished by the audit committee chair. For example, Beasley et al. (2009) suggest that the audit committee chair sets the audit committee meeting agendas, which include financial reporting issues. Therefore, a combination of structural power (chair) with expert power (financial expertise) could enhance the audit committee power because audit committee dependence on management instructions relating to financial reporting process is limited. Moreover, such a combination may offer the audit committee financial expertise with more information regarding the company business operation and industry knowledge because the audit committee chair has the authority to invite and question the CEO, CFO and other senior managers. This authority will enhance his experience and understanding concerning the nature of the company's business and industry. Although the audit committee literature suggests that future studies should substantially explore the unique role played by the chairs of audit committees (Carcello et al. 2011a), prior audit committee literature ignores the salient role of the audit committee chairs in enhancing the effectiveness of the audit committee.

Timeliness of Financial Reporting

The timeliness of financial reporting is defined as the time in days that elapse between the year-end and the date of providing financial reports to different stockholders (e.g. management; investors; shareholders) (Chambers and Penman 1984, Davies and Whittred 1980). As indicated earlier, a shorter time is associated with manifold advantages; a significant amount of research has investigated the factors explaining why companies have different financial reporting timeliness. For example, in developed countries, researchers started to investigate the determinants of financial reporting timeliness in the 1970s, in Australia (e.g. Dyer and McHugh 1975, Davies and Whittred 1980); in the US (e.g. Henderson and Kaplan 2000, Ettredge et al. 2006, Asthana 2012); and in other parts of the developed world, such as Canada, New Zealand and France (e.g. Ashton et al. 1989, Carslaw and Kaplan 1991, Knechel and Payne 2001, Soltani 2002, Habib and Bhuiyan 2011). Researchers from emerging countries have also examined the factors that affect the timeliness of financial reporting, for example, in Zimbabwe (Owusu-Ansah 2000); in Greece (Leventis et al. 2005, Owusu-Ansah and Leventis 2006); in Malaysia (Che-Ahmad and Abidin 2008); in Bangladesh, India and Pakistan (Ahmed 2003); in Indonesia (Ika and Ghazali 2012) and in Arab countries (Abdulla 1996, Al-Ajmi 2008, El-Bannany 2008, Khasharmeh and Aljifri 2010).

Throughout the history of this research, the influence of company-specific and audit-specific factors are the dominant factors in the timeliness of financial reporting literature. For example, company size has been incorporated in the timeliness models since the 1970s (Dyer and McHugh 1975) and recent literature is still exploring its effect on

financial reporting timeliness (Khasharmeh and Aljifri 2010, Al-Ghanem and Hegazy 2011). Other factors, such as leverage, profitability, complexity, audit firm size, tenure and audit fees, are still shown to be important factors in determining the timeliness of financial reporting (e.g. Ashton et al. 1987, Bamber et al. 1993, Ettredge et al. 2006, Lee et al. 2009, Habib and Bhuiyan 2011). Indeed, until recently, the literature has ignored the corporate governance factors as determinants of the timeliness of financial reporting (Wan-Hussin and Bamahros 2013). Thus, the recent analysis of financial reporting timeliness (e.g. Abdullah 2006, Afify 2009, Mohamad-Nor et al. 2010, Abernathy et al. 2011) realizes that the timeliness literature is vulnerable, because ignoring corporate governance variables may reflect the disregard of major corporate governance reforms (e.g. SOX, 2002) that intend to improve the relevancy and reliability of accounting information. However, this literature provides inconclusive evidence and constitutes a severe form of methodological shortcoming inasmuch as it overlooks crucial control variables (Wan-Hussin and Bamahros 2013).

For example, board independence is found to have a negative association with the timeliness of the financial reporting, which means that companies with a high proportion of independent directors have disclosed their annual reports in a short time (Abdullah 2006, Afify 2009). Contrary to this result, Yaacob and Che-Ahmad (2012) report a significant positive association between board independence and timeliness of financial reporting. Other board characteristics, such as CEO duality, board size, board meetings and board expertise, have also been investigated; however, the evidence has been inconsistent (e.g. Afify 2009, Mohamad-Nor et al. 2010, Abernathy et al. 2011, Yaacob and Che-Ahmad 2012). As for audit committee characteristics, a few characteristics of effective audit committee, such as independence, size, meetings and financial expertise, have been considered, but, again, evidence exclusively showing these characteristics as crucial determinants of financial reporting timeliness has not been provided (Abdullah 2006, Abernathy et al. 2011, Nelson and Shukeri 2011, Wan-Hussin and Bamahros 2013).

