Journal of Business Studies, Vol. XXXIV, No. 2, August 2013

Determinants of Reporting Delay-Its Analysis and Impact on Efficiency in Financial Reporting: Evidences from Bangladesh

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Abstract: *In recent years, the issue of timeliness of corporate financial reporting, an important qualitative characteristic of accounting information, has received much attention from regulatory and professional bodies of Bangladesh. This paper specially focuses on the determinants of reporting delay and on relative efficiency of companies under different industries in financial reporting .To identify the determinants of reporting delay, variables like type of audit opinion, financial performance, the status of the audit firm and book closure date are used. Using about 401 firm-year observations over a period of 7 years from 2004-2010, no relationship has been found between type of audit opinion and reporting delay. We also found that reporting delay is positively related to book closure date as at 31st December and negatively related to financial performance as well as to the status of audit firm and. Finally this paper reveals that in Bangladesh companies under Banking Industry are relatively efficient in financial reporting whereas Companies under Insurance Industry are taking more time in this ground.*

Keywords: *Financial Reporting, Audit Delay, Reporting delay.*

Introduction

Timeliness is one of the most important and mandatory criterion for any piece of information to be relevant. Content of information mostly depends on the time of its publication and therefore, information will lose its relevance if not released on a timely fashion and thus will have no effectiveness on the decision making. Timely information helps in efficient allocation of resource by reducing dissemination of asymmetric information (Statement of Financial Accounting Concepts No. 2, 1980), by improving pricing of securities (Chambers and Penman, 1984:32) and by mitigating insider trading, leaks and rumors in the market (Owusu-Ansah, 2000).And this is why timeliness of financial reporting requires that information should be made available to the user at the right moment. It has been argued that the shorter the time between the end of the

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accounting year and publication date, the more the benefit can be derived from the audited annual reports (Abdulla, 1996). Empirical research on timeliness of corporate financial reporting suggest that failure to make the financial information public on a timely manner generally exerts a negative impact on the value of a firm. Most of the related studies reveal that financial organizations are found to be more likely to release their financial information promptly only when organizations experience a positive performance figure. Again, on the other hand, sometimes the release of information is guided by the firm size, the audit delay, the type of qualification, book closure date and so on. In this ground, recognizing the theoretical and practical importance of timely release of financial information, regulatory agencies around the world have set statutory maximum time limits within which public companies are required to issue audited financial statements to shareholders and other external users and file them with concerned regulatory bodies. Being motivated with these issues this study is being carried out by us to identify the determinants of reporting delay and relative efficiency of the companies under different industries in terms of financial reporting.

Literature Review

Several studies have been conducted over time on the determinants of reporting delay. The objective of most of the studies was to find out the association between reporting delay and different variables namely firm's size, financial risk, period of year ending, linkage with MNCs, type of audit opinion, and so on.

Siddique and Khan (2003) examined the determinants of audit delay in Bangladesh. The results of the study indicate that the affiliation with MNC and books closure dates (31st December) are significant determinants of audit delay in Bangladesh. In this study it is found that size is positively though insignificantly related to audit delay and companies audited by audit firm having international linkage have lower audit delay. On the other hand, the study has also identified some other variables such as presence of governance factor, risk factor and financial performance which could also give an insight into the determinants of audit delay in Bangladesh.

Ashton, Willingham and Elliott (Malaysia) examined audit delay with respect to 14 variables. For this purpose uni-variate and multivariate analysis have been conducted by them. Their study showed that audit delay is significantly longer for companies that receive qualified audit opinions; are not publicly traded; have a fiscal year end other than December; have poorer internal controls; employ less complex data processing technology and have a greater relative amount of audit work performed after the year end. This study also revealed that financial companies with qualified opinion have greater audit delays. Again the study disclosed that the longer an industrial company has been a client of the auditor, the shorter is the audit delay. Again their study also indicated that company size is negatively related to audit delay for public companies but positively related to audit delay for non public companies. On the other hand, net loss is positively related to audit delay.

Courtis (New Zealand, 1976) found no significant association between reporting delay and corporate size, age, number of shareholders and the length of annual report in New Zealand. However, this study found an inverse relationship between absolute profit and reporting delay. This paper also revealed that fuel and energy and finance companies were faster reporters than companies in service, mining and exploration industries.

