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Timeliness and Its Significance : A Study of Corporate Reporting Practices of Selected Companies in India

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Abstract

This paper examines empirically the timing behavior of the selected companies because timeliness in the important qualitative attribute of corporate reporting, as it influences the decisions of the stakeholders. It emphasises the information should be made available to the users as soon as possible. The delay in reporting reduces the relevance of the information presented in the financial reports. The present study covers the period of seven years from 2002-2003 to 2008-2009. Timeliness is generally measured in terms of reporting lag. In the paper, three types of reporting lags are considered i.e., time-lag between balance sheet and auditor's report, time-lag between auditor's report and annual general meeting and time-lag between balance sheet and annual general meeting. The results of the study show that there is an improvement in the time-lag between the balance sheet and auditor's report but on the other hand deterioration is seen in time-lag between auditor's report and annual general meeting, where a lag between balance sheet and annual general meeting could not depict a definite trend. The study suggests that shorter the time between the balance sheet and annual general meeting, the greater the benefits can be derived from the financial statements.

Key Words

Corporate Reporting, Stakeholders, Time-Lag

INTRODUCTION

Corporate annual reports are prepared to transmit the information to the stakeholders according to their needs. As the informational needs of the stakeholders who have active interest in corporate reporting are on rise has persuaded for timely and credible corporate reports. The American Accounting Association (1954) observed, "Timeliness of reporting is an essential element of adequate disclosure." Timeliness is generally measured in terms of reporting lag. In this paper, the different time-lags of companies which are preparing annual reports have been analyzed for the period 2002-2003 to 2008-2009.

According to the International Accounting Standards Board (IASB, 2008 : 40) timeliness of financial reports is the "availability of information needed by decision makers for useful decision making before it loses its capacity to influence decisions." Timeliness of annual reports is an important determinant of their usefulness. Economic and financial decisions by users of the annual reports are greatly influenced by the time value of information. In general, the significance of the information diminishes with increase of time-lag in publication of annual report of a concern.

Timely disclosure of information improves the image of the corporate body. Shorter the time between the end of the accounting year and the publication date, the greater the benefit that can be derived from the financial reports. The delay in releasing the financial reports is most likely to enhance uncertainty associated with the decisions based on the information contained in the financial reports.

LITERATURE REVIEW

Various researchers have studied the different aspects of timeliness in corporate reporting. Givoly and Palmon (1982) discovered that there was an improvement in the timeliness of annual reports of 210 companies listed on New York Stock Exchange (NYSE) over a period of 15 years from 1960 to 1974. To describe timeliness corporate size and complexity of operations were taken into consideration. According to them, delay in reporting appeared to be more closely associated to industry patterns and traditions rather than to the company attributes studied and reporting time-lags decreased over time.

Sharma (1991), examined financial reporting in Central Public Government Enterprises incorporated under Companies Act 1956. He concluded that the size of the firm and age has a significant relationship with its reporting time-lag.

Meena (1995) in his study of Corporate Reporting Practices in Public Enterprises established that the Age of the organization, Turnover, Capital Employed, Rate of Turnover had no influence on the reporting time-lag, Audit time-lag and total time-lag.

Ahmad (2003) investigates the timeliness of corporate annual reporting in three South Asian countries, namely, Bangladesh, India and Pakistan from 558 annual reports of different companies for the year 1998. It is found that around 90 % of the companies' balance sheet end date falls in June and December in Bangladesh, March in India, and June and September in Pakistan. A multivariate regression analysis indicates that financial year-end date is a significant determinant in each country.

Ismail & Chandler (2004) examines the timeliness of quarterly financial reports published by companies listed on the Kuala Lumpur Stock Exchange (KLSE). In their study, they also determine the association between timeliness and each of the following company attributes - size, profitability, growth and capital structure. An analysis of 117 quarterly reports ended on 30 September 2001 reveals that all, except one company reported within an allowable reporting lag of two months. According to the study, there is a significant association between timeliness and each of the four companies attributes.

