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Audit Committee Characteristics and Timeliness of Financial Reporting: Social Enterprises Evidence

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ABSTRACT

There was vast research on the effectiveness of audit committees as part of the mechanisms in safeguarding shareholders' interest and also ensuring effective financial reporting by companies. However, studies on the efficacy of audit committees as governance tools in a niche area relating to social enterprises namely cooperative societies in Malaysia is still scarce. Hence, this study intends to investigate the association between audit committee attributes namely audit committee expertise and experience, audit committee meeting frequency and audit committee size to the timeliness reporting compliance among Malaysian cooperative societies. Using qualitative research methods, 158 usable questionnaires from 59 cooperative societies were successfully gathered and analysed using SmartPLS 3 Version 3.2.8. The results obtained provided support to the notion that there is a significant positive relationship between the frequency of meetings on the timeliness reporting compliance and a significant positive relationship between audit committee size on the timeliness reporting compliance. However, the notion expecting a significant positive relationship between the expertise of the audit committee on the timeliness reporting compliance proved to be insignificant. Conclusively, the study provides theoretical and practical support to both literature and practitioners on the importance of having optimum audit committee size and high frequency of meeting in ensuring the timeliness compliance of financial reporting of cooperative societies.

KEY WORDS: audit committees characteristics, cooperative societies, financial reporting, timeliness compliance, social enterprises.

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1. Introduction

The concept of integrating social objectives with profit maximization is an emerging trend in the world today that has shifted financial dependence from expectation of charitable donation to self-generating income through social enterprise cooperatives. In almost all industrialized countries, there was remarkable growth of the "third sector" or socio-economic initiatives which belong neither to the traditional private profit-making sector nor the public sector. Social enterprises have grown spectacularly all over the world. The appearance of social enterprise was noted in the United States (US) and European Nation (EU) in the mid-1990s with the aim of supporting social change and developing the social economy. In Italy, the boom of social co-operative had led to creation of 223,000 jobs by the end of 2004 (Adam, 2004). Whereas in India, as cited from Poon (2011), social enterprises have been extremely effective in driving development in India. Social enterprise is an entrepreneur or organization that applies a business logic in a novel and entrepreneurial way to improve the lives of people who are excluded, oppressed, or struggling

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and are unable to change their circumstances on their own (Saebi et al., 2019). According to Osborne et al. (2006), the principle of social enterprise first appeared in early 1991 when Italian parliament passed a law establishing a legal framework for social cooperatives. These cooperatives emerged primarily in response to public service needs that were either inadequately met or not met at all. The concept of social entrepreneurship has attracted a lot of attention recently, not only from academics but also industry and the public agencies (Fernandez-Laviada et al., 2020). Generally, the main approaches to the study of social entrepreneurship are the micro approach where social entrepreneurs as individuals, the meso approach where social enterprises as organizations and the macro approach which explains the relationship between social enterprises and their economic, social and organizational context (Cukier et al., 2011). As cited from Moreno-Albarracín et al. (2021) the growing interest of the government and researchers on the extent of transparency of this social economy has also raised the bar for financial reporting of these organizations.

In Malaysia, social entrepreneurship has become a new phenomenon in the country to reduce social problems and eradicate poverty in the communities (Zahra et al., 2008; Abd Muin et al., 2014). It is noteworthy to highlight that cooperative societies are considered as part of social enterprises in Malaysia, which concern on doing business for the benefits of cooperative members as a whole. Cooperative Commission of Malaysia (CCM) was established as regulatory authorities to protect members interest including the concern on the timeframe for financial and audit reports submission to ensure proper financial reporting. Weak governance structure and the absence of good governance contribute to the inefficient performance of cooperative societies in Malaysia (Mohamad et al., 2013). In fact, several cases related to poor governance in cooperative societies have been highlighted in the following cases. The first case refers to the incompetence of the audit committees to detect financial fraud engaged by the board members of Koperasi Pekebun Kecil Getah Nasional (NARSCO) in 2006, which resulted in losses of RM20 million. Meanwhile, the second case happened in 2010, where Koperasi Kakitangan Kerajaan Selangor dan Wilayah Persekutuan (KOSWIP) alleged to have misappropriated tenders and inflicted losses of RM1.5 million. These scandals pointed out the incompetencies of the audit committees in identifying early threats or red flags of misappropriation of assets, breach of trust among the management, and fraudulent financial activities which affects the timeliness compliance level. A study by Palos-Sanchez (2020), postulated that the internal factors such as the improvement in intellectual and attitudinal skills for identifying opportunities as a preliminary step to shape the future by coordinating potential efforts and actions. Therefore, it is crucial for these companies to inculcate these improvements in the process should they want to portray a good reputation and accomplishment in the eyes of their general stakeholders.

