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MEASUREMENT AND ANALYSIS OF THE EXTENT OF TIMELINESS IN CORPORATE ANNUAL REPORTS OF BANKING SECTOR IN BANGLADESH

Alim Al Ayub Ahmed*

Abstract

This study focused whether timeliness of corporate financial reporting in the banking sector has improved in Bangladesh following the creation of the Securities and Exchange Commission (SEC) in 1993, the enactment of the Companies Act in 1994, the amendment of the SEC Rules in 1997, and the Banking Companies Act, 1991. Using 25% of the population (12 banks) observations over a period of 5 years (2002-2006), the present study observed that banking companies in Bangladesh are taking relatively more time to complete audit of their accounts. The result reveals that the appeal of the information provided by the bank annual reports couldn't help the users to take their decision in time if it takes another 102 days to arrange annual general meeting in another 41 days. With regard to timeliness as a qualitative objective of financial statements, this evidence can be regarded as unsatisfactory.

Key words:
Timeliness, Bangladesh, Audit Lag, AGM Lag, Total Lag

Introduction

Stock exchanges in different countries have certain requirements for listed companies to publish their annual audited accounts within a specified period after the end of their accounting period. In developed countries, the filling requirements for listed companies vary from 90 days (in the USA and New Zealand), four months in the case of Australian listed companies and six months (in the UK) after the balance sheet date (Davis and Whittred, 1980; and Dayer and McHugh, 1975). In developing countries, Bahraini listed companies for example, are required to publish their annual reports within 165 days from the financial year-end (Abdullah, 1996), while in the case of India and Bangladesh the maximum time limit to prepare corporate annual reports or financial statements for presentation at the annual general meeting in six months and nine months respectively from the accounting year end (Hossain, 1998). The objective of the study is to measure the extent of audit lag, AGM lag and total lag of the sample banks under study. There is a paucity of research about the timeliness of published audited accounts of companies in developing countries in general and a particular shortage of developing country studies of audit delay (Hossain 1998).

The Nature of Timeliness

The usefulness of published corporate reports depends on their accuracy and their timeliness. Timeliness was first identified by the American Accounting Association (AAA, 1954 and 1957) as one of the qualitative attributes of usefulness in accounting information. Subsequently, the Accounting Principle Board (APB) in the USA, the Institute of Chartered Accountants of England and Wales (ICAEW) followed the AAA path recognizing timeliness as one of the most important characteristics of financial statements. Timeliness requires that information should be made available to financial statement users as rapidly as possible (Carslaw and Kaplan, 1991) and it is a necessary condition to be satisfied if financial statements are to be useful (Davies and Whittred, 1980; p. 48-49).

There is evidence that there is a relationship between security prices and the timeliness disclosure (Givoy and Palmon, 1984 and Chambers and Penman, 1984). It has been argued that the shorter the time between the end of the accounting year and publication date of accounting reports (Abdulla, 1996). Legal or other accounting regulations may not permit publication of financial reports unless they have been certified by an external auditor. Even in the absence of such restrictions, managers of reporting firms may be unwilling to publish financial reports without audit certification due to agency cost considerations. Thus, publication of annual reports by companies may be delayed by the need is that accounts be audited. Time lag in financial report publication and audit delay are intertwined and frequently used interchangeably in the financial reporting literature. As a result, in many cases timeliness have actually dealt with audit delays.

* Lecturer in Accounting, School of Business, Asian University of Bangladesh, *billah_aub@yahoo.com*

The length of the audit lag has been regarded as the '*single most important determinant of the timeliness of the earning announcements*' (Givoy and Palmon; 1982, p.419). Audit delay is generally defined in these studies as the length of time from a company's financial year-end to the date of the auditor's report.

Timeliness has long been recognized as one of the qualitative attributes of general purpose financial reports (AICPA, 1973; APB, 1970; FASB, 1979). Empirical research on timeliness of financial reporting provides evidence that the degree of timeliness of information release has information content (Beaver 1968) and affects firm value (Chambers & Penman, 1984; Givoly & Palmon, 1982; Kross & Schroeder, 1984; Schwartz & Soo, 1996). 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 (for a summary of maximum allowable reporting lags in different countries, see Alford et al. 1993, pp 188-190). Most organized stock exchanges have similar or more stringent reporting and filing requirements. In emerging economies, the provision of timely information in corporate report assumes more importance since other non-financial statement sources such as media releases, news conferences and financial analysts forecasts are not well developed and the regulatory bodies are not as effective as in Western developed countries (Wallace, 1993).

