

THE INFLUENCE OF CORPORATION GOVERNANCE STRUCTURE ON INTERNAL CONTROL AUDIT REPORT LAG: EVIDENCE FROM CHINA

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ABSTRACT

This paper examines whether corporation governance structure has influence on internal audit report lag (IARL). The study studies a sample of 1244 observations from Year 2008 to Year 2011, obtained from Shenzhen Stock Exchange in China. Regression analysis indicates that firms, with fewer directors but more supervisors and members in audit committees as well as less frequent supervisory board meeting, are more likely to reduce IARL. In contrast, this study also demonstrates factors such as the independence of board of supervisors and board of directors, the meeting frequency of board of directors and duality of CEO, hardly exert influence on the IARL. The contribution of this paper is mainly to empirically analyze the influence of corporation governance structure on IARL to improve the timeliness of internal control information disclosure.

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KEY WORDS: Internal Control Audit Report Lag (IARL), Corporation Governance Structure, Influence

INTRODUCTION

Internal control is a key part of corporation governance and the management is responsible for its design and implementation. Auditor issues internal control audit report, which provides judgments towards the effectiveness of internal control. The timely issuance of corporate internal control report is subjected to the completeness of the audit. Prior studies have provided empirical evidence, reporting that the timeliness of audit is the most influential factor in the timely report of financial statements (Owusu-Ansah, 2000, Leventis et al., 2005). Bamber et al. (1993) find that over 70 percent of companies will not announce earnings until the publication of annual audit report, which demonstrates the significance of a timely audit, earnings information and the role of the annual audit in determining the timing of information releasing. Besides, the audit report lag is an essential signal for newly emerging and developed capital market where the audit report disclosed in annual reports is the only reliable source of information available to investors. Internal control audit delay directly affects the timeliness of accounting information, which, in turn, frustrates investors' confidence in capital market. The disclosure of internal control audit makes it possible for the public investors to access the non-financial information. Thus, the timeliness of internal control audit report is of significant help for investors to make decisions based on financial and non-financial information, which, to some extent, strengthens investors' confidence in capital market. On the other hand, the timeliness of internal control audit report will reduce the rate of managers' performing adverse selection and moral hazard resulted from information asymmetry, thus protecting the benefits of investors. Hakansson (1977) explains that the timeliness of public disclosures (e.g. audit opinions and earnings information) is of importance because delays compromise the ideal of equal access to information among investors. Givoly & Palmon (1982) also find that the issuance of audit report is positively associated with the timely disclosure of earnings information. Moreover, Knechel & Payne (2001) reveal that the unexpected lag of audit report is possibly relevant to lower quality of information.

Ministry of Finance of the People's Republic of China and China Securities Regulatory Commission jointly issued Notification about 2012 Main Board Listed Companies Implementation of Internal Control Standards, and this notification requires that: (a) central and local state-owned listed companies should implement internal control standards and disclose internal control evaluation report as well as internal control audit report related to financial statements from the beginning of Year 2012; (b) non-state-owned listed companies, with total market value above 5 billion at the end of 31 December 2011 and average profit above 3 billion from Year 2009 to Year 2011, should disclose audited financial statements together with internal control evaluation report and internal control audit report related to financial statements at the same time from the beginning of Year 2013; and (c) other companies, not including the above-mentioned two kinds of companies, should disclose audited financial statements with internal control evaluation report and internal control audit report related to financial statements from the beginning of Year 2014. That is to say, all the listed companies are required to disclose audited financial statements with internal control evaluation report and internal control audit report related to financial statements at the same time from the beginning of Year 2014. The management issues internal control evaluation report and financial statements together, and the external auditor issues the internal control audit report and financial statement audit report at the same time.

After the Enron and WorldCom accounting scandals, USA Congress passed the landmark Sarbanes-Oxley Act (SOX) in 2002, and Section 404 is one of the most significant provisions. SOX Section 404 requires that the external auditor should assess the internal control over financial reporting and publicly disclose the internal control audit report in SEC 10-K filings. SOX Section 409 authorizes the SEC to compel reporting firms rapidly to disclose to the public the information regarding to any material changes in their financial conditions or operations. SEC has phased-in accelerated deadlines for filing Form 10-Ks (from 90 days to 75 days, and then to 60 days) over a three-year period starting from Year 2003 (SEC 2002). In contrast, in China, Based on Provision 26 in Chinese Company Internal Control Evaluation Guide (2010), internal control audit report and internal control evaluation report are required to be issued within four months (about 120 days) after the fiscal year-end. It is evident that required IARL in USA is much shorter than that in China. Despite the inevitable gap between the financial year-end and the publication of the audited financial statements, minimizing that gap would, with no doubt, enhance market efficiency. Thus, it is necessary for regulators in China to locate a reasonable IARL, and this paper might contribute.

