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# THE TIMELINESS OF FINANCIAL REPORTING IN THE CONTEXT OF EUROPEAN UNION'S EMERGING ECONOMIES

Empirical  
Study

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## Keywords

Financial reporting  
Emerging economies  
Timeliness  
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## JEL Classification

G30

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## Abstract

**Purpose-** This research aims to investigate the timeliness of financial statements of the companies across the European Union's emerging economies.

**Research Design-** Out of the emerging economies from European Union, the following sample was constituted: the companies listed on Bucharest Stock Exchange, Warsaw Stock Exchange, Prague Stock Exchange and Budapest Stock Exchange, no matter what tier. The final sample, after eliminating the financial institutions and the entities which were not listed in all the studied years (2008-2012), consists of 37 companies.

**Findings-** While comparing the results of this research with those from prior literature, it can be noticed a slightly decrease of days delay in the case of the analyzed emerging economies. Moreover, consistent with other researchers' findings, companies audited by a Big 4 auditor and with a qualified opinion in the auditor's report, publish their financial results later than entities which have a favourable audit opinion.

**Value/Practical Implications-** This study highlights the importance of financial statements' timeliness in the context of four European Union's emerging economies, economies which are known for their delay in publishing their financial results compared to the market economies.

## INTRODUCTION

According to IASB(2008), the primary objective of financial reporting is to provide high-quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making. A key objective of the IASB's Conceptual Framework reads as follows - *'The objective of general purpose financial statements is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Relevant financial information is capable of making a difference in the decisions made by users'*. As emphasized by the international accounting body IASB, the high quality of financial reporting plays a vital role in the stakeholders' mechanism of appreciating an entity.

In order to achieve its goal and to avoid the deficitary quality, financial reports have to accomplish certain qualitative criterias. Both the FASB and the IASB, in their conceptual frameworks, conclude that high quality is provided through adhering to the objectives and qualitative characteristics of information presented in the financial statements (IASB, 2008).The qualitative characteristics of financial statements are represented by the attributes which determine the usefulness of financial information and their consistency with relevance, faithful representation, comparability, verifiability, oportunity and understandability.

A series of researches has been conducted on the special elements of the financial reports which include instruments that capture both financial and non-financial information from the annual reports and which examine the influence that these specific information have on users' economic decisions. In their research, Tasios and Bakiaris (2012) expose evidence from the literature which support the variety of the researches which have been conducted, namely Plumlee and Yohn (2008) have examined the financial restatement, Beattie

et al.(2004) have focused on the utilization of narratives in annual reports, Penrose (2008) has examined the utilization of graphics in annual reports, Caramanis and Spathis (2006) have analyzed the external auditor's report and Martens et al. (2008) have examined the `going concern` issue.

## LITERATURE REVIEW

McGee and Igoe (2008) investigated corporate governance and timeliness of financial reporting in a comparative study between the economically strong developed countries and emerging countries of the European Union. In their research, the performed Wilcoxon test showed no significant difference. McGee and Yuan (2008) investigated corporate governance and timeliness of financial reporting in China. The authors have selected 18 Chinese companies which published their financial reports in English and another 21 companies among non-Chinese companies for a relevant comparisson. Further, they calculated the number of days between the end of fiscal year and audit report issuance date. Their research results indicate that Chinese companies issued their financial reports later than non-Chinese companies did.

Bonson-Ponte et al. (2009) investigated the determining factors on delay of signing audit reports in Spain. The delays have been measured by counting the days after the end of financial year and signing audit report. Their study indicated two factors related to companies' characteristics that lead to reduce auditing delay, namely classification by industries that have been imposed on law enforcement and the size of associated companies. Moreover, variables such as audit institution, conditions, and regulatory changes have no significant correlation with audit report delay in Spain.

The academic literature shows that some countries report financial results faster than other countries (McGee and Preobragenskaya, 2006). For example, DeCeuster and Trappers (1993) found that it

takes a longer period of time for Belgian companies to report their financial results than for Anglo-Saxon countries, moreover, Annaeret et al.(2002) supported this fact also for interim information.

Another stream in the literature focuses on the auditors' degree of expertise. For example, Krishnan (2005) found that the degree of expertise that the auditor firm possesses influences the timeliness of bad earnings news' publication. Moreover, audit firms which are specialized in the industry in which the audited company operates are timelier in reporting bad financial news than are those audit firms which have less expertise in that particular industry.

