

Board Member with Political Connections, Audit Committee Expertise, Competent Management Team and Timeliness of Financial Reporting: Malaysia Non-Profit Organization Evidence

Yusri Huzaimi Mat Jusoh¹, Farah Ahlami Mansor², Wan Mohd Firdaus Wan Mohamed², Mohamad Sayuti Salleh², Mohamad Ikram Ramzi², Wan Muzlaina Wan Mustafa¹

¹Faculty of Accountancy, UiTM Cawangan Kelantan, Malaysia, ²Faculty of Business and Management, UiTM Cawangan Kelantan, Malaysia
Corresponding Author Email: yusri367@uitm.edu.my

To Link this Article: <http://dx.doi.org/10.6007/IJARBS/v13-i10/19124> DOI:10.6007/IJARBS/v13-i10/19124

Published Date: 27 October, 2023

Abstract

This study examines the relationship between board members with political connection, audit committee expertise, competent management team with the timeliness of financial reporting among Non-Profit Organizations (NPO) in Malaysia. A structured questionnaire was distributed to the stakeholders of NPO throughout Malaysia. The data analysis from 122 completed responses revealed that audit committee expertise and competent management team proved to have a significant impact on the timeliness of financial reporting among the NPO in Malaysia. The finding of this study not only contributed to literature in exploring determinant compliance for the timeliness of financial reporting of NPO, but they also provide insights to the governing bodies and the NPO stakeholders to make policy decisions for improving timeliness compliance level. This present study, however, has limitations due to the use of closed questionnaires that might not capture further information completely.

Keywords: *Expertise, Resource Dependency Theory, Timeliness of Financial Reporting*

Introduction

Malaysia, Non-Profit Organizations (NPOs) are the third sector after the Government and Private Sectors (Roslan et al., 2017). NPOs are also known as Charities, Welfare Bodies, or Social Bodies. In Malaysia, until January 2023, there are 79,633 NPOs registered with the Registrar of Societies (ROS) Malaysia. The main purpose of establishing an NPO is to contribute to society in the form of social values. Social value refers to specific outcomes that focus on reducing or eliminating unfavorable conditions for society and improving the

standard of living (Kroeger & Weber, 2014). NPOs can also overcome social problems (Mahamud et al., 2021). Among the issues that have been successfully addressed by the NPOs include homelessness, elderly care, health, youth, and unemployed single mothers. In this regard, to fulfill the social mission, it is important for NPOs to deliver social services effectively (Omar et al., 2016). The following table shows the functions of NPOs in Malaysia by category:

Table 1
Functions of NPOs in Malaysia in 2022

No.	Category	Number of NPOs	Percentage (%)
1	Politics	70	0.1
2	Welfare	27,410	34.4
3	Social	19,259	24.2
4	Recreation	7,627	9.6
5	Khairat Death Funds	1,609	2.0
6	Culture & Arts	3,710	4.7
7	Trade	5,227	6.5
8	Professional	1,125	1.4
9	Fundamental Rights	803	1.0
10	Safety	602	0.8
11	Religion	12,191	15.3
		79,633	100%

(Source: Website report at www.ros.gov.my)

NPOs need funds from the public to continue welfare and relief works. Therefore, the importance of transparency and accountability for an NPO is very important, especially from the funder's perspective (Masdar, 2015), in order to ensure that the NPO's sustainability can be maintained. In Malaysia, the biggest challenge of NPOs are obtaining funds from individual donors or corporate bodies and government grants (Perai, 2021). The number of registered NPOs is increasing year by year; therefore, public trust, including corporate and government trust in NPOs, becomes an important asset. An NPO must not only be seen as a good NPO but also as a clean, transparent, and trustworthy body in achieving the objectives of its establishment.

Nevertheless, the level of trust among fund donors was slightly tarnished when the media reported several cases involving the ineffectiveness of NPOs in the mainstream media. Cases involving high-profile individuals who hold positions in political parties often become headlines in the media. For example, Sinar Harian (2021) reported the manipulation of a Foundation involving a sum of RM17.9 million by high-profile individuals with a political background. Cases like this often happen in Malaysia. Berita Harian (2019) reported that the Division Head of a Malaysian political party was accused of using Yayasan Kemiskinan funds to build his own wealth. In addition, a group of political party leaders were found to have misused corporate-sponsored funds for helping flood victims in Kelantan (New Straits Times, 2015). The Sun (2019) also reported that a President from a political party embezzled funds from an association and did not carry out the duties entrusted to him. These reports have raised public concerns about the role of board members in achieving the social mission of an NPO because most of the funds come from public/private donations or the government. Cases involving NPO Board Members with a political background seem unending; therefore,

mismangement of funds, fraud, and misappropriation among these members require more effective action.

The cases mentioned above not only affect the public trust to donate but also raise the question of whether such malpractice can be detected by the management and auditors in order to show 'red flags' to the scandals taking place. DeZoort et al. (2002) stated that if an organization has audit committee expertise (AC), then cases related to embezzlement, fraud, and abuse can be reduced; this opinion is also supported by many studies (Jusoh et al., 2022; Marzuki et al., 2019; Sun et al., 2014). Similarly, Loufrani-Fedida & Aldebert (2021) stated that by having an organization that has competent management, problems involving integrity and governance can be reduced efficiently. Therefore, NPOs in Malaysia should have Board Members with integrity, an expertise audit committee line, and a competent management line so that NPOs in Malaysia have more credibility and are able to increase public trust.

Additionally, Wang et al. (2019) stated that NPO Board Members who have political connections, audit committee expertise, and competent management can ensure that the Financial Reporting complies with the requirements of the law. This echoes the study by Ali et al. (2011) involving non-profit organizations in Malaysia. In Malaysia, Financial Reporting must comply with three main aspects, namely compliance with accounting standards, compliance with the enforced laws, and compliance with timeliness. For instance, there are some NPOs that failed to comply with financial reporting timeliness such as Aman Palestine (Sinar Harian, 2021). Nevertheless, based on an early survey, there is a lack of research in Malaysia on compliance with financial reporting timeliness among NPOs. In this vein, the present study is expected to fill this gap as well as identify the effectiveness of NPO Board Members, especially those who have political connections, audit committee expertise, and competent management in order to be able to provide financial information in a timely manner.

