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Timeliness of Financial Reporting by Cooperatives in Malaysia

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Abstract: The main focus of the National Co-operative Policy (NCP) 2011-2020 is to ensure that the co-operative movement in Malaysia complies with the co-operative legislation. The main vision of the Malaysian Cooperative Policy 2030 is to make cooperatives the main catalyst for Malaysia's socio-economic growth. This study aims to determine the timeliness of the annual financial reporting published by the cooperative sector in Malaysia and examine the relationship between the characteristics of cooperative variables and the level of timeliness of financial reporting achieved by the sample. The characteristics of the cooperative variables tested were profitability ratio, type of business, and age. The study used secondary data sources obtained from cooperative audited financial reports. The data obtained were analyzed using multivariate regression analysis. The results showed that the cooperatives' annual financial reporting timeliness was only 84.1%. The profitability ratio variable has a significant relationship with the timeliness of financial reporting at a 95% confidence level. In contrast, other variables were found to have no relationship with the level of timeliness of cooperative financial reporting. This study's results support previous studies' findings that found a relationship between some of the characteristics of the cooperative variables and the level of timeliness of its annual financial reporting.

Keywords: Timeliness, Financial Reporting, Cooperative Sector, Malaysia

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1. INTRODUCTION

Financial reporting is an important process for an organization to provide information to stakeholders about the organization's financial strength, results of business operations, and prospects. In addition, financial reporting can show investors the ability of an organization's administrators and management to manage their organization's information systems and financial affairs. The form of financial reporting that is always used is the annual report, which can be prepared in various specific periods, either monthly, quarterly, half a year, and usually annually. The annual report is a printed document that will display information to stakeholders that can also be displayed through other media such as websites and others. The timeliness of financial reporting is one of the important characteristics and principles of quality (GRI, 2015; GRI & ISO, 2014).

In particular, the financial reporting of cooperatives received serious attention from stakeholders due to the important role of the cooperative sector in the economic and social development of Malaysian society (Nor Asyiqin, Zuraidah, & Takiah, 2010). The cooperative annual report is prepared once a year to be presented at the Annual General Meeting (AGM). The cooperative's annual report is required by its members to assess its performance and achievements throughout the financial year. It is used as a guide to plan the achievement of the strategic objectives of the cooperative. Therefore, the information in this annual report should be complete and useful for cooperative members to contribute ideas and suggestions in the AGM held to strengthen the management of the cooperative and thus improve its overall performance (MKM, 2010). Therefore, to obtain complete and useful information, the provider of the cooperative's annual financial report must promptly provide important and useful information to provide the information needed by stakeholders to help them make the right economic and financial decisions.

1.1 Problem Statement

The timeliness of financial reporting is the time interval between the end of the reporting period and the date the financial statements are issued (Yousef Al-Tahat, 2010). The timeliness of financial reporting is an important criterion in preparing the cooperative's annual financial report because the information reported is valuable if it is reported on time to the members of the cooperative and the management in making financial and management decisions.

The requirements for the preparation of co-operative financial statements are set out in Section 58 of the Co-Operative Societies Act 1993 (Amendment 2007), Regulation 31, The Co-Operative Societies Regulations 2010, and Part C, Guidelines for the Preparation of Co-operative Financial Statements (GP23). Co-operative organizations in Malaysia are registered under the Co-Operative Societies Act 1993. They are responsible for managing the cooperative's finances to the best of their ability and communicating information about the position and operation of the cooperative business to stakeholders, especially its members.

Based on the researchers' observation on the annual report of the Malaysian Co-operative Societies Commission (MCSC) on the issue of preparation and auditing of the annual financial reports of cooperatives in Malaysia, it was found that only 87% of the financial reports that can be audited from the number of cooperatives that are eligible to be audited from 2012 to 2014 (SKM, 2015A). In 2015, only 85% of cooperatives' financial reports were audited (SKM, 2016). This percentage does not include the total number of

registered cooperatives in Malaysia in the years mentioned. Based on the MCSC report for the year ended December 31, 2014, an estimated 60% of cooperatives did not submit audited financial reports following the requirements of the Cooperatives Act 1993 (Act 502) (SKM, 2015A). The target of 90% of audits from the number of cooperatives eligible to be audited as targeted in the NCP has not yet been achieved. Therefore, there are still significant weaknesses in compliance with the MCSC Act, regulations, and circulars.