Timely Financial Reporting- Bangladesh Perspective

Time lag in financial report publication and audit delay are intertwined and used interchangeably in financial reporting literature. As a result, in most cases timeliness have actually dealt with audit delays. The long audit delay normally leads to an even longer publication delay as companies in Bangladesh is reluctant in calling the annual general meetings (AGM) of shareholders in years with poor financial performance and/or low or no dividend announcement prospects. Although the Companies Act requires all companies, listed and unlisted, to furnish their annual accounts before the AGM within nine months of expiry of their respective financial years, a significant portion of these companies do not comply with this requirement. Many companies do not submit their annual accounts with the Registrar of Joint Stock Companies for several years. Some companies are found to take up to seven years to present audited financial statements before the AGM of shareholders (Karim, Ahmed & Islam, 2006). The usefulness of the information disclosed in company annual reports (CARs) will decline as the time lag increases, and it has been argued by Abdulla (1996) that the longer the period between year end and publication of the annual report, the higher the chances that the information will be leaked to some interested investors.

Five major developments, directly or indirectly relevant to corporate financial reporting, took place in Bangladesh between 1993 and 1997 (Karim, Ahmed & Islam, 2006). First, a Securities and Exchange Commission (SEC) was established with effect from 3 May 1993 under the SEC Act of 1993. The SEC Act, in its preamble, states that the SEC was established 'for the purpose of protection of interest of investors in securities, for the development of (securities) markets and for matters connected therewith or incidental thereto' (GOB 1993). One of the functions of the Commission, as specified by the SEC Act, is to call for information from issuers of securities. Although the SEC Act does not directly deal with the issue of timeliness of financial reporting, it empowers the Commission to issue new rules or amend existing rules, as it considers appropriate to improve the capital market and to ensure its smooth functioning.

Second, a new Companies Act was enacted in 1994 that came into force on 1 October 1995, replacing the Companies Act of 1913. The Companies Act 1994 preserved the provisions of the 1913 Act with regard to the 9-month time limit within which companies were required to furnish their financial statements before an AGM of shareholders. However, the new Act increases the penalty for non-compliance with this provision by ten times the penalty imposed by the old Act. The new Act provides for a penalty of up to Tk 5,000 (A$200) on each director of the company for failure to comply with relevant provision.

A third development took place in October 1997 when the SEC amended the Securities and Exchange Rules (SER) of 1987 that required a listed company to prepare half-yearly financial statements within one month of the close of the first half-year of its accounting year and issue those statements to the stock exchange(s) in which its securities are listed, to holders of its securities, and to the Commission.

Fourth, the country's capital market saw an unprecedented boom and a subsequent collapse in stock prices during 1996-97. One of the reasons contributing to the unusual rise and fall in securities prices was due to artificial manipulation of securities prices by a number of securities dealers and issuers in the absence of timely provision of reliable financial information in the market.

Finally, after the stock market crash in 1996, the SEC has been insisting listed companies on holding regular AGMs and publishing up to date annual reports. The fact that some companies were found to hold up to 5 AGMs and publish financial statements of up to 5 consecutive years on the same day is most likely to be in response to the SEC pressure. In the context of the above developments taking place in Bangladesh over the period 1993 – 1997, it is considered to be an ideal setting to study the impact of regulatory changes on timeliness of corporate financial reporting. In view of the above developments, it is expected that companies would provide more timely information for the following reasons:

I. The creation of the SEC in 1993 would mean listed companies would come under the SEC oversight leading to improvement in all aspects of corporate financial reporting including timeliness;

II. The increase in penalty for non-compliance to the time limit for holding the AGMs under the Companies Act 1994 could be expected to improve the overall timeliness in corporate financial reporting following enactment of the Act;

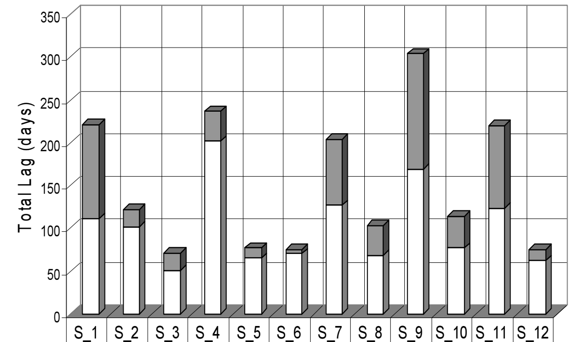
III. The amendment of the SER in 1997 requiring publication of half-yearly financial statements within one month of the first half of the year should make it easy for companies to prepare annual financial statements sooner as they would already have prepared half-yearly financial statements;

IV. In the aftermath of the biggest stock market crash in 1996-97, listed companies could be expected to be extra careful in maintaining and increasing shareholder confidence in the company and its management. They could also be expected to install internal audit and/or improve existing internal audits to improve accountability within the organization. Timely provision of financial information and regular holding of AGMs could be two of the ways management might want to signal their commitment to the shareholders.