Prior studies showed two views about relation between corporation governance or internal control and external auditor work. One is complementary view, which means that the relationship between external auditing and corporate governance mechanisms is complementary. Companies with good governance are willing to demand more auditing to keep better governance to protect themselves from damage to reputation or personal liability arising from financial report misstatements (e.g., Fama, 1980, Eichenseher & Shields, 1985, Carcello et al., 2002). Therefore, the companies with better governance are expected to require more auditing work and the IARLs might be longer. Mohamad-Nor et al. (2010) find that the size of audit committee and board of directors, the diligence of committee members, as well as the ratio of independent directors have a close relationship with IARLs. The other view is substitution view, which means that the companies with good governance are expected to reduce the auditing work (e.g., Simunic, 1980, 1984, Wallace, 1984), so they will reduce the IARLs. Our study also demonstrates whether these two views are suitable for the situation in China.

Our study gleans sample of 1244 observations from Shenzhen Stock Exchange from Year 2008 to Year 2011. Consistent with prior literature (e.g. Ettredge et al., 2000, Knechel & Payne, 2001, Leventis et al., 2005, Ettredge et al., 2006), IARL is measured as the length of period from a company's fiscal year-end to the date the auditors sign the internal control audit report. Based on Provision 2 and 10 in Chinese Company Internal Control Evaluation Guide (2010), the board of directors, the board of supervisors, and audit committees are responsible for designing and monitoring internal control. Therefore, we use the characteristics of the board of directors, the board of supervisors, and the audit committees to show the situation of corporation governance. Regression result illustrates that there is a positive relation between IARLs and the size of board of directors, indicating that companies with a bigger board of directors are

associated with a longer IARLs. The results also show that companies, with bigger size of audit committee and board of supervisors, have shorter audit delays, which implies that audit committee and board of supervisors play an active role in the timely disclosure of internal control audit report.

Contributions of this article cover four aspects. Firstly, we conduct an initial exploration of the factors leading to IARLs of companies listed in China Stock Exchange, an emerging market. Previous studies of audit report lags have been conducted mainly in developed capital markets (Givoly & Palmon, 1982, Chambers & Penman, 1984, Ashton et al., 1987, Atiase et al., 1988, Bamber et al., 1993, Kinney & McDaniel, 1993, Schwartz & Soo, 1996, Henderson & Kaplan, 2000, Knechel & Payne, 2001, Newton & Ashton, 1989, Ashton et al., 1989, Davies & Whittred, 1980, Curtis, 1976, Carslaw & Kaplan, 1991, Soltani, 2002, Ettredge et al., 2006, Lee et al., 2008), and only a few studies are about audit report lag in exploring emerging or newly developed capital markets (Ng & Tai, 1994, Jaggi & Tsui, 1999, Owusu-Ansah, 2000, Leventis & Weetman, 2004, Leventis et al., 2005,

Owusu-Ansah & Leventis, 2006, Afify, 2009). Secondly, most of the current studies focus on financial statements audit report lag (ARL), with few studies on IARL. Ettredge et al. (2006) are the representative of minority analyzing the impact of internal control quality on audit delay following the implementation of the Sarbanes-Oxley Act (2002) (SOX). Therefore, this article will contribute to the research towards the timeliness of internal control audit report. Thirdly, Leventis et al. (2005) mention that regulators need to gain a good understanding of the determinants of audit delays so that they can implement rules to shorten audit report lag correspondingly. This paper investigates whether and how the characteristics of corporation would affect internal control audit delay in China, so as to provide evidence for regulator to better understand the determinants of audit delay and for decision-makers to learn about how to improve accounting information quality utilized. Lastly, since IARL is an observable proxy for internal control audit efficiency (Newton & Ashton, 1989), a better understanding of its determinants may provide insights into ways to enhance audit efficiency. The remainder of the paper is organized as follows. Section 2 summarizes the literature and sets forth our predictions about IARL and corporation governance. Section 3 provides information about the research design of the study, sample selection and data sourcing. Section 4 presents descriptive statistics, correlation matrix and regression results. Section 5 puts forward our empirical findings and concludes the article.