Resource Dependency Theory

Board Members and Audit Committee can increase the potential of an NPO. This is based on previous findings, which suggest that the Resource Dependency Theory (RDT) is more suitable for governance because this theory explains how external resources such as board members, audit committee can influence the achievement of an NPO (Hillman et al., 2009). According to the Resource Dependency Theory (Pfeffer & Salancik, 1978), the main focus is on how the external environment affects the survival of an organization. An organization depends on the external environment to acquire and maintain its resources. In this regard, it is important for NPOs to improve the governance process and create a good public image in fulfilling their social objectives (Saad et al., 2017). However, the external environment has a high level of dependency and uncertainty that can affect the survival of an organization. Therefore, this theory argues that effective board members, audit committee and management can recognize and modify the degree of dependency on the external environment so that the organization can carry out its mission effectively (Ozturk, 2021). In short, board members, audit committee and management play a role in adjusting the NPO's level of dependency on the external environment, which can help the NPO increase its efficiency level. As such, the RDT perspective is suitable for explaining the behavior of board members, audit committee and management in order to determine the nature of the NPO's dependency on the external environment so that the NPO can maintain its financial strength. For example, NPOs rely on the external environment to generate their resources, such as

grants from the government or the private sector and donations from companies or individuals.

Timeliness and Financial Reporting

Quality Financial Reporting must adhere to timelines; in other words, financial information must be available when users need it to make decisions (Jusoh et al., 2022). The Societies Act 1966, Section 14 states that every registered Societies must submit a Financial Report within 60 days after the end of the accounting period. Therefore, compliance with financial reporting timeliness is very important to the responsible parties in order to know the position and financial performance of an organization (Zandi & Abdullah, 2019). According to Saad et al. (2017), if a foundation or an organization can comply with the specified rules, then the result or the level of public trust to obtain sponsorships, zakat, and donations will be greater. According to previous studies (Jusoh et al., 2022; Marzuki et al., 2019; Zandi & Abdullah, 2019) involving public listed companies and cooperatives, business entities that adhere to timelines tend to earn a high level of confidence and trust among investors and shareholders. In addition, these studies also stated that quality Financial Reporting can attract more potential investors to invest in companies and cooperatives. One of the characteristics of quality Financial Reporting includes adhering to the timeliness set by regulations and laws.

Board Members with Political Connections and Timeliness of Financial Reporting

Board members who have ties to politics are said to be able to improve the governance of an organization (Joni et al., 2020). However, Preuss & Königsgruber (2021) stated that having board members with political connections may result in poor governance and increase agency costs due to the board members' behaviours (Fisman, 2001). Based on IPO firms in China, Fan et al. (2007) investigated the influence of board members with political connections on financial reporting performance and found that if a Company has a large number of board members with political connections, the tendency to comply with timeliness is lower. They also concluded that board members who have more political connections tend to become less professional. Political influence is generally greater in economies with lower governance quality because those with political power usually find it difficult to comply with established rules, including compliance with financial reporting timeliness (Francis & Kubinec, 2022).

The resource dependency perspective suggests that organizations establish relationships with politicians by appointing them as board members. Organizations that appoint those with political connections will enjoy various exemptions and facilities through political influence (Mohammed et al., 2017) even if the financial report fails to adhere to the timeliness. As supported by Chaney et al. (2011) who examined a sample of 4,954 firms from 19 countries, firms with politically connected board members fared poorly in terms of providing financial reporting information and failed to publish financial reports as stipulated in the regulations.

H1: Board members with political connections can influence NPOs' compliance with Financial Reporting timeliness in Malaysia.

Audit Committee Expertise and Timeliness of Financial Reporting

Beasley et al. (2009) asserted that the committee is a unit established by board members to control and ensure accuracy in the disclosure of financial reports. The audit committee is responsible for reviewing all the information contained in the financial report

before it is reported to external parties. The expertise of an audit committee in the field of accounting and finance is highly demanded (Hamdan, 2020; Masmoudi, 2021). Baatwah et al. (2019) in their study stated that audit committee members with financial expertise can reduce financial reporting delays. Hence, these audit committee members are important in ensuring that the committee performs its duties effectively; members with accounting and financial knowledge can better understand the accounting process and subsequently report or monitor management actions that tend to be manipulated (Bilal et al., 2018). If the audit committee can monitor and report on misconduct (red flag) in an organization early, then compliance with financial reporting timeliness automatically takes place (Oussii & Boulila Taktak, 2018).

In addition, the financial expertise of the audit committee in an organization can help the work of external auditors to be carried out effectively (Salleh & Stewart, 2012). This is because the consideration of external audits in conducting audits can be realized on a regular basis such as by making the audit committee's papers as a reference and further facilitating compliance with financial reporting timeliness. Besides, this point is also supported by the findings of several past studies (Hashim & Rahman, 2011; Ika & Ghazali, 2012; Puasa & Ahmad, 2014).

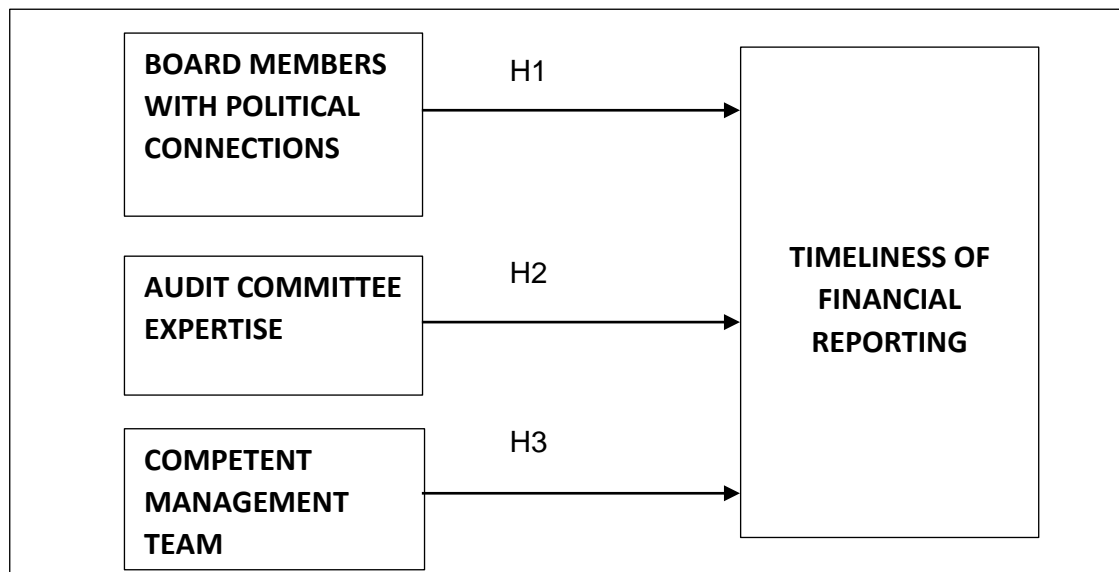
H2: Audit committee members with accounting and financial expertise can influence NPOs' compliance with Financial Reporting timeliness in Malaysia.

