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The association between institutional monitoring, political connections and audit report lag: evidence from the Malaysian capital market

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Ameen Qasem
Department of Accounting, College of Business Administration, University of Hail, Hail, Saudi Arabia and
Accounting Department, Faculty of Administrative Sciences, Taiz University, Taiz, Yemen

Abstract

Purpose – This study aims to examine the association between institutional investors' ownership (IOW), politically connected firms (POCF) and audit report lag (AUDRL).

Design/methodology/approach – This study employs a feasible generalised least squares (FGLS) model for panel data to examine the association between IOW, POCF and AUDRL for Malaysian publicly listed companies.

Findings – The findings reveal a statistically significant negative relationship between IOW and AUDRL, with this negative relationship being more pronounced amongst POCF. Additionally, the results demonstrate that the relationship between IOW and AUDRL varies depending on the domicile of IIs (local vs. foreign). Specifically, local institutional investors exhibit a negative and statistically significant relationship with AUDRL, whilst foreign institutional investors show a positive and statistically significant relationship with AUDRL.

Originality/value – The results of this study provide a new understanding of auditor responses to institutional investor monitoring and political connections (PCs) in an emerging economy.

Keywords Institutional investors ownership, Political connections, Institutional domiciles, Audit report lag, Malaysia

Paper type Research paper

1. Introduction

Institutional investors (IIs) play a vital role in shaping global equity market development (Al-Qadasi, 2024; Chada, 2023), particularly within emerging economies (Li *et al.*, 2021; Li and Wang, 2024). For decades, researchers and practitioners have demonstrated a keen interest in the investment performance and trading behaviour of IIs (Velte, 2024). Earlier studies revealed that IIs have engendered several positive outcomes for their investee firms, such as an improved information environment (Choi and Skiba, 2015), enhanced quality earnings (Potharla *et al.*, 2021) and heightened firm performance (Drobetz *et al.*, 2021). Given the substantial impact of IIs on firms' outcomes, it is beneficial to explore their influence on the audit process of their investee firms. This study specifically investigates the relationship between institutional investors' ownership (IOW) and audit efforts from auditors, measured by audit report lag (AUDRL). According to Knechel *et al.* (2009), AUDRL is a pivotal factor in external auditing efforts as it signifies audit efforts beyond audit fees.

In the literature, whilst few studies have looked at the relationship between IOW and AUDRL, the findings from these studies are contradictory. For instance, Aksoy *et al.* (2021), Lee *et al.* (2009), Sakka and Jarboui (2016) and Sulimany (2023) found a significant and

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negative impact of IOW on AUDRL. In contrast, other studies (Basuony *et al.*, 2016; Qasem *et al.*, 2023b) find a significant and positive link between IOW and AUDRL, whereas some studies (Alfraih, 2016; Ebaid, 2022; Lim *et al.*, 2014) failed to establish a significant relationship. Thus, the present study seeks to contribute additional insights to the limited and conflicting evidence on the IOW–AUDRL nexus. The inconsistent findings regarding the IOW–AUDRL nexus may stem from prior research treating IIs as a homogenous group without addressing their heterogeneity. Building on evidence from previous studies indicating the heterogeneity of institutional investors' monitoring, this study examines whether the nationality of institutional investors (local vs. foreign) can influence AUDRL differently. This is achieved by employing data from Malaysia, a developing economy. In Malaysia, financial reporting timeliness is a pertinent issue, as indicated by the Corporate Governance Watch 2016 report (CLSA and ACGA, 2016). The AUDRL of Malaysian firms is notable, averaging around 100 days, compared to other countries where it ranges from 40 to 80 days on average (Wan Hussin *et al.*, 2018). A comprehensive review of earlier research on AUDRL (Abernathy *et al.*, 2017) revealed mean AUDRL values between 62 and 76 days for USA and non-USA firms, respectively.

Furthermore, considering the distinctive features of the Malaysian economy, such as the presence of politically connected firms (POCF), the current study examines whether political connections (PCs) might moderate the IOW–AUDRL nexus. In Malaysia, nearly a third of firms are POCF (Faccio, 2006). Thus, political patronage has a significant impact on financial markets that cannot be overlooked. In emerging countries like Malaysia, the POCF is viewed as a double-edged tool where "helping hands" and "grabbing hands" coexist (Wong and Hooy, 2021). According to the "helping hands" theory, POCF may benefit from their connections, gaining advantages such as easier access to loan funding, reduced taxes, increased market dominance and more lenient regulatory oversight. In contrast, POCF may have a negative valuation influence due to "grabbing hands" engaged in rent-seeking practices (Qasem *et al.*, 2023c). This study contends that how external auditors perceive interactions between IIs and PCs and whether they confer a competitive advantage to the POCF will impact their audit efforts. Finally, the study investigates whether the link between IOW, POCF and AUDRL differs based on the domicile of institutional investors (local vs. foreign).

Utilising a sample of 752 company-year observations for 2008–2013, the findings demonstrate a statistically significant negative relationship between IOW and AUDRL; PCs accentuate this negative relationship. The findings substantiate the arguments that IOW can serve as an external pressure source, influencing management to timely disclose their audited financial statements. Furthermore, upon classifying IOW into local institutional investors' ownership (LIOW) and foreign institutional investors' ownership (FIOW) groups, it is observed that LIOW is the primary driver of the negative relationship. Even after running further analyses and testing for endogeneity, these findings remain robust. This research contributes a novel understanding how auditors react to the monitoring activities of IIs and PCs within an emerging economy.

The results of this study provide a significant contribution to the existing body of knowledge. First, the study addresses the limited and contradicting results on the association between IOW and AUDRL by presenting evidence from an emerging market, namely Malaysia. Second, this work provides further evidence supporting the connection between the domicile of institutional investors and AUDRL. As far as we know, this is the inaugural research endeavour to investigate such a relationship. Third, the current study advances our knowledge of the influence of PCs on the IOW–AUDRL nexus by demonstrating that PCs boost the negative relationship between IOW and AUDRL. Consequently, the current study enriches our knowledge of the determinants of AUDRL by incorporating a previously unexplored variable: PCs. Khelil *et al.* (2022) advocate for additional studies on the impact of PCs on the timeliness of financial reporting, as proxied by AUDRL.

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The findings of this study have significant implications for both developed and developing countries. In developed economies where IOW is prevalent and financial reporting quality is stringent, the findings underscore the importance of considering PCs as a moderating factor in the association between IOW and AUDRL. Understanding how PCs interact with institutional monitoring can enhance audit efficiency and financial reporting transparency, contributing to better corporate governance (CG) practices and investor confidence. Furthermore, the results of this study on the influence of IIs' domicile on the AUDRL shed more light on the need for modified regulatory regulations and policies that would consider the characteristics of IIs (local versus foreign). In developing countries, where PCs play a pivotal role in business operations, the study brings valuable insights that would help to explain the complex interplay of institutional monitoring, PCs and audit efficiency. Regulatory bodies in developing countries can use the findings of this study to design interventions that may target the mitigation of the risks associated with political patronage and foster a more transparent and competitive business environment. In addition, the research aims at investigating the impact of PCs on the timeliness of the audit report, improving an in-depth understanding of the dynamics of CG in emerging markets and pointing out a roadmap for future studies and policy development so that they cope with the challenges and opportunities in such a unique context. In summary, the findings of this study contribute much value beyond the Malaysian environment and provide useful insights to developed and developing economies in their endeavour to strengthen the CG framework and raise the quality of financial reporting.