Timely release of financial reports is one of the qualitative characteristics of financial reporting in Malaysia (Zandi & Abdullah, 2019). The Malaysia Conceptual Framework for Financial Reporting defines timeliness as "having information available to decision-making in time to be capable of influencing the decisions" (Malaysian Accounting Standards Board, 2012). This reporting characteristic also applicable for cooperative societies in Malaysia whereby they must submit complete financial reports within two (2) months after the accounting period ends for audit purposes and shall conduct Annual General Meeting (AGM) within six (6) months after financial year end (Cooperative Act 1993 and GP23 - Garis Panduan Pelaporan Penyata Kewangan Koperasi, 2010). Thus, to streamline the process, every cooperative society registered with CCM needs to establish the audit committees. According to Section 42A of Cooperative Societies Act 1993 and Guidelines 4 (2009), the audit committees in the cooperative societies consist of members appointed by the Board of Directors (BOD). Some essential functions of audit committees include enhancing financial reporting credibility, ascertaining effective internal control, as well as monitoring the operations of business activities (Carcello et al., 2008). These are to ensure that members can gain accurate and timely information before committing to any economic activities (Saleh et al., 2007). In fact, audit quality is perceived to be effective in detecting aggressive earnings management as it reduces managerial opportunistic discretion in financial statements (Siala & Jarboui, 2019).

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Even after three years of implementing Guidelines 4 (2009), the audit committees appeared to be still inept and ineffective when dealing with issues pertaining to financial reporting, as reported in Utusan Malaysia (2012). Based on the report, appointed audit committees seem to have failed to respond accordingly towards audit findings and thus, doubts have been raised on their competency level. This situation leads to arguable financial reporting timeliness compliance as per requirement of the Act.

Previous studies by Rahmat et al. (2009), Salleh and Ahmad (2013), Puasa and Ahmad (2014) and Hamid et al. (2015) found that the function of audit committees of the company improved after the implementation of best practices as recommended by the Malaysian Institute of Corporate Governance (MICG). Therefore, the purpose of this study is to identify the relationship between main audit committee characteristics namely expertise and experience, frequency of meetings and the size and the financial reporting timeliness compliance level by the cooperative societies in Malaysia. Mohamad, Othman & Mohamed, 2013 revealed that weak governance led to the inefficient performance of cooperative societies in Malaysia. This study is important to identify the best practices characteristics of the audit committees, as part of pillars of the governance structure in the cooperative societies in Malaysia. Therefore, the findings of this study could fill the literature shortage in the research area regarding the effectiveness of audit committees in cooperative societies. More importantly, the findings could potentially provide practical contributions to SKM in constructing an appropriate set of governance mechanisms for the audit committees of cooperative societies, as well as other policymakers and regulators upon establishing an effective audit committee. Consequently, the BOD of cooperative societies may also consider the findings of this study as a guideline when appointing audit committee members.

2. Literature Review and Hypothesis Development

2.1. Agency Theory and The Role of Audit Committees

The agency theory originated from Berle and Means in 1932 and was further developed by Jensen and Meckling in 1976. This theory has been widely employed in management studies and appears to be a dominant paradigm in several aspects of corporate governance research (DeFond & Zhang, 2014; Dey, 2008; Watts & Zimmerman, 1983). According to agency theory, due to the differentiation and difference of interest between management (agents) and shareholders (principals), the agents may not always behave in the best interest of principals causing agency problems such as wasteful expenditure, sub-optimal investment decisions and information asymmetry. This can be true especially when a person involved in the process is an opportunist and is highly-driven by personal interest. For instance, Tafel-Viia and Alas (2009) have in-depth interviews with 25 individuals in Estonia and found that owners and managers do have a different perception of social responsibility and this leads to the conflicts between them. The assumptions of agency theory, namely problems of information asymmetry in the relationships formed between stakeholders can be considered valid in explaining the investment decisions of Portuguese fitness SMEs (Nunes et al., 2013).