Conover, Miller, & Szakmary (2008) study financial reporting lags, the incidence of late filing, and the relationship between reporting lags, firm performance and the degree of capital market scrutiny. They use a large sample of firms spanning 22 countries over a eleven-year period. A focal point of our analysis is whether the incidence of late filing, and the relations between reporting days and other variables differ systematically between common and code law countries. Relative to U.S. firms, they report that the time taken and allowed for filing is usually longer in other countries and that the statutory requirement is more frequently violated. Timely filing is found to be less frequent in code law countries. Poor firm performance and longer reporting lags are more strongly linked in common law countries Therefore, the above analysis describes that plenty of research has been conducted to explore new insights into the field of timeliness in corporate disclosure.

RESEARCH METHODOLOGY

OBJECTIVES OF THE STUDY

The present study is being conducted for the purpose of the following objective :

1. To analyze the different time-lags of corporate reporting of the selected companies.
2. To study the reporting trends of Indian companies

NATURE OF THE DATA

The study is based on secondary data. The data has been collected from the annual reports of the 50 selected companies from the BSE Index of 500 companies by exploring various sources including companies' websites, personal visits to the companies, stock exchanges, broker offices, investors' research institutes, libraries etc. The present study covers the period from 2002-03 to 2008-2009. To achieve the objective of the present study the statistical tools like average, coefficient of variation, compound growth rate, regression coefficient and t-value have been used.

SCOPE OF THE STUDY

The present study covers the timing behavior of the selected companies because timing aspect of corporate reporting influence the decisions of the stakeholders.

Finding of the Study : Time lag in corporate disclosure refers to the time gap between the end of the accounting period and the date on which the corporate annual financial reports are issued. Section 210 (3) of the Companies Act, 1956 states that the accounts of a company shall relate :

(a) In the case of the first annual general meeting of the company, to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than nine months; and

(b) In the case of any subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which the account was last submitted and ending with a day which shall not precede the day of the meeting by more than six months, or in cases where an extension of time has been granted for holding the meeting by more than six months.

Section 219 (1) of the Act also states that a copy of annual report which is to be laid in annual general meeting by a company must be delivered at least twenty-one days before the date of the meeting to every member of the company.

Section 619 of the Act describes that in the case of Government company, annual report on the working and affairs of that company to be prepared within three months of its annual general meeting before which the audit report is placed and further as soon as possible, it should be laid before both the Houses of Parliament or State Legislature, as the case may be, together with a copy of audit report and the comments made by the Comptroller and Auditor General of India.

Thus, companies are allowed maximum six months to present the annual accounts to their shareholders in the annual general meeting and nine months in the case of extension. However, government companies have three months additional time. The lag can be studied in a number of ways. There are a number of time gaps between the end of the accounting period and the issuance of corporate annual financial reports which may include the following :

1. Time-lag between the end of the reporting period (balance sheet date) and the date of auditor's report;
2. Time-lag between the date of auditor's report and the date of annual general meeting notice;
3. Time-lag between the date of annual general meeting notice and the probable date of holding annual general meeting;
4. Time-lag between the probable date of holding annual general meeting and the date when actual annual general meeting is held;
5. Time-lag between the end of the reporting period (balance sheet date) and the date of annual general meeting notice;
6. Time-lag between the end of the reporting period (balance sheet date) and the probable date of holding annual general meeting;
7. Time-lag between the end of the reporting period (balance sheet date) and the date on which actual annual general meeting is holds;
8. Time-lag between the date of auditor's report and the probable date of holding annual general meeting;
9. Time-lag between the auditor's report and the date of holding annual general meeting; and
10. Time-lag between the date of annual general meeting notice and the date on which the actual annual general meeting is held.