There is a lack of literature in terms of comparison between the timeliness of financial reporting in emerging economies and more developed market economies. Still, McGee (2006, 2007b) found that companies operating in the Russian energy sector report their financial results significantly later than do non-Russian companies in the same sector. However, McGee and Igoe (2008) revealed in their study comparing new European Union countries – which are emerging economies- to the European Union's countries which are not transition economies that there is no difference in timeliness.

Another study conducted by Muhoro et al. (2009) analyzed the extent of the time delay between year-end and the issuance of the auditor's report for companies in Russia and Kenya. The results revealed that Russian companies that issue their financial statements in English language take a significantly longer amount of days to report their financial results in comparison with Kenyan countries.

There is a stream of literature focused on the area of financial accounting and the issued audited annual reports of the publicly traded companies, as it can be stated from the below paragraphs. Another study was conducted in Greece by Owusu-Ansah and Leventis (2006). In their research, the authors investigated the factors that influence timely annual financial reporting on the Athens Stock Exchange.

The results show that large companies, service companies and those audited by the Big 4 audit firms report faster their financial results. Moreover, companies acting in the construction sector, companies whose audit opinion was qualified do not release on a prompt manner their audited financial statements.

A study conducted on the Kuala Lumpur Stock Exchange by Ahmad and Kamarudin (2003) investigated the determinants of audit delay in the period 1996-2000. Their findings suggest that companies classified as non-financial industry have a significantly longer delay, while financial companies and those audited by the former Big- 5 tend to present a shorter audit delay.

Türel (2010) investigated the effects of both company specific and audit related factors, namely company size, industry, sign of income, audit opinion and audit firm on timely financial reporting practices in Turkey, a developing country. The research analyzed 211 listed companies on the Istanbul Stock Exchange, companies which are not operating in the financial industry and the results indicated that 59% of the companies that prepare separate financial statements and 66% of the companies that prepare consolidated financial statements release their financial statements less than the maximum time allowed after the financial year-end.

The academic literature provide evidence which sustain that larger audit firms, such as Big-4, complete their audit assignments faster and more accurately than smaller, with less expertise audit firms. For instance, Iman, Ahmed and Khan (2001) argue that larger audit firms are likely to complete audits in a more quickly manner than smaller firms due to their larger amount of resources in terms of experience and staff expertise. Therefore, it has been found a negative correlation between audit firm size and timeliness (audit report delay).

Another relevant study has been conducted on the Abuja Stock Exchange by Iyoha (2012). The main objective of this research was to examine the impact of

company attributes on the quality of timeliness (reporting lag) of financial reporting in Nigeria. The findings indicate that the age of the company was significant in determining timeliness, moreover, there is a significant difference in the timeliness of financial reporting among industrial sectors in Nigeria, namely the banking sector was found to be timelier in terms of financial reporting.

Waresul et al. (2006) held a research on Bangladesh's Stock Exchange and investigated the role of timeliness of financial reporting on improving the reporting process. The study was conducted on 1200 companies for a period of 10 years and it focused on the changes in laws and audit reporting, still, the findings indicate that these two aspects did not improve the timeliness of financial reporting. Moreover, the study indicates that big companies take a shorter period of time to present their financial statements than do the smaller companies.

In the same area of timeliness of financial reporting, Akle (2011) investigated the relation between annual financial reporting timeliness and corporate governance in the case of the companies listed on the Egyptian Stock Exchange through the period from 1998 to 2007. The results of this research indicate that the period of time necessary for corporate the financial reporting decreased significantly from 134 days in 1998 to 95 days in 2002 and 68 days in 2006, reaching its minimum level in 2007 as a result of the application of the new Egyptian Accounting Standards. The author concluded that this decreasing reflects the companies' commitment to the disclosure and transparency principles.

In the World Bank's Report for Romania (2003), the perception of the quality of the financial statements revealed that there is little demand for transparent financial statements due to underdeveloped capital markets, collateral-based lending, and a general lack of understanding of free market principles. The low demand for financial statements is compounded by the perceived lack of reliability in financial

information and most interviewees shared a strong view that the quality of financial reporting would improve when there is a strong regulatory regime combined with effective enforcement mechanisms to ensure compliance with accounting and auditing standards and auditor's professional ethics.