Considering the high probability of agency problems in the corporate setting due to the dispersion of ownership, the existence of audit committees is to protect the interests of shareholders in the areas of financial reporting, internal control, and external auditing, through its oversight responsibility (Turley & Zaman, 2004). For instance, Dinu and Nedelcu (2015) studied the role of audit committees in monitoring the Board of Directors' activities and financial performance at the level of the banking system in Romania and suggested characteristics of audit committees as a guarantor for quality internal control. In between the international financial crisis from 2006 to 2010, there were changes in governance mechanisms. A study by Felício et al. (2018) found out that there was an increasing percentage in the number of the audit committee chair as an affiliated director in the banks under their study. This indicates that greater awareness for improvement in governance mechanisms would supposedly contribute to a better alignment between shareholders' and managers' interests. Toader et al. (2018) on the other hand, examined the quality of the audit committee (represented by audit duality) to the quality of governance and the economic results of organization in 180 commercial banks in the Central and Eastern Europe (CEE) countries and found that the existence of duality negatively influences the quality of corporate governance and performance of these commercial banks. This indicated that the good attributes of the audit committee do influence the financial performance of companies. Meanwhile, Tusek (2015) analysed the influence of the audit committee on the internal audit in the system of corporate governance discovered that the effectiveness of audit committees did influence the activities of internal audit function which led to the betterment of corporate governance practices. Kramoliš et al. (2019) in another study on enhancing business competitiveness emphasized for any business to invest in a good design and innovation which implied that a good composition, skills of the audit committee might help a company in achieving its financial success.

The relationship between the attributes of the audit committees and the timeliness of reporting is based on the premise that if the audit committee exercises its oversight function of the financial reporting process effectively, it will influence the consistency of the financial reporting which can result in timely presentation of the financial information. As highlighted in the previous section, there are many studies that analyse the relationship between the audit committees and the quality of the financial reporting using several financial reporting proxies. Many of these studies found that, to some extent, the effectiveness of the audit committees depends on the committee's characteristics, such as its expertise, frequency of meeting and size of audit committees. Bédard et al. (2004) found that aggressive earnings management negatively affected the audit committee's member's financial and governance expertise. Abbott et al. (2004) investigated financial reporting restatement in the United States between 1991-1999 and found that the possibility of a company restating its annual financial statements decreased substantially if the audit committees held a meeting at least four times a year and had one financial expert of audit committee members. Considering firms receiving a qualified audit report as evidence for poor reporting, Pucheta-Martínez and Fuentes (2007) found that the size of the audit committee and the number of independent audit committee members affected the probability of firms receiving a qualified audit report due to mistake or failure to comply. In addition to this, Afify (2009) found that the existence of an audit committee was likely to reduce the time spent for external auditors in performing the audit works. Gavurova et al. (2020) in their study on obstacles faced by small and medium enterprises relating to legislative and administrative fulfillment revealed most respondents disagree effectiveness of the enforceability of law hence indicating that proper enforcement of governance system (including effectiveness of audit committee function) played a significant role in ensuring trust from the investors.

Thus far, many studies had been conducted and discovered that the effective audit committee plays a significant role in ensuring better organizational governance (Toader et al., 2018; Tusek, 2015; Abbott et al., 2004; Pucheta-Martínez and Fuentes 2007). Previous researches include audit committee's expertise and accounting background, frequency of meetings, size and number of independent audit committee members as variables influencing governance, internal audit function, earnings management and poor financial statements reporting. However, there was limited evidence of empirical research that studied the influence of expertise, frequency, and size of the audit committee on the timeliness of financial reporting, especially when it is involving social enterprises such as cooperative societies in Malaysia. Hence, this is the gap which the current study is trying to fill.

2.2. Timeliness Financial Reporting

Relevant and quality information must comply with timeliness, as the information must be available as and when the users need them to make decisions (McGee & Yuan, 2012). Timeliness compliance of financial reporting is important especially for the members (Dmitropoulos & Asteriou, 2009). According to Whittred and Zimmer (1984), companies which comply with timeliness guidelines attract potential investors to become shareholders in the company. Likewise, cooperative societies which comply accordingly with the timeliness guidelines may expand positively. It is fundamentally important to prepare financial reports according to the timeliness guidelines as it indicates that the reports are transparent and more accurate (Whittred & Zimmer, 1984). In relation to that, preparation of financial reports may be speed up by using accounting software which is part of the current technology, hence reducing inaccuracy and probability of financial misreporting (Achim et al., 2021).

According to Abdelsalam and Street (2007), notification on frequency of audit committees meeting is crucial in increasing the compliance level on timeliness. Also, Brick and Chidambaran (2010) stated that knowledge and education level of audit committees are important in ensuring the financial reporting compliance. To conclude, compliance on timeliness in preparing financial reports is essential to cooperative societies as it will enhance the public confidence, integrity and goodwill and enable them to hold AGM on time for the benefit of members. The reasonable size of the audit committee can help the cooperative societies to further increase the timeliness reporting compliance. However, a study conducted by Hussain Alkdai and Hanefah (2012), found that the size of the audit committee has no effect on the timeliness of reporting compliance. Consistently, the finding of study conducted by Rahmat et al. (2009) found that the companies with financial distress and listed under PN4 Bursa Malaysia also have the audit committee consisting of three to four members but then still fall under PN4 Bursa Malaysia. Whilst, Larry and Taylor (2012) found that the size of the audit committee can influence the number of companies making a restated financial report. Therefore, the characteristics of audit committees (size and frequency of the meetings) might have influence on the timeliness reporting compliance by the cooperative societies.