As stated previously the purpose of the current study is to review the literature concerning audit committee expertise and financial reporting timeliness, through which the effect of audit committee financial expertise on financial reporting timeliness will gain substantive review. Prior audit committee literature (e.g. Dhaliwal et al. 2010) assumes that financial expertise helps audit committees to reduce errors and mistakes in the preparation of financial reporting. These errors are positively associated with the required work for closing annual accounts and accomplishing external auditing. Dyer and McHugh (1975) argue that closing annual accounts and audit work are the factors that most lead to untimely financial reporting. Accordingly, recent financial reporting timeliness predicts a negative association between audit committee financial expertise and financial reporting timeliness (Mohamad-Nor et al. 2010, Abernathy et al. 2011, Wan-Hussin and Bamahros 2013). However, the findings of such investigation are mostly unsupported suggesting that looking for the reasons leading to such findings are imperative to correctly guide policymakers in future reforms relating to audit committee expertise and financial reporting timeliness.

Mohamad-Nor et al. (2010) investigate the association between audit committee financial expertise and timeliness of audit reporting for Malaysian listed companies in 2002. They find an insignificant association between financial expertise and the timeliness of audit reporting. A subsequent stream of research differentiates between accounting expertise and general financial expertise to investigate audit committee expertise and timeliness. Abernathy et al. (2011) divide audit committee financial expertise into three groups—accounting expertise, non-accounting expertise and nonfinancial expertise—to investigate whether prior evidence on audit committee expertise is attributed to accounting expertise or other types of expertise. This study reports a significant association between the presence and the proportion of accounting experts on the audit committee and the decrease in audit report timeliness for a US sample. Supporting the study's contention, this study reports no association between non-accounting expertise and non-financial expertise with timeliness of audit report. Contrary to this result and to prior literature that supports the importance of accounting expertise in improving the effectiveness of audit committee, Nelson and Shukeri (2011) and Wan-Hussin and Bamahros (2013), for a Malaysian sample, report no association between audit committee accounting/auditing expertise and audit report timeliness. Using a New Zealand sample, Knechel et al. (2012) unexpectedly report that audit committee financial expertise is not associated with the timeliness of the audit report.

It becomes clear that this literature only uses financial expertise to proxy audit committee expertise. However, the evidence from the above mentioned literature was unexpected as it does not imply that audit committee financial expertise is ineffective in providing timely financial reporting; nevertheless, most of this literature ignores the interaction among audit committee characteristics. For example, Mohamad-Nor et al. (2010), and Knechel et al. (2012) provide evidence from different settings (Malaysia and New Zealand) that do not require audit committees to be fully independent. Dhaliwal et al. (2010), and Sharma and Kuang (2013) report that audit committee financial expertise is not associated with financial reporting quality because audit committee financial expertise is not independent. Bronson et al. (2009) find that the presence of only one non-independent director on the audit committee hinders the effectiveness of the audit committee. Confirming our deduction, Abernathy et al. (2011) report a negative association between audit committee financial expertise and audit report timeliness for a sample with audit committee independence up to 95% of the committee size. Therefore, prior findings should be interpreted with caveats because it ignores the interaction between audit committee independence and financial expertise, and future research in settings without the requirement for a fully independent audit committee should consider the interaction between audit committee financial expertise and independence.

Moreover, the current study argues that the prior literature fails to consider the role of other relevant expertise (e.g. industry expertise) in respect of the timeliness of financial reporting. It has been noted that the costs of competition within an industry affect the content and timeliness of accounting information (Leventis and Weetman 2004). This suggests that the presence of an industry expert on the audit committee may assist the committee to effectively analyse the disclosure behaviour of competitors and up-

date the company accounting methods and techniques that have recently been adopted by industry players. Cohen et al. (2012) predict a significant value for audit committee industry expertise in dealing with industry specific accounting issues. Further, this study suggests that industry expertise could enhance the role of audit committee financial expertise because audit committee financial expertise is ineffective in dealing with industry accounting issues (Cohen et al. 2004) and industry expertise could complement a lack of knowledge concerning financial expertise regarding company operations and nature of the industry. Thus, it is crucial to empirically discover the salient role of audit committee industry expertise in enhancing the timeliness of financial reporting.