LITERATURE REVIEWS

Few studies have been conducted on IARL. Ettredge et al. (2006) examine the SOX Section 404 and research on assessing the internal control quality regarding internal control audit delay. On the contrary, studies on financial statements audit report lag (ARL) have already been performed over 30 years and some of the earliest studies are done by Curtis (1976) and Gilling (1977) in New Zealand, Davies & Whittred (1980) in Australia. We divide the literature of ARL into three groups. One group studies the relation between companies' characteristics and ARL. For example, Curtis (1976) and Carslaw & Kaplan (1991) find companies experiencing losses have a longer audit report lag. Ashton et al. (1989) study the reporting lag based on samples of Canadian firms and find ARL is significantly shorter among firms of service industry than that of other industries. Henderson & Kaplan (2000) examine the influence of features of banks on ARL by comparing cross-sectional analysis and panel data analysis. Knechel & Payne (2001) suggest that an unexpected reporting lag may be associated with lower information quality. Lee et al. (2008) compare the timeliness of earnings reports of multinational firms with that of domestic firms. Mohamad-Nor (2010) examines the characteristics of the board of directors and the audit committee and studies their influence on ARL, revealing that a more active and larger audit committees will shorten ARL.

Another group focuses on investigating whether auditor-related factors have impact on ARL. Ashton et al. (1987) investigate ARL based on engagement partners' responses to questions relevant to audit engagements, and find that ARL is significantly shorter when internal control quality is strong and more audit work is performed at interim. Bamber et al. (1993) test a comprehensive model of ARL, during which they examine three components of reporting lag: (a) the extent of audit work required; (2) the auditor's incentive to swiftly complete the audit; and (c) the audit firm's technology. Knechel & Payne

(2001) find that the provision of certain non-audit services increases ARLs for a small sample of mostly private firms. Leventis et al. (2005) study the ARLs of companies listed on Athens Stock Exchange and suggest that the ARL has a positive relation with the type of auditors, audit fees, the presence of extraordinary items, the number of remarks and the expression of uncertainty in the audit report. Lee et al. (2009) examine whether ARLs are affected by auditor tenure and the provision of non-audit services by the external auditor. The other group combines characteristics of companies and audit-related factors to examine their influence on audit report ARL. For example, El-Banany (2006) researches the influence of determinants as international affiliation, size, audit complexity, profitability and extraordinary items on ARL. Owusu-Ansah & Leventis (2006) study determinants of reporting lead-time, determinants consist of selected company-related factors (company size, gearing, insider equity share holding and industry type), and audit related factors (the number of remarks and auditor type).

Hypothesis

We use four variables to evaluate the performance of board of directors. These variables are the size, the independences and the meeting frequency of board of directors as well as the duality of CEO. The size of board of directors is normally in a range from five to nineteen. Jensen (1993) finds that members tend to become “free-rider” in a larger size board. Yermack (1996) reveals the value of companies with a smaller size of board of directors is higher than that of companies with a larger one. Beasley (1996) discovers that the rate of fraud occurred increased in accord to the increase of size of board. In addition, Xie et al. (2003) conclude that the possibility of bureaucracy is low in small board of directors, and the earnings management is, in contrast, especially popular in it. Therefore, we assume that a bigger size of board of directors would lower its efficiency since it takes time for members in board to cooperate with each other. In China, the board of directors should consist of 1/3 independent directors. The standard view in practice is that the degree of board independence is closely related to its composition. The board is presumed to be more independent as the number of outside directors increases proportionately. Beasley (1996) finds that the existence of independent directors is helpful for board to implement financial supervision and to decrease the frequency of fraud. Vafeas (2005) points out that the higher percentage of independent directors, the higher efficiency of financial supervision is. Petra (2007) finds a positive association between the proportion of outside independent directors serving on firm’s boards and earnings informativeness. On the other hand, Ahmed et al. (2006) study the data of listed companies in New Zealand from 1991 to 1997 and suggest that the independent directors have no influence on earnings information.

Based on complementary view mentioned in introduction section, we assume that a higher frequency of meeting held by board of directors is accompanied with more problems occurred in firms. The auditor might do more tests and the IARLs will increase accordingly. On the other hand, based on the substitution view, it is supposed that if the directors solve the problems and the auditor might do fewer tests, the IARLs will decrease.

When the CEO serves the dual position of chairperson of the board in the meanwhile, it signifies the concentration of decision-making power, which will hamper board independence and reduce the ability of the board to execute its supervision roles. Jensen (1993) advocates the separation of positions of the CEO and chairperson to avoid the conflicts of interests. Abdelsalam & Street (2007), Sarkar & Sen (2008) find that the duality of CEO is unfavorable to increase the disclosure quality of accounting information. However, Petra (2007) finds there is no association between non-CEO duality and earnings informativeness.

Hence, we posit the following hypotheses.

H1: There is a positive relationship between the size of board of directors and IARL.