2. Malaysian context

Malaysia provides a conducive environment for evaluating the interplay between IOW, PCs and AUDRL for several compelling reasons. First, Malaysia is considered to have the highest ownership concentration amongst East Asian countries (Al-Qadasi *et al.*, 2022). Notably, the largest Malaysian firms exhibit a substantial level of IOW (Qasem *et al.*, 2023c). According to the Securities Commission Malaysia (SC) (2020), Bursa Malaysia recorded a market capitalisation of RM 3.4 trillion by the end of 2020, with IOW commanding approximately 43% of the market share (OECD, 2022). Consequently, the regulatory bodies in Malaysia have prioritised stewardship by IIs. This focus is evident through the introduction of the Malaysian Code for Institutional Investors in 2014 by the SC and Minority Shareholders Watch Group (MSWG), complemented by the formation of the Institutional Investors Council Malaysia in 2017 (Qasem *et al.*, 2023c). Thus, examining the influence of IOW in the audit process of Malaysian firms is warranted. Second, IIs in Malaysia, whether local or foreign, are typically categorised into four groups: Government-Linked Investment Companies (GLIC), banking institutions, insurance companies and unit trusts (Tee *et al.*, 2018a, b). The Malaysian Government, through GLIC, holds a substantial share of the local institutional investors' market (Ong *et al.*, 2020). As reported by Gomez *et al.* (2018), the government's ownership of Malaysian firms increased from 43.7% to 47.1% between 2011 and 2015.

Third, the Malaysian capital market is characterised by close ties between business and politics (Wong and Hooy, 2021), primarily stemming from the 1970 Malaysian New Economic Policy (NEP). The NEP aims to address inter-ethnic economic disparities by promoting capital market growth and increasing Bumiputera ownership (Tee and Rassiah, 2020). PCs in the Malaysian market are also fostered by the intentional efforts of the Chinese business community to cultivate relationships with influential politicians (Bowie, 1987). Recognising this, the SC recommends *"that persons linked directly with the executive powers, such as heads of state, heads of government and ministers, should not serve on boards as this would cast serious doubt on the independence of their judgment. Additionally, a listed company is*

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discouraged from appointing an active politician as a director on its board" (Securities Commission Malaysia, 2021, p. 35).

In summary, the current study focuses on three main objectives in the context of the distinctive features of the Malaysian market. First, due to heightened IOW amongst Malaysian firms, the study aims to assess the association between IOW and AUDRL. Second, building on the heterogeneity of IIs, the study's second objective is to examine whether the nationality of IIs can influence AUDRL differently. Third, given the unique features of the Malaysian economy, particularly the presence of POCF, the study's third objective is to assess whether a PC might moderate the IOW–AUDRL nexus.

3. Theoretical framework

This study is grounded in agency theory, geographical proximity theory and resource dependence theory to examine the relationship between institutional monitoring, PCs and AUDRL. According to the agency theory, effective monitoring by IIs may help alleviate a firm's agency conflicts (Shleifer and Vishny, 1986). They can engage in monitoring activities directly by influencing companies' management through board representation and exercising their voting rights, often referred to as "voice" (Aggarwal *et al.*, 2011). Alternatively, they may exert influence indirectly by signalling their dissatisfaction with the management's performance through selling stocks in the market, known as "voting with their feet" (Edmans, 2009; Gillan and Starks, 2003). Consequently, managers are incentivised to promptly disclose corporate information to meet the needs of IIs (Alfraih, 2016). Additionally, the ability of IIs to conduct thorough and skilled evaluations of financial statements can result in improved CG standards, accurate transactions and effective risk assessment, thereby lowering the likelihood of adverse consequences stemming from managerial misconduct (Al-Qadasi, 2024; Chen *et al.*, 2020). Furthermore, greater IOW reduces the likelihood of internal control failures, boosts external auditor trust and reduces their queries, resulting in lower audit fees and shorter AUDRL (Lee *et al.*, 2009; Mitra *et al.*, 2007).

Although IIs have an advantage regarding information over individual investors (Yan and Zhang, 2009), not all institutions have the same benefits (Choi *et al.*, 2024); hence, they are different in performing their monitoring role (Kim *et al.*, 2016). Based on agency theory, potential opportunistic behaviours by companies' management often result in significant conflicts of interest between insiders and outside investors, leading to the erosion of shareholder value (Jensen and Meckling, 1976). Information asymmetry exacerbates this agency problem, as management may conceal pertinent information from external investors (Li and Wang, 2024). Compared to LOIW, FIOW suffer from higher information asymmetry due to their distance from investee companies and foreignness with local investment environments and laws (Li *et al.*, 2021). Higher information asymmetry will make it difficult for FIOW to exercise effective monitoring of their investee companies since they will face challenges in understanding, interpreting and verifying the accounting and financial information (Choi *et al.*, 2024). Therefore, high-quality and extensive audit efforts might be demanded by FIOW to alleviate the information asymmetry issue (Li and Wang, 2024; Tee *et al.*, 2017).

In contrast, in line with the geographical proximity theory, which contends that LIOW are more acquainted with local accounting regulations, political climate, business environment, language and culture; hence, LIOW are more effective in monitoring their investee firms (Li and Wang, 2024). A body of literature empirically supports this notion, suggesting that LIOW enjoy informational advantages stemming from their geographical proximity (Seasholes and Zhu, 2010; Tee and Rassiah, 2020). These advantages enable LIOW to reduce monitoring costs and align incentives between the management and shareholders (Choi *et al.*, 2024). Prior

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empirical studies consistently indicate that LIOW is generally more successful at deterring opportunistic financial reporting than FIOW is (Ayers *et al.*, 2011; Choi *et al.*, 2024; Kim *et al.*, 2016). Accordingly, it is predicted that the effective monitoring exerted by LIOW plays a crucial role in improving CG practices, thereby fostering improved internal controls, an efficient audit process and, ultimately, a reduction in AUDRL.

The literature on the impact of PCs on firms' outcomes suggests two opposite perspectives: beneficial and detrimental, which can be explained through resource dependence theory and agency cost theory (Khaw *et al.*, 2019). On the one hand, resource dependence theory proposed that firms try to find political ties to reduce dependencies on external resources and to handle environmental concerns (Hillman *et al.*, 2009; Maaloul *et al.*, 2018; Pfeffer and Salancik, 1978). Thus, firms may be able to gain advantages like easy access to credit, treatment in taxation, government contracts, subsidies and preferential regulatory supervision from such a political relationship (Adhikari *et al.*, 2006; Johnson and Mitton, 2003; Agrawal and Knoeber, 2001; Li *et al.*, 2008). On the other hand, prior research has also highlighted the possible costs of PCs to company value. For example, studies have indicated that the existence of politically connected individuals in firms leads to rent-seeking activities that lower firm value (Bertrand *et al.*, 2018). In addition, POCF are prone to diminishing transparency, compromising earnings quality, experiencing weaker CG and engaging in unethical behaviours (Aggarwal *et al.*, 2012; Al-Hadi *et al.*, 2018; Borisov *et al.*, 2016; Hashmi *et al.*, 2018; Tee and Rassiah, 2020).

4. Literature review and hypotheses development

4.1 Institutional investors' ownership and audit report lag

In their role as a rigorous watchdog, IIs exhibit increasing concern regarding the information disclosure practices of their investee companies (Eissa *et al.*, 2023). This aligns with agency theory, which asserts that institutional monitoring plays a crucial role in CG by mitigating agency conflicts (Shleifer and Vishny, 1986). Consequently, IIs emphasise audited financial reports and demand higher quality audits to mitigate the risk of misleading financial information being disclosed by their portfolio companies (Qasem *et al.*, 2023b). Even though a few studies have assessed the association between IOW and audit efforts (Sakka and Jarboui, 2016), empirical findings on such a relationship remain contradictory (Abbott *et al.*, 2017). On the one hand, consistent with agency theory, institutional monitoring intensifies auditors' scrutiny and increases audit efforts, potentially leading to higher audit fees and longer AUDRL (Basuony *et al.*, 2016; Tee *et al.*, 2017).