2.3. Expertise of Audit Committees

Generally, the competence of internal control or internal audit of each company serves as a fundamental control framework for reporting economic transactions (Svabova et al., 2020). Financial performance of enterprises was better with the implementation of the improved internal control rather than before the implementation (Radovic et al., 2021). The audit committees serve as an internal governance mechanism, which is responsible for overseeing the process of financial reporting. Amongst the responsibility of audit committees are: (a) to assess the suitability of management's selection regarding accounting policies and disclosures in compliance with financial reporting standards; (b) to review significant and unusual transactions and accounting estimates; as well as (c) to assess if the financial reports present a true and fair view of the company's financial position and performance and its compliance with the regulatory requirements (Bursa Malaysia Corporate Governance Guide, 2012). The expertise level of the audit committee members is crucial in ascertaining the effectiveness of audit committees (Ika & Ghazali, 2012). In addition, a higher level of auditing and accounting standards is positively related to reported fraud cases. This showed that there was a perceived responsibility of auditors positively affecting the detection procedures of fraud and exhibits a significant accountability relationship (Mate et al., 2019). Hence, an audit committee with accounting background is expected to have a significant role in mitigating fraudulent financial activities. Prior studies have proved that the education level among audit committee members in non-problematic companies is higher than their counterparts (McMullen & Raghunandan, 1996; Rahmat et al., 2009). Audit committee members with vast experience in accounting, auditing, and finance proved to be beneficial in lowering risks of fraudulent financial activities (Hasnan et al., 2013). Such experience aids audit committees to further comprehend reporting requirements, which subsequently improves supervision and monitoring functions. Audit committees with high competency in financial education can restrict a management from acting impulsively and recklessly in managing resources, as well as disclosing business information to a third party (Nelson & Devi, 2013). Sultana et al. (2015) revealed that accounting expertise and experiences are essential in ensuring that financial reporting is composed in accordance with approved accounting standards. Ud Din et al. (2021) in their study on 302 firms listed on the Pakistan Stock Exchange from 2010 to 2016 found out that the financial reporting quality is better for those companies that have more female accounting committee expertise as compared to those companies with mainly male accounting committees. Additionally, it was also found that female audit committees improve corporate governance mechanisms in terms of control environment, control activities as well as information and communication. Herrera-Echeverri et al. (2020) conducted an empirical study to test how long-term oriented board of directors diminish earnings management, increase disclosure and reduce risk. Their findings concluded that board independence, expertise and board audit committee activity increase long-term firm orientation. Furthermore, it suggested that a long-term firm orientation is useful in order to increase firms' transparency, disclosure as well as reducing firms' downside risk.

Meanwhile, another strand of studies displays that audit committee members with accounting expertise can identify risks in misappropriation and fraudulent activities (Saat et al., 2012). This is consistent with the recent studies by Putri and Khusnul (2020) who observed 119 companies listed in the Indonesian Stock Exchange and found that the existence of an audit committee with accounting and finance expertise can reduce the possibility of earning management.

All in all, these studies signify those fraudulent financial activities and misappropriation of assets in organizations can be minimised if the audit committee members possess sufficient accounting knowledge. Similarly, this study postulates that audit committee members with vast accounting experience are more likely to mitigate fraudulent financial reporting and asset misappropriation. This is important because audit committee competency, proxied by education background and accounting experience is linked with the ability to identify threats or red flags related to assets misappropriation and fraudulent financial activities. Therefore, this study proposes that there is a significant positive relationship between the expertise of the audit committee on the timeliness reporting compliance.

H1: There is a significant positive relationship between the expertise of the audit committee on the timeliness reporting compliance.