Alternatively, this study posits that ensuring that the audit committee chair has financial expertise would enhance the role of financial expertise on the timeliness of financial reporting. Given the nature of this position, financial expertise enables the discovery and addresses any misconduct in a timely manner because the chair has the authority to access company accounts and invite auditors, CEO, CFO, and others to discuss the issues concerning auditing and financial reporting. Further, through the benefit of financial expertise, this position may provide the chance to diversify their knowledge about the company operations and the industry, and thereby understand most of the accounting issues in a given industry. Therefore, it is beneficial to discover whether the audit committee chair increases the role of financial expertise on financial reporting timeliness.

Discussion and Conclusion

Overall, the review of the literature reveals that financial reporting timeliness and audit committee literature are not a new phenomenon and that there are some concerns regarding recent results that future research should address. The review relating to financial reporting timeliness suggests that this literature mostly focuses on factors that may assist or hinder management to produce timely information (company characteristics) or on factors that help or constrain the auditor to finalize the audit function in a short time (auditor characteristics). Recently, it has responded to the recent focus concerning the role of corporate governance by including corporate governance variables into the timeliness analysis (Wan-Hussin and Bamahros 2013). Even though the development in such literature is recognised, the results of this analysis produce inconsistent evidence suggesting the need for further investigation. For this literature, our study raises two concerns relating to the theoretical assumption and methodology of the recent literature. It should be noted that the review of the current study is limited to recent literature, and, particularly, to those studies that investigate the association between audit committee expertise and financial reporting timeliness (e.g. Mohamad-Nor et al. 2010, Abernathy et al. 2011).

Indeed, the recent financial reporting timeliness simply assumes that financial reporting timeliness is only affected by general accounting issues and that only financial expertise on the audit committee is able to address them in a timely manner. However, this literature ignores the complexity relating to industry specific accounting issues

that have a significant effect on the timeliness of financial reporting (Ashton et al. 1987, Leventis and Weetman 2004). Thus, we argue that audit committee financial expertise is not the only relevant expertise to make financial reporting more timely and that involving industry expertise on the audit committee would enhance the timeliness of financial reporting. We further suggest that audit committee chair with accounting expertise and industry expertise could complement audit committee financial expertise in producing more timely financial reporting. These issues are worth considering by future research. Another concern associated with this literature is that the nature of the setting in relation to the regulations is ignored. This literature was initially and mostly conducted in developing countries (e.g. Malaysia), which have different agency problems, capital market structures and legal systems compared to developed countries (Shleifer and Vishny 1997, La Porta et al. 1998). In these settings, the audit committee is required to have at least one member with financial expertise who does not need to be independent as in the US. This regulation may affect the motivation of those with financial expertise to crucially question managers and discover misconduct in a timely manner (Dhaliwal et al. 2010). Thus, we posit that ignoring the effect of such regulations would lead to serious mistakes in future reforms relating to financial expertise on the audit committee. Accordingly, we encourage future research to investigate the issue concerning whether audit committee financial expertise interacts with audit committee independence to affect the timeliness of financial reporting.

With respect to the audit committee expertise literature, our review suggests that this literature continues to overemphasize the importance of audit committee expertise on financial reporting quality producing a picture to regulators and professions that suggests that audit committees should be dominated by those with financial expertise. This view may lead to audit committees missing opportunities to discharge their role effectively. The audit committee is not only responsible to oversee the financial reporting process, its responsibilities include evaluating external threats, such as industry risk and legal risk (Bédard and Gendron 2010, Krishnan et al. 2011). These responsibilities cannot effectively be addressed through financial expertise (Cohen et al. 2004). Thus, we suggest that future research should continue to give attention to other types of expertise, such as industry and legal expertise to form a new picture that suggests that expertise other than financial expertise is relevant to the audit committee. Another concern for audit committee expertise is ignoring the salient role that can be played by those with financial expertise if they are given more power. Prior audit committee literature suggests that an audit committee needs power to effectively perform the duties in question (Kalbers and Fogarty 1993). Financial expertise is a power source for an audit committee. However, empirical evidence suggests that financial expertise is not able to stand against the power of the CEO over the financial reporting process (Lisic et al. 2012). Thus, we posit that financial expertise should be a requirement for the role of the chair of the audit committee because this position may make financial expertise more powerful than other directors. We suggest that future research should explore whether an audit committee chair with financial expertise enhances the effectiveness of the audit committee.

