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Timeliness of Financial Reporting Evidences from Indian Power Industry

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Abstract

The Indian economy showed a steady growth in recent years, but its GDP growth showed a dip of 6.9% in 2011-2012. It is affected by rousing inflation, weak growth in various sectors and decrease in FDI and turbulent stock markets and international market imbalances. Its power sector faces a acute crisis, in case of power demand and supply. It needs more investments to accelerate growth in the power sector which need, FDI also. But, still it has to do some progress in transparency and governance issues to get those investments. As Corporate governance became the subject of attention in recent times. Its presence is like a backbone for any corporate that emphasizes its role for survival and sustainable growth in the long run. It ensures transparency. Transparency includes the following eight concepts, namely accuracy, consistency, appropriateness, completeness, clarity, timeliness, convenience, and governance & enforcement. Out of these, Timeliness of financial reporting is one of the attribute of good corporate governance identified by the OECD and World Bank. Shareholders and other Stakeholders need information while it is fresh and with high relevance. This paper examines the timeliness of financial reporting by 16 Indian power sector companies which constitute the Power Index of Bombay Stock Exchange and compared their reporting patterns for the financial years 2006-2010. Timeliness was measured by counting the number of days that has been lapsed between year-end and the date of the auditor's report of the concerned companies. The reliable data were drawn from the Prowess (a Centre for Monitoring Indian Economy [CMIE] database) and the Annual reports of the respective companies for the years 2006-2010. This study used Chi-square test and Analysis of variance to analyze the data. There is a significant difference among the Indian public sector companies in their reporting patterns.

Introduction

The Indian economy showed a steady growth in recent years, but its GDP growth showed a dip of 6.9% in 2011-2012. The recent budget projected its growth at 7.6% in 2012-2013 although inflation remains a main concern. It is affected by rousing inflation, weak growth in various sectors and decrease in FDI and turbulent stock markets and international market imbalances. Its power sector faces an acute crisis, in case of power demand and supply. It needs more investments to accelerate growth in the power sector which need, FDI also. But, still it has to do some progress in transparency and governance issues to get those investments. As Corporate governance has always attracted significant attention in all times. Its presence is like a backbone for any corporate that emphasizes its role for survival and sustainable growth in the long run. In the present condition of globalization and liberalization, governance structures are constantly evolving, and driven by the local and the global factors. There is a debate on the issue of corporate governance, whether it should focus exclusively on protecting the interests of equity stakeholders or it should focus on non-equity stakeholders. One attribute of good corporate governance for company is maintaining transparent policies and reporting practices. In case of reporting, the foremost thing is to report the concerned information well in time, as it may be used by investors, stakeholders, regulatory authorities, decision makers, managers, professional bodies, financial analysts, and academicians etc. As audited financial statements in the annual report act as a reliable source of information available to the market, its publication should be made in time.

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Review of Literature

There are number of studies which dealt with corporate governance and timeliness of financial reporting. The highlights of few studies are summarized here. Robert W. McGee (2008) study related to Asian countries, found that India and Korea were the only countries that observed the guideline for fair and timely dissemination of information. Rajesh Chakrabarti et al (2007) described the nature of Indian corporate governance system which has both supported and derailed India's progress to the top ranks of the world's economies. While on paper the legal system is good and provides best investor protection in the world,the reality is different with slow, over-burdened courts and widespread corruption. Jayantha Rama Varma (1997) felt that the problem in Indian corporate sector is that of disciplining the dominant shareholder and protecting the minority shareholders. Charumathi.B, Murali Krishnan.R (2010) found that, the Indian IT Companies in the IT index of BSE have promptly complied with the reporting before the stipulated time of 3 months as given by the SEBI guidelines and regarding audit firms, the Indian IT companies used both Indian and foreign audit firms and in case of accounting standards, few of them has shifted to IFRS. Charumathi.B, Murali Krishnan.R (2010) found that, the Indian Sensex companies are understood as stable, but they are not good in timely financial reporting. Tarun Khanna, Krishna G Palepu (2004) found that the globalization of product and talent markets has changed corporate governance of firms in the Indian software industry.