Adzrin, Ahmed and Kamarudin (Malaysia, 2003) examined a sample of 100 companies listed in the Kuala Lumpur Stock Exchange during the period 1996-2000. The objective of the study was to indentify the factors associated with audit delay. The study suggested that the audit delay is significantly longer for companies classified as non-financial industry, receiving other than unqualified audit opinions, incurring losses and having higher risk. Their research also found that companies with the accounting year end other than 31st December and being audited by small and medium size audit firms require longer period to audit their annual report.

Dr. Ahmed (Australia, 2006) examined the timeliness of corporate financial reporting in three South Asian Countries - Bangladesh, India and Pakistan based on a large sample of 558 annual reports of the year 1998-1999. In this study he has used company size, sign of earnings, financial condition (determined by the profitability, degree of leverage and liquidity), size of the audit firm and company year end for determining the audit delay. This study shows that for Bangladesh the impact of company size, size of the audit firm, financial condition of the company on the audit delay is very insignificant. But on the other hand, the company year end has a substantial impact on the audit delay. It indicates that since the date of year end is same (generally December or June) for the most companies operating in Bangladesh, the audit firms have a great pressure on that time and therefore audit firms take longer time to complete the audit process. And in this way there occurs a reporting delay.

Whittred (Australia, 1980) investigated the effect of the qualified audit reports on the timeliness of the Australian annual reports by comparing the companies that received audit qualification with companies that received no qualification. For this study the author used 120 companies during 10 year period, 1965-1974. In this case the reporting behavior of the companies is compared with the reporting delays in the year of preceding the qualification. The result of this study indicated that “first year” qualification delays the release of the companies' preliminary annual report. The general conclusion of the study was the more serious the qualification, the greater the delay.

Research Objectives

The objectives of this study have been formulated based on the findings of different earlier research works. The objectives are as follows:

- A number of industries are in existence in Bangladesh economy. The major industries are banking, pharmaceuticals & chemicals, food & allied, fuel & power, textile, insurance, engineering, paper & printing, services & real states and so on. Companies under each industry are operating under different conditions and controlled by some industry specific regulations (for example Bangladesh Bank Order for banking and financial sector) along with the general regulations.

  So our first objective is to identify is there any differences among the companies under different industries in terms of audit delay as well as reporting delay.

- The study conducted by Ashton, Willingham and Elliott (Malaysia) revealed that qualified audit opinion is associated with greater audit delays and that the longer an industrial company has been a client of the auditor, the shorter is the audit delay. Again Adzrin, Ahmed and Kamarudin (Malaysia, 2003) examined that the audit delay is significantly longer for companies receiving other than unqualified audit opinions.

  So the second objective is to know whether exists any relationship between type of audit opinion and audit delay (so does reporting delay).

- Based on prior studies (Aston et al 1987; Aston et al 1989), it is expected that poor financial performance related to audit delay. Carslaw and Kaplan (1991) provide a number of reasons for such positive relationship. A loss making company may wish to delay the bad news. At the same time the company's increase in loss may increase the likelihood of financial failure or management fraud, which in turn increase audit risk. So in this case auditors may proceed perform more rigorous audit. And therefore it may cause delay in the completion of audit.

  And thus the third objective is to find relationship between financial performance and reporting delay (if any).

- It is considered that large audit firms having international affiliation will be more efficient and therefore will take less time to complete audit work than the audit firms having small size and no international link. Carslaw and Kaplan (1991) state that international firms, because they are large in size, might be able to audit more efficiently and have greater flexibility in scheduling to complete audits on a timely basis.

Based on these outcomes of prior research, our next objective is to find the association between status of the audit firm and reporting delay.

- The study conducted by Dr. Ahmed (2006) company year end has a substantial impact on the audit lag. It indicates that since the date of year end is same (generally December) for the most companies operating in Bangladesh, the audit firms have a great pressure on that time and therefore audit firms take longer time to complete the audit process. And in this way there occurs a reporting lag. Again Carslaw and Kaplan (1991) find audit delay to be positively related to performance of audit during the busy period. So audits performed during busy period of the year affect in scheduling problem for the auditors. Here December is considered as the busy period for accounts closure in Bangladesh.

  The final objective is to indentify whether there exists any relationship between book closure date as at 31st December and audit delay.