In Poland, according to the World Bank ROSC Accounting and Audit (2002) Report, the investor community has mixed perception on the quality of financial reporting. About 80 percent of the respondents did not strongly agree with any of the following statements: when the financial statements receive clean opinion from auditors, they are perceived as being accurate and the audited financial statements provide a transparent representation of the underlying economics of transactions.

The World Bank's Report ROSC on Accounting and Auditing (2003) for the Czech Republic emphasizes the fact that there is little evidence that a large demand for transparent financial statements has developed among potential investors. According to the findings, the low demand for financial statements is compounded by the perceived lack of reliability in financial information.

Financial reporting is also a building block of a market-based monitoring of companies, which allows shareholders and the public at large to assess management performance, thus influencing its behavior (World Bank, ROSC Hungary, 2003). The same low demand for financial statements is found in the fourth analyzed emerging economy, namely Hungary, country in which this low demand is compounded by the perceived lack of reliability in financial information, according to the same ROSC Report for Hungary.

## **METHODOLOGY AND RESEARCH DESIGN**

In order to align this research to its objective, out of the emerging economies from European Union, the following sample was constituted: the companies listed on Bucharest Stock Exchange, Warsaw Stock

Exchange, Prague Stock Exchange and Budapest Stock Exchange, no matter what tier.

This study is developed at the European Union level and takes into consideration the following indices: BET® BUCHAREST EXCHANGE TRADING (Romania), WIG 20 (Poland), PX (Czech Republic) and BUX - The Share Index of the Budapest Stock Exchange Co. Ltd. (Hungary). In order to have a heterogeneous sample, the financial institutions were eliminated from this research.

The indices used in this study will be briefly presented in this section. BET, the first index developed by Bucharest Stock Exchange, is the reference index for the BSE market. BET is a free float weighted capitalization index of the most liquid 10 companies listed on the BSE regulated market.

The WIG20 Index is based on the value of portfolio with shares in 20 major and most liquid companies in the Warsaw Stock Exchange Main List and it may not include more than 5 companies from a single exchange sector.

The PX Index is the official index of the Prague Stock Exchange. The index was calculated for the first time on March 20, 2006 when it replaced the PX50 and PX-D indices. At this time, the index includes 50 companies traded on the Prague Stock Exchange, accordingly named PX 50.

The BUX index is the official index of blue-chip shares listed on the Budapest Stock Exchange Ltd. It is calculated in real time by the BSE every five seconds based on the actual market prices of a basket of shares. The index shows the average price changing of the shares with the biggest market value and turnover in the equity section. Hereby this is the most important index number of the exchange trends.

In order to obtain relevant information for this research, the annual reports of the companies were consulted, as well as the auditors' reports for the analyzed period 2008-2012. The final sample, after eliminating the financial institutions and the entities which were not listed in all the

studied years, consists of 37 companies as it can be seen in Table 1.

According to IASB's Exposure Draft (2008), timeliness is the final characteristic of the financial reporting being defined as ``having information available to decision makers before it loses its capacity to influence decisions...referring to the time it takes to reveal the information``. In order to determine the timeliness of financial reporting for the selected sample, a natural logarithm of amount of days between year end and the publication of the auditors` report after year end has been calculated.

After determining the amount of days between the year end and the date of the publication of the auditors` report for each company from the selected sample for each year of the analyzed period 2008-2012, a statistical approach has been conducted in order to determine the mean, median, range, standard deviation and the p-value. In calculating the p-value, the Z-score model has been utilized as it follows:

$$Z = \frac{x - \mu}{\sigma}, \text{ heree}$$

$x = \text{Experimental Value}$

$\mu = \text{Mean}$

$\sigma = \text{Standard Deviation}$

## FINDINGS

When testing the date when the audit report was signed, the results indicated that the Polish companies have the longest time delay of 86 days, the entities from the Czech Republic have 84 days delay, while those from Romania and Hungary have a 83 days time delay (as it can be seen in Figure 1 when using the median data). These results are consistent with the previous literature findings in the context of emerging economies` timeliness of financial reporting (83.5 days delay for the new European Union`s member states according to McGee and Igoe (2008)). Still, the results for Poland may be higher in terms of days delay due to

the fact that the Polish companies formed the largest sample for this research.

Polish companies took an average of 86.82 days after year-end to report their financial results, followed by the Hungarian entities with an average of 88.43 days delay. Using the median data, it appears that the average Hungarian companies takes about 6 days longer to report their financial results. According to the same approach, the results indicate that the average Romanian companies takes about 3 days longer to report financial results, while in the case of Polish and Czech companies the delay is about 1 day.