According to the above explanation, there are as many as ten important time-lags between the closing of an accounting period and the date of holding annual general meeting. However, preliminary research of the annual reports of the selected companies showed that majority of the companies have disclosed only three dates, i.e., the date on which accounting period ends (balance-sheet date), date of auditor's report and the probable date of holding the annual general meeting. Therefore, in the present study three time-lags, i.e. lag 1 (balance-sheet date and date of auditor's report), lag 2 (date of auditor's report and annual general meeting date), and lag 3 (balance-sheet date and annual general meeting date) has been considered.

TIME-LAG BETWEEN BALANCE SHEET DATE AND AUDITOR'S REPORT

The pattern and trend in time-lag between balance sheet and auditor's report in the selected companies has been shown in Table 1.

It is clear from Table 1 that during 2002-03, the highest proportion i.e. 28 per cent of the companies used to take 20 to 40 days and a similar proportion of companies used to take 40 to 60 days from balance sheet date to auditor's report. The average time taken from balance sheet date to auditor's report worked at 48.08 days.

During 2003-04, the highest proportion i.e. 40 per cent of the companies took 40 to 60 days from the date of balance sheet to auditor's report, followed by 24 per cent companies taking 20 to 40 days. There were only 2 per cent of companies who took more than 120 days. The average time taken from the date of balance sheet to auditor's report came to be 45.24 days.

During 2004-05, the highest proportion i.e. 34 per cent of the companies took 40 to 60 days from the date of balance sheet to auditor's report, followed by 30 per cent companies taking 20 to 40 days. There were only 4 per cent of companies who took more than 120 days. The average time taken from the date of balance sheet to auditor's report came to be 44.70 days.

During 2005-06, the highest proportion i.e. 34 per cent of the companies took 40 to 60 days from the date of balance sheet to auditor's report, followed by 32 per cent companies taking 20 to 40 days. There were only 2 per cent of companies who took more than 120 days. The average time taken from the date of balance sheet to auditor's report came to be 41.32 days.

During 2006-07, the highest proportion i.e. 42 per cent of the companies took 40 to 60 days from the date of balance sheet to auditor's report, followed by 34 per cent companies taking 20 to 40 days. There were only 2 per cent of companies who took more than 120 days. The average time taken from the date of balance sheet to auditor's report came to be 39.14 days.

During 2007-08, the highest proportion i.e. 38 per cent of the companies took 40 to 60 days from the date of balance sheet to auditor's report, followed by an equal proportion of companies taking 20 to 40 days. There was none of the companies who took more than 120 days. The average time taken from the date of balance sheet to auditor's report came to be 35.78 days.

During 2008-09, the highest proportion i.e. 46 per cent of the companies took 40 to 60 days from the date of balance sheet to auditor's report, followed by 36 per cent companies taking 20 to 40 days. There were only 4 per cent of companies who took more than 120 days. The average time taken from the date of balance sheet to auditor's report came to be 38.16 days.

Table 1

Time-Lag Between Balance Sheet Date and Auditor's Report (in Numbers, Percentage)

Time Lag (days)	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
				Number Of Companies			
0-20	5 (10)	4 (8)	3 (6)	3 (6)	3 (6)	2 (4)	2 (4)
20-40	14 (28)	12 (24)	15 (30)	16 (32)	17 (34)	19 (38)	18 (36)
40-60	14 (28)	20 (40)	17 (34)	17 (34)	21 (42)	19 (38)	23 (46)
60-80	6 (12)	8 (16)	8 (16)	9 (18)	3 (6)	3 (6)	2 (4)
80-100	5 (10)	3 (6)	3 (6)	3 (6)	3 (6)	5 (10)	2 (4)
100-120	2 (4)	2 (4)	2 (4)	1 (2)	2 (4)	1 (2)	1 (2)
120 & above	4 (8)	1 (2)	2 (4)	1 (2)	1 (2)	0	2 (4)
Average days	48.08	45.24	44.70	41.32	39.14	35.78	38.16

Source : Annual reports of selected companies, 2003-2009.

Note : Figures in parentheses represent percentage.