2.4. Frequency of Audit Committees Meeting

Audit committees' meetings allow the committee to discuss issues pertaining to financial reporting compliance. Frequent meetings enable them to discuss the latest issues faced by cooperative societies and work out the possible options available to minimize financial reporting non-compliance which affects the mismatch information between shareholders and management (Yin et al., 2012). Research findings by Mohd Mohid et al. (2009) affirmed this claim as 11% of audit committees from companies without financial distressed (non-PN4) organized more than six (6) audit committees' meetings a year compared to only 4.1% from financially distressed companies (PN4) that hold only three (3) meetings per year. In addition, manipulations of financial reporting activities in companies are reduced if their audit committees are active (Saleh et al., 2007). Study by Xie et al. (2003) on public listed companies in the US after the enforcement of Sarbanes-Oxley Act (SOX, 2012) indicated that frequency of audit committees meeting helped the companies in reducing fraudulent financial activities. In cooperative societies, audit committee meetings must be held at least four (4) times within a year to ensure guidelines on timeliness and accounting standards are duly complied (Garis Panduan 4, 2009). A study by Paseková et al., (2019) investigated the relationship between using of legislation and accounting errors rate in the financial statements as well as the possible using of creative accounting from the point of view of enterprises and non-profit organizations. The findings revealed that since supervision is usually done by auditors, hence lack of supervision (less frequency of AC meeting) would lead to a greater chance of creative accounting and accounting errors and frauds. The impact of assets misappropriation, deceptive activities and fraudulent financial reporting are disastrous and detrimental to the interest of shareholders. As such, this study suggests that there is a significant positive relationship between the frequency of meetings and the timeliness reporting compliance.

H2: There is a significant positive relationship between the frequency of meetings by the audit committee on the timeliness reporting compliance.

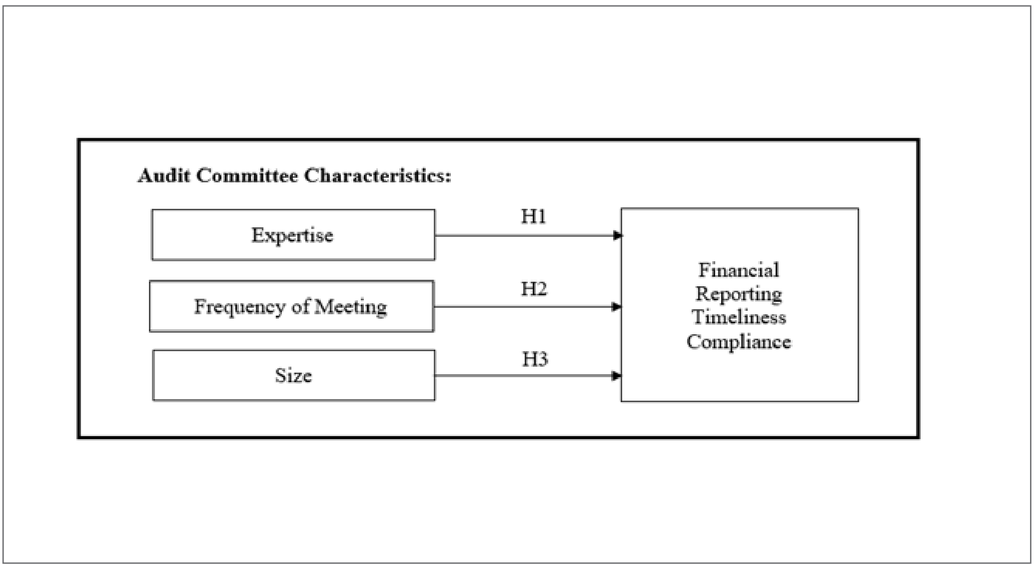
2.5. The Size of Audit Committee

The strengths and resources available to audit committees can be measured by the numbers of members sitting in committee. Mohamad-Nor, Rohami and Wan-Hussin (2010) found that potential financial reporting issues are more likely to be identified and resolved by a larger size of the audit committee due to the fact that larger committees enhance supervisory efficiency and effectiveness. Leong et al. (2013) and Puasa and Ahmad (2014) had shown that the composition size of the audit committee gave an impact to organizational transparency and reporting lead time. Abbott et al. (2004) investigated 41 companies that released false reports and 888 companies that restate annual reports for the period 1991-1999. They found out that the size of the audit committee has no major impact on the consistency of the financial reporting quality. Meanwhile, Lin et al. (2006) found a negative association between audit committee size and financial restatements. These findings are consistent with recent studies by Gaines and Kasztelnik (2021) who claimed that the internal audit staffing size per engagement is not statistically significant predictors of the overall control environment within the public sector in the United States. Regardless of the inconclusive findings by these researchers, this study posits a significant relationship of the audit committee size on the timeliness reporting compliance.

H3: There is a significant positive relationship between audit committee size on the timeliness of financial reporting compliance.

Figure 1 below shows the framework which presents the relationship between independent and dependent variables. The financial reporting timeliness compliance is the dependent variable while audit committee characteristics such as expertise, frequency of meeting and size will serve as independent variables.