Competent management team and Timeliness of Financial Reporting

Management competence refers to the skills available in the management of an organization (Seifzadeh et al., 2021). Dearborn & Simon (1958) suggested that management with competence in the financial field will pay attention to and monitor financial reporting in complying with the set period. Close monitoring facilitates the identification and mitigation of irregular accounting practices so that financial reporting can be made on time. In line with this finding, the percentage of management with a financial background in organizations in the United States has increased significantly in recent years (Cullinan & Roush, 2011; Ismail et al., 2021). In accounting research, the importance of financial experience in management has been confirmed by past studies on profit-based companies; however, studies involving NPOs are scarce. This can be proven through empirical studies (Baatwah et al., 2015; Datta et al., 2023). Rashid (2020) indicated more conservative accounting practices and more accurate income/expense estimates for organizations managed by financial experience management. The study linked management with financial expertise, experience and highlighted the importance of quality information in reducing information asymmetry between organizations and stakeholders. Kabuye et al. (2017) suggested that every management with a financial background in an organization adopts a conservative strategy in performing its duties. Conservative is a concept in accounting. In response to economic uncertainty, recognizing expenses and liabilities should be immediate. They found that management with a conservative style has good and prudent financial reporting disclosure; thus, financial reports will comply with the established timelines because the risk of fraud or manipulation can be avoided through such a strategy.

H3: Competent management team can influence NPOs' compliance with Financial Reporting timeliness in Malaysia.

Figure 1

Theoretical Framework**Methodology**

The present study was focus on the timeliness of financial reporting among the NPO throughout Malaysia. This study used simple random sampling technique where the respondents consist of members of NPOS, board members, audit committee and management of NPO registered with Registrar of Societies (ROS) in Malaysia. According to the Roscoe (1975), he proposed the sample size of larger than 30 and less than 500 is appropriate for most research. The sample size should be as large as possible for it to be more representative of the population and sample size is preferable ten times of more as the number of variables in the study. Within this limit, it is recommended that the minimum necessary sample size is about 30 of each category variables. As such, the study examines four variables including one dependent variable, 120 samples are needed for it to represent the population.

On March 02-03, at Kind Malaysia 2023 held in MITEC Kuala Lumpur, questionnaires were given out and the respondents' answers were gathered. Due to the convenience and effectiveness of this electronic distribution method, the researchers first sent the questionnaires to 398 attendees via a Google Forms link. A total of 122 responses were gathered, 105 responses out of 122 total responses were received as the exhibition ended. This suggests that the participants completed the questionnaires at the exhibition and had the opportunity to consult with the researchers and team members to clarify any incomprehensible items in the questionnaire. The researchers followed up with the respondents via phone calls and emails to get a greater response rate after receiving the final 17 responses two to three days after the exhibition. As a result, 30% of responses rate were submitted because the follow-up message prompted those who hadn't yet finished the questionnaires to do so. The present study recorded the response rate of 122 respondents, which exceeds the threshold of 120 as suggested by Roscoe (1975).

The data analysis was performed using Partial Least Squares-Structural Equation Model (PLS-SEM) via SmartPLS 4.0 software. In general, PLS-SEM estimates a theoretically proven cause-and-effect model using the variance-based partial least squares approach. According to Hair, Ringle and Sarstedt (2011), the model technique's iterative strategy works

the same way as multiple regression analysis. Therefore, in line with the suggestion by Hair, Risher, Sarstedt, and Ringle (2019), the use of PLS-SEM fits the aim of the current study, which is to examine the predictive associations involving board with political connection, audit committee expertise and competent management team variables with the compliance of financial reporting timeliness compliance.

Research Instruments

The present study employed survey questionnaires developed by Jusoh et al. (2022); Murti et al. (2022) and Preuss & Königsgruber (2021) to identify the relationship between the constructs. The survey instruments used in this study contains two major sections, the first section collects the demographic information about the respondents, while the second section comprises questions regarding three factors which are boards with political connections, audit committee expertise and management competence towards timeliness of financial reporting. A corresponding 7 Likert scale was deployed (1 for “strongly disagree” and 7 for “strongly agree”). The variables, dimensions, and measurement are shown in Table 2.

Table 2

Research Variables

Variables	Dimension	Measurement
Board with Political Connection (BPC)	Appointment	The appointment of a Board Member is decided among members during the Annual General Meeting.
	Influence	An appointed Board Member is influenced by political position to make sure financial comply with laws.
	Skills	The appointment of a member of the Board with political connection is based on the possessed skills and expertise.
	Discipline	Board Members with political positions are more disciplined in financial reporting compliance.
	Integrity	Board Members with political influence have more integrity in performing their duties and financial compliance.
Audit Committee Expertise (ACE)	Expertise	Audit committee members are required to have accounting and financial expertise in carrying out their responsibilities.
	Education	Audit committee members must obtain formal education in the field of accounting and finance to gain expertise.
	Skills	Audit committee members with accounting and financial backgrounds are able to comply with legal requirements.
	Professional	The participation of audit committee members in the professional field (MIA, ACCA) can further increase the required expertise and financial reporting compliance.

