AN INVESTIGATION OF THE RELATIONSHIP BETWEEN SELECTED CORPORATE-AUDITOR ATTRIBUTES AND THE TIMELINESS OF ANNUAL REPORTS OF COMPANIES QUOTED ON THE NAIROBI STOCK EXCHANGE.

A MANAGEMENT PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE DEGREE MASTER OF BUSINESS AND ADMINISTRATION,FACULTY OF COMMERCE, UNIVERSITY OF NAIROBI.

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DECLARATION

THIS PROJECT IS MY ORIGINAL WORK AND HAS NOT BEEN PRESENTED FOR A DEGREE IN ANY OTHER UNIVERSITY.

WACHIURI CECILIA W

THIS PROJECT HAS BEEN SUBMITTED FOR EXAMINATION WITH MY APPROVAL AS UNIVERSITY SUPERVISOR

MR J.K NJIRAINI
LECTURER: ACCOUNTING DEPARTMENT

Dedicated to my family

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ABSTRACT

Timeliness has been identified as one of the qualitative features of financial statements of an organisation. This attribute requires that financial statements of an organisation should be released promptly after a financial year-end before they loose capacity to influence decisions.

Differential timing of reports has been observed to have implications on the expected profitability of firms, stock price reactions and has also been examined as an indicator of financial distress. Given the importance of timeliness, the variables associated with differential timing of reports has attracted the attention of researchers.

This study sought to find out whether there is a relationship between selected corporate-auditor attributes- namely, audit firm size, change of auditors, extra-ordinary items, audit qualification and the timeliness of annual reports of companies quoted on the Nairobi Stock Exchange.
Apart from change of auditors, the other attributes did not portray a relationship with reporting delay.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The importance of availability of financial information for decision-making cannot be overemphasized. Whether within an organisation or among external parties to an organisation, financial information is necessary to facilitate the making of reasoned choices among alternative uses of scarce resources.

Various parties are interested in the financial performance of organisations. Such parties include the gorvernment, employees of the organisation, shareholders, investors and also the general public. This information assists in evaluating, among other things, expected returns, costs and risks involved in an investment. Its availability reduces the uncertainity under which such evaluations are made and increases the effectiveness of users in decision-making.

The accounting profession provides financial information through financial statements which are the most important source of financial information for users for the following reasons:

- The fact that the auditors attest to their reliability making them a more reliable source of information for users.
- They are a low cost information source since the individual organisations bear the cost of producing the

reports and thus are freely available.

- They serve the purpose of confirming the anticipations of other information sources.

To be of value to the users when they are received, financial statements should have certain qualitative attributes. Among these is timeliness. This attribute requires that the publication of financial statements should be as rapid as possible to assure the availability of current information in the hands of users. Davies and Whittred (1980) point out that...

> "Irrespective of whether one chooses to call timeliness an objective of accounting or an attribute of useful accounting information, it is clear that both the disclosure regulation, and a large part of the accounting literature adopt the premise (either implicitly or explicitly) that timeliness is a necessary condition to be satisfied if statements are to be useful." (pg 48)

Delay in releasing financial statements may lead to a delay in decision making and increase uncertainity as suggested by Beaver (1968). The value of financial statements varies inversely with the time taken to prepare it (Manley 1966). With increased time-lag the information contained in the statements looses the capacity to influence decisions.

Regulatory bodies and company legislation impose time limits within which reports may be presented. For instance The Australian Stock Exchanges listing requirements impose a time limit of four months after the close of the financial year. The Nairobi Stock Exchange requires that listed companies make their earnings announcements immediately after the reports have been

received by the Board of Directors. Kenya Company Law (Cap486) requires that a Company's Annual General Meeting, at which audited accounts are submitted, should be held within eighteen months of incorporation and every fifteen months thereafter.

Various studies have been done on the reporting behaviour of firms in Australia, Newzealand,America and recently in Kenya. The studies show that corporate disclosure is plagued by delay despite regulations imposed.

Recent studies have also shown that the timeliness of a report has implications on its information content (Penman and Chambers 1984, Ball and Brown 1968) such that the variability of security returns may be related to the reporting lag.

Timeliness has also been examined as an indicator of financial distress (Whittred and Zimmer 1984) with the observation that late reporting may be an early warning signal of distress.

Given the importance of timeliness of financial reports, and the implications of late reporting, research into the variables associated with differential timing has attracted a number of researchers. Dyer and Mchugh (1975) carried out a study of corporate attributes that affect timeliness among Australian firms. They examined three corporate attributes namely, size, year-end closing date and relative profitability. A positive association was found between timeliness and company size and also with relative profitability.

A study carried out by Lishenga(1989) replicated Dyer and Mchugh (1975) for the companies on the Nairobi Stock Exchange. He also examined an additional variable- complexity. The findings were that companies experiencing big profits reported earlier than those with poor performance. Complexity of operations was found to be directly related to reporting delays while size had a negative relation with the reporting delay. No relationship was found between the year-end closing date and reporting delay.