In addition to the above, the steady increases in foreign investment into the country and greater degree of financial liberalization are expected to improve the timeliness of financial reporting in the country over time. This study focuses on one aspect of corporate financial reporting in banking companies – timeliness. The study aims to see whether the above-mentioned developments in the financial reporting regulatory environment have been successful in significantly reducing the time lag in publishing financial statements by banking sector in Bangladesh.

Graphical presentation of the extent of total lag for the year 2002

Graph 1



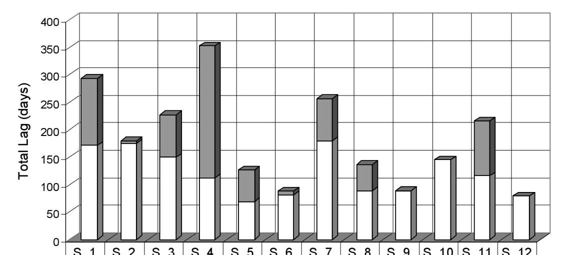
	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
AGM Lag	110	20	20	35	12	5	77	35	135	37	97	13
Audit Lag	111	102	51	202	65	70	127	68	169	77	123	62

Sample Banks

The graph 1 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2002, we observe that highest total lag and AGM lag were shown by the 'sample 9', and the highest audit lag was shown by the 'sample 4', and the lowest total lag was shown by the 'sample 3', the lowest AGM lag was shown by the sample 6 and the lowest audit lag was shown by the sample 3. From the sight of timeliness we can comment that overall lag profile of the sample 3, 5, 6 and 12 might be judged relatively low.

Graphical presentation of the extent of total lag for the year 2003

Graph 2



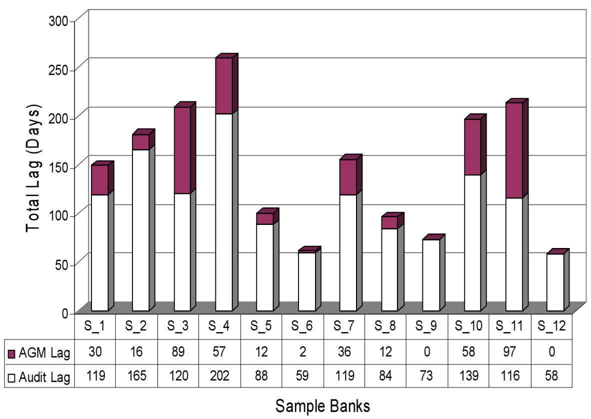
	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
AGM Lag	122	4	78	240	57	7	77	47	0	0	99	0
Audit Lag	171	175	149	112	69	81	179	89	89	145	116	79

Sample Banks

The graph 2 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2003, we observe that highest total lag and AGM lag were shown by the ‘sample 4’, and the highest audit lag was shown by the ‘sample 1’, and the lowest total lag was shown by the ‘sample 12’ and sample 9 and 12 were not shown by the AGM lag. From the sight of timeliness we can comment that overall lag profile of the sample 6, 9 and 12 might be judged relatively low.

Graphical presentation of the extent of total lag for the year 2004

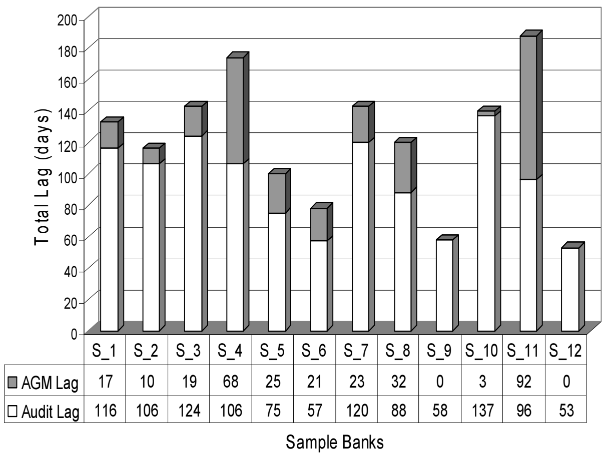
Graph 3



The graph 3 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2004, we observe that highest total lag and audit lag were shown by the ‘sample 4’, and the highest AGM lag was shown by the ‘sample 11’, and the lowest total lag was shown by the ‘sample 12’ and sample 9 and 12 were not shown by the AGM lag. From the sight of timeliness we can comment that overall lag profile of the sample 6, 9 and 12 might be judged relatively low.