	Signal	Expert audit committee members must highlight 'red flags' if there is financial reporting misconduct that can delay the financial compliance process.
Competent management team (MGT)	Education	Competent management team entails formal education in the field of management, accounting and finance.
	Value added	Competent management team can add value to the organization in order to contribute to a high level of financial reporting compliance.
	Experience	Competent management team can likewise be categorized as the inclusion of individuals who possess management experience in financial reporting compliance.
	Decision	Competent management team allows for accurate decision-making and has a positive impact on financial reporting compliance.
	Competent	The added value of an organization is often a result of competent management team.
Timeliness Financial Reporting (TFR)	Board Member	As a stakeholder, do you agreed board member with political connection can contribute to financial reporting timeliness compliance.
	Audit Committee	As a stakeholder, do you agreed audit committee expertise can contribute to financial reporting timeliness compliance
	Management Competence	As a stakeholder, do you agreed management competence can contribute to financial reporting timeliness compliance

RESULT

Socio-Demographic Characteristics

Table 3 demonstrates demographic data extracted from the study. As indicated below, total of 62 (50.8%) of respondents from this study are males, the remaining are female. This study represent Chinese respondents were 49.2%, follow by Malay 23.8%, Indian 23% remaining balance was others race. The education level section revealed that 11 respondents (9%) are postgraduate degree holders (Master and PhD), followed by 44 (36.1%) respondents having bachelor's degree and Professional Degree (ACCA, CIMA and Others). The respondents with Diploma holders are 37 (30.3%) and lastly 30 of the respondents pass the Sijil Pelajaran Malaysia (SPM). Based on position in the NPO, 33 respondents were involved in management work, 27.9% or 34 of the respondents were audit committee members, 35 respondents were board members of NPO and only 16.4% of the respondents were represent ordinary members of NPO. More than 50% of the respondents having above 16 years of involvement in NPO, 39 of the respondents had 11 to 15 years of involvement, followed by 9 respondents with involvement 6 to 10 years and lastly, 7.4% of the respondents had 1 to 5 years of involvement.

Table 3

Respondents Profile

Demographic Characteristic	Total	Percentage (%)
Gender:		
Male	62	50.8
Female	60	49.2
Race:		
Malay	29	23.8
Chinese	60	49.2
Indian	28	23.0
Others	5	4.1
Education:		
SPM	30	24.6
Diploma	37	30.3
Bachelor/Professional	44	36.1
Postgraduate	11	9.0
Position:		
Ordinary Member	20	16.4
Board Member	35	28.7
Audit Committee	34	27.9
Management	33	27.0
Years of Involvement:		
1 to 5 years	9	7.4
6 to 10 years	9	7.4
11 to 15 years	39	32.0
Above 16 years	65	53.3

Table 4 presents the descriptive result in measuring research variables. Mean and standard deviation describe the level of variation there is from the mean. A low standard deviation indicates that the data point tends to be close to the mean, whereas a high standard deviation indicates that the data is spread out over a large range of values. According to Geisser (1974), the mean score between 1.00 to 2.00 is considered low, 2.01 to 3.00 medium low, 3.01 to 4.00 medium high and 4.01 above is high. In this study, mean scores for variables are acceptable and considered high.

Table 4

Descriptive Statistics of Variables

Variables	Dimension	Mean	Median	Std. Deviation
BPC	Appointment	6.22	6.00	0.798
	Influence	6.20	6.00	0.781
	Skills	6.28	6.00	0.730
	Discipline	6.25	6.00	0.809
	Integrity	6.25	6.00	0.875
ACE	Expertise	5.93	6.00	0.850
	Education	5.50	6.00	1.180
	Skills	5.94	6.00	0.939
	Professional	5.45	6.00	1.129
	Signal	5.89	6.00	0.864
MGT	Education	5.90	6.00	0.885
	Value added	6.10	6.00	0.847
	Experience	6.11	6.00	0.851
	Decision	6.34	6.00	0.745
	Competent	6.32	6.00	0.795
TFR	Board Member	5.35	5.00	1.164
	Audit Committee	5.14	5.00	1.262
	Management Competence	5.06	5.00	1.326

Measurement Model Analysis

The measurement model analysis was carried out to assess the validity and reliability of the model. The was assessed through convergent validity and discriminant validity tests. Table 5 show the factor loadings for all items between 0.793 and 0.954, which were above the threshold value of 0.5 (Hair et al., 2009). Both the composite reliability (CR) and average variance extracted (AVE) scales were above the accepted values of 0.5. Based on the figures, the items passed the convergent validity test.

In addition to convergent validity testing, discriminant validity is used in this study to support the findings. Discriminant validity is the extent to which a measure deviates from another measure whose underlying construct is conceptually unrelated to it. Heterotrait-Monotrait Ratio (HTMT) as proposed by Henseler et al. (2014) allows one to assess the discriminant validity of a measure. By contrasting predetermined thresholds, HTMT as a criterion is evaluated. A conclusion that discriminant validity absent can be drawn if the value of HTMT is greater than this cutoff. The suggested value is 0.90 by Hair et al. (2019). The HTMT ratio was used to evaluate the discriminant validity of the measurement model, and the results are displayed in Table 6.

Table 5

Convergent Validity of Measurement Model

Constructs	Items	Factor loading	Average Variance Extracted (AVE)	Cronbach's Alpha	Composite Reliability
BPC	BPC1	0.936	0.873	0.963	0.972
	BPC2	0.947			
	BPC3	0.938			
	BPC4	0.954			
	BPC5	0.895			
ACE	ACE1	0.864	0.738	0.914	0.933
	ACE2	0.806			
	ACE3	0.891			
	ACE4	0.881			
	ACE5	0.850			
MGT	MGT1	0.793	0.778	0.929	0.946
	MGT2	0.920			
	MGT3	0.908			
	MGT4	0.884			
	MGT5	0.899			
TFR	TFR1	0.883	0.809	0.882	0.927
	TFR2	0.930			
	TFR3	0.884			

Notes: BPC = Board with political connections, ACE = Audit Committee Expertise, MGT = Competent management team and TFR = Timeliness of Financial Reporting

Table 6

Discriminant Validity Analysis

Constructs	BPC	ACE	MGT	TFR
BPC				
ACE	0.851			
MGT	0.815	0.836		
TFR	0.605	0.774	0.722	

Structural Model Analysis

After the measurement model satisfied the convergent and discriminant validity, a structural model was thus developed and then tested. The assessment of the structural model of this study was analyzed using five-step procedures proposed by Hair et al. (2014) which includes assessment of collinearity issues; path co-efficient; coefficient of determination (R²); effect size f² and predictive relevance (Q²). Due to the high causative influence, problems with lateral collinearity may cause the results to be inaccurate even when the criteria for discriminant validity are met (Kock & Lynn, 2012). The variance inflation factor (VIF) gauges how closely related the indicators are to one another. According to Table 7, the results of the