Such studies on determinants of timeliness of corporate reports suggest that the length of a firm's reporting lag is the outcome of the interaction between both corporate and auditor attributes and that these should be examined together. This interaction can be seen for instance in the actual year-end audit period and in the management-auditor negotiation regarding the type of audit report to be rendered. The researchers suggest therefore that a more fruitful line of research would be to examine the attributes of auditing firms and corporations which jointly determine the reporting lag. This study intends to extend previous studies in this area by examining the effect of four such variables on timeliness of reports. These variables are namely:

-The presence or otherwise of an audit qualification

-The presence or otherwise of extraordinary items

-Changes in auditors

-Audit firm size

1.2 STATEMENT OF THE PROBLEM

The timeliness of annual reports determines their value to the users who have an interest in the company's state of affairs and performance over time. It is thus a key qualitative feature of financial statements.

Though the nature of financial statements is such that some time must elapse between a company's year-end and the release of the report, management should endeavour to reduce this time-lag for the reports to be useful.

Previous research into variables related to differential timing of reports suggest that the reporting lag of companies is influenced by both corporate and auditor attributes. These should be examined together for a fuller understanding of the determinants of reporting lags. The researcher is not aware of any previous study in Kenya that addressed these corporate-auditor attributes as determinants of reporting lags. It is the intention of this study to investigate the relationship between these variables and timeliness of corporate reports.

1.3 OBJECTIVE OF THE STUDY

The main objective of the study is to determine whether a relationship exists between corporate reporting lags and the selected corporate-auditor attributes. The study will thus shed additional light into the determinants of corporate reporting

lags.

1.4 SIGNIFICANCE OF THE STUDY

The study will be significant to the following:

1. To regulatory bodies such as the office of the registrar of companies,the Stock exchange which may be interested in setting reporting deadlines.

2. To managers in client corporations and auditing firms, in understanding the factors causing delay in reporting.

3. To researchers who may use the study as a benchmark since there are many areas in accounting and finance where timeliness of reports is assumed.

CHAPTER TWO

LITERATURE REVIEW

2.1 DEFINITION OF TIMELINESS

Three definitions of timeliness are to be found in the accounting literature. It is defined as frequency of reporting, reporting delay or expected dates of reports.

(a) Timeliness as frequency of reporting

This definition focuses on the intervals of releases of information. A firm may issue quarterly interim reports and the annual report. This definition of timeliness presupposes that firms which issue interim statements are more timely reporters than others which do not issue such statements.

(b) Timeliness as reporting delay

This definition considers timeliness as the time lag occuring between the balance sheet date and the date of release of the reports to the public. A company's report is thus timely or untimely depending on the length.

(c) Timeliness as expected dates of reports

According to this definition, a report is timely if it is released on or before an expected release date. The normal sequence of past releases is used to determine the expected date of the report. This definition has been adopted for instance by Chambers and Penman (1984) while studying the relationship between security returns and timeliness of earnings releases.

2.2 TIMELINESS AND THE INFORMATION CONTENT OF REPORTS

Timeliness of the annual report is an important determinant of their usefulness. As pointed out earlier, financial statements are a most important source of information for users since they are less costly and more reliable. Numerous studies have examined the usefulness of annual reports and the added benefits of quarterly reports. However few studies have been done on the phenomenon of timeliness and its effect on the information content of the report.

Beaver (1968) provided evidence that annual earnings announcements have information content and suggested that investors may postpone transactions on the securities market until the annual report has been released. Delay in releasing financial statements is likely to increase the level of uncertainity associated with decisions for which the financial statements provide information and hence the postponement.

Givoly and Palmon (1982) carried out a study to examine the relationship between the information content of the accounting report and its timeliness. They used two definitions of timeliness - timeliness as reporting delay and as the reporting interval. The study noted that the annual report whether audited or preliminary is not the only source for, or the first indication of the results of the past year.

In addition to the information contained in the interim reports for the first three quarters, investors have a knowledge of the economic developments in the company and the market during the fourth quarter. As more and more companies in the same industry release their earnings figures, much of the uncertainity sorrounding the yet-unannounced earnings of the remaining companies diminishes. Moreover, possible leaks of information by insiders may make the prediction of forthcoming results more certain, rendering the official report of little value except as a final confirmation. A deterioration in the information value occurs when prolonged delays are experienced and it would be expected that decisions based upon out-of-date information are unlikely to be optimal.

The same study examined the magnitude of price changes surrounding early and late announcements. The conclusion was that judged by the intensity of market response, late earnings reports appear to convey less new information than earlier reports. This differential degree of market reaction was also documented consistently by Chambers and Penman (1984) and by Kross and Shroeder (1984).

2.3 TIMELINESS AND SECURITY RETURNS

The timeliness of accounting information affects the magnitude and the direction of security market reactions to earnings releases. Chambers and Penman (1984) compared the variability of stock returns associated with the release of

reports published relatively promptly after the financial year end with that associated with less timely reports. Using a definition of timeliness as expected date of the report, their analysis provided some evidence of higher return variability associated with reports released earlier than expected relative to that associated with reports released on time or unexpectedly late.

It was also found that abnormal returns associated with the release of reports published earlier than expected were positive on average suggesting that firms publishing early reports have good news. Abnormal returns associated with the release of reports published later than expected were negative on average indicating that delayed reports carry bad news.

The same researchers further found that average abnormal returns at the expected date of release of reports that are unexpectedly late were negative. This would indicate that investors interpret failure to report on time as a forecast of bad news.

A similar study was conducted by Kross and Shroeder (1984) in which they sought to determine whether the association between announcement timing and stock returns persists after controlling for the sign and the magnitude of the earnings forecast error and the firm size.