The analysis highlighted that time-lag between balance sheet dates to auditor's report reduced from 48.08 days in 2003-03 to 38.16 days in 2008-09 i.e. a reduction of 10 days. However, the reduction in 2007-08 was more than 12 days. This indicated that time-lag from balance sheet date to auditor's report improved over the period of the study.

TIME-LAG BETWEEN AUDITOR'S REPORT AND ANNUAL GENERAL MEETING

The pattern and trend in time-lag between auditor's report and annual general meeting in the selected companies has been shown in Table 2.

It is evident from Table 2 that during 2002-03, the highest proportion i.e.

34 per cent of the companies used to take 60 to 80 days and 18 per cent of companies used to take each 80 to 100 days and 40 to 60 days from auditor's report to annual general meeting. The average time taken from auditor's report to annual general meeting worked at 74.28 days.

During 2003-04, the highest proportion i.e. 34 per cent of the companies took 60 to 80 days from the auditor's report to annual general meeting, followed by 26 per cent companies taking 40 to 60 days. There were 12 per cent of companies who took more than 120 days. The average time taken from the auditor's report to annual general meeting came to be 76.64 days.

Table 2

Time-Lag Between Auditor's Report and Annual General Meeting (in Numbers, Percentage)

Time Lag (days)	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
				Number Of Companies			
0-20	1 (2)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
20-40	4 (8)	2 (4)	0 (0)	0 (0)	2 (4)	1 (2)	0 (0)
40-60	9 (18)	13 (26)	12 (24)	21 (42)	11 (22)	9 (18)	9 (18)
60-80	17 (34)	17 (34)	19 (38)	11 (22)	14 (28)	13 (26)	18 (36)
80-100	9 (18)	7 (14)	10 (20)	7 (14)	13 (26)	18 (36)	10 (20)
100-120	4 (8)	5 (10)	5 (10)	10 (20)	7 (14)	6 (12)	8 (16)
120 and above	6 (12)	6 (12)	4 (8)	1 (2)	3 (6)	2 (4)	5 (10)
Average Days	74.28	76.64	78.6	74.20	77.84	78.62	83.40

Source : Annual reports of selected companies, 2003-2009.

Note : Figures in parentheses represent percentage.

During 2004-05, the highest proportion i.e. 38 per cent of the companies took 60 to 80 days from the auditor's report to annual general meeting, followed by

24 per cent companies taking 40 to 60 days. There were 8 per cent of companies who took more than 120 days. The average time taken from the auditor's report to annual general meeting came to be 78.60 days.

During 2005-06, the highest proportion i.e. 42 per cent of the companies took 40 to 60 days from the auditor's report to annual general meeting, followed by 22 per cent companies taking 60 to 80 days. There were only 2 per cent of companies who took more than 120 days. The average time taken from the auditor's report to annual general meeting came to be 74.20 days

During 2006-07, the highest proportion i.e. 28 per cent of the companies took 60 to 80 days from the auditor's report to annual general meeting, followed by 26 per cent companies taking 80 to 100 days. There were only 6 per cent of companies who took more than 120 days. The average time taken from the auditor's report to annual general meeting came to be 77.84 days.

During 2007-08, the highest proportion i.e. 36 per cent of the companies took 80 to 100 days from the auditor's report to annual general meeting, followed by 26 per cent of companies taking 60 to 80 days. There were only 4 per cent of the companies who took more than 120 days. The average time taken from the auditor's report to annual general meeting came to be 78.62 days.

During 2008-09, the highest proportion i.e. 36 per cent of the companies took 60 to 80 days from the auditor's report to annual general meeting, followed by 20 per cent companies taking 80 to 100 days. There were 10 per cent of companies who took more than 120 days. The average time taken from the auditor's report to annual general meeting came to be 83.40 days.

The analysis highlighted that time-lag between auditor's reports to annual general meeting increased from 74.28 days in 2003-03 to 83.40 days in 2008-09 i.e. an increase of 9 days. This indicated that time-lag from auditor's report to annual general meeting deteriorated over the period of the study.