1.2 Research Questions and Objectives

The questions of the study are mainly focused on the following questions:

1. What is the level of timeliness of annual financial reporting by cooperatives in Malaysia?
2. Is there a relationship between the profit ratio, type of business, and age of the cooperative with the timeliness of cooperative annual financial reporting in Malaysia?

More specifically, the study is aimed to achieve the following objectives:

1. To identify the timeliness of cooperatives' annual financial reporting in Malaysia.
2. To study the relationship between the profit ratio, type of business, and age of the cooperative with the level of timeliness of cooperatives annual financial reporting in Malaysia.

2. LITERATURE REVIEW

This section discusses the literature highlights and past studies related to the focus of the study, namely the timeliness of cooperative financial reporting. A detailed discussion will assist in forming the framework of the study and, in turn, determine the appropriate research methodology applied to produce the findings. The discussion began by elaborating in detail on the timeliness of financial reporting, whether in the public or corporate sector. Then, the discussion will focus on the purpose of the timeliness of cooperative financial reporting.

2.1 Timeliness of Financial Reporting Concept

In the current era of globalization, the demand by potential investors for the timeliness of financial reporting has increased, causing managers of an organization to use financial reporting as an important tool in conveying information to investors (Popova, Georgakopoulos, Sotiropoulos and Vasileiou, 2013). The timeliness of high-quality financial reporting is important because such reporting will positively influence investors, potential investors and lenders in making investment and lending decisions and any investment-related decisions (IASB, 2008). The board of directors must ensure that the company has practical internal policies and procedures in place to ensure the timeliness of corporate financial information disclosure, including feedback from the management. These policies and procedures must comply with the reporting requirements set by the authorities (Securities Commission Malaysia, 2012).

Previous researchers have given varying definitions of the timeliness of financial reporting. Financial reporting can be defined as the delivery of economic information, whether

financial or non-financial, quantitative or qualitative, as well as related to the financial position and performance of the company (Owusu-Ansah, 1998). In more detail, financial reporting information disclosure refers to financial and non-financial reporting incorporated into financial reports that are useful for decision making (Beest, Braam and Boelens, 2009), disclosure of information with characteristics or attributes that make the accounting information valuable for consumers (O'Brien, 2004) and disclosure of truthful information presented in financial reports (Martinez-Ferrero, 2014). Financial reporting is any disclosure of financial information, whether numerical or qualitative, which is mandatory or voluntary or through official or unofficial channels (Gibbins, Richardson and Waterhouse, 1990).

Thus, the timeliness of reporting high-quality accounting information is one valuable way of compensating for information inequality (Chen, Hope, Li, and Wang, 2011). In addition, the quality of the timeliness of financial reporting is determined by looking at the extent to which the company's financial report reports its economic value and performance during the measurement period (Elbannan, 2011) which then the quality of the financial report will be a formal communication tool to inform the public about the performance of a company for a certain period (Norhayati, 2011).

Based on previous empirical studies, the quality of annual cooperative financial reporting can be determined into several types, namely quality in terms of disclosure (Engku Ismail, 2010; Norhayati, 2011; Yousef Al-Tahat, 2010), timeliness (Norhayati, 2011; Yousef Al-Tahat, 2010), compliance (Hopkins, Maydew and Venkatachalam, 2014), procurement management, financial reassessment and timeliness (Barth, Landsman and Lang, 2007), revenue quality (Madawaki, 2012), transparency and objectivity (Cohen, Krishnamoorthy and Wright, 2004) and qualitative characteristics: relevance and faithful representation (Beest et al., 2009).

The International Accounting Standards Board (IASB) was established to develop a high-quality, understandable, and enforceable global accounting standard that requires transparent and comparable reporting of information in financial reports, in line to make the cooperative sector the fourth contributing sector after services, manufacturing and agriculture to sustainable national development (Bernama, 2008).