The findings held for both large and small firms, for positive and negative earnings forecasts errors and for small and absolute values of the earnings forecast error.

Defeo (1986) carried out a study to investigate the duration (speed) of price adjustments to earnings announcements relative to other potential sources of variation across firms such as firm size, reporting lag, and report type. He defined market response in two ways- as a change in the mean of the distribution of returns, and as a change in the variance of distribution. For both definitions of market response, there was relatively little evidence of a reporting lag effect. These studies suggest a connection between the timeliness of financial disclosures and the efficiency of the security markets.

2.4 TIMELINESS OF REPORTS AND FINANCIAL DISTRESS

The literature emerging from the studies on timeliness shows consistently that bad news takes longer to reach the market than good news. Thus early reports usually contain good news (higher than expected profits) while late reports contain bad news (lower than expected profits)as shown by Givoly and Palmon (1982), Whittred (1980).

Several prior studies have noted differences in the timing of favourable and unfavourable disclosures. For instance Niederhoffer and Regan (1972) examined the earnings reports of the 50 NYSE stocks with the greatest percentage price gains and 50 stocks with the greatest percentage price losses during 1990. "Because 23 of the bottom 50 stocks recorded deficits, there was

a reluctance on the part of management to report the bad was....Such results confirm the observation of Alen and Abelson,...that companies which do well generally tend to report earlier than those that do poorly" (pg 67).

Lurie and Pastena (1975) examined the timeliness with which a sample of firms from Standard and Poor's 425 Industrial Index filed Report Form 8-K with the Securities and Exchange Commission (SEC). This report form must be filed within ten days after the close of the month in which any of a variety of specified events occurs. They found that 59 percent of the filings which reported events with favourable effect on earnings occured in the first half of the registrant's fiscal year, while only 22 percent of the unfavourable filings appeared in that period.

This study was extended by Pastena and Ronen (1979) who considered the timing of the firm's press releases. Their statistical tests strongly supported the hypothesis that management acts as if it intends to delay negative information. It was noted that one potentially contributing factor to the apparent delay in the reporting of unfavourable information may be that such events especially deficit years, are more likely to require lengthy, difficult audits.

The doctrine that late reports reflect bad news is also found in the banking literature, where the principal concerns are the credit-worthiness of loan applicants and the quality of existing loans. The failure of a bank's customer to submit financial information when due under a loan agreement or when

specifically requested is asserted to reflect either the customer's reluctance to provide the bank with unfavourable financial results or management's inability to generate and package a set of financial reports. It may also be an early warning signal of financial distress.

Gregg and Zimmer (1984) note that...

> " Infrequency of financial statements is an age-old sign too often ignored. It is axiomatic that the borrower who has had a good year will don his track shoes and speed the statements to your desk to receive the high praise so justly due him for his managerial acumen. It is just as axiomatic that there is always a reason for not getting the statements on timely basis and when they are recieved, finding them not comparable to the prior year" (pg 287)

Gregg and Zimmer (1984) carried out a study of a sample of Australian firms entering financial distress and compared them with a control group of companies. They found that companies entering financial distress experienced a longer audit signature lag (a proxy for the amount of time spent in the year-end audits and auditor-client negotiation) at least three years prior to failure. However, the reporting lags, whether alone or in conjuction with conventional bankruptcy prediction models, did not have the ability to predict distress.

Keasy and Watson (1987) carried out a study on the ability of non-financial symptoms to predict small company failure. The timeliness of reports was a main variable in their prediction model. They concluded that better predictions concerning small

company failure may be obtained from such qualitative variables than from the traditional financial ratios.

2.5 DETERMINANTS OF TIMELINESS

CORPORATE ATTRIBUTES

The variables associated with differential timing of reports have attracted the attention of a number of researchers in recent years. It is a belief that certain corporate attributes explain the reporting behaviour of firms. These include Company size, Year-end closing date, relative profitability and complexity of operations. A discussion of these attributes follow:

2.5.1 Company Size

Studies carried out by researchers such as Dyer and Mchugh (1975), Davies and Whittred (1980), Lishenga (1989) all reach the conclusion that there is an inverse relationship between company size and reporting lag.

Various grounds have been used to explain this phenomenon. This include the fact that with increasing size, a company experiences greater scrutiny over its financial affairs. Such a company may endeavour to reduce the reporting lag inorder to eliminate uncertainity for the company's shares in the market.

Large companies also control adequate resources to enable them hire more accounting personnel, pay greater audit fees for less time in audit and also install EDP systems to make work easier. Reduced reporting lags may also be seen by managers of

large corporations as a way of checking regulative control over the company's reporting activities.

Research studies such as by schiff and Fried (1976), Gilling (1977) show that large companies are audited by large audit firms. Such audit firms command large resources for quicker audits and thus their clients are bound to recieve their audited reports earlier than those audited by smaller firms.

2.4.2 Year-end Closing Date

The peak demand for auditing services at various stages throughout the financial year suggest a relationship between the financial year-end of a company and its reporting behaviour. Audit firms experience peak demands on their services during certain periods of the year depending on when most companies close their financial year.