H2: There is a negative relationship between the independence of board of directors and IARL.

H3: There is a relationship between the meeting frequency of board of directors and IARL.

H4: There is a relationship between the duality of CEO and IARL.

The expectation that audit committees exercise an active monitoring of the company financial reporting process is well established and this role has been repetitiously confirmed by many corporation governance codes and professional pronouncements over the last 10-15 years (Song & Windram, 2004). This paper adopts the size of audit committee to evaluate the internal control supervision of audit committee. Karamanou & Vafeas (2005) conclude that the audit committee is expected to provide assistance in resolving conflicts within management and to lead to some improvement in overall audit quality. Moreover, Mohamad-Nor et al. (2010) use the data from Malaysia, and detect that the size of audit committee has a negative relation with audit report lag. Hence, the fifth hypothesis to be tested is:

H5: There is a negative association between the size of audit committee and IARL.

Companies in China have two-tier corporation governance. One is board of directors and the other is board of supervisors. They are parallel in position and subordinate to the shareholder's meeting. The board of directors consists of directors and sometimes it also includes employee representatives, who are elected by employee union or meeting. In the state-owned companies, the board of directors is required to involve employee representative members. Besides, the directors may be the managers of the company at the same time. The duties of board of directors in USA include: (a) the election, removal, and supervision of officers; (b) the adoption, amendment, and repeal of bylaws; (c) fixing management compensation; (d) initiating fundamental changes to the corporation's structure; and (e) the declaration of distributions. Unlike the board of directors in USA, the board of directors in China has not only the above-mentioned duties but also duties of making business decision & investment plan and formulating annual financial budget and accounts plan. In other word, the board of directors in China has the duties of supervision as well as management.

Audit committee usually implements the duty of supervisor of board of directors. The duties of board of supervisors in China covers: (a) implementing financial supervision; (b) monitoring the behavior of directors and managers and giving suggestions about the removal of directors and managers if they illegally behave; (c) requiring the directors and managers to correct their behavior when their behaviors do harm to the interest of company; (d) advancing to hold and chair the temporary shareholders' meeting when the directors do not perform it in accordance with regulation; (e) submitting proposal to the shareholders' meeting; (f) suing managers and directors when they have illegal behaviors and perform damage to company; (g) attending the meeting held by board of directors, questioning the resolutions and giving suggestions; (h) accessing all the materials of the company, and questioning directors and managers when necessary. In sum, the board of supervisors in China just has the function of monitoring in companies and it is an independent monitoring organization. We use three variables to evaluate the internal control supervision by board of supervisors. These variables are the size, the independence and the meeting frequency of board of supervisors. We assume the following hypotheses.

H6: There is a relationship between the size of board of supervisors and IARL.

H7: There is a relationship between the independence of board of supervisors and IARL.

H8: There is a relationship between the meeting frequency and IARL.

DATA AND METHODOLOGY

Sample

We obtain the samples of listed Chinese companies in the study from Shenzhen Stock Exchange from Year 2008 to Year 2011. The annual data about corporation governance structure come from CSMAR

and annual reports disclosed on website of individual companies. The internal control audit report is published on the website of Shenzhen Stock Exchange (<http://disclosure.szse.cn/m/drgg.htm>). In the study, IARL refers to the length of time from a company’s fiscal year-end to the date the auditors sign their report. Out of 1742 observations, a sample of 1244 is selected, as described in Table 1. Finance-related observations are excluded due to their nature of business and the fact that they are governed under different rules and regulations (Mohamad-Nor et al., 2010, Leventis et al., 2005). We eliminate 370 observations owing to incomplete or ambiguous data and 3 observations because information on audit report date is not available. Meanwhile, we delete 58 observations with audit fee larger than RMB2, 000, 000 and 37 observations with size of board of directors larger than 12 because they are outside of normal distribution.

Table 1: Sample Selection

Total	Less: Financial companies	Unavailable financial statement data	Unavailable audit report date	Outlier:	Cost>200(ten thousand)	BSIZE>12	Total observations
1742	20	370	3		58	37	1244

This table shows the results for the full observations from Year 2008 to Year 2011, and we delete observations from financial companies, observations with unavailable financial statement data, observations without available audit report date and observations in the outlier.