On the other hand, Aljifri and Moustafa (2007) suggest that IIs are important in CG as they help reduce agency costs by monitoring and disciplining company managers. Effective CG practices are expected to boost the timeliness of information disclosure to shareholders and stakeholders (Beekes *et al.*, 2015; Mathuva *et al.*, 2019). Additionally, IIs may provide insightful recommendations to management for improving internal audit efficiency, reducing litigation risks and curbing financial reporting fraud (Sharma, 2004; Yang *et al.*, 2021). In this regard, Aksoy *et al.* (2021) assert an increase in IOW raises the likelihood of easing internal control lapses, thereby enhancing the confidence of external auditors and minimising their inquiries (Sulimany, 2023), resulting in lower audit fees (Mitra *et al.*, 2007). Lim *et al.* (2013) claim that IIs strictly follow the guidelines because of their responsibility to the investors. Therefore, they positively influence financial reporting timeliness and minimise AUDRL as they pressure management to provide timely financial statements (Lee *et al.*, 2009). Accordingly, earlier research has identified a negative and significant relationship between IOW and AUDRL (Aksoy *et al.*, 2021; Lee *et al.*, 2009; Sakka and Jarboui, 2016; Sulimany, 2023). Thus, based on agency theory, which emphasises the usefulness of IOW as an effective CG tool for monitoring and disciplining corporate

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management, along with their demand for prompt financial statement disclosures, the following hypothesis is predicted:

H1. A negative relationship exists between IOW and AUDRL.

4.2 Institutional investors' domiciles and audit report lag

Researchers assert that institutional investor groups have distinct ways of carrying out their monitoring role (Miller *et al.*, 2021). Baik *et al.* (2010) find that LIOW are better informed than FIOW. Consequently, previous studies indicate that LIOW is associated with robust governance activities, lower earnings management practices, higher profitability and increased transparency in corporate relations (Choi *et al.*, 2024; Kim *et al.*, 2016). This evidence aligns with the geographical proximity theory, suggesting that LIOW possess an advantage over FIOW due to their ability to access superior information arising from proximity to investees, familiarity with the local environment and commonality in language and cultural background (Li *et al.*, 2021; Miller *et al.*, 2021).

As mentioned, IIs are becoming increasingly involved in CG concerns, including disclosure standards (Lim *et al.*, 2014). In Malaysia, this involvement is facilitated through the MSWG, consisting of five founding local institutional shareholders [1]. The MSWG aims to promote shareholder activism and enhance CG in their investee companies (Lim *et al.*, 2014). Previous research in Malaysia has found that LIOW is positively associated with higher earnings quality, firm performance, stock price informativeness and lower stock price crash risk (Tee, 2017, 2019; Tee *et al.*, 2018a, b; Tee and Rassiah, 2020). Therefore, in tandem with the empirical findings from earlier research and geographical proximity theory, we hypothesise that LIOW has a greater ability to mitigate information asymmetry by encouraging companies to disclose their annual audited accounts in a timelier manner. Therefore, the following hypothesis is predicted:

H2a. A negative relationship exists between LIOW and AUDRL.

According to Li and Wang (2024), prior studies have paid little consideration to the influence of FIOW on the audit process of their investee companies and the implications for the audit market. However, the FIOW–AUDRL nexus may be well described from either the demand-side or supply-side perspectives. From the demand-side perspective, FIOW encounters challenges in the capital markets due to institutional, cultural differences and local knowledge information asymmetry (Döring *et al.*, 2021). Information asymmetry hampers FIOW's ability to effectively oversee their investee firms. Consequently, FIOW may exhibit a heightened need for various techniques such as extensive audit efforts to manage information asymmetry (Li and Wang, 2024). A growing body of research contends that FIOW significantly influences investees CG, requesting more extensive auditing and transparency to avoid insiders' expropriation (Li and Wang, 2024). For instance, Ben-Nasr *et al.* (2015) and Huang and Zhu (2015) suggest that when international investment institutions have access to domestic capital markets, there is a greater need for improved governance quality and higher corporate transparency. In this regard, Kim *et al.* (2019) find that firms with higher FIOW are more inclined to engage Big 4 auditing firms, known for high-quality audits, to address information asymmetry in overseas investments. In line with the demand-side perspective, previous studies found a significant and positive association between FIOW and audit efforts, proxied by audit fees (Li and Wang, 2024; Tee *et al.*, 2017).

Alternatively, from the supply-side view, FIOW possesses greater capability to access privileged information through their diverse talent resources and advanced analytical technologies, enabling them to analyse market data more effectively compared to LIOW (Albuquerque *et al.*, 2009; Choi *et al.*, 2024; Huang and Shiu, 2009). Hence, FIOW may have

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incentives to closely monitor company operations, such as financial reporting and internal control, to reduce the inherent risk of substantial misstatements (Lel, 2019). Therefore, external auditors may charge a lower risk premium or decrease substantive examination since they perceive firms with FIOW presence as having lower inherent risk and subject to greater scrutiny, resulting in reduced audit efforts (Li and Wang, 2024). Whilst the demand-side and supply-side viewpoints may yield varying results, we posit that the inclination towards high-quality and comprehensive audits is more conceptually attractive. This aligns with Kim *et al.* (2019), who analysed a larger sample of 40 non-USA markets and found that foreign investors typically advise investee companies to hire reputable auditing companies to address information asymmetry issues when investing abroad.

Thus, based on the argument above, findings from prior research and grounded on agency theory, we hypothesise that FIOW motivates firm management to adopt extensive, high-quality audit services to mitigate information asymmetry and expropriation risk. This demand-side perspective suggests that FIOW may seek increased auditing efforts, leading to longer AUDRL. Therefore, the following hypotheses are predicted:

H2b. A positive relationship exists between FIOW and AUDRL.

4.3 Institutional investors' ownership, political connections and audit report lag

How *et al.* (2014) highlighted the uncertainty about the impact of PCs on the monitoring role of IIs. Earlier research, supporting the agency theory, claim that POCF exhibit significant agency issues and governance, rendering them riskier (Boubakri *et al.*, 2012). Malaysian studies reveal associations between POCF and higher earnings forecast dispersion, less favourable stock recommendations, higher debt cost, engagement in income-smoothing practices, lower firm performance and lower price discovery procedures (Bliss and Gul, 2012; Jaffar and Abdul-Shukor, 2016; Kamarudin *et al.*, 2021; Lim *et al.*, 2014; Qasem *et al.*, 2023c; Tee, 2020). These findings documented that Malaysian POCF is viewed as riskier by financial markets and audit firms, resulting in higher audit fees due to elevated audit risks (Tee *et al.*, 2017). Consequently, based on the monitoring hypothesis derived from agency theory, IIs are likely to enhance their POCF monitoring, requesting higher quality audits, potentially leading to longer AUDRL.

In contrast, resource dependence theory posits that PCs are created to secure value-increasing advantages that benefit companies and positively influence their outcomes (Khaw *et al.*, 2019). Malaysian POCF, according to this assertion, enjoys advantages such as reduced taxes, lowered regulatory monitoring, favourable contractual terms and improved access to foreign financing (Ebrahim *et al.*, 2014). These preferential advantages would provide a strong incentive for the POCF to report higher accuracy and transparency reports (Barros *et al.*, 2022). The view is supported by earlier research that documented PCs are associated with improved firm performance and valuation (Maaloul *et al.*, 2018). Moreover, Habib and Muhammadi (2018) find that POCF issues their audit reports earlier, improving trust in the quality of the financial report. In Malaysia, the government controls the IIs market via GLIC (Benjamin *et al.*, 2016) and the appointments to GLIC's BOD are politically motivated. Wong and Hooy (2018) find that PCs through BOD and government-linked companies (GLC) are linked with active monitoring and better CG practices, reflected in higher firms' performance in Malaysia.