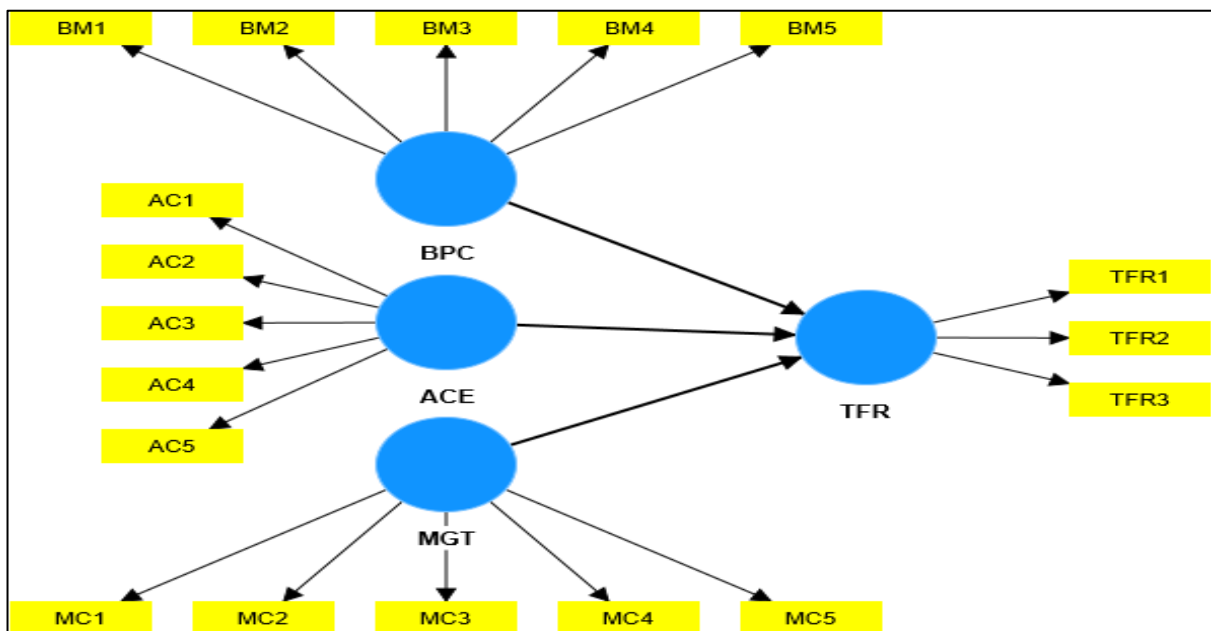
VIF values for each construct, were no concerns with collinearity in the structural model, and the VIF scores for each construct is below the recommended threshold value of 5 (Hair et al. 2014).

Table 7
Collinearity of VIF

CMV	BMP	ACE	MGT	TFR
VIF	3.205	3.038	3.224	2.186

The SmartPLS 4 Software algorithm was used to analyze the relationship between the variables, and further studies were performed using SmartPLS4 Software bootstrapping of 5000 to evaluate the degree of significant and t-statistics for all paths. Figure 2 shows the path analysis summarized. Table 8 shows the results of R2, f2 and Q2, along with the corresponding t-values.

Figure 2
Research Model of the Study



The results indicate Table 8, that the Audit Committee Expertise ($\beta= 5.141, p< 0.05$) and Management Competence ($\beta= 3.458, p< 0.05$) were positively related to Timeliness of Financial Reporting and explained 53.1% of the variance in timeliness of financial reporting. However, Board with Political Connection do not influence the Timeliness of Financial Reporting. Thus, H2 and H3 were supported. The R2 value was above the 0.50 value as recommended by Cohen (1988) indicating this a moderate model.

Table 8
Hypothesis Testing

Hypo. Testing	Relationship	Std Beta	S.E	t-Value	Decision	R2	f2	Q2
H1	BPC -> TFR	0.142	0.116	1.275	N/S		0.014	
H2	ACE -> TFR	0.507	0.098	5.141	S*		0.161	
H3	MGT -> TFR	0.394	0.115	3.458	S*	0.531	0.108	0.423

* $p < 0.05$

Even if the p-value is used to assess the statistical significance of any association between exogenous and endogenous components, it is unable to show the magnitude of the effect, also known substantive significance (Sullivan & Feinn, 2012). This study used the Cohen (1988) rule of thumb, which is 0.02, 0.15 and 0.35 representing small, medium and large effects, to calculate the amount of effect. Based on the result of f^2 effect size in Table 8, it showed that only audit committee expertise has medium effect sizes. Hair et al. (2010) have emphasized that the effect size is difficult to determine using a rule of thumb since it depends on the complexity of the model, the study context, and the research topic.

This study also evaluated the model's predictive relevance (Q2). The predictive Q2 test employs the blindfolding approach to assess the predictive value of external constructs over endogenous constructs (Geisser, 1974). The predictive relevance of the path model for a certain dependent construct is indicated by a value of Q2 greater than zero for a particular reflective endogenous construct (Hair et al., 2014). By applying the blindfolding procedure as suggested by Hair et al. (2019), the result shows that the research model has medium predictive relevance (Q2 = 42.3%).

Discussion

Based on Table 8, Hypothesis 1 shows that board members with political connections did not influence NPOs' compliance with Financial Reporting timeliness in Malaysia. In this regard, BPC was not able to expedite the financial reporting process according to the timeline. Preuss & Königsgruber (2021) in their study found that politically connected board members were unable to improve the quality of financial reporting, particularly in terms of compliance with accounting standards and timeliness. This finding is also in line with that of Chaney et al. (2011), which asserted that although a board member has political connections, they must have skills in the field of accounting and finance in order to ensure that the accounting information disclosed is of better quality and complies with the set timeline. Board members with political connections are also said to have high discipline and integrity (Dicko, 2017); however, due to time constraints and political duties, the board members might be less committed to financial reporting compliance (EL Ammari, 2022). The findings of this study are expected to help members in choosing the board of directors during the upcoming annual general meeting.

Hypothesis 2 suggests that members of the audit committee who have accounting and financial expertise can influence NPOs' compliance with financial reporting timeliness in Malaysia. As can be seen in Table 8, Hypothesis 2 was significant, and this finding implies that audit committee members with accounting and financial expertise are able to help the process of compliance with financial reporting timeliness. However, since NPOs in Malaysia are not subject to regulations to appoint audit committee members with accounting expertise, this finding is expected to encourage authorities such as the Registrar of Societies (ROS) to play an important role by making guidelines so that the audit committee members who will be appointed have in-depth knowledge of accounting and finance. The finding that audit committee members must have accounting and financial skills has also been supported by previous researchers such as (Al-Hadrami et al., 2020; Baatwah et al., 2019; Bilal et al., 2018).