Model

This paper proposes a model of IARL based on prior studies to accommodate the corporate governance structure variables and Chinese environment (e.g., Mohamad-Nor et al., 2010, Lee et al., 2008, Krishnan & Yang, 2009, Leventis et al., 2005, Jaggi & Tsui, 1999). The IARL model is as follows:

$$\begin{aligned}
 IARL = & \beta_0 + \beta_1 BSIZE + \beta_2 BIND + \beta_3 DUALCEO + \beta_4 DM + \beta_5 ACSIZE + \beta_6 SUPSIZE \\
 & + \beta_7 NSR + \beta_8 SM + \beta_9 BIG4 + \beta_{10} COST + \beta_{11} EI + \beta_{12} NET + \beta_{13} INDUSTRY + \varepsilon
 \end{aligned}
 \tag{1}$$

Where,

- IARL = number of days from fiscal year end to the date of internal control audit report;
- BSIZE = number of director members;
- BIND = proportion of independent directors in board of directors;
- DUALCEO = 1, if CEO and Chairman is the same person, 0 otherwise;
- DM = the meeting frequency of board of directors;
- ACSIZE = number of audit committee members;
- SUPSIZE = number of supervisory board members;
- NSR = proportion of supervisors with no salary from companies in board of supervisors;
- SM = the meeting frequency of board of supervisors;
- BIG4 = 1 if the auditor is PricewaterhouseCoopers, Ernst and Young, KPMG or Deloitte, 0 otherwise;
- COST = Audit fee;
- EI; = 1 if company reports extraordinary items, 0 otherwise;
- NET = 1 if net income is positive, 0 otherwise; and
- INDUSRY = 1 if company is classified as industrials, 0 otherwise.

Control Variables

The IARL model incorporates control variables such as auditor type, audit fee, firm performance and industry. Companies audited by big CPA firms or international CPA firms are normally expected to have shorter audit lags because the internationally affiliated audit firms are probably more efficient for reasons of superior audit technology (Williams & Dirsmith, 1988). Gilling (1977) and Leventis et al. (2005) point out a positive relationship between the size of the auditing firms and audit delay. Moreover, the larger international firms might be enhanced in markets where the audit profession has only recently been liberalized (Caramanis, 1997) and provide a faster service to increase their market share (Leventis et al., 2005). Ward et al. (1994) discover audit fees are positively associated with the number of audit adjustments since a higher audit fee implied that the auditor has to do more testing and adjustments. Hence, if the audit fee is high, audit report lag will be longer. On the other hand, Leventis et al. (2005) find there is a significantly negative relation between audit report lags and audit fee. Prompt audit might be more expensive due to concentrated audit resources or higher audit opportunity cost.

In this article, two variables are utilized to evaluate the firm performance—profitability and extraordinary items. First, companies with loss (or net income) have incentive to delay (or accelerate) the disclosure of the “bad news” (or “good news”) (Afify, 2009). Second, greater auditor business risk is to be perceived for companies reporting losses and the auditor will do more testing (Afify, 2009). Therefore, the audit report lags will be severe when the companies show loss in performance. Geiger and Rama (2003) show that financially distressed companies are supposed to require auditors to exercise a significant amount of professional judgments, which will postpone the issuing of the audit report. On the other hand, extraordinary items report material events that are not part of company’s normal operations, and more time are expected to spend on auditing them (Owusu-Ansah, 2000). Ng and Tai (1994) find there is a significant association between extraordinary items and audit report lag. Leventis et al. (2005) also discover a significant positive relation between extraordinary items and audit report lag. Bamber et al. (1993) find that the financial companies have a shorter audit report lag than non-financial companies since non-financial companies have more inventory or fixed assets to be audited. Different industries with different features, some industries are constituted with complex internal control, which might result in a longer internal control audit lags when compared with other industries.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2 demonstrates the descriptive statistics results of all variables investigated in this study. The minimum audit report lag is 24 days and the maximum is 117 days. The average internal control audit report is about 84 days, within the required 120 days (about 4 months) in Chinese Company Internal Control Evaluation Guide. We analyze the descriptive statistics by partitioning samples according to the length of IARL. We categorize four groups in Table 3: (a) less than one month after fiscal year end; (b) one to two months after fiscal year end; (c) two to three months after fiscal year end; and (d) three to four months after fiscal year end. The IARLs of 28 observations (2.25%) are less than one month after fiscal year. The IARLs of 161 observations (12.94%) are within one to two months after fiscal year end. The IARLs of 603 observations (48.47%) are within two to three months after fiscal year end and IARLs of 452 observations (36.33%) are within three to four months after fiscal year end.

We further examine the change of number of companies by classifying samples according to the length of IARL in different years, with the results illustrated in Table 4. We find more companies are willing to disclose the internal control audit report within three to four months after fiscal year end from Year 2008 to Year 2011. The amount of companies in Year 2008 willing to disclose the internal control audit report within three to four months after fiscal year end is 22, representing 21.154%. However, the amount of companies in Year 2011 willing to disclose the internal control audit report within three to four months after fiscal year end is 214, representing 38.698%.