Ray Ball, Robin.A & Gil Sadka (2007) analysed annual earnings observations from twenty-two countries supported the hypothesis that important properties of financial reporting originate in the reporting demands of debt markets, but not of equity markets. Gain and loss recognition timeliness, as well as overall reporting timeliness, are not associated with equity market size. In contrast, timely loss recognition, overall timeliness and conditional conservatism are associated with debt market size. Jesper Banghoj, Thomas Plenborg (2008) showed that more voluntary disclosure information doesn't improved the association between current returns and future earnings. Kathleen Herbohn,Vanitha Ragunathan (2008) showed that, there is no evidence of earnings management leading to an audit opinion modification. Enrique Bonsón-Ponte et al (2008) found the two factors characterizing the companies that present less audit delay are classified to sectors that are subject to regulatory pressure, such as the financial and energy sectors and the size of the company relative to its sector. Robert McGee,Tarangelo.T (2008) insisted on timeliness factor of financial reporting by using auditor's report in Russian banking system. Michael Firth et al (2009) paper documented different timeliness in disseminating sanction and enforcement information by two types of regulatory agencies in china and the different consequences that flow from them. Ann l.-C.Chan et al (2011) exploited a unique setting to examine how an accounting regulation change affects the asymmetric timeliness of earnings. Mahmoud Al-Akra, et al (2010) investigated the impact of privatisation on the extent of corporate voluntary disclosure in Jordan and found that accounting regulation reforms and foreign investments accompanying privatisation have a significant impact on the levels of accounting disclosure in Jordan. Jing Li et al (2008) investigated the relationship between intellectual capital disclosure and corporate governance variables, controlling for other firm-specific characteristics, for a sample of 100 UK listed firms. The independent variables are board composition, ownership structure, audit committee size and frequency of audit committee meetings, and CEO role duality. Results indicated the significant association with all the governance factors except for role duality.

Statement of the Problem

India at present showed the consistent track record of economic growth in the last few years and it is on the verge of becoming one of the fastest growing economies in the world driven by many factors like multinational entrepreneurialism, robust economy and big chunk of employable and talented youth. But, it has to improve collective growth in the area of regulations. In the light of the above, the present study entitled Timeliness of Financial Reporting Evidences from Indian Power Industry assesses the timeliness factor of financial reporting followed by 16 companies present in the Power index of Bombay Stock Exchange.

Objectives of the Study

- To study the upsurge of corporate governance developments in India.
- To substantiate the importance of timeliness factor, which is one of the attribute of corporate governance.
- To analyse the compliance status of timeliness attribute in financial reporting by Indian companies which constitute the Power index of Bombay Stock Exchange.
- To compare the reporting pattern of companies, company-wise and year-wise.

Research Methodology

This is an empirical study. It used secondary data. The secondary data required were taken from the CMIE database Prowess and also from the Annual reports of the respective companies. The sample includes 16 Indian power sector companies which constitute the Power index of Bombay Stock Exchange. The study used statistical tools such as Chi Square Test and Anova. SPSS 17.0 was used to analyse the data. Timeliness of financial reporting of selected companies were measured with reference to the lag between the date on which the financial year ends and the date of auditor's report. The period of the study is 4 years, i.e. 2006- 2010.

Hypotheses

The following hypotheses are developed to test in this study.

H01: There is no significant lag in the timeliness of financial reporting of Indian power sector companies.

H02: There is no significant company-wise difference in the financial reporting of Indian power sector companies.

H03: There is no significant year-wise difference in the financial reporting of Indian power sector companies.

Corporate Governance and Regulations in India

The concept of corporate governance emerged in the late 1980s when several companies collapsed in U. K. because of inadequacy of operating control. This led to the setting up of Cadbury committee on corporate governance in 1991 by the London Stock Exchange. The concern was not much on account of collapse of these companies but because these companies were perceived to be very stable in their financial statements. The report of the committee along with the code of best practices was published in December 1992 for compliance by all the listed companies.