TIME-LAG BETWEEN BALANCE SHEET DATE AND ANNUAL GENERAL MEETING

The pattern and trend in time-lag between balance sheet date and annual general meeting in the selected companies has been shown in Table 3.

The analysis given in Table 3 that during 2002-03, the highest proportion i.e. 50 per cent of the companies used to take 100 to 150 days, followed by 34 per cent of companies used to take each 150 to 200 days from balance sheet date to annual general meeting. The average time taken from balance sheet date to annual general meeting worked at 133.50 days.

During 2004-05, the highest proportion i.e. 52 per cent of the companies took 100 to 150 days from the balance sheet date to annual general meeting followed by 36 per cent companies taking 150 to 200 days. There was none of companies who took more than 250 days. The average time taken from the balance sheet date to annual general meeting came to be 134 days.

During 2005-06, the highest proportion i.e. 44 per cent of the companies took 100 to 150 days from the balance sheet date to annual general meeting, followed by 30 per cent companies taking 150 to 200 days. There were only 2 per cent of companies who took more than 250 days. The average time taken from the balance sheet date to annual general meeting came to be 125 days.

Table 3

Time Lag Between Balance Sheet and Annual General Meeting (in Numbers, Percentage)

Time Lag (days)	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	Number Of Companies						
0-100	7 (14)	12 (24)	6 (12)	12 (24)	10 (20)	8 (16)	9 (18)
100-150	25 (50)	22 (44)	26 (52)	22 (44)	24 (48)	29 (58)	21 (42)
150-200	17 (34)	15 (30)	18 (36)	15 (30)	15 (30)	12 (24)	19 (38)
200-250	1 (2)	0 (0)	0 (0)	0 (0)	1 (2)	0 (0)	1 (2)
250 & above	0 (0)	1 (2)	0 (0)	1 (2)	0 (0)	0 (0)	0 (0)
Average days	133.50	125.00	134.00	125.00	127.00	122.50	132.50

Source : Annual reports of selected companies, 2003-2009.

Note : Figures in parentheses represent percentage.

During 2006-07, the highest proportion i.e. 48 per cent of the companies took 100 to 150 days from the balance sheet date to annual general meeting , followed by 30 per cent companies taking 150 to 200 days. There were only 2 per cent of companies who took more than 200-250 days. The average time taken from the balance sheet date to annual general meeting came to be 127 days.

During 2007-08, the highest proportion i.e. 58 per cent of the companies took 100 to 150 days from the balance sheet date to annual general meeting, followed by 24 per cent of companies taking 150 to 200 days. There were 16 per cent of the companies who took less than 100 days. The average time taken from the balance sheet date to annual general meeting came to be 122.50 days.

During 2008-09, the highest proportion i.e. 42 per cent of the companies took 100 to 150 days from the balance sheet date to annual general meeting, followed by 38 per cent companies taking 150 to 200 days. There were 2 per cent of companies who took more than 200 to 250 days. The average time taken from the balance sheet date to annual general meeting came to be 132.50 days.

The analysis highlighted that time-lag between balance sheet dates to annual general meeting could not depict a definite trend; rather it remained fluctuated between 122.50 days in 2007-08 to 134 days in 2004-05. Declining trend of time-lag between balance sheet dates to annual general meeting should be set out.

TRENDS IN REPORTING LAG

The existing trends as well as future trends in different types of reporting lag in the selected companies have been worked out and presented in Table 4.

The analysis showed that average reporting lag in the case of Balance Sheet date and Auditors' Report was 48.08 days in 2002-03 which consistently decreased to 45.24 days in 2003-04, 44.70 days in 2004-05, 41.32 days in 2005-06, and 39.14 days in 2006-07, 35.78 days in 2007-08 but increased to 38.16 days in 2008-09. Overall average time-lag between the Balance Sheet and Annual General Meeting during the time period of study (2002-03 to 2008-09) was just 41.77 days. The overall rate of decline worked at -4.52 per cent compounded annually, which was found to be statistical significant at one per cent level. The coefficient of variation was equal to 10.55 per cent. Keeping in view the regression coefficient, it is predicted that the time-lag between balance sheet date and auditor's report would decline to 22.36 days in 2015-16 and 14.60 days in 2019-20, which would be a decline of 41.40 per cent and 61.74 per cent respectively over that in 2008-09.