Table 2: Descriptive Statistics

Variable	Min	Max	Mean	SD
IARL	24	117	84.718	21.380
BFSIZE	5	12	8.692	1.396
BIND	0.3000	0.5714	0.3664	0.0489
DUALCEO	0	1	0.3183	0.4660
DM	3	20	8.936	3.084
ACSIZE	0	7	2.304	1.848
SUPSIZE	3	7	3.535	0.9848
NSR	0	1	0.2715	0.2724
SM	2	11	5.461	1.787
BIG4	0	1	0.0121	0.1092
COST	18	200	54.796	28.854
EI	0	1	0.8754	0.3304
NET	0	1	0.9638	0.1868
INDUSTRY	0	1	0.6849	0.4647

This table shows the minimum, maximum, mean and standard deviation of every variable including control variables. IARL is number of days from fiscal year end to the date of internal control audit report. BFSIZE is number of director members. BIND is proportion of independent directors in board of directors. DUALCEO is dummy equaling 1 if CEO and chair of board of directors is the same person. DM is the meeting frequency of board of directors. ACSIZE is number of audit committee members. SUPSIZE is number of supervisory board members. NSR is proportion of supervisors with no salary from companies in board of supervisors. SM is the meeting frequency of board of supervisors. BIG4 is dummy equaling 1 if the auditor is PricewaterhouseCoopers, Ernst and Young, KPMG or Deloitte. COST is Audit fee. EI is dummy equaling 1 if companies report extraordinary item. NET is dummy equaling 1 if companies have net income. INDUSRY is dummy equaling 1 if the companies belong to the classified industry.

Table 3: Descriptive Statistics Partitioned by Delay in Months

MONTH		IARL	BFSIZE	BIND	DUALCEO	DM	ACSIZE	SUPSIZE	NSR	SM
1	n	28	28	28	28	28	28	28	28	28
	mean	25.750	8.464	0.3672	0.3214	8.857	2.071	3.714	0.2190	4.964
2	n	161	161	161	161	161	161	161	161	161
	mean	52.727	8.491	0.3717	0.3478	8.9193	2.590	3.578	0.2428	5.410
3	n	603	603	603	603	603	603	603	603	603
	mean	79.299	8.736	0.3646	0.3035	8.892	2.310	3.579	0.2868	5.494
4	n	452	452	452	452	452	452	452	452	452
	mean	107.00	8.719	0.3668	0.3274	9.004	2.208	3.449	0.2645	5.467
total	n	1244	1244	1244	1244	1244	1244	1244	1244	1244
	mean	84.718	8.692	0.3664	0.3183	8.936	2.304	3.535	0.2715	5.461
	median	85	9	0.3333	0	9	3	3	0.3333	5
	min	24	5	0.3000	0	3	0	3	0	2
	max	117	12	0.5714	1	20	7	7	1	11

This table shows the descriptive statistics results (number of companies; minimum and maximum of each variable) by partitioning samples according to the length of IARL. 1 refers to the length of IARL is less than one month, 2 refers to the length of IARL is about one to two months, 3 refers to the length of IARL is about two to three months, and 4 refers to the length of IARL is about three to four months. IARL is number of days from fiscal year end to the date of internal control audit report. BFSIZE is number of director members. BIND is proportion of independent directors in board of directors. DUALCEO is dummy equaling 1 if CEO and chair of board of directors is the same person. DM is the meeting frequency of board of directors. ACSIZE is number of audit committee members. SUPSIZE is number of supervisory board members. NSR is proportion of supervisors with no salary from companies in board of supervisors. SM is the meeting frequency of board of supervisors.

Table 4: Number and Percentage of Companies Partitioned by Delay in Months from 2008 to 2011

Year	IARL	Number	Percentage (%)
2008	1	1	0.9615
	2	14	13.462
	3	67	64.423
	4	22	21.154
total		104	100.00
2009	1	11	3.846
	2	38	13.287
	3	135	47.203
	4	102	35.664
total		286	100.00
2010	1	9	2.990
	2	46	15.282
	3	132	43.854
	4	114	37.874
total		301	100.00
2011	1	7	1.266
	2	63	11.392
	3	269	48.644
	4	214	38.698
total		553	100.00

This table shows the number and percentage of companies by partitioning samples according to the length of IARLs from Year 2008 to Year 2011. 1 refers to the length of IARL is less than one month, 2 refers to the length of IARL is about one to two months, 3 refers to the length of IARL is about two to three months, and 4 refers to the length of IARL is about three to four months. IARL is number of days from fiscal year end to the date of internal control audit report.