In conclusion, our review suggests that diversifying audit committee expertise, increasing the power of the audit committee and recognizing the interaction among corporate governance mechanisms could enhance our understanding on the required expertise and factors ensuring the effectiveness of the audit committee and the timeliness of financial reporting. Accordingly, we encourage future research to explore the issues presented by this study.

References

- Abbott, L. J., Parker, S. and Peters, G. F. (2004) 'Audit committee characteristics and restatements', *Auditing: A Journal of Practice & Theory*, 23(1), 69-87.
- Abbott, L. J., Parker, S., Peters, G. F. and Raghunandan, K. (2003) 'The association between audit committee characteristics and audit fees', *Auditing: A Journal of Practice & Theory*, 22(2), 17-32.
- Abdulla, J. Y. A. (1996) 'The timeliness of Bahraini annual reports', *Advances in International Accounting*, 9, 73-88.
- Abdullah, S. N. (2006) 'Board composition, audit committee and timeliness of corporate financial reports in Malaysia', *Corporate Ownership & Control*, 4(4), 33-45.
- Abernathy, J. L., Beyer, B. and Stefaniak, C. M. (2011) 'Audit committee directors' financial expertise and audit report lag', in *American Accounting Association Annual Meeting*, Denver, AUGUST 6-10, 2011, American Accounting Association,
- Afify, H. A. E. (2009) 'Determinants of audit report lag: Does implementing corporate governance have any impact? Empirical evidence from Egypt', *Journal of Applied Accounting Research*, 10(1), 56-86.
- Ahmed, K. (2003) 'The timeliness of corporate reporting: A comparative study of south Asia ', *Advances in International Accounting*, 16(0), 17-43.
- Al-Ajmi, J. (2008) 'Audit and reporting delays: Evidence from an emerging market', *Advances in Accounting*, 24(2), 217-226.
- Al-Ghanem, W. and Hegazy, M. (2011) 'An empirical analysis of audit delays and timeliness of corporate financial reporting in Kuwait', *Eurasian Business Review*, 1(1), 73-90.
- Ashton, R. H., Graul, P. R. and Newton, J. D. (1989) 'Audit delay and the timeliness of corporate reporting*', *Contemporary Accounting Research*, 5(2), 657-673.
- Ashton, R. H., Willingham, J. J. and Elliott, R. K. (1987) 'An empirical analysis of audit delay', *Journal of Accounting Research*, 25(2), 275-292.
- Asthana, S. (2012) 'Abnormal audit delays, earnings quality, and firm value in the U.S ', *Journal of Financial Reporting and Accounting*, 10(3).
- Bamber, E. M., Bamber, L. S. and Schoderbek, M. P. (1993) 'Audit structure and other