Methodology

Research Design

A sample survey has been conducted for this study. This study covers 401 firm-year observations from 2004 to 2010. To identify the determinants of reporting delay, four variables have been used. Those are: the type of audit opinion, financial performance of the firm, the status of audit firm and book closure date as at 31st December. For determining the status of the audit firm, Rahman Rahman & Huq, ACNABIN, HUDAVASI and S. F. Ahmed are categorized as highly ranked audit firms and termed as BIG 4. The status of this companies is determined in terms of their international affiliation and size. Here reporting delay has been measured in terms of Audit Delay, Financial Statement Issue Delay and AGM (Total) Delay. Audit Delay represents the number of days elapsed between the balance sheet date and the date auditor(s) sign(s) on the financial statements. Again, Financial Statement Issue Delay represents the number of days elapsed between the balance sheet date and the date on which notice for the AGM along with the copy of annual report is issued and finally, AGM Delay or Total Delay represents the number of days elapsed between the accounting year end date and the day on which the AGM is actually held. To draw the conclusion on the research questions average (mean value) and standard deviation of the measures of reporting delay have been computed. Again, in order to draw conclusion about the differences in terms of reporting delay among the companies under different industry the year 2010 has been used.

Sample size and Sample Selection Criteria:

DSE categories all listed companies into seventeen industries. This study has mainly focused on six industries named – banking, pharmaceuticals & chemicals, food & allied textile, pharmaceuticals & chemicals, insurance, engineering. The remaining industries, includes fuel & power, investment, jute, paper & printing, service & real estate, cement, IT-Sector, tannery ,ceramic industry, corporate bond and miscellaneous, are categorized as “Others”. The study has covered 20% of the listed companies of the period 2004-2010 under each industry on a random basis and therefore I have analyzed 401 firm-years over the period 2004-2010.

Sources of information:

For this study the annual reports of the companies listed in Dhaka Stock Exchange have been used to collect relevant data. Monthly Review of Dhaka Stock Exchange (DSE), website of DSE and website of Securities & Exchange Commission (SEC) are also used as the source of information. Information, regarding the type of audit opinion; the date of audit report; the date of fiscal year; the date of issuing notice of AGM: the date of AGM; the name of audit firm and the financial performance of the sample firms have been obtained from the annual reports:

Findings & Analysis

Differences among companies under different industries in terms of reporting delay:

Average Total delay is the time in terms of days taken by any listed company to hold their Annual General Meeting from the balance sheet date. The above table shows that total audit delay of banking and engineering industries are 140 days and 152 days respectively. On the other hand, the total delay, of other four industries named-Pharmaceuticals & Chemicals, Food & Allied, Textiles and Others, ranges from 170 days to 182 days. Again, average total delay of the companies under insurance industry is 197 days.

Table 1: Average audit delay, issue delay and total delay

Industry Name	Average Audit Delay		Average Issue Delay		Average Total Delay	
	Mean	Standard Deviation	Mean	Standard Deviation	Mean	Standard Deviation
Banking	89	35	121	56	140	63
Insurance	130	32	154	41	197	40
Engineering	114	49	127	50	152	52
Pharmaceuticals	113	58	130	60	170	50
Food & Allied	118	51	138	73	174	75
Textile	128	58	142	31	177	14
Others	116	58	143	91	182	89

This result indicates that companies under banking and engineering industries are relatively very prompt in conducting their AGM. The table reveals that companies under banking industries are taking only about three months to complete their audit works and about four months to issue the notice of AGM and eventually took about five months to hold the AGM. Almost similar feedback has been reflected in case of companies under engineering industry.

The table shows that the total delay of Pharmaceuticals & Chemicals, Food & Allied, Textiles and Others are 170 days, 174 days, 177 days and 182 days respectively. Though the companies under these industries have taken relatively more time than those of banking and engineering industries to hold their AGM but they seem to regular in conducting their audit work as the companies under those industries have taken only about four and half months in this regard.

Among the companies taken into consideration, companies under insurance industries took on an average more time than the companies of other industries under consideration. Companies under this industry took almost 60 days more than that of other industries. In this sense this industry is lag behind the other industries.

The standard deviation of average total delay of textile industry is only 14 days whereas for other industries it ranges from 40 days to 89 days. This indicates that the companies under textile industry are showing a consistent pattern in holding their AGM. Industry categorized as “others” has standard deviation of 89 days which is relatively very high. The reason could be the inclusion of companies of different nature as companies of remaining 10 industries have been included under this head.