The results of studies done on the impact of the peak audit period on the reporting behaviour of companies have been inconsistent. For instance Davies and Whittred (1980) in their study of companies on the Sidney Stock Exchange found that only in two years out of six is the total lag of June 30 year-end (the most common year-end for companies on this exchange) companies significantly greater than that of companies with different year-ends. Dyer and Mchugh (1975) found the lenghth of lags for companies with their year-end as June 30th stochastically longer. Lishenga (1989) in his study of companies on the Nairobi Stock Exchange reached the conclusion that peak periods have no effect

on reporting delays.

2.5.3 Relative Profitability

Research studies have suggested that bad profit news takes longer to reach the public than good profit news. An inverse relationship may therefore be expected between total reporting lag and relative profitability. Studies done by Lurie and Pastena(1975), Patell and Wolfson (1982), Kross and Shroeder (1984) all supported this view.

The reasons advanced to explain this occurrence include the fact that more time is consumed in auditor-client negotiations in an attempt to improve results and that managers may wish to defer any repercussions from the shareholders.

2.5.5 Complexity

Ashton et al (1987) identified four perspectives of complexity that may affect the reporting behaviour of a company. These are:

(1) Operational Complexity- This is defined in terms of the number and location of operating units. The higher the number of operating units and the greater the distance of these units from each other, the higher the operational complexity.

(2) Financial Complexity- This is the degree of

centralization of accounting and financial control. The higher the centralisation, the less the financial complexity.

(3) EDP Complexity- This is the intensity and the extent of the use of EDP in the activities of an organisation. An organisation has a higher complexity if it utilises EDP systems intensively and to a large extent.

(4) Reporting Complexity- This is the number of separate reports issued at the financial year end. The more the reports issued, the higher the reporting complexity.

Ashton et al (1987) used these perspectives in their study and found that except for EDP complexity which has an inverse relationship with the length of delay, the other measures of complexity have a direct relationship with reporting lag.

2.5.2 CORPORATE-AUDITOR ATTRIBUTES

Research into the association between selected corporate attributes and corporate reporting behaviour has suggested that a more fruitful line of research might be to examine the joint corporate and auditor attributes that determine the timeliness of reports. The length of a corporation's reporting lag is the outcome of the interaction between the auditor and the client company. For instance Dyer and Mchugh (1975) found that 66% of

the total lag of companies investigated was taken up by the audit report submission date.

The following reasons were found to explain the delay:

- Delays in posting of final months' operations and completing the year-end adjustments of account.
- Procedural delays in auditing such as slow returns of confirmations, verifications of subsidiary ledgers.
- Disagreements with the auditors over the valuation of accounts and the reporting of extra-ordinary items.

An issue that has attracted the attention of researchers is whether big audit firms have less audit delay than smaller audit firms. Davies and Whittred (1980) found shorter audit delays for the big audit firms than for smaller audit firms consistent with the results obtained by Gilling (1977) who concluded that the largest auditing firms in Newzealand work faster than the smaller auditing firms.

Various explanations have been given for this phenomenon. These include:

- The fact that big auditing firms have larger clients, and the latter are more likely to have "on-going" audits than small companies.
-That the larger auditing firms are more efficient as supported by Gilling (1977)
- That there are economies of scale in the provision of audit services so that firms handling alot of work use a shorter time.

Irrespective of the explanations offered, there seems to be a reasonable ground for suggesting that the auditing firm size may be a major determinant of reporting lag.

Change of auditors has also been observed to affect a corporation's reporting behaviour. Davies and Whittred (1980) compared the reporting lags of companies that changed auditors with the equivalent lags on a control group of companies that had not experienced a change of auditors. The results showed an increased time lag with the change of auditor. The researcher suggested the explanation that incoming auditors are likely to require a certain amount of time to familiarize themselves with the clients' operations and accounting procedures, including their initial appraisal of the clients' system of internal control.

Extra-ordinary items reported was observed to have an effect on the reporting lag of companies by the same researcher mentioned above. Extraordinary items may affect the time taken by auditors to complete their year-end audit work and submit their report to the board of directors. Since extra-ordinary items result from events or transactions outside the ordinary operations of a business, they require careful consideration in the audit programme.

The effect that qualified audit reports have on timeliness has also interested researchers. Whittred (1980) conducted a study of the effect of qualified audit reports among Australian Companies. The results indicated that the incidence of a

qualified report delays the release of the preliminary profit report and the final accounts. The same researcher found that the more serious the qualification the greater the delay. The possible explanations of this phenomenon were given as the increase in the time taken to complete the year-end audit and that spent in auditor-client negotiations. This attribute was also investigated by Keller (1986) similar study among Companies in the United States.

The present study investigates the relationship between these corporate-auditor attributes; namely- Audit firm size, Change of Auditors, the presence of extra-ordinary items, Audit qualification and the timeliness of annual reports for companies quoted on the Nairobi Stock exchange.

CHAPTER THREE

THE RESEARCH DESIGN

3.1 THE SAMPLE

This study set to find out whether a relationship exists between the reporting lags of companies and selected corporate-auditor attributes namely: audit firm size, change of auditors,the presence of extra-ordinary items and audit qualification.

The population of the study consisted of all companies quoted on the Nairobi stock exchange. Data availability was the main consideration in the choice of this population. Annual reports of companies quoted on the exchange for the period 1981-1990 (a period of ten years) were obtained from the Secretariat and used in the study. The researcher considered the ten year period a sufficient time within which the incidence of attributes being investigated could be found. A similar study by Lishenga (1989) also used a period of ten years.