- determinants of audit report lag: An empirical analysis', *Auditing: A Journal of Practice & Theory*, 12(1), 1-23.
- Batson, N. (2003) 'Final report of Neal Batson, court-appointed examiner in re: Enron Corp', (Chapter 11 case no. 01-16034) (November).
- Beasley, M. S., Carcello, J. V., Hermanson, D. R. and Neal, T. L. (2009) 'The audit committee oversight process*', *Contemporary Accounting Research*, 26(1), 65-122.
- Bédard, J., Chtourou, S. M. and Courteau, L. (2004) 'The effect of audit committee expertise, independence, and activity on aggressive earnings management', *Auditing: A Journal of Practice & Theory*, 23(2), 13-35.
- Bédard, J. and Gendron, Y. (2010) 'Strengthening the financial reporting system: Can audit committees deliver?', *International Journal of Auditing*, 14(2), 174-210.
- Breeden, R. C. (2003) 'Restoring trust. Report to the Honorable Jed S. Rakoff — The United States District Court for the Southern District of New York — on corporate governance for the future of MCI, Inc., August'.
- Bronson, S. N., Carcello, J. V., Hollingsworth, C. W. and Neal, T. L. (2009) 'Are fully independent audit committees really necessary?', *Journal of Accounting and Public Policy*, 28(4), 265-280.
- Carcello, J. V., Hermanson, D. R. and Zhongxia, Y. (2011a) 'Corporate governance research in accounting and auditing: Insights, practice implications, and future research directions', *Auditing: A Journal of Practice & Theory*, 30(3), 1-31.
- Carcello, J. V., Neal, T. L., Palmrose, Z.-V. and Scholz, S. (2011b) 'CEO involvement in selecting board members, audit committee effectiveness, and restatements', *Contemporary Accounting Research*, 28(2), 396-430.
- Carmichael, D., Ghosh, A. and Lee, H. (2011) 'Causes and consequences of abnormally long audit reporting lags', in *Denver Colorado*, Wednesday August 10, 2011, American Accounting Association
- Carslaw, C. A. P. N. and Kaplan, S. E. (1991) 'An examination of audit delay: Further evidence from New Zealand', *Accounting and Business Research*, 22(85), 21-31.
- Chambers, A. E. and Penman, S. H. (1984) 'Timeliness of reporting and the stock price reaction to earnings announcements', *Journal of Accounting Research*, 22(1), 21-47.
- Che-Ahmad, A. and Abidin, S. (2008) 'Audit delay of listed companies: A case of Malaysia', *International Business Research*, 1(4), 32-39.
- Cohen, J. R., Gaynor, L. M., Krishnamoorthy, G. and Wright, A. M. (2011) 'The impact on auditor judgments of CEO influence on audit committee independence', *Auditing: A Journal of Practice & Theory*, 30(4), 129-147.
- Cohen, J. R., Hoitash, U., Krishnamoorthy, G. and Wright, A. (2012) *Audit committee*

industry expertise and financial reporting quality translated by Northeastern University.

- Cohen, J. R., Krishnamoorthy, G. and Wright, A. (2004) 'The corporate governance mosaic and financial reporting quality', *Journal of Accounting Literature*, 23 (2004), 87-152.
- Cohen, J. R., Krishnamoorthy, G. and Wright, A. M. (2008) 'Form versus substance: The implications for auditing practice and research of alternative perspectives on corporate governance', *Auditing: A Journal of Practice & Theory*, 27(2), 181-198.
- Davies, B. and Whittred, G. P. (1980) 'The association between selected corporate attributes and timeliness in corporate reporting: Further analysis', *Abacus*, 16(1), 48-60.
- Defond, M. L., Hann, R. N. and Xuesong, H. U. (2005) 'Does the market value financial expertise on audit committees of boards of directors?', *Journal of Accounting Research*, 43(2), 153-193.
- DeZoort, F. T., Hermanson, D., Archambeault, D. and Reed, S. (2002) 'Audit committee effectiveness: A synthesis of the empirical audit committee literature', *Journal of Accounting Literature*, 21, 38-75.
- DeZoort, F. T., Hermanson, D. R. and Houston, R. W. (2008) 'Audit committee member support for proposed audit adjustments: Pre-SOX versus post-SOX judgments', *Auditing: A Journal of Practice & Theory*, 27(1), 85-104.
- DeZoort, F. T. and Salterio, S. E. (2001) 'The effects of corporate governance experience and financial-reporting and audit knowledge on audit committee members' judgments', *Auditing: A Journal of Practice & Theory*, 20(2), 31-47.
- Dhaliwal, D. A. N., Naiker, V. I. C. and Navissi, F. (2010) 'The association between accruals quality and the characteristics of accounting experts and mix of expertise on audit committees*', *Contemporary Accounting Research*, 27(3), 787-827.
- Dyer, J. C. and McHugh, A. J. (1975) 'The timelessness of the Australian annual report', *Journal of Accounting Research*, 13(2), 204-219.
- El-Bannany, M. (2008) 'Factors affecting audit report lag in banks: The Egyptian case', *Corporate Ownership & Control*, 5(3), 54-61.
- Ettredge, M. L., Sun, L. and Li, C. (2006) 'The impact of SOX section 404 internal control quality assessment on audit delay in the SOX era', *Auditing: A Journal of Practice & Theory*, 25(2), 1-23.
- Fama, E. F. (1980) 'Agency problems and the theory of the firm', *Journal of Political Economy*, 88(2), 288-307.
- Fama, E. F. and Jensen, M. C. (1983) 'Separation of ownership and control', *Journal of Law and Economics*, 26(2), 301-325.