According to the listing regulation of Dhaka Stock Exchange, a listed company must hold its AGM within 9 months (about 270 days) following the close of its financial years and presents the audited financial statements to the shareholders for approval at the AGM. So according to this regulation no listed company is allowed to take more than 9 months to hold its AGM. The above table shows result which is very consistent with this requirement. The study reveals that companies of insurance industry have taken on an average 197 days (which is the maximum one but within the requirement of DSE regulation) to hold their AGM.So from the table we can conclude that all companies taken into consideration are complying with the DSE regulation in terms of conducting their AGM. However, we can summarize that there exists a significant differences among the companies in terms of time taken to hold AGM (average total delay).Companies under Banking Industry are relatively prompt in conducting their AGM. Though companies under other industries are taking more time than that of Banking Industry, they are complying with the DSE regulation related to time for holding AGM. It is to mention that companies of Insurance industry are consuming highest time than those of other industries under consideration.

Relationship between type of audit opinion and reporting delay:

Some studies on the timeliness of corporate financial reporting shows that audit delay is significantly longer in case companies receive qualified audit opinion which ultimately cause the reporting delay. Other studies show that the serious the qualification, the greater the delay. So by using statistics using statistics given in the following table, conclusion can be drawn about whether there exists any relationship between the reporting delay and the type of audit report.

Table 02: Types of audit report and average audit delay, total delay for a period of from 2004 to 2010

TYPE OF AUDIT REPORT	YEAR							
	2004	2005	2006	2007	2008	2009	2010	TOTAL
Standard Unqualified	41	46	46	47	52	58	60	350
Standard Unqualified with explanatory notes	2	4	3	5	3	2	1	20
Qualified	5	1	4	3	4	5	9	31
Adverse	0	0	0	0	0	0	0	0
Disclaimer	0	0	0	0	0	0	0	0
Sample Size	48	51	53	55	59	65	70	401
Average audit Delay	119	113	99	109	105	97	85	
Average Total Delay	218	238	229	235	230	222	215	

The above table shows that during the period 2004-2010, no company received Adverse or disclaimer audit opinion. During the period 2004-2010, the number of companies received qualified audit opinion is very few. In the year 2005 only 1(which is 2% of the sample taken) out of 51 companies received qualified audit opinion and on the other hand, in the year 2010 only 9 companies (reflecting 13% of the sample taken) out of 70, received qualified audit opinion. Again, the percentage of the companies received Standard Unqualified with explanatory notes during 2004-2010 is also very low, which ranges from 2% to 8%.

From the above table it is found that majority of the companies of the sample size taken received standard unqualified audit opinion which ranges from 85% to 90% during the period 2004 -2010. So from the above analysis it can be concluded that there exist no major differences in companies of the sample taken in terms of audit opinion received.

Again , during 2004-2010, average time taken to complete the audit work by the companies ranges from 85 days -119 days. In 2004 the companies of the sample taken took on an average 119 days to complete their audit work, whereas in 2010 the companies took only 85 days. Though the companies took only about 4 months to complete their audit work, they took 7-8 months to hold their AGM .And the time taken to complete the audit work (audit delay) as well as to hold AGM (total delay) varies over the period 2004-2010. This analysis reveals differences among the sample companies in terms of time taken to complete audit work and time taken to hold AGM.

Therefore it can be said that there exists no relationship between type of audit opinion and the reporting delay.

Relationship between financial performance and reporting delay:

Several prior studies reveal that there exists an association between financial performance and audit delay (and so does reporting delay).In most of the cases the relationship found negative in nature. The reason behind this negative relationship is that the companies that are experiencing poor performance wish to delay the bad news as this information has a strong impact on investing and lending decision of the resource provider.

Table 03: Reporting delay & financial performance for a period from 2004 to 2010

FINANCIAL PERFORMANCE	YEAR							
	2004	2005	2006	2007	2008	2009	2010	TOTAL
Sample Size	48	51	53	55	59	65	70	401
Net Profit	37	39	40	39	47	49	58	309
Average Audit Delay	115	112	94	105	101	90	82	
Average Total Delay	207	234	223	233	225	217	208	
Net Loss	11	12	13	16	12	16	12	92
Average Audit Delay	119	118	116	118	119	117	99	
Average Total Delay	255	253	248	240	248	238	247	

Average total delay is the time taken by an entity to hold its AGM and therefore it is the final measure of reporting delay. The above table shows that the average total delay for the companies experienced Net profit ranges from 207 days to 234 days during the period 2004-2010. And on the other hand, the average total delay for the companies experienced Net loss ranges from 238 days to 255 days. It means that loss making companies are taking more time to make their financial statement public than that of profit making companies.

On the basis of the above interpretation it can be concluded that this study reveals a negative relationship between financial performance and reporting delay.