3. RESEARCH METHODOLOGY

This study's main source of information is the data disclosed in the audited annual financial report. The way to obtain a complete set of audited financial reports of cooperatives selected for this study is through an application for official permission to the MCSC. MCSC permitted the form of a supporting letter to the study conducted and asked the researchers to apply directly to each chosen cooperative as a respondent after the supporting letter received from the MCSC, the application to each cooperative that has been selected as a sample of the study was carried out to obtain a copy of the cooperative's audited financial report. A list of cooperatives that have submitted their annual financial reports to the SKM is also requested, as a checklist will be used to collect the necessary data. The audited financial reports applied are for the years ended 2010 and 2014.

4. RESULT

4.1 Level of Timeliness of Financial Reporting by co-operatives in Malaysia

The timeliness of reporting by cooperatives in Malaysia is 84.1%, as achieved by the study sample in Table 1. The minimum score is 55 days, and the maximum score is 215 days. This means that the fastest cooperative to complete its audited account is within 55 days, while the slowest audited account of a cooperative to be completed is within 215 days. Annual financial reporting exceeding 151 days is not in compliance with the timeliness of annual financial reporting in accordance with Section 59(2) of the Cooperatives Act 1993.

Table 1. Level of Timeliness

| Number of days | Number of Samples | Percentage (%) |
|----------------|-------------------|----------------|
| 1 - 151 | 90 | 84.1 |
| More than 151 | 17 | 15.9 |
| Total | 107 | 100 |

4.2 Results of Multivariate Regression Analysis

Table 2 shows the results of Multivariate Regression Analysis for the timeliness of the cooperative's annual financial reporting. Further discussion is in sections 4.2.1, 4.2.2, and 4.2.3 below.

Table 2. Results of Multivariate Regression Analysis (Timeliness)

| Variable | B | t-statistic | P Value |
|------------------------------------|--------|-------------|---------|
| Constant | | 18.071 | 0.000 |
| (H ₁) Profit Ratio | -0.267 | -2.769 | 0.007 |
| (H ₂) Type of Business | -0.088 | -0.810 | 0.420 |
| (H ₃) Age | -0.131 | -1.225 | 0.223 |
| Model Summary: | | | |
| R ² | 0.088 | | |
| Adjusted R ² | 0.062 | | |
| F Statistic | 3.323 | | |
| Sig F | 0.023 | | |
| Sample | 107 | | |

4.2.1 Relationship of the Profit Ratio with the Level of Timeliness of Annual Financial Reporting by the Cooperative

Hypothesis 1 : *The profit ratio has a relationship with the timeliness of the cooperative annual financial reporting.*

Alternative hypotheses of this study assume that a cooperative's profit ratio has a significant relationship with the timeliness of its annual financial reporting (H₁). This means that a higher profit ratio is expected to have better financial reporting timeliness than a cooperative with a lower profit ratio.

The analysis results of the profit ratio variables are shown in Table 2, which has a significant relationship at the level of 95% confidence with the timeliness of the cooperative annual financial reporting. The results showed the value of Beta coefficient = -0.267, t

value = -2.769, and p-value = 0.007. Therefore, these results support the hypothesis that H1 was formed at the level of $p < 0.05$. This means that each increase in the unit size of the cooperative will improve the timeliness of the cooperative annual financial reporting. This study has strong results to clarify the relationship between the profit ratio factor and cooperative annual financial reporting timeliness. The profit ratio variable in this study was measured based on the total net profit, and it was hypothesized to have a significant relationship with the timeliness of the cooperative's annual financial reporting. Based on the analysis of this study, empirical evidence supports hypothesis 1, which was formed where the profit ratio variable has a significant relationship at the level of confidence $p < 0.05$ with the timeliness of the cooperative's annual financial reporting in Malaysia.

4.2.2 Relationship of the Type of Business with the Level of Timeliness of Cooperative Annual Financial Reporting

Hypothesis 2 : *The type of business has a relationship with the timeliness of the cooperative annual financial reporting*

In terms of business type factor, this study expects the type of cooperative business to have a relationship with the timeliness of its annual financial reporting. An alternative hypothesis of this study assumes that the type of business of a cooperative has a relationship with the timeliness of annual financial reporting (H2). This means that a cooperative's business type is expected to influence the timeliness of its annual financial reporting.