India, after liberalizing its economy in 1991, started to look after its corporate laws and regulations, in order to raise the investor sentiments and to enhance the shareholders' trust. Then, Govt of India incorporated Securities and Exchange Board of India (SEBI) in 1992 to regulate capital markets. It introduced a new Clause 49 in the Listing Agreement in the year 2000, specifying the principles of corporate governance to be followed by the listed companies. Thereafter, SEBI incorporated various committees' (Birla committee & Narayanamurthy committee) recommendations in Clause 49 and revised it nine times within a period from 2000 to 2008. The latest and revised Clause 49 of Listing Agreement has been introduced on 8th April 2008. The statutory and non-mandatory requirements are stipulated by the revised clause 49 of the SEBI's Listing Agreement and also the provisions required by the Companies Act, 1956. The other developments in Indian corporate law are the initiative by CII under the chairmanship of Rahul Bajaj which came with the corporate governance code in 1998, the Ganguly committee report in 2002, Naresh Chandra committee report on corporate audit and governance in 2002, Irani committee report in 2004. The recent developments include the introduction of corporate governance voluntary guidelines 2009 and the Companies Bill 2009 from the Ministry of Corporate Affairs which supersedes the Companies act 1956 is yet to be passed by the Indian Parliament.

Financial Reporting Regulations By SEBI

The Securities and Exchange Board of India (SEBI) monitors and regulates corporate governance of listed companies in India through Clause 49. This clause is incorporated in the listing agreement of stock exchanges with companies and it is compulsory for them to comply with its provisions. In order to rationalize and modify the process and formats for submission of financial results to the stock exchanges and also with a view to simplify the same, SEBI has decided to replace the existing Clause 41 of the Listing Agreement, relating to submission and disclosure of Interim and Annual financial results. Inter alia, the following amendments have also been made in the revised clause which is given below:

In respect of the last quarter, the company has an option either to submit unaudited financial results for the quarter within one month of end of the financial year or to submit audited financial results for the entire financial year within three months of end of the financial year, subject to the following:

- In case the company opts to submit unaudited financial results for the last quarter, it shall also submit audited financial results for the entire financial year, as soon as they are approved by the Board.
- In case the company opts to submit audited financial results for the entire financial year, it shall intimate the stock exchange in writing within one month of end of the financial year, about such exercise of option.
- The company may at its option have a financial year commencing on a date other than the first day of April.
- The company may at its option have quarters commencing on a dates other than the first day of April, July, October and January of a financial year.

The Importance of Timeliness Factor

The International Accounting Standards Board considers timeliness to be an essential aspect of financial reporting. Accounting Principles Board (APB) (1970) statement No.4, of the USA listed timeliness as one of the qualitative objectives of financial reporting disclosure. APB Statement No. 4 was later superseded but the Financial Accounting Standards Board continued to recognize the importance of timeliness in its Concepts Statement No. 2 (1980). The U.S. Securities and Exchange Commission also recognizes the importance of timeliness and requires that listed companies file their annual 10-K reports by a certain deadline. The OECD 1999 code on corporate governance secured the interests of shareholders by giving them basic right to obtain relevant information from corporations on timely and regular basis. In India, CII Code of Corporate Governance, 1998 clause 49 of listing agreement and Code of Conduct of Disclosure Policy, 2002 framed by SEBI emphasized on timely and frequently updated disclosure of shareholders information through company's communication media. The Committee for Investor Education and Protection in India is of the view that proper and timely disclosures are central to safeguard investors' interests. There should be law to ensure a disclosure that compels companies to disclose material information on a continuous, timely and equitable basis. Information should be disclosed on a routine and periodic basis and price sensitive information should be disclosed on a continuous basis.