Figure 1
Conceptual Framework



3. Methodology

This study utilised survey research methods. Survey research is a method of research involving the use of standardized questionnaires or interviews to systematically collect data about individuals and their preferences, thoughts and behaviours. The questionnaire employed in this study was adopted from Ika and Ghazali (2012) as it focuses on audit committee effectiveness and timeliness. A corresponding 5 Likert scale was deployed (1 for "Strongly Disagree", 2 for "Disagree", 3 for "Neither Agree or Disagree", 4 for "Agree" and 5 for "Strongly Agree"). The recorded Cronbach Alpha for all variables employing multi-items range from 0.65 – 0.88 which suggests that the questionnaires were reliable (Kline, 2013).

According to a report by SKM published in 2018, there are 14,247 cooperative societies in Malaysia with 6,060,732 members. Based on the report as well, a total number of 56,988 audit committee members were involved in Malaysian cooperative societies. Therefore, 384 audit committee members, representing 35% of large and medium-sized cooperatives each, as well as 30% of small-sized cooperative societies representing various sectors were selected for this study. The response rate was 46% (177 respondents), which exceeded the threshold of 30%, as suggested by Frohlich (2002). Due to the failure of seven (7) respondents to answer survey questions accordingly and 12 highly extreme respondents, the remaining respondents are 158 only. These 158 respondents represent 59 cooperative societies in Malaysia from various sectors and sizes.

4. Results and Discussion

A total of 110 (69.6%) respondents from this study were male, while the remaining were female. Their age ranged between 25 to 65 years old. Majority of the respondents were individuals that aged 46 to 55 years ol (35.4%) whilst respondents with younger age range 25 to 35 years old only contribute to 14.6% of the total respondents. Demographic details of the respondents for this study are shown in the Table 1 below.

Table 2 provides detailed information regarding the accounting education, level of knowledge, frequency of meeting and audit committee size of the respondents. Almost half (46.8%) of the respondents had Sijil Pelajaran

Table 1

Summary of the Respondents' Demographic Profile

Variable	Frequency	Percentage
Gender		
Male	110	69.6
Female	48	30.4
Total	158	100
Respondents Age		
25 years to 35 years old	23	14.6
36 years to 45 years old	39	24.7
46 years to 55 years old	56	35.4
56 years to 65 years old	40	25.3
Total	158	100

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Malaysia (SPM) or also known as Malaysian Certificate of Education as their highest academic qualifications and the remaining numbers had at least a diploma / Sijil Tinggi Persekolahan Malaysia (STPM) or also known as Malaysian Higher School Certificate. Moving on to the frequency of meetings, 90 respondents claimed to have conducted meetings at least 4 times per year. While 59 respondents have less than 4 meetings per year and lastly 9 respondents revealed that they never had a meeting. Section 42A of the Cooperative Act 1993 requires an audit committee to consist of not less than three (3) members and not more than five (5) members duly appointed by the Board. The exemption is given to small and micro size cooperative societies with a business cycle not exceeding RM200,000 per year to have appointed at least an audit committee. Table 2 shows that 92.4% of respondents satisfy Section 42A. Meanwhile only 7.6% failed to comply with Section 42A.

Table 3 shows level of timeliness compliance among cooperative societies in Malaysia examined using secondary data. Based on data analysis provided below, 81% of the respondents are found to comply with the timeliness reporting requirements. On the other hand, 19% respondents did not comply with the financial reporting lead time requirement.

Table 2

Summary of Score for Audit Committee Characteristics

Variable	Frequency	Percentage
Education Level		
Post Degree	17	10.8
Professional	1	0.6
First Degree	20	12.7
Diploma / STPM	46	29.1
SPM	74	46.8
Total	158	100
Frequency of Meeting		
More than 4 times	33	20.8
As per suggested by SKM 4 times	57	36.2
Less than 4	59	37.3
Never conducted meeting	9	5.7
Total	158	100
Audit Committee Size		
Maximum of 5 AC members	30	18.9
Between 3 to 4 of AC members	116	73.5
Less than 3 of AC members	12	7.6
Total	158	100

Table 3

Level of Timeliness Compliance among Cooperatives in Malaysia

Variable	Frequency	Percentage
Non-compliant between 91 days and above	13	8.2
Non-compliant between 1 day to 90 days	17	10.8
Compliant between 41 days to 60 days	90	56.9
Compliant between 21 days to 40 days	28	17.7
Compliant between 1 day to 20 days	10	6.4
Total	158	100

4.1. Common Method Variance

Due to the self-reported nature of the data, there was a potential for common method variance (CMV), and so to overcome this issue, the study adopted the statistical method which is full collinearity test. Kock and Lynn (2012) proposed the full collinearity test as a comprehensive procedure for the simultaneous assessment of both vertical and lateral collinearity. Through the procedure variance inflation factors (VIFs) are tested. The VIFs greater than 3.3 is proposed as an indication of pathological collinearity, and also indication that a model may be contaminated by common method variance (Kock, 2015). Therefore, if all VIFs resulting from a full collinearity test are equal or lower than 3.3, the model can be considered free of common method bias. Table 4 shows the latent variables in the model with VIFs less than 3.3. Therefore, the model is free from common method variance as proposed by Kock & Lynn (2012).