We also investigate the descriptive statistics results in the light of industries in Table 5. We find that the total mean of IARLs in all industries is about 84.72 days. However, the mean of IARLs in six industries (Electricity, gas and water; Building; IT; Wholesale and retail trade; Real Estate; Communication and Culture) are larger than 84.72 days. IARL in Electricity, gas and water industry shows the largest mean (94.29 days).

Table 5: Descriptive Statistics Results by Industry

Industry	IARL						
	Agriculture	Excavation	Manufacturing	Electricity, Gas and Water	Building	Transportation and Warehousing	
Observation	24	24	852	14	30	22	
Mean	81.750	84.583	84.182	94.286	87.833	84.545	
Min	24	56	24	24	40	47	
Max	116	111	117	116	116	116	
Industry	IT	Wholesale and Retail Trade	Real Estate	Social Service	Communication and Culture	Others	TOTAL
Observation	131	42	44	43	12	6	1244
Mean	88.076	86.238	85.341	80.047	86.750	76.833	84.718
Min	24	55	38	30	73	24	24
Max	117	116	117	116	115	110	117

This table shows amount of companies in different industries, as well as the descriptive statistics results such as mean, minimum and maximum of IARLs in different industries. IARL is number of days from fiscal year end to the date of internal control audit report.

Table 6: Pearson Correlation Matrix

	IARL	BSIZE	BIND	DUALCEO	DM	ACSIZE
IARL	1.000					
BSIZE	0.0524*	1.000				
BIND	-0.0105	-0.4597***	1.000			
DUALCEO	-0.0010	-0.1497***	0.1033***	1.000		
DM	0.0110	-0.0636**	0.0544*	-0.0025	1.000	
ACSIZE	-0.0412	0.1052***	-0.0013	-0.0414	0.1247***	1.000
SUPSIZE	-0.0684**	0.2099***	-0.1376***	-0.1116***	-0.0141	0.0490*
NSR	0.0108	0.1699***	-0.1270***	-0.1972***	-0.0088	0.0010
SM	0.0319	-0.0346	0.0528*	0.0621**	0.4774***	0.1662***
BIG4	0.0052	0.0296	-0.0223	-0.0281	-0.0025	0.0337
COST	0.0681**	0.0897***	-0.0142	-0.0429	0.1412***	0.0583**
EI	-0.0147	0.0266	-0.0147	0.0802***	-0.0189	0.0304
NET	-0.0978***	-0.0181	0.0039	0.0307	0.0001	-0.0427
INDUSTRY	-0.0370	0.0115	0.0404	0.0363	-0.1556***	0.0048

Table 6: Pearson Correlation Matrix (Continued)

	SUPSIZE	NSR	SM	BIG4	COST	EI	NET	INDUSTRY
SUPSIZE	1.000							
NSR	0.2749***	1.000						
SM	-0.0155	-0.0631**	1.000					
BIG4	0.0597**	-0.0135	0.0415	1.000				
COST	0.0443	0.0196	0.0014	0.2306***	1.000			
EI	-0.0102	-0.0273	-0.0088	-0.0029	0.0553*	1.000		
NET	-0.0785***	-0.0171	0.0042	0.0214	0.0239	0.1224***	1.000	
INDUSTRY	0.0150	-0.0336	0.0001	0.0274	-0.0223	0.0323	-0.0387	1.000

This table shows the correlation among the variables. IARL is number of days from fiscal year end to the date of internal control audit report. BSIZE is number of director members. BIND is proportion of independent directors in board of directors. DUALCEO is dummy equaling 1 if CEO and chair of board of directors is the same person. DM is the meeting frequency of board of directors. ACSIZE is number of audit committee members. SUPSIZE is number of supervisory board members. NSR is proportion of supervisors with no salary from companies in board of supervisors. SM is the meeting frequency of board of supervisors. BIG4 is dummy equaling 1 if the auditor is PricewaterhouseCoopers, Ernst and Young, KPMG or Deloitte. COST is Audit fee. EI is dummy equaling 1 if companies report extraordinary item. NET is dummy equaling 1 if companies have net income. INDUSRY is dummy equaling 1 if the companies belong to the classified industry. *, **, *** indicate significance at the 10, 5 and 1 percent levels respectively.