According to Muhoro et al.(2009), Kenyan companies took an average of 97.1 days after year-end to report financial results, while the EU companies took an average of 78.7 days after year-end to report financial results. Their findings indicate that the average Kenyan company takes about 13 days longer to report financial results.

While comparing the results of this research with those from prior literature, it can be noticed a slightly decrease of days delay in the case of the analyzed emerging economies. Moreover, consistent with other researchers' findings, companies audited by a Big 4 auditor and with a qualified opinion in the auditor's report, publish their financial results later than entities which have a favourable audit opinion.

When taking into account the mode (expressed in days), it appears that into the Polish sample the most frequent day of the publication of audit report is 114, while for the other three emerging economies, the mode is about 80 days delay between the year-end and the signing of the audit report.

By analyzing the range of days delay (see Figure 2 and Figure 3), it can be noticed that the Czech Republic has the most increased range out of the sample, followed by Poland, Hungary and Romania, fact consistent with the findings of this study.

### **LIMITATIONS OF THIS RESEARCH**

This research has several drawbacks. First of all, the sample size is small, the total number of analyzed companies being 37, fact that do

not provide a reliable result of the conducted study. Still, for the entire period of time 2008-2012 it has been investigated the same sample of companies, which lead to the same population for all the five years taken into research.

Second of all, the date when the audit report was signed might differ from the date the financial information was released to the public in general (the date when the financial statements were published). In this case, the date on the audit report substituted the actual releasing date of the financial statements as part of the annual report.

### **CONCLUSIONS AND FURTHER RESEARCH**

The present study released that Polish companies took an average of 86.82 days after year-end to report their financial results, followed by the Hungarian entities with an average of 88.43 days delay. The average Czech and Romanian companies took a slightly lower amount of days delay, respectively 85.68 days for Romania and 84.12 days for the Czech Republic.

When the median (expressed in days) was used, the study indicated that the Polish companies have the longest time delay of 86 days, the entities from the Czech Republic have 84 days delay, while those from Romania and Hungary have a 83 days time delay.

By comparing the mean with the median, both expressed in days, it appears that the average Hungarian companies takes about 6 days longer to report their financial results. According to the same approach, the results indicate that the average Romanian companies takes about 3 days longer to report financial results, while in the case of Polish and Czech companies the delay is about 1 day.

Taking into account the limitations of this study, there is a wide area for possible further research. In order to test the timeliness in these four emerging economies from the European Union, the sample size can be enlarged in order to obtain faithful results. Comparisons could also be made

with emerging economies from Latin America or Asia in order to find out how these four economies from the EU fare in terms of timeliness of financial reporting.

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## TABLES AND FIGURES

Table 1 *The Sample Selection*

<i>Selection criteria</i>	<i>Number of Entities</i>
<i>Bucharest Stock Exchange</i>	<i>5</i>
<i>Warsaw Stock Exchange</i>	<i>15</i>
<i>Prague Stock Exchange</i>	<i>11</i>
<i>Budapest Stock Exchange</i>	<i>6</i>
<i>Total companies</i>	<i>37</i>

Table 2 *Data Sample*

	<i>Sample size (years)</i>	<i>Mean (days)</i>	<i>Median (days)</i>	<i>Range (days)</i>
<i>Romanian companies</i>	<i>25</i>	<i>85.68</i>	<i>83</i>	<i>69-120</i>
<i>Polish companies</i>	<i>75</i>	<i>86.82</i>	<i>86</i>	<i>42-136</i>
<i>Czech companies</i>	<i>55</i>	<i>84.12</i>	<i>84</i>	<i>35-166</i>
<i>Hungarian companies</i>	<i>30</i>	<i>88.43</i>	<i>83</i>	<i>75-120</i>

Table 3 *Full Data Sample*

	<i>Sample size (years)</i>	<i>Mean (days)</i>	<i>Median (days)</i>	<i>Mode (days)</i>	<i>Standard Deviation</i>	<i>p-value</i>
<i>Romanian companies</i>	<i>25</i>	<i>85.68</i>	<i>83</i>	<i>83</i>	<i>14.07042</i>	<i>0.42465</i>
<i>Polish companies</i>	<i>75</i>	<i>86.82</i>	<i>86</i>	<i>114</i>	<i>24.02666</i>	<i>0.87076</i>
<i>Czech companies</i>	<i>55</i>	<i>84.12</i>	<i>84</i>	<i>84</i>	<i>27.36113</i>	<i>0.5</i>
<i>Hungarian companies</i>	<i>30</i>	<i>88.43</i>	<i>83</i>	<i>80</i>	<i>12.46701</i>	<i>0.25143</i>