Hypothesis 3 states that a competent management team can influence NPOs' compliance with financial reporting timeliness in Malaysia. This study found that Hypothesis 3 was accepted and significant. A competent management team is appraised in terms of

education, added value, experience, results, and level of competence. Table 8 shows that a management competence group can influence the level of NPOs' timeliness compliance in Malaysia, and a positive education measurement can further increase it (Mean: 5.90, SD: 0.885). In addition, this study is consistent with the findings of previous studies such as (Alzeban, 2022; Madawaki et al., 2022; Rashid, 2020), which stated that financial reports that are of good quality and adhere to the timeliness are due to the competent management team in carrying out their duties and job.

Conclusion and Future Research

In conclusion, this study attempts to prove the relationships between board members with political connections, audit committee expertise, management competence groups, and NPOs' compliance with financial reporting timeliness in Malaysia. Based on the analysis, the expert audit committee and competent management team had a significant relationship with compliance with financial reporting timeliness. Meanwhile, board members with political connections were found to have no significant relationship with NPOs' compliance with financial reporting timeliness in Malaysia. The predictive value of the model is 53.1%, which is considered good and able to explain the variables of timeliness compliance. Since only three (3) variables were used in this study, future studies may consider including more variables related to the factors influencing timeliness compliance among NPOs in Malaysia.

This study was conducted using the survey method to identify variables that can help improve the compliance rate of financial reporting timeliness among NPOs in Malaysia. Although the survey questions are based on published literature, this method may have drawbacks due to the absence of secondary data related to NPOs in Malaysia. Therefore, this study is only based on feedback received from the respondents and Malaysian NPO stakeholders. In addition, the findings may not entirely represent the general population of NPOs in Malaysia.

Despite the limitations discussed above, this study may shed some light on the importance of having board members, audit committee members, and management that are able to function well by ensuring that the financial reports provided are accurately on time in order to ensure that the NPO sector in Malaysia remains relevant and trusted by funders. Therefore, the findings of this study may also be useful for parties that are interested in NPOs, especially in terms of policymaking and the decision to appoint any party to manage NPOs. In addition, it is hoped that this study can contribute to the body of knowledge related to NPOs in Malaysia.

This study contributes practical solutions to organization, members of NPOs, the Registry of Societies, and the like in this area on audit committee expertise and competent management team proved to have a significant impact on the timeliness of financial reporting among the NPOs in Malaysia. Building a competent management team starts with finding the right people for the position. Training programs and opportunities should be provided to enhance their skills and keep them up to date with the latest industry trends. Competent management teams are built on the foundation of effective communication and collaboration. Encourage open dialogue and create an environment where team members feel comfortable sharing ideas and addressing challenges. Foster a culture of teamwork and cooperation, because when it comes to financial reporting, it is refer to working together harmoniously.

References

- Al-Hadrami, A. H., Rafiki, A., Sarea, A., & Nasution, M. D. T. P. (2020). Is the investment decision affected by the independence and competence of the audit committee? A comparative study between Bahrain and Indonesia. *Journal of Investment Compliance*, 21(1), 29–48. <https://doi.org/10.1108/joic-05-2020-0005>
- Ali, N., Said, J., Omar, N., Rahman, R. A., & Othman, R. (2011). Financial Reporting Disclosure: Evidence from Malaysian Non Profit Organizations. *British Journals*, 4(2), 16–30.
- Alzeban, A. (2022). CEO characteristics, management support for internal audit and corporate performance: an analysis of listed Malaysian companies. *Managerial Auditing Journal*, 37(1), 102–128. <https://doi.org/10.1108/MAJ-02-2021-3012>
- Baatwah, S. R., Salleh, Z., & Ahmad, N. (2015). CEO characteristics and audit report timeliness: do CEO tenure and financial expertise matter? *Managerial Auditing Journal*, 30(8–9), 998–1022. <https://doi.org/10.1108/MAJ-09-2014-1097>
- Baatwah, S. R., Salleh, Z., & Stewart, J. (2019). Audit committee chair accounting expertise and audit report timeliness: The moderating effect of chair characteristics. *Asian Review of Accounting*, 27(2), 273–306. <https://doi.org/10.1108/ARA-12-2017-0190>
- Beasley, M. S., Carcello, J. V., Hermanson, D. R., & Neal, T. L. (2009). The audit committee oversight process. *Contemporary Accounting Research*, 26(1), 65–122. <https://doi.org/10.1506/car.26.1.3>
- Berita Harian. (2019). Pendedahan skandal kewangan YaPEIM kembalikan kepercayaan orang ramai. *Berita Harian Online*. <https://www.bharian.com.my/berita/nasional/2019/05/564360/pendedahan-skandal-kewangan-yapeim-kembalikan-kepercayaan-orang-ramai>
- Bilal, Chen, S., & Komal, B. (2018). Audit committee financial expertise and earnings quality: A meta-analysis. *Journal of Business Research*, 84(November 2016), 253–270. <https://doi.org/10.1016/j.jbusres.2017.11.048>
- Chaney, P. K., Faccio, M., & Parsley, D. (2011). The quality of accounting information in politically connected firms. *Journal of Accounting and Economics*, 51(1–2), 58–76. <https://doi.org/10.1016/j.jacceco.2010.07.003>
- Cohen, J. (1988). Statistical power analysis for the behavioral sciences. In *Statistical Power Analysis for the Behavioral Sciences* (Vol. 2nd, p. 567). <https://doi.org/10.1234/12345678>
- Cullinan, C. P., & Roush, P. B. (2011). Has the likelihood of appointing a CEO with an accounting/finance background changed in the post-Sarbanes Oxley era? *Research in Accounting Regulation*, 23(1), 71–77. <https://doi.org/10.1016/j.racreg.2011.03.005>
- Datta, S., Doan, T., Guha, A., Iskandar-Datta, M., & Kwon, M. J. (2023). CFO credentials, stock market signaling, and firm performance. *International Journal of Managerial Finance*, 19(3), 539–571. <https://doi.org/10.1108/IJMF-11-2021-0571>
- Dearborn, D. C., & Simon, H. A. (1958). Selective Perception: A Note on the Departmental Identifications of Executives. *Sociometry*, 21(2), 140. <https://doi.org/10.2307/2785898>
- DeZoort, F. T., Hermanson, D. R., Archambeault, D. S., & Reed, S. A. (2002). Audit committee effectiveness: a synthesis of the empirical audit committee literature. *Journal of Accounting Literature*, 21, 38–75.
- Dicko, S. (2017). Political connections, ownership structure and quality of governance. *International Journal of Managerial Finance*, 13(4), 358–377. <https://doi.org/10.1108/IJMF-01-2017-0010>
- EL Ammari, A. (2022). Does political connection affect corporate financial performance? The