Correlation Analysis

Table 6 reports correlations among variables. The correlation coefficient between DM and SM is 0.477, which is the highest one. Emory (1982) suggested that multicollinearity might be a problem when the correlation between independent variable was more than 0.80. Therefore, Table 6 indicates that there is no severe autocorrelation among variables. From Table 6, all hypotheses we mentioned above are satisfied. We find there is a significant positive relation between IARL and size of board of directors (BSIZE) and a significant negative relation between IARL and size of board of supervisors (SUPSIZE). There is an insignificant negative relation between IARL and independence of board of directors (BIND), duality of CEO (DUALCEO) and size of audit committee (ACSIZE). There is an insignificant positive relation between IARL and meeting frequency of board of directors (DM), independence of board of supervisors (NSR) and meeting frequency of board of supervisors (SM)

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Results of Regression Analyses

Table 7 shows the regression results of our model. Three corporation governance characteristics, namely size of board of directors (BSIZE), size of audit committee (ACSIZE), and size of board of supervisors (SUPSIZE), have a significant association at 5% with IARL. The meeting of board of supervisors (SM) has a positive association at 10% with IARLs. Therefore, based on complementary view, the more frequently companies held the meeting of board of supervisors, more problems the internal control might have and more tests for internal control the auditor will take. However, the independence of board of supervisors has no significant association with IARLs. Besides, Independence of board of directors (BIND) and duality of CEO (DUALCEO) have positive relationship with IARLs, and neither of the two variables is statistically significant. The frequency of meeting of board of directors (DM) has an insignificant negative relation with IARL, and independence of board of supervisors (NSR) has an insignificant positive relation with IARL. For control variables, audit fee (COST) and profitability (NET) are the only two found to have significant association with IARLs.

CONCLUDING COMMENTS

This study provides empirical evidence relating to the IARLs of companies listed on Shenzhen Stock Exchange from Year 2008 to Year 2011. The main objective of this study is to examine the relationships between corporation governance structure and the timeliness of internal control audit reporting. The characteristics of corporation governance structure examined in the article involve the size of board of directors, the independence of board of directors, duality of CEO, meeting frequency of board of directors, size of audit committees, size of board of supervisor, independence of board of supervisors, and meeting frequency of board of supervisors. The descriptive statistics results indicate that all companies submit their internal control audit report within the regulatory deadline, and most companies are willing to disclose the internal control audit report during two to four months after fiscal year end. Increasing numbers of companies prefer to disclose the internal control audit report within three to four months after fiscal year end. Regression analysis reveals that firms, with fewer directors but more supervisors and

members in audit committees as well as less frequent supervisory board meeting, are more likely to reduce IARL. In contrast, this study also demonstrates factors as the independence of board of supervisors and board of directors, the meeting frequency of board of directors together with duality of CEO, hardly exert influence on the IARL.

This study is subject to several limitations. First, the characteristics of audit committee should include other factors, such as independence, expertise and frequency of meeting. However, the data is not available in the database. Second, the explanatory power of the model might be enhanced by including other auditor-related control variables as changes in audit fees, the extent of non-audit fee and frequency of litigation involving the auditor. However, such data are not available at present. Finally, it is also illuminating to see the consequences of audit lag on the cost of capital, and whether audit-reporting lag is associated with earnings management.

Table 7: Regression Analysis

Variable	Coefficients	T-value
BSIZE	1.109	2.22**
BIND	4.419	0.32
DUALCEO	0.2568	0.19
DM	-0.1498	-0.65
ACSIZE	-0.6797	-2.04**
SUPSIZE	-2.092	-3.23***
NSR	2.023	0.86
SM	0.6491	1.66*
BIG4	-0.9086	-0.16
COST (ten thousand)	0.0557	2.55**
EI	-0.3103	-0.17
NET	-12.508	-3.84***
INDUSTRY	-1.869	-1.42
F value	3.11	
Adj. R-squared	0.0216	
P value	0.0001	

This table shows regression results based on equation (1). The period of data is from Year 2008 to Year 2011. BSIZE is number of director members. BIND is proportion of independent directors in board of directors. DUALCEO is dummy equaling 1 if CEO and chair of board of directors is the same person. DM is the meeting frequency of board of directors. ACSIZE is number of audit committee members. SUPSIZE is number of supervisory board members. NSR is proportion of supervisors with no salary from companies in board of supervisors. SM is the meeting frequency of board of supervisors. BIG4 is dummy equaling 1 if the auditor is PricewaterhouseCoopers, Ernst and Young, KPMG or Deloitte. COST is Audit fee. EI is dummy equaling 1 if companies report extraordinary item. NET is dummy equaling 1 if companies have net income. INDUSTRY is dummy equaling 1 if the companies belong to the classified industry. *, **, *** indicate significance at the 10, 5 and 1 percent levels respectively.

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