Further, timeliness has been recognized to be a vital importance for the capital markets also. The investors need timely information for reducing the asymmetric dissemination of financial information and for the growth of investing community as a whole. Undue delay in releasing financial statements results in greater market inefficiency, which reduces the relevance of the documents and its information content and increases uncertainty associated with investment decisions. A lot of scandals in various capital markets of the world occur when investors do not have access to timely information. Thus, timely release of information is an essential ingredient for a well-functioning capital market. It helps in attracting capital and maintaining investor's confidence in the capital market. It reduces the level of insider trading, leakages and rumors in the market. That is why, most of the stock exchanges of the world, including London Stock Exchange, New York Stock Exchange and Dow Jones, demand a prompt release of audited financial reports from their listed companies.

Results and Discussions

Table I shows the timeliness data, viz., mean, Standard deviation and range in number of days of Indian power sector companies for the years 2006-2010. In 2006-07, in view of the norm of 90 days, 1 company (GVK Power line) has not complied with the requirement. In 2007-08, 3 companies (viz., Tata power, Power grid corporation &NLC Ltd) and in 2008-09 3 companies, (viz., NTPC Ltd, PTC India &Lanco Infrastructure); in 2009-10, 2 company (viz., Reliance Infrastructure &PTC India) had failed to disclose the annual reports on time.

Table I also shows the lapsed days between the financial year end and the date of auditor's report. The companies which disclosed their audited annual reports at the earliest after the year end but before 90 days include the following: in 2006-07, PTC India reported after 23 days; in 2007-08, GVK Power line reported after 21 days; in 2008-09, Reliance Infrastructure &Reliance power reported after 22 days; and in 2009-10, JSW Energy reported after 26 days. The average number of days taken by the Indian auto companies which complied with SEBI norm is 52 days in 2006-07, 43 days in 2007-08, 49 days in 2008-09 and 45 days in 2009-10.

Chi-Square Test is applied to test the goodness of fit by comparing the number of days taken by each company with its benchmark days. The mean number of days of reporting in each year is considered as benchmark days. Applying Chi-Square Test, the Null Hypothesis (H01) is accepted at 10% level of significance. Thus, there is no significant time lag in the financial reporting of Indian power sector companies.

Table II gives company-wise results based on Anova test. As the calculated p values for Indian power sector companies are greater than 0.05 the null hypothesis H02 is accepted. There is no significant company- wise difference in the timeliness of financial reporting of Indian power sector companies.

Table III gives year-wise results based on Anova test. As the calculated p values for Indian power sector companies are greater than 0.05, the null hypothesis H03 is accepted. There is no significant year-wise difference in the timeliness of financial reporting of Indian power sector companies.

Table IV portrays the financial reporting patterns (in number of days) of Indian power sector companies. The number of companies which report in less than 30 days limit is slightly increased first from 16.67% in 2006-07 to 21.43% in 2007-08 and then decreased to 18.757% in 2008-09 and then increased to 21.43% in 2009-10. The number of companies which report between 31-60 days limit stood steady for the years 2006-08 as nearly 58% and decreased to 43.75% % in 2008-09 and then increased to 57.14% in 2009-10. The number of companies which report between 61-90 days limit found as 16.67% in 2006-07. And then it is increased to 18.75% in 2008-09 and then decreased to 7.14% in 2009-10. The number of companies which report after 90 days limit increased from 8.33% in 2006-07 to 21.43% in 2007-08. And then it is decreased to 18.75% in 2008-09 and it is decreased to 14.29% in 2009-10.

Less than 30% of the companies reported in less than 30 days for the whole 4 years (2006-10). It is concluded that, the number of companies complying before the stipulated norm has stood as nearly 80%. But the number of companies not complying with the norms has increased for the years 2007-09, and then decreased in 2009-10 and it is found in all years.