- moderating role of directors' financial expertise. *Journal of Financial Reporting and Accounting*. <https://doi.org/10.1108/JFRA-08-2021-0257>
- Fan, J. P. H., Wong, T. J., & Zhang, T. (2007). Politically connected CEOs, corporate governance, and Post-IPO performance of China's newly partially privatized firms. *Journal of Financial Economics*, 84(2), 330–357. <https://doi.org/10.1016/j.jfineco.2006.03.008>
- Fisman, R. (2001). Estimating the Value of Political Connections. *The American Economic Review*, 91(4), 1095–1102.
- Francis, D. C., & Kubinec, R. (2022). Beyond Political Connections A Measurement Model Approach to Estimating Firm-level Political Influence in 41 Economies. In *Policy Research Working Paper (Vol. 5, Issue July)*.
- Geisser, S. (1974). A predictive approach to the random effect model. *Biometrika*, 61, 101–107. <https://doi.org/10.1093/biomet/61.1.101>
- Hair, J.F., Sarstedt, M., Hopkins, L. & Kuppelwieser, V. G. (2014). Partial Least Squares Structural Equation Modeling (PLS-SEM): An emerging tool in business research. *European Business Review*, 26(2), 106–121. <https://doi.org/10.1108/EBR-10-2013-0128>
- Hair, Joe F., Sarstedt, M., Ringle, C. M., & Mena, J. a. (2011). An assessment of the use of partial least squares structural equation modeling in marketing research. *Journal of the Academy of Marketing Science*, 40(3), 414–433. <https://doi.org/10.1007/s11747-011-0261-6>
- Hair, Joseph F., Risher, J. J., Sarstedt, M., & Ringle, C. M. (2019). When to use and how to report the results of PLS-SEM. *European Business Review*, 31(1), 2–24. <https://doi.org/10.1108/EBR-11-2018-0203>
- Hair, Joseph F, Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate Data Analysis. In vectors*. <https://doi.org/10.1016/j.ijpharm.2011.02.019>
- Hair, Joseph F, Black, W. C., Babin, B. J., Anderson, R. E., & Tatham, R. L. (2009). *Multivariate Data Analysis*. In Prentice Hall.
- Hamdan, A. (2020). The role of the audit committee in improving earnings quality: The case of industrial companies in GCC. *Journal of International Studies*, 13(2), 127–138. <https://doi.org/10.14254/2071-8330.2020/13-2/9>
- Hashim, J., & Rahman, R. A. (2011). Audit Report Lag the Effectiveness of Audit Committee Among Malaysian Listed Companies. *International Bulletin of Business Administration*, 10(6), 50–62.
- Henseler, J., Ringle, C. M., & Sarstedt, M. (2014). A new criterion for assessing discriminant validity in variance-based structural equation modeling. *Journal of the Academy of Marketing Science*. <https://doi.org/10.1007/s11747-014-0403-8>
- Hillman, A. J., Withers, M. C., & Collins, B. J. (2009). Resource dependence theory: A review. *Journal of Management*, 35(6), 1404–1427. <https://doi.org/10.1177/0149206309343469>
- Ika, S. R., & Ghazali, N. A. M. (2012). Audit committee effectiveness and timeliness of reporting: Indonesian evidence. In *Managerial Auditing Journal (Vol. 27, Issue 4, pp. 403–424)*. <https://doi.org/10.1108/02686901211217996>
- Ismail, I., Shafie, R., & Ku Ismail, K. N. I. (2021). CFO attributes and accounting conservatism: evidence from Malaysia. *Pacific Accounting Review*, 33(4), 525–548. <https://doi.org/10.1108/PAR-07-2020-0088>
- Joni, J., Ahmed, K., & Hamilton, J. (2020). Politically connected boards, family business groups and firm performance: Evidence from Indonesia. *Journal of Accounting and*

- Organizational Change, 16(1), 93–121. <https://doi.org/10.1108/JAOC-09-2019-0091>
- Jusoh, Y. H. M., Razak, S. N. A. A., Noor, W. N. B. W. M., Hidayati, A., Puspaningsih, A., & Nadzri, F. A. A. (2022). Audit Committee Characteristics and Timeliness of Financial Reporting: Social Enterprises Evidence. *Contemporary Economics*, 16(2), 211–226. <https://doi.org/10.5709/ce.1897-9254.478>
- Kabuye, F., Nkundabanyanga, S. K., Opiso, J., & Nakabuye, Z. (2017). Internal audit organisational status, competencies, activities and fraud management in the financial services sector. *Managerial Auditing Journal*, 32(9), 924–944. <https://doi.org/10.1108/MAJ-09-2016-1452>
- Kock, N., & Lynn, G. S. (2012). Lateral collinearity and misleading results in variance-based SEM: An illustration and recommendations. *Journal of the Association of Information Systems*. <https://doi.org/10.17705/1jais.00302>
- Kroeger, A., & Weber, C. (2014). Developing a conceptual framework for comparing social value creation. *Academy of Management Review*, 39(4), 513–540. <https://doi.org/10.5465/amr.2012.0344>
- Loufrani-Fedida, S., & Aldebert, B. (2021). A multilevel approach to competence management in innovative small and medium-sized enterprises (SMEs): literature review and research agenda. *Employee Relations*, 43(2), 507–523. <https://doi.org/10.1108/ER-04-2020-0173>
- Madawaki, A., Ahmi, A., & Ahmad, H. @. N. (2022). Internal audit functions, financial reporting quality and moderating effect of senior management support. *Meditari Accountancy Research*, 30(2), 342–372. <https://doi.org/10.1108/MEDAR-04-2020-0852>
- Mahamud, M. H., Arshad, R., Ismail, A. M., & Nair, R. (2021). Determinants of Non-Profit Organisations Accountability Information Disclosure: Empirical Evidence in Malaysia. *Journal of Management Information and Decision Sciences*, 24(1), 1–15.
- Marzuki, M. M., Haji-Abdullah, N. M., Othman, R., Wahab, E. A. A., & Harymawan, I. (2019). Audit committee characteristics, board diversity, and fraudulent financial reporting in Malaysia. *Asian Academy of Management Journal*, 24(2), 143–167. <https://doi.org/10.21315/aamj2019.24.2.7>
- Masdar, N. M. H. (2015). The Practices of Upward Accountability in the Malaysian NGO. *Procedia Economics and Finance*, 31(15), 152–160. [https://doi.org/10.1016/s2212-5671\(15\)01142-9](https://doi.org/10.1016/s2212-5671(15)01142-9)
- Masmoudi, S. M. (2021). The effect of audit committee characteristics on financial reporting quality: The moderating role of audit quality in the Netherlands. *Corporate Ownership and Control*, 18(3), 19–30. <https://doi.org/10.22495/cocv18i3art2>
- Mohammed, N. F., Ahmed, K., & Ji, X. D. (2017). Accounting conservatism, corporate governance and political connections. *Asian Review of Accounting*, 25(2), 288–318. <https://doi.org/10.1108/ARA-04-2016-0041>
- Murti, A. A. G. K., Utama, S., Hermawan, A. A., & Abbas, Y. (2022). Politically connected boards: the role of country governance, regulated industry, firm size, and institutional ownership. *Journal of Financial Reporting and Accounting*. <https://doi.org/10.1108/JFRA-06-2022-0222>
- New Straits Times. (2015). Datuk among 50 quizzed by Macc over funds abuse in Kelantan flood victims home project. *New Straits Times*.
- Omar, N., Arshad, R., Ab Samad, N. H., & Ismail, R. F. (2016). Effectiveness, Accountability and Understanding Board Characteristics of Non-Profit Organisations in Malaysia. *Management & Accounting Review (MAR)*, 15(2), 1–24.