4.2. Assessment of Measurement

To examine the research model Partial Least Square (PLS) analysis technique was employed by using the SmartPLS 3 Version 3.2.8 (Ringle et al., 2015). In an effort to refine all structural equation models two stage analytical procedures were employed, where researchers tested the measurement model and structural model recommended by Hair et al. (2014). Prior to structural modelling, the study has to assess the measurement model of latent constructs for their dimensional, validity and reliability. The measurement model used in this study included four constructs: Financial Reporting Timeliness Compliance (FRTC), Audit Committee Expertise (EAc), Audit Committee Meeting (MAc) and Audit Committee Size (ASc). In assessing a model reliability, the loading associated latent variable must be calculated and compared to a threshold. Generally, the loading that is higher than 0.6 for indicator reliability to be considered acceptable (Hair et al., 2019). A loading lower than 0.4 indicates that an item should be considered for removal, and items with a loading of 0.4-0.6 should be considered if they decrease the composite reliability (CR) and Average Variance Extracted (AVE) above the threshold (Hair et al., 2010). Table 5 shows that most factor loading fulfils the threshold value; hence the CR and AVE are satisfied.

4.3. Validity Assessment

4.3.1. Assessment of Measurement Model

Validity was assessed in terms of convergent validity and discriminant validity. Convergent validity is the extent to which the scale correlates positively with other measures of the same constructs (Marcoulides, 2014). Convergent validity of the measurement model is usually ascertained by examining the factor loading, average variance extracted (AVE) and composite reliability (CR) (Hair et al., 2010). All the values were above 0.5, showing the convergent validity of the model. Convergent validity can be evaluated by examining the loading (≥ 0.5), AVE ≥ 0.5, and CR ≥ 0.7 (Hair et al., 2019). Table 5 shows the results of factor loading threshold level above 0.5, C.R more than 0.7 and AVE greater than 0.5 as recommended by Hair et al., (2019).

Besides assessing the convergent validity, the study also evaluated the discriminant validity. Discriminant validity can be evaluated by examining Heterotrait-Monotrait Ratio (HTMT) (Henseler et al., 2014). Assessing HTMT as a criterion involves comparing predefined thresholds. If the value of HTMT is higher than this threshold, one can conclude that there is a

Table 4

Full Collinearity of Variance Inflation Factors (VIFs)

CMV	FRTC	EAc	MAc	ASc
VIFs	1.229	1.558	1.299	1.592

Note: FRTC=Financial Reporting Timeliness Compliance, EAc= Audit Committee Expertise, MAc= Audit Committee Meeting, ASc= Audit Committee Size.

lack of discriminant validity. Kline (2013) suggests the threshold of 0.85, whereas Hair et al., (2019) proposes a value of 0.90. Table 6 shows the result of the discriminant validity assessment of the measurement model using HTMT ratio and indicates that the model possesses acceptable discriminant validity.

4.3.2. Assessment of Structural Model

Table 7 shows Structural Equation Modelling (SEM) results for this study. The R2 value for FRTC is 0.186 indicating that the 18.6% of the variance EAc, MAc and ASc is explained by the financial reporting timeliness compliance (FRTC). Since the R2 is considerably low, it indicates that the model as a whole provides little predictive value.

Hypothesis 1 (H1) examined the relationship between the expertise of audit committee members and timeliness in financial reporting. Table 7 reveals statistically insignificant association (p-value = 0.070) which lead to H1 being rejected. This result

Table 5
Factor Loading, CR and AVE

Constructs	Loading	CR	AVE
Audit Committee Expertise	0.769	0.840	0.515
Audit Committee Meeting	0.597	0.785	0.553
Audit Committee Size	0.719	0.822	0.536
Financial Reporting Timeliness Compliance	0.643	0.848	0.736

Table 6
Heterotrait-Monotrait Ratio (HTMT)

Constructs	FRTC	EAc	MAc	ASc
FRTC				
EAc	0.431			
MAc	0.472	0.544		
ASc	0.532	0.745	0.514	