The current Daily Price List showed that 53 companies were listed on the exchange. Some of these companies were however excluded from the study including: These were Companies that joined the exchange after 1981, and companies de-registered from the exchange during the period covered by the study. For the companies excluded, complete data could not be obtained. After

excluding these two categories, only 41 companies qualified to be used in the study.

3.2 THE DATA COLLECTION METHOD

As mentioned above, the study utilized secondary data obtained from the annual reports of individual companies quoted on the Nairobi stock exchange. Data relating to the following was collected:

(a) The financial year-end of the company

(b) The Auditor Signature date in a particular year

(c) Date of the Annual General Meeting after the close of a particular year.

(d) Classification of a company according to the attributes under investigation. A dscussion on the classification procedure is outlined below.

Audit Firm Size

Audit firms were classified into two groups according to the size of their operations. The two groups were: the "Big Five" and the "Non-Big Five". The "Big Five" firms in Kenya are Coopers and Lybrand,Delloitte,Haskins & Sells, Bellhouse Mwangi Ernest & Whinney, Peat Marwick, and Price Waterhouse.

Any other auditing firm formed the "Non-Big Five" group. This classification was also used by Davies and Whittred (1980) in a study of Australian firms.

Change Of Auditor

The report of directors given on an annual report indicate whether there has been a change of auditors in a particular year. Where this was not mentioned, the auditors' signature was refered to and checked against that of the previous year.

Extra-ordinary Items

The Profit and Loss Statement given in the annual report was refered to in determining whether or not a company had an extra-ordinary item in a particular year. The effect of the extra-ordinary item on the year's profit (negative or positive) was not considered.

Audit Qualification

The report of Auditors to the shareholders was read to find out whether there had been an audit qualification in a particular year. The type of qualification was of no consequence to the study and thus a qualification of whatever nature was recorded.

3.3 DATA ANALYSIS METHOD

Three profiles of time-lag developed by courtis (1976) were used to gain insight into the determinants of reporting timeliness. These profiles are:

(1) Total lag - defined as the number of days between the balance sheet date and the date the Annual General Meeting is held.

(2) Auditors Signature Lag - defined as the number of days between the balance sheet date and the auditor's report.

(3) Time-lag C - defined as the number of days between the auditors report and the date of the Annual General Meeting.

After the collection of data, companies were classified according to the selected attributes and the mean reporting delay in the above profiles was calculated per company for the ten-year period. To illustrate,

Let X_{it} represent the time-lag of a company with attribute i in year t.

For i=1....4, and t=1....10

Mean time-lag was calculated as $\frac{\sum X_{it}}{\sum t}$

The mean time-lags calculated for each class of companies is shown in appendix 11.

The Mann-Whitney U-test was used to compare mean time-lags of companies possessing a particular attribute with those without. The test was considered appropriate since previous studies have indicated that the distribution of time-lag data is non-normal. The test allows the comparison of unequal samples and is recommended for small sample sizes as those encountered in this study. The null hypothesis in all cases was that there was no significant difference between the mean reporting lag of companies possessing a particular attribute and those not possessing the attribute.

(2) Auditors Signature Lag - defined as the number of days between the balance sheet date and the auditor's report.

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CHAPTER FOUR

PRESENTATION AND DISCUSSION OF FINDINGS

Audit Firm Size

The results of the Mann-Whitney test performed on the mean reporting lags of companies audited by the "Big five" and those audited by the "Non-Big Five" are shown below.

Table 1: U TESTS OF THE HOMOGENEITY OF LAGS OF COMPANIES AUDITED BY THE BIG FIVE AND COMPANIES AUDITED BY THE NON-BIG FIVE

	LAGS		
	Total Lag	Auditor's Signature lag	Time-Lag C
Two -tailed probability associated with observed U	0.4695	0.3281	0.2864
Class sizes*	31:10	31:10	31:10

* Class sizes for companies audited by "big five" and "Non-big five" respectively.

The hypothesis was tested at 0.1 level of significance. Tested at this level, none of the statistics is significant. The results indicate that the auditing firm per se is not a determinant of reporting lag since it has no relationship with any of the defined lags.

This results are contrary to those obtained by Gilling (1977)

who concluded that firms audited by large auditing firms had less delay than those audited by small firms. Though the latter may be expected in view of the large resources that the big audit firms control, it is also true that audit delay (the component of reporting lag influenced by the auditor) is partly dependent on the overtime worked by the employees of the firm. This being the case,the smaller firms are in a position to stretch their resources to avoid audit delay. It may also be the case that smaller audit firms are more efficient in their work thus compensating for their inadequate resources.

Alternatively, the explanation may be that smaller auditing firms also have smaller clients who require less time in audit than larger clients. Smaller clients may then be handled by the smaller audit firms without causing delay.

The categorization of auditing firms in this study could also have led to these results. A study could be conducted on the structure of auditing firms in Kenya which may reveal a better way of classifying them.

Change of Auditors

The table below provides a comparison of the reporting lags of companies which changed auditors during the period under study with those which experienced no change of auditors.