Based on the agency theory perspective, the presence of IOW in POCF suggests rigorous monitoring, potentially leading to reduced audit efforts and a shorter AUDRL. Additionally, from the resource dependence theory standpoint, which posits that PCs afford firms preferential advantages and positively influence their outcomes, such ties subject POCF to heightened public scrutiny, prompting earlier issuance of audited reports. However, a literature review by Preuss and Königsgruber (2021) suggests that the influences of PCs are

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more ambiguous than those proposed directive hypotheses. Considering the arguments discussed above, the third hypothesis is given as follows:

H3. A negative relationship between IOW and AUDRL is strengthened (attenuated) by PCs.

4.4 Institutional investors' domiciles, political connections and audit report lag

According to geographical proximity theory, LIOW tends to exhibit a heightened propensity to monitor the investee companies because of their superior knowledge regarding regional accounting norms, political landscape, culture, language and business environment (Choi *et al.*, 2024; Li and Wang, 2024). Because of their proximity to POCF, LIOW may acquire precise information regarding the company's business activities and other intangible aspects, such as management culture (Tee, 2020). Additionally, face-to-face meetings with POCF management will foster improved sharing of ideas, particularly with regard to the quality of financial reporting and performance of the firm (Kim *et al.*, 2016; Liu *et al.*, 2018). In comparison to FIOW, LIOW is generally more informed (Baik *et al.*, 2010), mainly due to the lower cost associated with information collection and communication (Tee, 2020). Therefore, the advantage of geographical proximity and lower monitoring costs (Choi *et al.*, 2024) increases LIOW's ability to effectively monitor POCF (Tee, 2020). This superior monitoring role by LIOW in POCF may boost auditors' confidence, lower their enquiries and efforts and result in lower AUDRL (Sulimany, 2023).

On the other hand, FIOW regularly faces more agency problems stemming from their limited access to information and the cost of monitoring is relatively high due to their unfamiliarity with the domestic market and geographical distance from their investees (Choi *et al.*, 2024; Li and Wang, 2024). Tee *et al.* (2017) argue that FIOW lacks robust business relationships, thus experiencing less pressure to align their votes with company management to maintain connections. Thus, based on the agency theory and demand-side perspective, it is expected that FIOW will demand extensive audit efforts in POCF to mitigate information asymmetry raised from their overseas investments, thereby leading to longer AUDRL. Accordingly, it is assumed that the influence of POCF on the IOW-AUDRL relationship differs based on the domicile of institutional investors (local or foreign) and, therefore, their different motivations for monitoring firm management. Therefore, the following hypothesis is predicted:

H4. The relationship between institutional investor nationality and AUDRL is moderated by POCF.

5. Research methodology and data

5.1 Data and sample

Bursa Malaysia data from 2008 to 2013 are utilised for the analysis. In 2010, a significant transformation in the Malaysian audit market transpired with the establishment of the Audit Oversight Board (AOB), serving as an autonomous audit regulator (Wan Hussin *et al.*, 2018). Consequently, the selected timeframe of 2008–2013 encompasses years both before and after the AOB's inception, ensuring a comprehensive examination. The primary data sources for IOW, PCs, CG variables and AUDRL are the annual reports of the respective firms. Thomson Reuters DataStream is used for additional information, including financial and segmental data. The initial dataset comprises 1,048 firm-year observations from 2008 to 2013, sourced from Bursa Malaysia. After excluding 296 observations due to missing data and extreme values, the final sample for the study's main

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regressions comprises 752 firm-year observations. A breakdown of the sample firm distribution by industry is presented in Table 1.

5.2 Variables measurement

5.2.1 Audit report lag. We use AUDRL, defined as the natural logarithm of the time period in days between a company's financial year-end and the date when the auditor's report is signed, as a measure of audit effort (Harymawan and Putri, 2023; Sharma *et al.*, 2018).

5.2.2 Institutional investors' ownership. IOW refers to the percentage of a company's outstanding shares that are held by institutional investors (Tee *et al.*, 2017). Institutional investors domiciled in Malaysia are classified as LIOW, whilst those domiciled outside Malaysia are categorised as FIOW (Qasem *et al.*, 2023a).

5.2.3 Politically connected firms (POCF). Following previous Malaysian research (Fung *et al.*, 2015; Qasem *et al.*, 2023c; Wong and Hooy, 2018), POCF is defined as a dichotomous variable, coded 1 if the company possesses PCs and 0 otherwise.

5.2.4 Control variables. In line with previous research on AUDRL (Baatwah *et al.*, 2019; Qasem *et al.*, 2023b), various control variables have been incorporated into the study models to examine the relationship between IOW, PCs and AUDRL. These control variables include ownership concentration (OWCO), CEO duality (DUAL), board size (BODSIZE), board independence (BODIND), firm size (FSIZE), the inventory and receivables to total assets ratio (INVRC), firm age (FAGE), loss (LOSS), leverage (LEV), market-to-book ratio (MTB), return on assets (ROA), Big Four audit firm (BIG4), product segment (PODSEG) and geographic segment (GEOSEG).

5.3 Model specification

The current study utilises panel data to investigate the associations between IOW, institutional domiciles, POCF and AUDRL. Before executing the main regressions of this study, diagnostic tests were performed to assess estimation problems, such as heteroscedasticity and autocorrelation. The heteroscedasticity issues were identified in our models using the Breusch–Pagan/Cook–Weisberg test. The results showed the presence of heteroscedasticity issues (p-values <0.005) that need to be addressed. Furthermore, Wooldridge's (2002, pp. 282–283) test was employed to check for autocorrelation, and the results indicated the absence of autocorrelation issues (p-values >0.005). Hence, to control for the heteroscedasticity issue, a feasible generalised least squares (FGLS) model for panel data was used with a panel-specific heteroscedasticity option to examine these study hypotheses (Ghaleb *et al.*, 2022; Qasem *et al.*, 2020). The current study also includes dummies for sectors and years to reflect differences over time and across industries.

Industry	Observations	Percentage
Construction	56	7.45
Consumer products	131	17.42
Finance	22	2.93
Industrial products	184	24.47
Others	10	1.33
Plantation	46	6.12
Properties	57	7.58
Technology	56	7.45
Trading/services	190	25.27
Total	752	100

Source(s): Author's own work

Table 1. Sample distribution by sector

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Hence, based on agency theory, geographical proximity theory and resource dependence theory, the following models were employed to analyse the study's hypotheses. Model one was specifically used to investigate hypotheses one and three which proposed to explore the relationship between IOW and AUDRL and the moderating effect of POCF in the IOW–AUDRL nexus.

$$\begin{aligned} LNAUDRL_{it} = {} & \beta_0 + \beta_1 IOW_{it} + \beta_2 PCOF_{it} + \beta_3 IOW_{it} * PCOF_{it} + \beta_4 OWCO_{it} + \beta_5 DUAL_{it} \\ & + \beta_6 BODSIZE_{it} + \beta_7 BODIND_{it} + \beta_8 FSIZE_{it} + \beta_9 INVRC_{it} + \beta_{10} FAGE_{it} \\ & + \beta_{11} LOSS_{it} + \beta_{12} LEV_{it} + \beta_{13} ROA_{it} + \beta_{14} MTB_{it} + \beta_{15} BIG4_{it} \\ & + \beta_{16} PODSEG_{it} + \beta_{17} GEOSEG_{it} + Year\ dummies + Sector\ dummies + \varepsilon_{it} \end{aligned} \quad (1)$$

Model two was employed to investigate hypotheses two and four, which aimed to explore the relationship between IIs' nationality and AUDRL. Additionally, the model sought to examine whether the association between IIs, POCF and AUDRL varied depending on the nationality of institutional investors (local vs. foreign)". Table 2 displays the measurements for all the variables.