Table 7
Path Coefficient and Hypotheses Testing

Constructs	β	S.E.	*t*-value	p-value	R^2	VIF	Decision
Hypothesis 1	0.140	0.085	1.477	0.070	0.186	1.538	Unsupported
Hypothesis 2	0.162	0.067	2.358	0.009		1.198	Supported
Hypothesis 3	0.266	0.076	3.391	0.000		1.511	Supported

is in contrast to Ika & Ghazali (2012), McMullen & Raghunandan (1996), Rahmat et al. (2009) and Hasnan et al. (2013) which discovered that audit committee members with accounting background and having a vast experience in accounting, auditing, and finance are beneficial in lowering risks of fraudulent financial activities. However, considering the age range of respondents for the study (35.4% of the audit committee members aged between 46 to 55 years old), the relationship may be found to be insignificant due to lack of exerted pressure on management for timeliness compliance of financial reporting, thus indicating having audit committee members with financial expertise does not automatically translated into a more effective monitoring. The findings may indicate that the audit committee not only needs to be financially competent, but it will be fully functioning with buy-in from the management as well. As a core element of internal corporate governance, the management supports decision-making processes, as well as other areas, such as financial reporting and stability (García et al., 2021).

Hypothesis 2 (H2) tested the association between frequency of audit committee meetings and timeliness in financial reporting. Table 7 reveals a positive and highly significant association between the frequency of audit committee meetings and the financial reporting timeliness compliance (p-value = 0.009). The result is in accordance with the findings by Mohd Mohid, Iskandar dan Mohd Salleh (2009) and Xie et al., (2003) that found out that audit committee meeting frequency significantly affects financial reporting practices. H2 is supported implying that cooperative societies which have audit committees that meet more frequently are more likely to comply with financial reporting timeliness requirements.

Hypothesis 3 (H3) tested the association between the size of audit committee and timeliness in financial reporting. It is expected that the optimum number of audit committee members may be effective to affect financial performance because they focus more on discussing important financial issues faced by a company. The p-value of 0.000 indicates a significant relationship between the size of audit committees and timely release of financial reports. The study's finding is consistent with Leong et. al, (2013) and Puasa and Ahmad (2014) which found out that size of the audit committee influences organizational transparency and reporting lead time. Hence, it can be concluded that the optimum size of the audit committee plays a significant role in ensuring better governance and timely financial reporting of the cooperative societies under study.

In addition, multicollinearity test among the variables in the model did not find any cause for concern using the criteria of variance inflation factor (VIF), as all figures portrayed in Table 4 suggested value of 3.3 (Hair et al., 2014). As proposed by literature, besides the blindfolding procedure, it is also beneficial to run the PLS predict (Hair et al., 2019). The model assumes to have less error in predicting performance if the RMSE, MAE and MAPE values in the PLS model have lower values compared to the Linear Model (LM) and the Q^2 value for PLS is higher than LM. As shown in Table 8, all the values fulfil the requirements, hence it establishes a path model that improves the predictive performance of the available indicator data.

Table 8
PLS Predict

	PLS Model				Linear Model			
	RMSE	**MAE**	***MAPE***	**Q^2_predict**	**RMSE**	**MAE**	**MAPE**	**Q^2_predict**
FRTC 1	0.741	0.628	43.604	0.080	0.758	0.635	44.541	0.036
FRTC 2	1.200	1.028	65.432	0.129	1.228	1.046	67.172	0.088

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5. Conclusion and Limitations

As a conclusion, the study attempted to prove the association between the characteristics of the audit committee, namely members' expertise and experience, audit frequency meetings and the size of the audit committee, to the timeliness compliance of financial reporting for the cooperative societies in Malaysia. Based on the analysis performed, frequency of meetings and the size of audit committees prove significant association with the timeliness of financial reporting. Meanwhile the expertise and experience of the audit committee members was found to have insignificant association to the timeliness of financial reporting. The predictive value of the model is 18.6% which is considered low. These might be due to lack of control variables in the equation. Therefore, future research may consider incorporating more variables relevant to the factors affecting timeliness compliance reporting by cooperative societies.

The study also acknowledged that the usage of survey questions to identify the characteristics of the audit committee may have a disadvantage. Even though the use of the survey questions method is in line with the study conducted by Iyer et al. (2012), this method is used without any support from relevant secondary data from the cooperative societies in Malaysia. Therefore, the data of this study is based solely on the feedback received from experienced audit committee members in identifying the best practices for the benefits of members and hence, the findings might not be the best representation of the general population of cooperative societies in Malaysia as a whole.

Despite the limitations discussed above, this study may have shed some light on the importance of having a fully functioning audit committee to ensure relevant and timely financial reports being presented by the management. Therefore, the findings of this study might be useful to be applied by policymakers and regulators upon developing a better set of governance systems for cooperative societies which should include a fully functioning and effective audit committee. This shall enable these cooperative societies to safeguard the interest of the members, and achieve its objectives.

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