The analysis results for the type of business are shown in Table 2, which have an insignificant relationship with the timeliness of the cooperative annual financial reporting. The results of this analysis do not support the formed hypothesis H2. Therefore, this study has no evidence to explain the relationship between business-type factors and cooperative annual financial reporting timeliness.

4.2.3 Relationship of Cooperative Age to the Level of Timeliness of Cooperative Annual Financial Reporting

Hypothesis 3 : *The age of the cooperative has a relationship with the timeliness of the cooperative annual financial reporting.*

In terms of the cooperative age factor, this study expects the age of the cooperative to have a relationship with the timeliness of its annual financial reporting. An alternative hypothesis of this study assumes that the age of a cooperative has a relationship with the timeliness of its annual financial reporting (H3). This means that the age of a cooperative is expected to have a relationship with the timeliness of its annual financial reporting.

The analysis results for the cooperative age variable are shown in Table 2, which has no significant relationship with the timeliness of the cooperative's annual financial reporting. The results of this analysis do not support the formed hypothesis H3. Therefore, this study has no evidence to explain the relationship between the cooperative age factor and the timeliness of cooperative annual financial reporting.

5. CONCLUSION

The results of the descriptive analysis in Table 1 are to answer the question. The study's first objective is identifying the timeliness of the cooperative's annual financial reporting in Malaysia. The results of the analysis showed that the level of timeliness of the cooperative annual financial reporting is at 84.1%. Section 59(2) of the Co-operatives Act 1993 has stipulated that all co-operatives must comply with the thirty days for audited financial reports to be submitted to SKM before its annual general meeting not later than six months after the close of its financial year. However, the timeliness of the cooperative's annual financial reporting has still not reached the level of one hundred percent.

The results of the multivariate analysis are to answer the second question and objective of the study, to examine the relationship between the characteristics of the cooperative, namely the profit ratio, type of business, and age of the cooperative with the timeliness of the cooperatives annual financial reporting in Malaysia. The results of this analysis also answer three hypotheses (H1, H2, H3) formed based on the first question and objective. The regression analysis results for the timeliness of the cooperative annual financial reporting as a dependent variable and factors characteristic of the cooperative as an independent variable are shown in Table 2. The analysis found that one independent variable has a significant relationship with the timeliness of the cooperative annual financial reporting, namely the profit ratio. In contrast, other independent variables, namely the type of business and the age of the cooperative, were found to be insignificant to the timeliness of the cooperative annual financial reporting. Thus, it can be concluded that the characteristics of the cooperative are important elements that influence the timeliness of the cooperative's annual reporting in Malaysia.

6. LIMITATION AND RECOMMENDATION FOR FUTURE RESEARCH

The main limitation of this study is that the data source consists of secondary sources, namely the annual report of cooperatives only. Primary sources are important to analyze as stakeholders' opinions on the timeliness of annual financial reporting can have a significant impact. Due to the limited availability of data, we limited the analysis of this study to one group of factors, i.e., characteristics of cooperatives (profit ratio, type of business, and age) only.

The sample of this study should be extended to all size categories of cooperatives, not limited to large-sized cooperatives only, so that a comprehensive comparison can be made on the timeliness of the cooperative's annual financial reporting. The interpretation of large-sized cooperatives also needs to be expanded and not limited to the annual turnover of a cooperative as a measure of size, whether large, medium, small, or micro.

This study uses only quantitative data obtained from the cooperative's annual report. Future studies should include or consider qualitative data to support the results of quantitative data analysis so that the overall effect can be known. In addition, case studies can also help strengthen and support the results of quantitative studies.

The findings of this study can, to some extent, answer the question about the position of the timeliness of the cooperative's annual financial reporting in Malaysia and the factors that influence it. Therefore, further studies should be conducted in the future by including other factors such as governance characteristics, the role of the Internal Audit Committee,

and stakeholders as variables in the study model. These factors were not studied by the researchers in this study due to time and cost limitations during the study. These factors should be studied as they are important factors expected to affect the timeliness of the cooperative's annual financial reporting.

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