- Finkelstein, S. (1992) 'Power in top management teams: Dimensions, measurement, and validation', *Academy of Management Journal*, 35(3), 505-538.
- Ghosh, A., Marra, A. and Moon, D. (2010) 'Corporate boards, audit committees, and earnings management: Pre- and post-SOX evidence', *Journal of Business Finance & Accounting*, 37(9-10), 1145-1176.
- Goh, B. W. (2009) 'Audit committees, boards of directors, and remediation of material weaknesses in internal control', *Contemporary Accounting Research*, 26(2), 549-579.
- Habib, A. and Bhuiyan, M. B. U. (2011) 'Audit firm industry specialization and the audit report lag', *Journal of International Accounting, Auditing and Taxation*, 20(1), 32-44.
- Hambrick, D. C. and Mason, P. A. (1984) 'Upper echelons: The organization as a reflection of its top managers', *The Academy of Management Review*, 9(2), 193-206.
- Henderson, B. C. and Kaplan, S. E. (2000) 'An examination of audit report lag for banks: A panel data approach', *Auditing: A Journal of Practice & Theory*, 19(2), 159-174.
- Ika, S. R. and Ghazali, N. A. M. (2012) 'Audit committee effectiveness and timeliness of reporting: Indonesian evidence', *Managerial Auditing Journal*, 27(4), 403-424.
- Kalbers, L. P. and Fogarty, T. J. (1993) 'Audit committee effectiveness: An empirical investigation of the contribution of power', *Auditing: A Journal of Practice & Theory*, 12(1), 24-49.
- Khasharmeh, H. A. and Aljifri, K. (2010) 'The timeliness of annual reports in Bahrain and the United Arab Emirates: An empirical comparative study', *The International Journal of Business and Finance Research*, 4(1), 51-71.
- Knechel, W. R. and Payne, J. L. (2001) 'Additional evidence on audit report lag', *Auditing: A Journal of Practice & Theory*, 20(1), 137-146.
- Knechel, W. R., Sharma, D. S. and Sharma, V. D. (2012) 'Non-audit services and knowledge spillovers: Evidence from New Zealand', *Journal of Business Finance & Accounting*, 39(1-2), 60-81.
- Krishnain, G. V. and Visvanathan, G. (2008) 'Does the SOX definition of an accounting expert matter? The association between audit committee directors' accounting expertise and accounting conservatism', *Contemporary Accounting Research*, 25(3), 827-857.
- Krishnan, J., Yuan, W. and Wanli, Z. (2011) 'Legal expertise on corporate audit committees and financial reporting quality', *Accounting Review*, 86(6), 2099-2130.
- La Porta, R., Lopez, F., Shleifer, A. and Vishny, Robert W. (1998) 'Law and finance', *Journal of Political Economy*, 106(6), 1113-1155.