Association between status of the audit firm and reporting delay:

Prior studies on the timeliness of corporate reporting shows that companies audited by large audit firms having international affiliation, take relatively less time to make their financial information public than the companies audited by audit firms having small size and no international link .The reason is large audit firms are considered as more efficient than audit firms with small size and thus take less time to complete the audit work. In case of this study Rahman Rahman & Huq, ACNABIN, Hoda Vasi and S. F. Ahmed are regarded as highly ranked audit firms and therefore termed as BIG 4. This study reveals the following result in this regard.

Table 04: Big audit firms & audit delay for a period of 2004 to 2010.

	YEAR							
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	
Sample Size	48	51	53	55	59	65	70	401
Audited by BIG 4	13	19	22	21	18	26	26	
Average Audit Delay	115	104	89	98	90	80	76	
Average Total Delay (by BIG 4)	198	234	215	224	227	213	206	
Audited by firms other than BIG 4	35	32	31	34	41	39	44	
Average Audit Delay	120	118	106	115	112	109	91	
Average Total Delay (by other than BIG 4)	225	241	239	242	232	228	220	

From the above table it is found that time taken to complete audit work by companies audited by BIG 4 ranges from 76 days to 115 days whereas time taken by companies audited by firms other than BIG 4 ranges from 91 days to 120 days. Here BIG 4 have taken relatively less time to complete their audit work though it is not too much significant. Again, time taken by companies audited by BIG 4 ranges from 198 days to 234 days whereas companies audited by firms other than BIG 4 have consumed 220 days to 241 days to hold their AGM. It means that companies audited by BIG 4 have taken relatively less time to make their financial information public.

So it can be concluded that there exists a negative though insignificant relationship between the status of audit firm and audit delay (so does financial reporting).

Relationship between book closure date as at 31st December and audit delay:

Empirical studies indicate that audit firms generally take more time to complete their audit during busy period as they face scheduling problem in that time. In case of Bangladesh December is considered as busy period for account closure as most of companies have closure date as at 31st December. Therefore a positive correlation between book closure date as at 31st December and audit delay (and so does the reporting delay) can be expected. So, conclusion can be drawn by using the following table.

Table 05: Relationship between book closure date and audit delay for a period from 2004 to 2010.

	YEAR							
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	
Sample Size	48	51	53	55	59	65	70	401
No. of firms having year end 31st December	32	33	35	36	37	40	44	
Average Audit Delay	120	118	109	118	114	110	92	
Average Total Delay	235	245	238	230	236	230	223	
No. of firms having year end other than 31st December	16	18	18	19	22	25	26	
Average Audit Delay	116	105	81	92	90	82	74	
Average Total Delay	218	238	229	235	230	222	215	

Here, companies having year end as at 31st December have taken time between 109 days to 120 days to make their audit work completed during the period 2004-2010. On the other hand, companies having year end other than 31st December have consumed time between 81 days to 116 days on an average. Again, average total delay for companies having year end 31st December during the period 2004-2010 is between 223 days to 238 days whereas for companies having year end other than 31st December, it is between 215 days to 238 days. The results indicate that reporting delay for the companies with year end 31st December is higher than that of firms with year end other than 31st December.

Therefore based on the above explanation it can be said that this study reveals a positive correlation between book closure date as at December and audit delay (so does reporting delay).

Conclusion and Recommendation

In Bangladesh, companies under Banking Industry are relatively prompt in conducting their AGM whereas companies of Insurance industry are consuming more time than those of other industries under consideration. It means that banking industry is relatively more efficient in financial reporting than any other industries operating in Bangladesh. This finding can be substantiated by the requirement of Banking Companies Act 1991 (section 40) to deposit the audited financial statements to Bangladesh Bank within three months from the accounting year ends, whereas according to SEC Rules 1987 every listed company has to complete their audit work within 120 days from the book closure date and to deposit the same to the Securities and Exchange Commission within fourteen days thereof. Again, the study has also identified that financial performance and the status of audit firm have negative relationship with reporting delay. It is also found that there exists a positive correlation between book closure date as at 31st December and reporting delay. On the other hand there exists no relationship between type of audit opinion and audit delay (so does reporting delay). However, the findings of this study have certain limitations. Firstly, sample companies are taken on a random basis without considering the size. Secondly, this study covers only the listed companies. So further research can be undertaken to measure whether there exists any significant differences in financial reporting between listed and non listed companies. In recent time different regulatory bodies are imposing more and more regulations to minimize the audit delay and to prompt the financial reporting and thus further research can be conducted to find the recent trend in reporting delay relative to previous trend.

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