TABLE 2: U TESTS OF HOMOGENUITY OF LAGS FOR COMPANIES EXPERIENCING A CHANGE IN AUDITORS AND COMPANIES EXPERIENCING NO CHANGE IN AUDITORS

	LAGS		
	TOTAL LAG	AUDITOR'S SIGNATURE	TIME-LAG C
Two-tailed probability associated with observed U	0.1547	0.0504*	0.6204
Class Sizes	34:7	31:10	31:10

* Significant at a=0.1

From the results above, it appears a change of auditors does not significantly affect the total lag or time-lag C. It does however affect the auditor's Signature lag which is a proxy for the time taken to audit the report. These results compare well with those obtained by Whittred (1980) in a study of Australian companies. Audit delay would be expected where a change of auditors has occured since in-coming auditors require a certain amount of time to familiarize themselves with the client's operations and accounting procedures. Time will also be required for the initial appraisal of the client's system of internal control.

Management-Auditor interaction is likely to be high with a change of auditors inorder to facilitate the familiarization. Further, the in-coming auditors will require time to plan the deployment of personnel to handle the new client.

Extra-ordinary Items

Table 3 below shows that the presence or otherwise of extra-ordinary items has no relationship with any of the defined lags. None of the statistics is significant at the chosen level of confidence.

TABLE 3: U TESTS OF HOMOGENEITY OF LAGS OF COMPANIES WITH EXTRA-ORDINARY ITEMS AND THOSE WITHOUT EXTRA-ORDINARY ITEMS

	LAGS		
	TOTAL LAG	AUDITOR'S SIGNATURE LAG	TIME-LAG C
Two-tailed probability associated with observed U	0.4838	0.4525	0.4123
Class Sizes	25:16	25:16	25:16

Though the nature of extra-ordinary items may require a more careful consideration in the audit programme, it may be that audit programmes contain slack to handle extra-ordinary items

without disrupting the shedule of work.

It was also apparent from the study that extra-ordinary items are not an uncommon occurrence- Out of a total sample of 41 companies, 25 of them had extra-ordinary items in the period under study. This being the case, auditors may have developed an efficient way of dealing with them such that no extra time is consumed. Extra - ordinary items are also one - off occurence and hence require very little in terms of additional effort.

Audit Qualification

The results of the comparison between mean reporting lags of companies that had an audit qualification with those of companies without an audit qualification are shown in the table below.

TABLE 4: U TESTS OF HOMOGENEITY OF LAGS OF COMPANIES WITH AN AUDIT QUALIFICATION AND COMPANIES WITHOUT AN AUDIT QUALIFICATION

	LAGS		
	TOTAL LAG	AUDITOR'S SIGNATURE	TIME-LAG C
Two-tailed probability associated with observed U	0.7678	0.3228	0.3245
Class Sizes	8:33	8:33	8:33

Tested at 0.1 level of significance, the resulting statistics are insignificant. They do not support the proposition that a qualified audit report delays the release of the report by either the auditors or by management.

These results are consistent with those obtained by Keller (1986) who suggested that companies absorb the delay in reporting that is associated with the reciept of a qualification by incurring additional costs in order to avoid delays in the publication of the annual report. Whittred (1980) had earlier concluded that management trades off between components of reporting lag so that lags that can be controlled (such as mailing and printing) are decreased thus nullifying the effect of a delay that management cannot control (such as negotiation time)

In the course of the study, it was also observed that a particular audit qualification was recurrent in different years. Such a recurrent qualification has no "suprise effect" since it is not unexpected. No delay is likely to result from such qualifications.

The qualifications were also not of a serious nature. In the sample studied, most of them were "Subject to" qualifications. It may be that adverse first-time qualification have enough "suprise effect" to cause delay in contrast to the ones included in this study.

CHAPTER FIVE

SUMMARY, CONCLUSION, LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

This chapter summarises and concludes the study undertaken, gives limitations of the study and suggestions for further research.

5.1 SUMMARY AND CONCLUSION

This study set out to find out whether a relationship exists between certain selected corporate-auditor attributes - audit firm size, change of auditors, extra-ordinary items, audit qualification and the timeliness of annual reports of companies qouted on the Nairobi Stock Exchange.

The results of this study provided no evidence of a relationship between the selected corporate-auditor attributes and the timeliness of annual reports of companies quoted on the Nairobi Stock Exchange except in one instance- Change of auditors.

Significant results were observed in the test of homogeneity of auditor's signature lags of companies experiencing a change of auditors and those of companies experiencing no change of auditors. This supports the proposition that audit firms take more time to audit the reports of a new client than they do for an old client. The audit firm size does not significantly affect a company's reporting lag. This may be explained by the

fact that the time taken in audit is dependent on the overtime worked. The smaller firms may thus be capable of stretching their resources to avoid delay.

The presence or otherwise of extra-ordinary items portrayed no relationship with reporting delay. Though it would be expected that auditing in the presence of extra-ordinary items takes longer than in their absence, it appears that auditing firms can handle them without significantly increasing the reporting delay since they are not an uncommon occurence.

For the firms included in the study, audit qualification did not significantly affect reporting delay. These results compare well with those obtained by Keller (1986) which led him to conclude that companies prefer to absorb the delay in reporting that is associated with the receipt of the qualification by incurring additional costs in order to avoid delays in the publication of the annual report.

5.2 LIMITATIONS OF THE STUDY

The study is not without limitations. One is the limited scope of the study. The study only considered the companies quoted on the Nairobi Stock Exchange for a period of ten years.