$$\begin{aligned} LNAUDRL_{it} = {} & \beta_0 + \beta_1 LIOW_{it} + \beta_2 FIOW_{it} + \beta_3 PCOF_{it} + \beta_4 LIOW_{it} * PCOF_{it} \\ & + \beta_5 FIOW_{it} * PCOF_{it} + \beta_6 OWCO_{it} + \beta_7 DUAL_{it} + \beta_8 BODSIZE_{it} \\ & + \beta_9 BODIND_{it} + \beta_{10} FSIZE_{it} + \beta_{11} INVRC_{it} + \beta_{12} FAGE_{it} + \beta_{13} LOSS_{it} \\ & + \beta_{14} LEV_{it} + \beta_{15} ROA_{it} + \beta_{16} MTB_{it} + \beta_{17} BIG4_{it} + \beta_{18} PODSEG_{it} \\ & + \beta_{19} GEOSEG_{it} + Year\ dummies + Sector\ dummies + \varepsilon_{it} \end{aligned} \quad (2)$$

6. Empirical results

6.1 Descriptive statistics

The results in Table 3 reveal that the average AUDRL is 97, ranging from 35 to 140 days. This suggests that Malaysian firms typically make their audited annual accounts publicly available in approximately 95 days. This result is in line with earlier Malaysian studies, which identified the average AUDRL to be between 98 and 103 days (Wan-Hussin and Bamahros, 2013). Such results indicate that Malaysian firms experience longer delays compared to counterparts in other countries. For instance, in the USA, the mean of AUDRL is between 54 and 56 days (Huang *et al.*, 2017); in New Zealand, 60 days (Walker and Hay, 2013); in China, 87 days (Habib, 2015), in Oman, 52 days (Al-Ebel *et al.*, 2020), in Egypt, 72 days (Khlif and Samaha, 2014) and about 80 days for Indonesian, Iranian and Australian firms (Rusmin and Evans, 2017; Mohammad Rezaei and Mohd-Saleh, 2016; Sultana *et al.*, 2015). The findings also show that the mean of total IOW is 19%, ranging from nil to 94%. The average LIOW and FIOW are 14 and 5%, respectively, in line with prior Malaysian studies (Tee, 2020). Table 3 illustrates that the average POCF is almost 39%, consistent with previous studies in Malaysia (Zainudin and Khaw, 2021), which found the average POCF between 35 and 38%. These findings are similar to those from some developing countries, like Pakistan, where Saeed *et al.* (2016) found an average POCF of 31%, and Indonesia, where Habib *et al.* (2017) and Harymawan *et al.* (2019) reported mean values of POCF between 34 and 39%, respectively.

The average OWCO is 51%, in line with previous Malaysian research (Ghaleb *et al.*, 2020, 2022), which found a mean of 54%. This result indicates high ownership concentration in the Malaysian market, consistent with findings by (Al-Qadasi *et al.*, 2022). The mean score for

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Variables	Acronym	Descriptions	Sources
Dependent variable			
Audit report lag	AUDRL	The period in days between a company's financial year-end and the date when the auditor's report is signed	Harymawan and Putri (2023), Sharma *et al.* (2018)
	LNAUDRL	The natural logarithm of the period in days between a company's financial year-end and the date when the auditor's report is signed	
Independent variables			
Institutional investors' ownership	IOW	The proportion of a firm's outstanding shares owned by institutional investors	Qasem *et al.* (2023a,c), Tee *et al.* (2017)
Local institutional investors' ownership	LIOW	The proportion of a firm's outstanding shares owned by local institutional investors	Qasem *et al.* (2023a), Tee *et al.* (2017)
Foreign institutional investors' ownership	FIOW	The proportion of a firm's outstanding shares owned by foreign institutional investors	Qasem *et al.* (2023a), Tee *et al.* (2017)
Political connections firms	POCF	Dichotomous variable, coded 1 if the firm has a political connection and 0, otherwise	Fung *et al.* (2015), Qasem *et al.* (2023c), Wong and Hooy (2018)
Control variables			
Ownership concentration	OWCO	The proportion of firm shares held by large shareholders (>5%)	Ghaleb *et al.* (2020), 2022
CEO duality	DUAL	The dummy variable coded 1 when the same person holds the position of chairman and CEO, and 0 otherwise	Akhtar *et al.* (2024), How *et al.* (2014), Qasem *et al.* (2020)
Board size	BODSIZE	The total number of directors on the firm's board of directors	Li and Wang (2024), Qasem *et al.* (2023a, b, c)
Board independence	BODIND	The percentage of independent directors on the firm's board of directors	Qaderi *et al.* (2024), Qasem *et al.* (2023a, b, c)
Company size	SIZE	Market capitalisation	How *et al.* (2014)
Size	FSIZE	Natural log of firms' market capitalisation	How *et al.* (2014)
Firm complexity	INVRC	Total inventory and receivables to total assets ratio	Li and Wang (2024), Wan Hussin *et al.* (2018)
Company age	AGE	The number of years a company was incorporated	Choi *et al.* (2024), Qaderi *et al.* (2024)
Age	FAGE	Natural log of firm age	Choi *et al.* (2024), Qaderi *et al.* (2024)
Loss	LOSS	The dummy variable is coded 1 if the firm has a loss, and 0 otherwise	Li and Wang (2024), Wan Hussin *et al.* (2018)
Leverage	LEVGE	The ratio of total debt-to-total assets	Lim *et al.* (2014), Sulimany (2023)
Return on assets	ROA	Net profit divided by total assets	Li and Wang (2024), Sulimany (2023)
Market-to-book ratio	MTB	Market capitalisation divided by the book value of equity of the firm	Qasem *et al.* (2023b)
Audit	BIG4	The dummy variable coded 1 if a Big 4 audit firm audits the firm, and 0 otherwise	Li and Wang (2024), Qaderi *et al.* (2024)
Product segment	PODSEG	Number of product segments	Knechel and Sharma (2012), Wan Hussin *et al.* (2018)
Geographic segment	GEOSEG	Number of geographical segments	Qasem *et al.* (2023b), Wan Hussin *et al.* (2018)

Source(s): Author's own work

Table 2. Operational variable definitions

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Variables	Mean	Median	Std. Dev	Min	Max
AUDRL	97.007	107.000	22.663	35.000	140.000
LNAUDRL	4.541	4.673	0.275	3.555	4.942
IOW	18.671	10.415	22.769	0.000	94.030
LIOW	14.076	5.695	21.415	0.000	92.792
FIOW	4.595	1.410	7.420	0.000	74.970
POCF	0.386	0.000	0.487	0.000	1.000
OWCO	51.134	51.445	16.325	0.000	89.830
DUAL	0.156	0.000	0.363	0.000	1.000
BODSIZE	7.838	8.000	1.879	4.000	14.000
BODIND	0.452	0.429	0.122	0.250	1.000
FSIZE (RM 000)	2,135,426	280,888	6,859,804	8,690	77,600,000
LNFSIZE	12.789	12.546	1.693	9.070	18.168
INVRC	0.313	0.292	0.193	0.001	0.922
FAGE	20.826	15.000	17.026	0.000	103.000
LNFAGE	2.693	2.708	0.887	0.000	4.635
LOSS	0.093	0.000	0.291	0.000	1.000
LEV	19.637	18.515	15.504	0.000	64.520
ROA	7.388	6.825	7.735	−43.550	56.960
MTB	1.494	0.980	2.350	0.100	34.610
BIG4	0.634	1.000	0.482	0.000	1.000
PODSEG	2.626	2.000	1.611	1.000	9.000
GEOSEG	1.911	1.000	1.593	1.000	8.000

Table 3.
Descriptive statistics

Source(s): Author's own work

DUAL is almost 0.16, implying that approximately 120 observations (out of 752) have CEO duality. The BODSIZE average is around 8, in accordance with previous Malaysian results (Ghaleb *et al.*, 2022). The average BODIND is 45%, similar to previous studies in Malaysia, which reported mean scores between 45 and 50% (Qasem *et al.*, 2020). The average SIZE is RM2.2 billion, aligning with previous studies in Malaysia, which report average firm market capitalisation between RM2.2 and RM2.4 billion (How *et al.*, 2014). The average INVRC is 0.313, consistent with findings by Wan Hussin *et al.* (2018), where the firm age average is almost 21. The firm-loss mean is 0.093. Furthermore, the debt-to-assets ratio mean is 19%, in agreement with figures from AlQadasi and Abidin (2018). The findings also demonstrate that the average ROA is 7%. The average MTB is 1.5. Nearly two-thirds of sample companies (63%) are audited by Big 4 audit companies. Finally, the averages of PODSEG and GEOSEG are 2.6 and 1.9, respectively.