Findings of the Study

- There is no significant lag in the timeliness of financial reporting of Indian power sector companies.
- There is no significant company-wise difference in the timeliness of financial reporting of Indian power sector companies.
- There is no significant year-wise difference in the timeliness of financial reporting of Indian power sector companies.
- Less than 30% of the companies reported in less than 30 days for the whole 4 years (2006-10).
- In total, it is found that 21 days are the shortest time taken and 235 days are the longest time taken.
- It is found that, majority of Indian power sector companies reported before 90 days.
- But, the companies which report after 90 days limit happens to be appear in all the years shows that Indian power sector companies are not good in timely reporting.

Conclusion

India is now one of the fastest growing economies in the world. The factors responsible for its growth are good business climate, multinational entrepreneurialism, huge work force and robust economy. But it can further strengthen its stand by doing some progress in governance and regulations issues. Though, majority of Indian power sector companies reported before 90 days, but there is also companies which report after 90 days limit and happens to be appear in all the years which show that Indian power sector companies are not fair in timely reporting. Hence, timely publication of results and following the best practices in corporate governance issues alone can help them to attract foreign investments and thereby, they can able to assist the country's growth than ever before.

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Table I : Timeliness data - power Index companies of BSE

Timeliness data- Power Index companies of BSE					
Sl no	**Name of the company**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
		Number of days taken after year end			
1	BHEL	54	52	56	55
2	NTPC Ltd	59	58	**122**	46
3	Tata power	59	**93**	57	53
4	Reliance Infrastructure	24	27	22	**235**
5	Reliance power	NA	27	22	44
6	Torrent power	58	44	45	36
7	Power grid corporation	45	**127**	76	NA
8	GMR Infrastructure	90	50	64	53
9	NHPC	NA	NA	55	48
10	PTC India	23	32	**120**	**133**
11	Lanco Infrastructure	41	58	**119**	71
12	Adani power	NA	56	48	29
13	JSW ENERGY	NA	NA	33	26
14	GVK Power line	**208**	21	28	29
15	NLC Ltd	61	**117**	80	56
16	Crompton greaves	59	52	49	NA
Chi-Square		3.000	1.714	.875	1.429
Degrees of freedom		9	10	14	11
Asymp.sig		**.964**	**.998**	**1.000**	**1.000**
Minimum		23.00	21.00	22.00	26.00
Maximum		208.00	127.00	122.00	235.00
Mean		65.0833	58.1429	62.2500	65.2857
Mean days excluding the Non-compliance Companies		52.09091	43.36364	48.84615	45.5
Std Deviation		48.41949	32.54549	33.36365	55.52051
Total No. of Companies		12	14	16	14

Source: CMIE database Prowess and Annual reports of respective companies.
NA - Not Available Note: Results computed by using SPSS 17.

Table II : Company-wise Anova Results for Indian power sector companies

Power sector companies	Sources of variation	Sum of Squares	df	Mean Square	F	Sig.
	Between Companies	13017.804	15	867.854	.414	.966
	Within Companies	83765.750	40	2094.144		
	Total	96783.554	55			

Table III : Year-wise Anova Results for Indian power sector companies

Power sector companies	Sources of variation	Sum of Squares	df	Mean Square	F	Sig.
	Between Years	455.065	3	151.688	.082	.970
	Within Years	96328.488	52	1852.471		
	Total	96783.554	55			

Table IV : Financial Reporting patterns by Indian Power sector Companies

Table 4 -Financial Reporting patterns by Indian power sector companies					
Reporting in days	**Number of companies (%)**				**Compliance Status**
	2006-07	**2007-08**	**2008-09**	**2009-10**	
< 30	2(16.67)	3(21.43)	3(18.75)	3(21.43)	**Complied**
31-60	7(58.33)	8(57.14)	7(43.75)	8(57.14)	
61-90	2(16.67)	-	3(18.75)	1(7.14)	
Total	**11(91.67)**	**11(78.57)**	**13(81.25)**	**12(85.71)**	
> 90	1(8.33)	3(21.43)	3(18.75)	2(14.29)	**Not complied**
Total (%)	**12(100)**	**14(100)**	**16(100)**	**14(100)**	
Note: Results computed by using SPSS 17.0, Figures in parentheses are percentages					