The Corporate-auditor attributes investigated in the study may not be the only joint corporate-auditor attributes that could affect the timeliness of annual reports. The study cannot therefore be considered exhaustive in this respect.

The categorization used for audit-firm size was also a limitation. This was used due to the lack of a more suitable categorization of the audit firms in Kenya.

5.3 SUGGESTIONS FOR FURTHER RESEARCH

The timeliness of an annual report gives it value to the various interested parties. As such the factors that may affect this important attribute of an annual report should be of interest to researchers. A replication of this study at a later date or for a different population could thus be of value.

Further research may be conducted taking into consideration different types of audit qualifications and their effect on the reporting lag of companies. It would be of value to find out whether serious qualifications affect reporting lag.

The effect that an extra-ordinary item has on the net profit of a firm could also be considered in relation to reporting lag. Further research could be done to investigate the "good news during, bad news after" hypothesis mentioned in the study and also the effect of timeliness on stock prices.

APPENDIX 1

AUDIT FIRM SIZE

MEAN TIME LAG OF COMPANIES AUDITED BY "THE BIG FIVE":

		TOTAL LAG	AUDIT SIGNATURE LAG	TIME LAG C
1.	East African Oxygen	178	125	53
2.	A Baumann	194	250	31
3.	Elliots Bakeries	139	109	31
4.	Car and General	268	225	43
5.	Brooke Bond	144	97	43
6.	Carbacid Investments	137	81	57
7.	East African Cables	147	54	94
8.	Credit Finance	175	91	83
9.	Kakuzi Ltd	207	132	75
10.	Nation Printers	230	188	43
11.	Jubilee Insurance Co	178	142	36
12.	George Williams	159	714	75
13.	Bamburi Portland Cement	159	84	75
14.	National Industrial Credit	233	141	83
15.	Philips Harrisons	208	168	47
16.	Express Kenya	165	77	92
17.	Pearl Dry Cleaners	210	173	32
18.	Kenya National Mills	170	135	38
19.	Unga Group	196	130	67
20.	Kulia Investments	245	151	94
21.	CMC Holdings	161	104	58
22.	Dunlop Kenya	177	103	56
23.	East African Packaging	152	49	93
24.	Motor Mart	68	33	35
25.	Consolidated Holdings	160	77	83
26.	Limuru Tea	125	86	40
27.	So Far Investments	145	109	50
28.	Marshalls East Africa	210	186	47
29.	Total Kenya	196	130	66
30.	Kenya Breweries	125	68	40
31.	Kenstock Ltd	170	135	49

MEAN TIME LAG OF COMPANIES AUDITED B"NON-BIG FIVE"

		TOTAL LAG	AUDIT SIGNATURE LAG	TIME-LAG C
1.	Hatchings Biemer	-	233	-
2.	African Tours & Hotels	-	390	-
3.	Total Oil Products (E.A)	157	85	72
4.	Kenya Orchards	175	96	79
5.	Diamond Trust	175	95	80
6.	Sasini Tea and Coffee	196	146	50
7.	Kenya Power & Lighting	297	288	90
8.	Theta Group	344	284	60
9.	Kenya Finance	104	62	42
10.	ICDC Investment Company	188	129	59

CHANGE OF AUDITORS

MEAN TIME LAGS OF COMPANY EXPERIENCING CHANGE OF AUDITORS

		TOTAL LAG	AUDIT SIGNATURE LAG	TIME-LAG C
1.	Hutchings Biemer	320	233	93
2.	African Tours & Hotels	390	210	180
3.	Brooke Bond Kenya Ltd	141	100	41
4.	Kenya Power & Lighting Company	293	208	90
5.	Philips and Harrisons	333	227	106
6.	Dunlop Kenya Ltd	199	118	81
7.	Limuru Tea and Company	105	90	15
8.	Ol Pejeta	204	108	96
9.	Marshalls East Africa	329	262	67
10.	East African Portland Cement	279	203	76

MEAN TIME LAGS OF COMPANIES WITHOUT CHANGE OF AUDITORS

		TOTAL LAG	AUDIT SIGNATURE LAG	TIME-LAG C
1.	Bamburi Portland	159	84	75
2.	Kenol	372	274	103
3.	Carbacid Investments	137	81	57
4.	East African Cables	147	54	94
5.	Kakuzi Limited	207	132	75
6.	Kenya Orchards	175	95	80
7.	Jubilee Insurance Company	178	142	36
8.	George Williams Kenya	159	114	45
9.	Diamond Trust	175	95	80
10.	National Industrial Credit	233	141	83
11.	Kenya National Mills Ltd	170	135	49
12.	Industrial and Commercial Development Corporation	188	129	59
13.	East African Oxygen	178	125	53
14.	African Barman & Company	194	250	31
15.	Elliots Bakeries	139	109	31
16.	Credit Finance Corporation Ltd	171	91	83
17.	Nation Printers and Publishers	230	188	43
18.	Sasini Tea and Coffee	196	146	50
19.	Express Kenya Ltd	165	77	92
20.	Pearl Dry Cleaners	210	173	38
21.	Unga Group	196	146	50
22.	Kulia Investments	245	151	94
23.	CMC Holdings	161	104	58
24.	Pats African Packaging Industry	211	184	28
25.	East African Packaging Industry	152	49	93
26.	Motor Mart Group	68	33	35
27.	Consolidate Holdings Ltd	160	77	83
28.	So Far Investments	145	109	50
29.	Total Kenya	126	86	40
30.	Kenya Breweries	159	114	45