Figure 1 *Median Time Delay (days)*

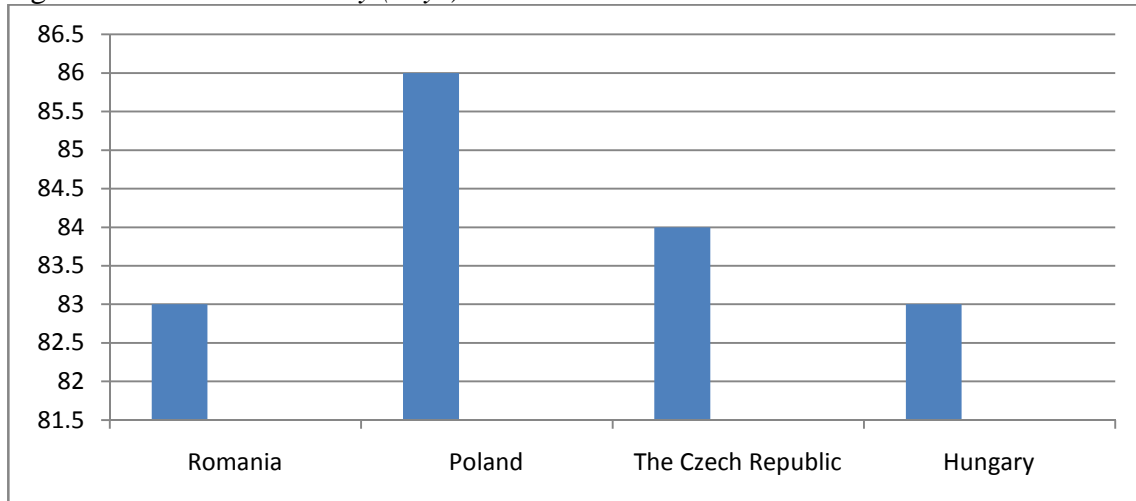


Figure 2 *Range of Days Delay- number of days*

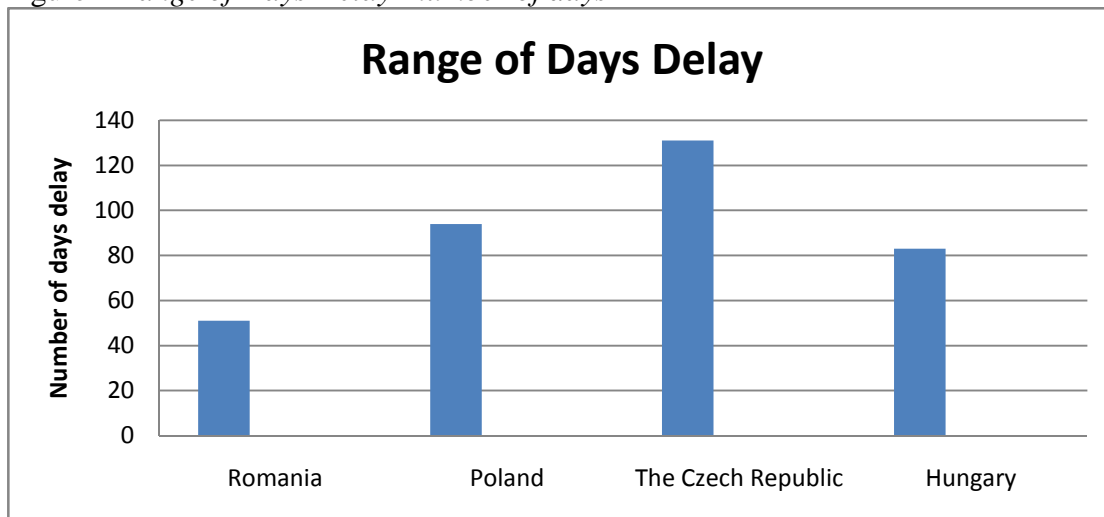


Figure 3 *Range of Days Delay*