- Lee, H.-Y., Mande, V. and Son, M. (2009) 'Do lengthy auditor tenure and the provision of non-audit services by the external auditor reduce audit report lags?', *International Journal of Auditing*, 13(2), 87-104.
- Leventis, S. and Weetman, P. (2004) 'Timeliness of financial reporting: Applicability of disclosure theories in an emerging capital market', *Accounting & Business Research (Wolters Kluwer UK)*, 34(1), 43-56.
- Leventis, S., Weetman, P. and Caramanis, C. (2005) 'Determinants of audit report lag: Some evidence from the Athens Stock Exchange', *International Journal of Auditing*, 9(1), 45-58.
- Lin, J. W., Li, J. F. and Yang, J. S. (2006) 'The effect of audit committee performance on earnings quality', *Managerial Auditing Journal*, 21(9), 921-933.
- Lisic, L. L., Neal, T. and Zhang, Y. (2012) 'CEO power, internal control quality, and audit committee effectiveness in substance vs. in form',
- Mande, V. and Son, M. (2011) 'Do audit delays affect client retention?', *Managerial Auditing Journal*, 26(1), 32-50.
- McLelland, A. J. and Giroux, G. (2000) 'An empirical analysis of auditor report timing by large municipalities', *Journal of Accounting and Public Policy*, 19(3), 263-281.
- McMullen, D. A. and Raghunandan, K. (1996) 'Enhancing audit committee effectiveness', *Journal of Accountancy*, 182(2), 79-81.
- Mohamad-Nor, M. N., Shafie, R. and Wan-Hussin, W. N. (2010) 'Corporate governance and audit report lag in malaysia', *Asian Academy of Management Journal of Accounting & Finance*, 6(2), 57-84.
- Mustafa, S. and Youssef, N. B. (2010) 'Audit committee financial expertise and misappropriation of assets', *Managerial Auditing Journal*, 25(3), 208-225.
- Nelson, S. P. and Shukeri, S. N. (2011) 'Corporate governance and audit report timeliness: Evidence from Malaysia' in Devi, S. S. and Hooper, K., eds., *Accounting in Asia*, Emerald Group Publishing Limited, 109-127.
- Owusu-Ansah, S. (2000) 'Timeliness of corporate financial reporting in emerging capital markets: empirical evidence from the Zimbabwe Stock Exchange', *Accounting & Business Research (Wolters Kluwer UK)*, 30(3), 241-254.
- Owusu-Ansah, S. and Leventis, S. (2006) 'Timeliness of corporate annual financial reporting in Greece', *European Accounting Review*, 15(2), 273-287.
- Piesse, J., Strange, R. and Toonsi, F. (2012) 'Is there a distinctive MENA model of corporate governance?', *Journal of Management & Governance*, 16(4), 645-681.
- Saleh, N. M., Iskandar, T. M. and Rahmat, M. M. (2007) 'Audit committee characteristics and earnings management: Evidence from Malaysia', *Asian Review of Accounting*, 15(2), 147-163.

- Salleh, Z. and Stewart, J. (2012) 'The impact of expertise on the mediating role of the audit committee', *Managerial Auditing Journal*, 27(4), 378-402.
- Sharma, V., Naiker, V. and Lee, B. (2009) 'Determinants of audit committee meeting frequency: Evidence from a voluntary governance system', *Accounting Horizons*, 23(3), 245-263.
- Sharma, V., Sharma, D. and Ananthanarayanan, U. (2011) 'Client importance and earnings management: The moderating role of audit committees', *Auditing: A Journal of Practice & Theory*, 30(3), 125-156.
- Sharma, V. D. and Kuang, C. (2013) 'Voluntary audit committee characteristics, incentives, and aggressive earnings management: Evidence from New Zealand', *International Journal of Auditing*, n/a-n/a.
- Shleifer, A. and Vishny, R. W. (1997) 'A survey of corporate governance', *The Journal of Finance*, 52(2), 737-783.
- Soltani, B. (2002) 'Timeliness of corporate and audit reports: Some empirical evidence in the French context', *The International Journal of Accounting*, 37(2), 215-246.
- Udueni, H. (1999) 'Power dimensions in the board and outside director independence: Evidence from large industrial UK firms', *Corporate Governance: An International Review*, 7(1), 62.
- Wallace, R. (1993) 'Development of accounting standards for developing and newly industrialised countries', *Research in Accounting in Emerging Economies*, 2, 121-165.
- Wan-Hussin, W. N. and Bamahros, H. M. (2013) 'Do investment in and the sourcing arrangement of the internal audit function affect audit delay?', *Journal of Contemporary Accounting & Economics*, 9(1), 19-32.
- Yaacob, N. M. and Che-Ahmad, A. (2012) 'Adoption of FRS 138 and audit delay in Malaysia', *International Journal of Economics and Finance*, 4(1), 167-176.