6.2 Correlation matrix

Table 4 displays the Pearson correlation matrix for all variables utilised in this study to diagnose multicollinearity. The findings reveal a significant and negative correlation between IOW, LIOW, FIOW, POCF and AUDRL. These results support the study's hypotheses, suggesting that firms with higher IOW and PCs experience lower AUDRL. Moreover, the findings in Table 4 suggest that all correlations for the variables incorporated in the same regression are lower than 0.80, implying that multicollinearity is not a problem (Gujarati and Porter, 2009). Furthermore, the values of the variance inflation factor (VIF) for all variables (unreported) are less than 10 in all modules (Kennedy, 2008).

6.3 Regression results

The results presented in Table 5 indicate the significance of all regression models at the 1% level, suggesting a substantial impact of most explanatory variables on AUDRL. First, in line

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Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
(1) AUDRL	1.00																		
(2) IOW	−0.48***	1.00																	
(3) LIOW	−0.49***	0.95***	1.00																
(4) FIOW	−0.07*	0.34***	0.01	1.00															
(5) POCF	−0.31***	0.54***	0.52***	0.16***	1.00														
(6) OWCO	−0.26***	0.25***	0.28***	−0.04	0.06*	1.00													
(7) DUAL	0.16***	−0.17***	−0.17***	−0.02	−0.23***	−0.02	1.00												
(8) BODSIZE	−0.08**	0.28***	0.26***	0.11***	0.29***	−0.03	−0.17***	1.00											
(9) BODIND	−0.14***	0.07*	0.06*	0.02	0.10***	−0.15***	0.01	−0.30***	1.00										
(10) FSIZE	−0.44***	0.65***	0.56***	0.39***	0.49***	0.18***	−0.16***	0.26***	0.07*	1.00									
(11) INVRC	0.25***	−0.39***	−0.32***	−0.27***	−0.26***	−0.09***	0.09**	−0.03	−0.09**	−0.44***	1.00								
(12) FAGE	−0.23***	0.22***	0.19***	0.12***	0.39***	−0.07*	−0.21***	0.18***	0.17***	0.36***	−0.12***	1.00							
(13) LOSS	0.12***	−0.11***	−0.09**	−0.06	−0.08**	−0.06	0.04	−0.05	−0.02	−0.21***	0.07*	−0.05	1.00						
(14) LEV	0.09**	0.11***	0.10***	0.04	0.14***	−0.14***	−0.10***	0.10***	−0.05	0.13***	0.05	0.16***	0.08**	1.00					
(15) ROA	−0.16***	0.04	0.02	0.06	0.00	0.14***	0.00	0.00	−0.08**	0.17***	−0.04	−0.08**	−0.50***	−0.23***	1.00				
(16) MTB	−0.23***	0.13***	0.11***	0.10***	0.10***	0.13***	−0.07*	0.03	0.02	0.33***	−0.08***	0.04	−0.04	0.03	0.36***	1.00			
(17) BIG4	−0.24***	0.27***	0.24***	0.14***	0.21***	0.16***	−0.13***	0.19***	−0.07*	0.36***	−0.22***	0.22***	−0.03	0.09**	0.01	0.11***	1.00		
(18) PODSEG	0.01	0.09**	0.06*	0.10***	0.19***	−0.14***	−0.06*	0.11***	0.05	0.24***	0.01	0.24***	−0.03	0.12***	−0.16***	−0.14***	0.05	1.00	
(19) GEOSEG	0.01	−0.02	−0.04	0.06	0.05	−0.13***	−0.03	0.04	0.03	0.21***	−0.06	0.12***	−0.03	0.01	−0.06*	−0.04	−0.02	0.32***	1.00

Note(s): ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$
Source(s): Author's own work

Table 4.
Correlation matrix

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Table 5.
Results of FGLS regression

Variables	(1)	(2)	(3)	(4)	(5)	(6)
IOW	−0.077***	−0.040***				
	(0.005)	(0.008)				
LIOW			−0.086***	−0.076***		
			(0.004)	(0.007)		
FIOW					0.041***	0.045***
					(0.003)	(0.004)
POCF	−0.013***	−0.021***	−0.006*	−0.009**	−0.021***	−0.020***
	(0.003)	(0.004)	(0.003)	(0.004)	(0.004)	(0.004)
IOW*POCF		−0.041***				
		(0.005)				
LIOW*POCF				−0.010**		
				(0.005)		
FIOW*POCF						0.007
						(0.005)
OWCO	−0.002***	−0.002***	−0.001***	−0.001***	−0.002***	−0.002***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DUAL	0.053***	0.054***	0.057***	0.058***	0.062***	0.061***
	(0.006)	(0.007)	(0.006)	(0.006)	(0.007)	(0.007)
BODSIZE	0.002*	0.003**	0.003*	0.003**	−0.000	−0.000
	(0.001)	(0.002)	(0.001)	(0.001)	(0.002)	(0.002)
BODIND	−0.181***	−0.176***	−0.187***	−0.187***	−0.240***	−0.245***
	(0.025)	(0.032)	(0.025)	(0.024)	(0.031)	(0.032)
FSIZE	−0.025***	−0.031***	−0.027***	−0.027***	−0.052***	−0.053***
	(0.003)	(0.003)	(0.002)	(0.002)	(0.003)	(0.003)
INVRC	−0.115***	−0.114***	−0.110***	−0.111***	−0.083***	−0.082***
	(0.017)	(0.020)	(0.016)	(0.016)	(0.019)	(0.019)
FAGE	−0.049***	−0.043***	−0.048***	−0.046***	−0.045***	−0.044***
	(0.003)	(0.004)	(0.003)	(0.003)	(0.004)	(0.004)
LOSS	−0.020**	−0.022**	−0.020**	−0.020**	−0.033***	−0.035***
	(0.009)	(0.009)	(0.009)	(0.008)	(0.009)	(0.010)

(*continued*)

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Variables	(1)	(2)	(3)	(4)	(5)	(6)
LEV	0.003***	0.002***	0.003***	0.003***	0.002***	0.002***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
ROA	−0.003***	−0.004***	−0.003***	−0.003***	−0.003***	−0.003***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
MTB	−0.008***	−0.007***	−0.009***	−0.009***	−0.006***	−0.006***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
BIG4	−0.030***	−0.026***	−0.032***	−0.033***	−0.031***	−0.031***
	(0.005)	(0.006)	(0.005)	(0.005)	(0.006)	(0.006)
PODSEG	0.014***	0.016***	0.013***	0.014***	0.015***	0.015***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
GEOSEG	−0.000	−0.000	0.001	0.001	0.002	0.003
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Constant	5.179***	5.231***	5.182***	5.189***	5.577***	5.583***
	(0.043)	(0.049)	(0.040)	(0.042)	(0.040)	(0.043)
Observations	752	752	752	752	752	752
Wald χ^2	81979.61	7422.93	15480.93	27951.63	5961.75	6989.02
Prob > χ^2	*<0.001***	*<0.001***	*<0.001***	*<0.001***	*<0.001***	*<0.001***
Year/Sector Dummies	*Included*					

Note(s): Robust standard errors are shown in parentheses, and asterisks indicate the level of statistical significance level (***$p < 0.01$, **$p < 0.05$, *$p < 0.1$)

Source(s): Author's own work

Table 5.