- Oussii, A. A., & Boulila Taktak, N. (2018). Audit committee effectiveness and financial reporting timeliness: The case of Tunisian listed companies. *African Journal of Economic and Management Studies*, 9(1), 34–55. <https://doi.org/10.1108/AJEMS-11-2016-0163>
- Ozturk, O. (2021). Bibliometric review of resource dependence theory literature: an overview. *Management Review Quarterly*, 71(3), 525–552. <https://doi.org/10.1007/s11301-020-00192-8>
- Perai, N. A. A. (2021). Defining Boundaries: Towards an Identity of The Malaysian Third Sector. *Malaysian Journal of Social Sciences and Humanities (MJSSH)*, 6(11), 259–272. <https://doi.org/10.47405/mjssh.v6i11.1130>
- Preuss, S., & Königsguber, R. (2021). How do corporate political connections influence financial reporting? A synthesis of the literature. *Journal of Accounting and Public Policy*, 40(1). <https://doi.org/10.1016/j.jaccpubpol.2020.106802>
- Puasa, S., & Ahmad, A. (2014). Audit Committee and Timeliness of Financial Reporting : Malaysian Public Listed Companies. *Middle-East Journal of Scientific Research*, 22(2), 162–175. <https://doi.org/10.5829/idosi.mejsr.2014.22.02.21886>
- Rashid, M. M. (2020). Presence of professional accountant in the top management team and financial reporting quality: Evidence from Bangladesh. *Journal of Accounting and Organizational Change*, 16(2), 237–257. <https://doi.org/10.1108/JAOC-12-2018-0135>
- Roscoe, J. T. (1975). *Fundamental Research Statistics for the behavioral Sciences* (2nd ed.). New York: Holt, Rinehart and Winston.
- Roslan, N., Arshad, R., & Mohd Pauzi, N. F. (2017). Accountability and Governance Reporting by Non-Profit Organizations. *SHS Web of Conferences*, 36, 00041. <https://doi.org/10.1051/shsconf/20173600041>
- Saad, R. A. J., Idris, K. M., Shaari, H., Sawandi, N., & Derashid, C. (2017). Governance of non-profit organizations: A case of zakat institutions in Malaysia. *International Journal of Economic Research*, 14(16), 253–265.
- Salancik, G. R., & Pfeffer, J. (1978). A social information processing approach to job attitudes and task design. *Administrative Science Quarterly*, 23(2), 224–253. <https://doi.org/10.2307/2392563>
- Salleh, Z., & Stewart, J. (2012). The role of the audit committee in resolving auditor-client disagreements: a Malaysian study. *Accounting, Auditing & Accountability Journal*, 25(8), 1340–1372. <https://doi.org/10.1108/09513571211275506>
- Sarstedt, M., Ringle, C. M., Smith, D., Reams, R., & Hair, J. F. (2014). Partial least squares structural equation modeling (PLS-SEM): A useful tool for family business researchers. *Journal of Family Business Strategy*, 5(1), 105–115. <https://doi.org/10.1016/j.jfbs.2014.01.002>
- Seifzadeh, M., Salehi, M., Abedini, B., & Ranjbar, M. H. (2021). The relationship between management characteristics and financial statement readability. *EuroMed Journal of Business*, 16(1), 108–126. <https://doi.org/10.1108/EMJB-12-2019-0146>
- Sinar Harian. (2021a). Aman Palestin perjelas isu laporan audit tahunan. *Sinar Harian*.
- Sinar Harian. (2021b). Zahid keluar wang Yayasan Akal Budi RM17.9 juta. *Sinar*.
- Sullivan, G. M., & Feinn, R. (2012). Using Effect Size—or Why the P Value Is Not Enough . *Journal of Graduate Medical Education*, 4(3), 279–282. <https://doi.org/10.4300/jgme-d-12-00156.1>
- Sun, J., Lan, G., & Liu, G. (2014). Independent audit committee characteristics and real earnings management. *Managerial Auditing Journal*, 29(2), 153–172.
- The Sun. (2019). MACC Probes alleged fund misuse involving 'Datuk Seri' in Kedah. *The Sun*.

Wang, Y., Yao, C., & Kang, D. (2019). Political connections and firm performance: Evidence from government officials' site visits. *Pacific Basin Finance Journal*, 57(May 2018), 101021. <https://doi.org/10.1016/j.pacfin.2018.05.003>

Zandi, G., & Abdullah, N. A. (2019). Financial statements timeliness: The case of Malaysian listed industrial product companies. *Asian Academy of Management Journal*, 24, 127–141. <https://doi.org/10.21315/aamj2019.24.s2.9>