EXTRA-ORDINARY ITEMS

(A) MEAN REPORTING TIME OF COMPANIES WITH EXTRA-ORDINARY ITEMS

		TOTAL LAG	AUDIT SIGNATURE LAG	TIME-LAG COMPANY
1.	Kenol	386	282	112
2.	E. African Oxygen	187	124	63
3.	A. Baumann and Company	378	352	26
4.	Elliots Bakeries Ltd	140	110	31
5.	Car and General	209	146	63
6.	Brooke Bond Kenya	146	92	54
7.	Nation Printers	211	179	32
8.	Sasini Tea and Coffee	196	133	63
9.	Philips Harrisons	333	227	106
10.	Express Kenya Ltd	177	71	106
11.	Pearl Dry Cleaners	192	161	31
12.	Unga Group	197	130	67
13.	Kulia Investments	253	137	116
14.	CMC Holdings	161	104	58
15.	Pan African Paper Mills	228	198	30
16.	Kenya Finance	87	54	34
17.	Dunlop Kenya	125	97	28
18.	E. African Packaging	151	48	88
19.	Motor Mart	69	36	33
20.	Consolidated Holdings	159	76	83
21.	Sofar Investments	147	110	55
22.	Marshalls E.A.	329	262	67
23.	Chancery Investments Ltd.	223	141	83
24.	Philips International	105	90	15
25.	Hutchings Biemer	178	125	53
26.	Credit Finance Corp. Ltd.	160	77	83

(B) MEAN TIME LAG OF COMPANIES WITHOUT EXTRA-ORDINARY ITEMS

		TOTAL LAG	AUDIT SIGNATURE LAG	TIME-LAG COMPANY
1.	E.A. Portland Cement Ltd	270	188	82
2.	Carband Investments	137	81	57
3.	E. African Cables	147	54	94
4.	Kakuzi Ltd	209	132	75
5.	Kenya Orchards	175	96	79
6.	Jubilee Investment	178	142	36
7.	George Williams Kenya Ltd	159	114	45
8.	Diamond Trust	175	95	80
9.	Bamburi Portland Cement	159	84	75
10.	National Industrial Credit	223	141	83
11.	Kenya National Mills Ltd	170	135	49
12.	Limuru Tea Company	125	86	40
13.	Industrial & Commercial Development Corporation	188	129	59
14.	Ol Pejeta Ranching	139	109	40
15.	B. A. T. Kenya Ltd	233	141	83
16.	Total Kenya	245	151	94

AUDIT QUALIFICATION

MEAN REPORTING TIME IN YEARS OF QUALIFICATION

		TOTAL LAG	AUDIT SIGNATURE LAG	TIME-LAG C
1.	E. A. Portland Cement Company	340	227	113
2.	Kenol	454	302	149
3.	Car and General	301	263	38
4.	Kapchorua Tea and Company	207	113	96
5.	African Tours and Hotels	310	200	110
6.	George Williams Kenya Limited	147	103	44
7.	Bamburi Portland Cement	161	98	63
8.	Kenya Breweries	120	83	37

MEAN REPORTING OF COMPANY WITHOUT AN AUDIT QUALIFICATION

		TOTAL LAG	AUDIT SIGNATURE LAG	TIME-LAG C
1.	East African Oxygen	178	125	53
2.	A. Baumann & Company	194	250	31
3.	Elliots Bakeries	139	109	31
4.	B.A.T. Kenya Limited			93
5.	Brooke Bond Kenya Ltd	144	97	48
6.	Carbacid Investments	137	81	57
7.	East African Cables	147	54	94
8.	Credit Finance Corporation Ltd	171	91	83
9.	Kakuzi Ltd	207	102	67
10.	Kenya Orchards	175	96	79
11.	Nation Printers and Publishers	230	188	43
12.	Jubilee Insurance Co. Ltd	178	142	37
13.	Diamond Trust	175	95	80
14.	Sasini Tea and Coffee	196	146	50
15.	Kenya Power and Lighting	310	225	85
16.	National Industrial Credit	223	140	83
17.	Express Kenya Ltd	165	77	92
18.	Pearl Dry Cleaners	210	173	38
19.	Kenya National Mills	184	135	99
20.	Unga Group	196	130	67
21.	Kulia Investments	245	151	94
22.	CMC Holdings	161	104	58
23.	Pan African Insurance	211	184	28
24.	Dunlop Kenya Ltd	177	103	56
25.	East African Packaging Industry Ltd	152	49	93
26.	Motor Mart Group	68	33	35
27.	Consolidated Holdings Ltd	160	77	83
28.	Limuru Tea Company	125	86	40
29.	Industrial & Commercial Development Corporation	188	129	59
30.	Marshalls E.A. Ltd	210	186	47
31.	Philips Harrisons	183	159	24
32.	Kenstock Ltd	125	75	50
33.	Sofar Investments	138	108	30

APPENDIX II

DATA COLLECTION FORM

COMPANY NAME .....

FINANCIAL YEAR END .....

YEAR	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Date of Auditors Report										
Date of AGM										
Audit Qualification										
Extra-Ordinary Items										
Audit Firm Size										
Change of Auditor										

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