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with our first hypothesis (H1), the results in column (1) of Table 5 reveal a negative and statistically significant relationship between IOW and AUDRL. The IOW coefficient is significant at the 1% level, implying that companies with higher IOW experience significantly shorter AUDRL. Thus, H1 is supported. These results are consistent with previous studies that have reported a negative and significant association between IOW and AUDRL (Aksoy *et al.*, 2021; Lee *et al.*, 2009; Sulimany, 2023). The current study's results support the agency theory assertion that IIs, due to their sophisticated knowledge and monitoring activities, help auditors in mitigating audit risk, consequently leading to lower audit efforts (Yang *et al.*, 2021). Furthermore, these findings, in conjunction with the argument by Sulimany (2023), suggest that a substantial IOW may exert external pressure on management to release audited financial statements promptly.

Second, Columns 3 and 5 scrutinise the heterogeneous impact of institutional investor monitoring by categorising IOW into LIOW and FIOW. In Table 5, Column 3, a significant negative association between LIOW and AUDRL is observed, with the coefficient of LIOW at a 1% level, indicating significantly shorter AUDRL for companies with higher LIOW. Thus, H2a is supported. These findings support the geographical proximity theory notion that LIOW effectively monitors investee firms due to their familiarity with the local business culture, environment and language (Li *et al.*, 2021; Miller *et al.*, 2021), imposing accurate and timely financial reporting. Overall, these findings imply that LIOW plays a crucial role in improving CG, leading to improved internal control, a more efficient audit process and, ultimately, a shorter AUDRL. In contrast, Column 6 reveals a positive and significant relationship between FIOW and AUDRL; the coefficient of FIOW is significant at 1%, indicating significantly longer AUDRL for firms with higher FIOW. Thus, H2b is supported. These results align with earlier research indicating that FIOW demands increased audit efforts to manage audit risk, resulting in higher audit fees in Malaysia (Tee *et al.*, 2017) and China (Li and Wang, 2024). This supports the agency theory arguments that FIOW is motivated to request extensive audit efforts to address concerns arising from limited knowledge of the local business environment, geographical distance from investee firms and information asymmetry (Döring *et al.*, 2021; Kim *et al.*, 2019; Li *et al.*, 2021; Li and Wang, 2024; Tee *et al.*, 2017).

Third, Table 5 shows a negative and statistically significant relationship between POCF and AUDRL across all columns, indicating significantly shorter AUDRL for POCF compared to non-POCF counterparts, consistent with findings in the Indonesian market (Habib and Muhammadi, 2018) and Malaysian POCF disclosing unaudited interim reports more promptly (Lim *et al.*, 2014). Fourth, in Columns 2, 4 and 6 of Table 5, we examine the influence of PCs on the IOW–AUDRL nexus. The results in Column (2) indicate a negative and statistically significant interaction between IOW and POCF with AUDRL, supporting H_3. These results are consistent with the findings of prior studies that IIs enhance monitoring on POCF (Tee *et al.*, 2017), leading to reducing auditors efforts and hence making the AUDRL short. These findings lend more support to the argument that POCF is subjected to more public scrutiny and a stronger control environment compared to non-POCF (Chaney *et al.*, 2011). They are influenced to issue timely audited financial reports for the stakeholders' assurance of financial integrity (Habib and Muhammadi, 2018).

Fifth, the results in Columns 4 and 6 show that POCF strengthens the significant negative association between LIOW and AUDRL. The coefficient of LIOW*POCF is negative and statistically significant at 5%, whilst there is no significant association between FIOW*POCF and AUDRL. These findings affirm that in Malaysia, where most LIOW are politically linked to the government (Jaffar and Abdul-Shukor, 2016; Tee *et al.*, 2017), they may exert more pressure on their investee companies to publish their audited financial reports in a shorter time. Conversely, FIOW lacking PCs to the Malaysian Government may request strong CG and extensive audit efforts by auditors in POCF to mitigate their uncertainty and information asymmetry (Li and Wang, 2024; Tee *et al.*, 2017), reflecting on longer AUDRL.

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Finally, the results in Table 5 indicate negative and significant coefficients for OWCO, BODIND, FSIZE, INVRC FAGE, LOSS, ROA, MTB and BIG4 in relation to AUDRL. Conversely, DUAL, BODSIZE, LEV and PODSEG coefficients are positive and significant. These findings align with prior studies, revealing a consistent pattern. However, no significant coefficient is observed for GEOSEG.

7. Robustness tests

In this section, we run a battery of additional tests to validate our results and give further insights on AUDRL. First, we address potential endogeneity issues arising from reverse causality, where IIs may favour companies with shorter AUDRL. Timely financial reporting is one of the main signals of audit quality (Rusmin and Evans, 2017; Al-Ajmi, 2008). However, IIs are more likely to increase their investments in firms with high financial reporting quality (Mehrani *et al.*, 2017) and provide high-quality audits (Habib *et al.*, 2019). In contrast, FIOW may favour firms with longer AUDRL, indicating extensive audit efforts (Li and Wang, 2024; Tee *et al.*, 2017). To mitigate endogeneity concerns, we employ two-stage least squares (2SLS) regression. First, the current study follows the procedures suggested by Aggarwal *et al.* (2011) in using the 2SLS regression with the instrument variables (IVs). For IOW, the current study employs return on equity (ROE), dividend yield (DVD), return on sales (ROS) and stock turnover (STURN) as IVs, as higher institutional investments are associated with companies exhibiting higher values of these variables (Shin and Seo, 2011; Ferreira and Matos, 2008; Tee, 2019). For LIOW, DVD serves as the IV, aligning with previous research indicating LIOW's preference for dividend-paying companies (Aggarwal *et al.*, 2011; Ferreira and Matos, 2008; Tee, 2019). Finally, the Morgan Stanley Capital Index (MSCI) is selected as an IV for FIOW, in line with findings that FIOW is more inclined to invest in MSCI index companies (Aggarwal *et al.*, 201; Ferreira and Matos, 2008; Tee, 2019). In the first stage, the IOW, LIOW and FIOW were regressed on the chosen IVs. Then, the fitted values of IOW, LIOW and FIOW (i.e. PrIOW, PrLIOW and PrFIOW) obtained from the first stage were employed in second-stage regression. Even after adding the predicted values of IOW, LIOW and FIOW to the regression, the findings, as revealed in Table 6 (all columns), confirmed the key findings in Table 5.

Second, we employ Heckman's (1979) two-stage technique approach to address self-selection bias (Boubakri *et al.*, 2012; Habib and Muhammadi, 2018; Qasem *et al.*, 2023c). In the first stage, POCF is regressed on IOW, LIOW and FIOW using a probit regression; all control variables from our baseline regression are incorporated. In the second stage of FGLS regression, we add the self-selection parameter (IMR) obtained from the first stage (results untabulated) as a further explanatory variable. The results in Table 7 corroborated the primary regression in Table 5, even after controlling the self-selection bias linked to PCs.