Table 4

Trends in Reporting Lag (Figures in Number of Days)

Year	Time Lag Between		
	Balance Sheet and Auditors' Report	Auditors' Report and Annual General Meeting	Balance Sheet and Annual General Meeting
2002-03	48.08	74.28	133.50
2003-04	45.24	76.64	125.00
2004-05	44.70	78.60	134.00
2005-06	41.32	74.20	125.00
2006-07	39.14	77.84	127.00
2007-08	35.78	78.62	122.50
2008-09	38.16	83.40	132.50
Average	41.77	77.65	128.50
C.V.	10.55	4.05	3.68
C.G.R.	-4.52	1.40	-0.42
t-value	6.62**	2.51	0.57
Trend Coefficients			
a	49.52	73.29	130.64
b	-1.94	1.09	-0.54
Future Projection			
2015-16	22.36	88.55	123.08
2019-20	14.60	92.91	120.92
Percentage Change Over 2008-09			
2015-16	-41.40	6.18	-7.11
2019-20	-61.74	11.40	-8.74

Source : Calculations are based on the data given Annual Reports of Companies (respective years).

Table 4 further revealed that the average time-lag between Auditors' Report and Annual General Meeting was 74.28 days in 2002-03, which increased to 76.64 days in 2003-04, 78.60 days in 2004-05 and decreased to 74.20 days in 2005-06. Again, the average time-lag between Auditors' Report and Annual General Meeting increased to 77.84 days in 2006-07, 78.62 days in 2007-08 and 83.40 days in 2008-09. The value of coefficient of variation (4.05 per cent) did not show too many variations in the time-lag between Auditors' Report and Annual General Meetings of these companies. Surprisingly, average rate of growth, instead of declining, was found to be positive, and i.e. grew at the rate of 1.40 per cent per annum. But, this growth rate was not statistical significant at all. On the basis of calculated regression coefficient (b=1.09), it has been predicted that average time-lag between Auditors' Report and Annual General Meeting would increase to 88.55 days in 2015-16 and 92.91 days in 2019-20, which would show an increase of 6.18 per cent and 11.40 per cent respectively over that 2008-09.

In the case of average time-lag between the Balance Sheet and Annual General Meeting, the analysis of data observed a crisscross pattern. For instance, average reporting time-lag between the Balance Sheet and Annual General Meeting was 133.50 days in 2002-03, which decreased to 125.00 days in 2003-04, but increased to 134.00 days in 2004-05 and again declined to 125.00 days in 2005-06. Again, the average time-lag the Balance Sheet and Annual General Meeting increased to 127.00 days in 2006-07, 122.5 days in 2007-08 and finally increased to 132.50 days in 2008-09. Overall average time-lag between the Balance Sheet and Annual General Meeting from 2002-03 to 2008-09 was equal to 128.50 days. The value of coefficient of variation (3.68 per cent) found to be low. It indicates that over the time period, average time-lag did not show too many variations. The overall rate of decline was -0.42 only; which is not found to be statistical significant. On the basis of calculated regression coefficient (b= -0.54), it has been predicted that average time-lag between the Balance Sheet and Annual General Meeting would decrease to 123.08 days in 2015-16 and 120.92 days in 2019-20, which would show a decline of 7.11 per cent and 8.74 per cent respectively over that in 2008-09.

CONCLUSION

On the basis of above analysis, the following conclusions can be drawn :

- The time-lag from balance sheet date to auditor's report improved over the period of the study.
- On the other hand, time-lag from auditor's report to annual general meeting has deteriorated during the time period.
- However, lag between balance sheet and annual general meeting could not depict a definite trend.

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