Graphical presentation of the extent of total lag for the year 2005

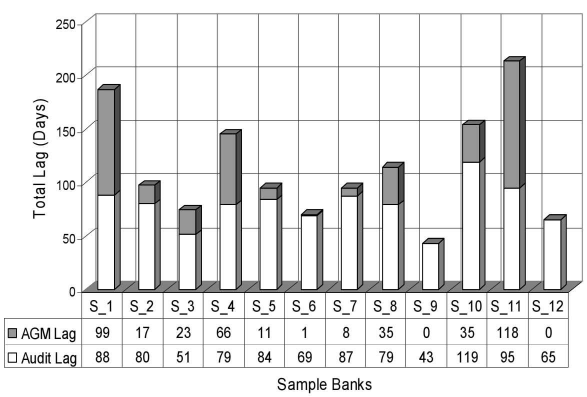
Graph 4



The graph 4 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2005, we observe that highest total lag and AGM lag were shown by the ‘sample 11’, and highest audit lag was shown by the ‘sample 10’, and the lowest total lag was shown by the ‘sample 12’ and sample 9 and 12 were not shown by the AGM lag. From the sight of timeliness we can comment that overall lag profile of the sample 9 and 12 might be judged relatively low.

Graphical presentation of the extent of total lag for the year 2006

Graph 5



The graph 5 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2006, we observe that highest total lag and AGM lag were shown by the 'sample 11', and highest audit lag was shown by the 'sample 10', and the lowest total lag was shown by the 'sample 9' and sample 9 and 12 were not shown by the AGM lag. From the sight of timeliness we can comment that overall lag profile of the sample 3, 6, 9 and 12 might be judged relatively low.

Summary and Conclusion

This study reports the results of three measures of timeliness are used. One, in terms of the number of days it takes a company to have the audit completed, the second the number of days it takes a bank to hold its AGM since the date of its fiscal year audit completed, and finally, the number of days it takes a bank to hold its total since the date of its fiscal year-end. The levels of analysis are the trend of extent in the three on the impact of disclosure score on timeliness.

During the post-regulatory period i.e., post- 'BRPD circular- 3' period, timeliness has deteriorated significantly which suggests that regulatory changes have failed to bring about improvement in the quality of financial reporting of banking sector in Bangladesh with respect to timeliness. The findings of this study can be used in the debate on the efficacy of regulatory pressure on financial reporting of banking sector in Bangladesh. The regulatory changes through BRPD circular brought about the banking sector in Bangladesh throughout the study period have been substantial. It was expected that the change would improve the age-old problem of chronic publication delay in corporate financial reporting of banking sector in the country. While the average publication delays have reduced by year.

Banking companies in Bangladesh are taking relatively more time to complete audit of their accounts. As a result the appeal of the information provided by the bank annual reports couldn't help the users to take their decision in time if it takes another 102 days to arrange annual general meeting in another 41 days. With regard to timeliness as a qualitative objective of financial statements, this evidence can be regarded as unsatisfactory.

The findings of this study may be generalized after taking into consideration its limitation. The present research considers only the annual reports for listed banking companies. This study does not consider non-listed or non-financial or manufacturing companies. Further research can be undertaken to measure audit delay longitudinally in company characteristics (multi groups of companies) to determine whether the trend of audit delay has improved over time. Such a study would provide additional insights on the underlying causes for the audit delay in developing countries in general and in Bangladesh in particular. However, if anyone includes listed non-financial companies in the sample, can attempt to examine the relationship between audit delay and industry type i.e., non-financial as '1' and financial as '0'. The results may be different if the number of company characteristics was increased or another set of variables were examined. Although the sample includes 12 listed banks (25% of the population) in Bangladesh is reasonable, further research can be undertaken with a larger sample. This might be useful with respect to the stability of the regression equation.

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