Third, following Al-Qadasi *et al.* (2019) and Wan-Hussin *et al.* (2021), we lagged the independent variables by one year to further address the reverse causality problem. The results from these estimations were qualitatively comparable to the key findings in Table 5 (for brevity, results are untabulated). Fourth, we use two different measurements for AUDRL. The first measurement of AUDRL is computed as the difference in days between a firm's financial year-end and the date when the auditor's report is signed (Al-Ajmi, 2008; Baatwah *et al.*, 2015). The second measurement, industry-adjusted audit report lag (IAARL), is calculated by deducting the industry median AUDRL from the firm AUDRL (Baatwah *et al.*, 2015). This measurement controls the influence of the industry effect on the AUDRL as opposed to utilising industry dummy variables (Mande and Son, 2011). The findings from these estimations are in line with the key results in Table 5 (for brevity, results are untabulated). Fifth, we utilise different measurements for institutional investor ownership levels (i.e. 5, 10 and 20%) (Al-Duais *et al.*, 2022; Lins, 2003). Lins (2003) asserts that IIs must own between 5 and 20% of firm ownership to be effective CG players in developing

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Table 6.
Results of 2SLS regression

Variables	(1)	(2)	(3)	(4)	(5)	(6)
PrIOW	−0.439***	−0.449***				
	(0.106)	(0.090)				
PrLIOW			−0.634***	−0.681***		
			(0.096)	(0.094)		
PrFIOW					0.038***	0.032***
					(0.003)	(0.003)
POCF	−0.023***	−0.016***	−0.026***	−0.013***	−0.028***	−0.026***
	(0.003)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
PrIOW*POCF		−0.068***				
		(0.004)				
PrLIOW*POCF				−0.077***		
				(0.005)		
PrFIOW*POCF						0.001***
						(0.000)
Constant	3.467***	3.316***	2.786***	2.515***	5.850***	5.883***
	(0.488)	(0.412)	(0.408)	(0.405)	(0.047)	(0.046)
Control Variables			*Included*			
Observations	752	752	752	752	752	752
Wald χ^2	10041.98	12828.24	5376.93	48716.38	13297.04	13318.24
Prob > χ^2	*<0.001***	*<0.001***	*<0.001***	*<0.001***	*<0.001***	*<0.001***
Year/Sector Dummies			*Included*			

Note(s): Robust standard errors are shown in parentheses, and asterisks indicate the level of statistical significance level (***$p < 0.01$, **$p < 0.05$, *$p < 0.1$)
Source(s): Author's own work

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Variables	(1)	(2)	(3)	(4)	(5)	(6)
IOW	−0.130***	−0.099***				
	(0.007)	(0.012)				
LIOW			−0.087***	−0.084***		
			(0.005)	(0.007)		
FIOW					0.055***	0.059***
					(0.003)	(0.004)
POCF	−0.008**	−0.015***	−0.006*	−0.007*	−0.019***	−0.018***
	(0.003)	(0.005)	(0.004)	(0.004)	(0.004)	(0.004)
IOW*POCF		−0.019***				
		(0.006)				
LIOW*POCF				−0.003		
				(0.005)		
FIOW*POCF						0.007*
						(0.004)
IMR	−0.147***	−0.113***	−0.098***	−0.096***	−0.236***	−0.241***
	(0.014)	(0.018)	(0.019)	(0.020)	(0.023)	(0.023)
Constant	5.764***	5.635***	5.713***	5.704***	6.932***	6.975***
	(0.077)	(0.085)	(0.131)	(0.132)	(0.146)	(0.148)
Control Variables	*Included*					
Observations	752	752	752	752	752	752
Wald χ^2	8321.36	7124.58	6179.17	6155.67	10672.02	10793.28
Prob > χ^2	*<0.001***	*<0.001***	*<0.001***	*<0.001***	*<0.001***	*<0.001***
Year/Sector Dummies	*Included*					

Note(s): Robust standard errors are shown in parentheses, and asterisks indicate the level of statistical significance level (***$p < 0.01$, **$p < 0.05$, *$p < 0.1$)
Source(s): Author's own work

Table 7.
Two-stage estimation (Heckman)

economies. The findings from these estimations are consistent with the key findings in Table 5 (for brevity, results are untabulated).

8. Conclusion

This study investigates the association between institutional investors' monitoring, the heterogeneity of IIs and AUDRL. Additionally, we study whether PCs can moderate this association. The primary findings from FGLS regression models are as follows: First, a negative and statistically significant association is observed between IOW and AUDRL. Second, upon delving into the heterogeneous effects of IIs and classifying them as local and foreign, LIOW demonstrates a negative and significant association with AUDRL, whereas FIOW exhibits a positive and significant association with AUDRL. Third, the study reveals that POCF strengthens the negative link between IOW, LIOW and AUDRL; however, POCF does not moderate the FIOW–AUDRL nexus. In further investigations, the study's main regression results persist robust after conducting several further analyses and controlling for endogeneity and self-selection bias issues.

The results of the current study have significant theoretical and practical implications. In terms of theoretical contributions, this study augments the existing literature on the association between institutional investors' monitoring, PCs and AUDRL in several ways. First, our investigation adds valuable insights to the limited and inconclusive findings regarding the relationship between IOW and AUDRL. The outcomes of this study suggest that the presence of IIs in a firm's capital stock enhances the information environment,

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transparency and quality of financial reporting. Consequently, this leads to a reduced audit assessment risk and a shorter AUDRL. Second, the findings of this study extend prior research by acknowledging institutional investor heterogeneity and conducting a more comprehensive examination of the IOW–AUDRL connection. Consequently, our results contribute to a better understanding of why earlier research on the impact of IOW on AUDRL produced inconclusive results. The study results suggest that IIs are not homogeneous, and their monitoring role differs according to their domicile. Third, this study proposes novel insights into the impact of PCs on the IOW–AUDRL nexus. The results indicate that IIs intensify their monitoring activities on POCF, which, in turn, may reduce the audit efforts of the auditors, consequently leading to a shorter period of AUDRL. In summary, this research advances our comprehension of the determinants of AUDRL by introducing previously unexplored variables, specifically institutional investors' domicile (local vs. foreign) and PCs. This study further provides new evidence in an emerging market context, i.e. Malaysia.

From a practical view, the implications of the study results are quite helpful for auditors, policymakers and investors. For instance, auditors may improve their audit planning and procedures to identify the possible effect of IIs and PCs on AUDRL. Auditors might alter their efforts to reduce AUDRL by understanding that IIs may improve information quality. Further, an understanding of the effect of PCs on institutional investors' monitoring activities can help auditors conduct the assessment of potential audit risks. Policymakers may use the findings of this research to create rules that recognise the differences in the effect of institutional investor monitoring depending on domicile. Considering these differences may lead to effective policies that enhance transparency and financial reporting quality. For investors, they can understand the behaviour of IIs and their influence on AUDRL. In addition, understanding the heterogeneous effect of IIs on AUDRL may guide investors' investment strategies. They may also consider institutional investors' domicile as a key factor when evaluating a company's information environment and transparency. Our findings further provide societal support for the continuing efforts of the Principles for Responsible Investment (PRI) to enable institutional investors to advise their portfolio firms on how to participate in responsible political activities that contribute to the improvement of society and the environment.

Some limitations of the present study need to be considered to properly analyse the results and provide direction for future studies. First, the current research is limited to a single developing market, Malaysia, and the results may not be entirely generalisable to other economies with different features. Future studies might look at other emerging markets in East Asia and beyond in different contexts. Second, this study considers only the heterogeneous of IIs based on their domicile; future research may consider institutional investors' investment horizon and their commitment to the PRI to better understand their monitoring role. Finally, future research may consider examining the influence of PC types on the IOW–AUDRL nexus. The study's results will be more reliable and applicable if these limitations are addressed, and these new research directions are explored.

Note

1. The five founding local institutions are *"Permodalan Nasional Berhad (PNB); Employee Provident Fund (EPF); Lembaga Tabung Angkatan Tentera (LTAT); Lembaga Tabung Haji (LTH) and National Social Security Organization of Malaysia (SOCSO)"*.

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Corresponding author
Ameen Qasem can be contacted at: ameen_102003@yahoo.com

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