

**PUBLISHING DELAY AND THE
USEFULNESS OF ANNUAL REPORTS IN
LIBYA**

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Abstract

The research has three objectives. The first is to investigate the extent of publishing delay and its determinants in Libya. The second is to find out how useful the annual report is to five user groups in Libya namely the Tax Authority, Academics, Auditors, Banks and the Auditing Authority. Finally, the research also seeks to determine the impact publishing delay has on banks, Tax and Auditing Authorities. A sample of 33 companies over two year period was used to determine the extent of publishing delay and its determinants. The results indicate that the average publishing delay is 154.86 days. The results of the ordinary least square regression analysis indicate that company size, profitability, company age, number of accountants, accountant qualification, and audit opinion are significantly associated with publishing delay. However, the type of accounting system is not associated with publishing delay.

The results of the usefulness of the annual report indicate that the balance sheet is regarded as the most important followed by the profit and loss account, auditors' report, management report and the funds flow statement. The results also suggest that there are significant differences in the perceived usefulness of 'on-time' and 'late' annual reports in terms of predictive value, confirmatory value and faithful representation.

The results of the impact of the publishing delay on banks, Tax authority and Auditing authorities are as follows. Loans advanced by banks on the basis of 'on-time' annual reports are more likely to be repaid than those made on the

basis of 'late' annual reports. The Tax Authority collect less revenue from companies whose annual reports are produced late compared to those whose annual reports are produced on time and Auditing Authority is more likely to issue a qualified audit report if the annual report is produced late compared to one produced 'on-time'. The results have important implication for the Libyan Authorities in terms of what actions they should take to reduce the publishing delay. Reduction in publishing delay is likely to increase the usefulness of the annual report and reduce the impact the delay is having on banks, Tax and Auditing Authority.

LIST OF CONTENTS

Content	Page
LIST OF TABLES	11
LIST OF CHARTS AND DIAGRAMS	13
ABBREVIATIONS	14
ACKNOWLEDGMENT	16

CHAPTER ONE

INTRODUCTION AND OVERVIEW OF THE RESEARCH

1.1 Introduction	17
1.2 Objectives of the study:	20
1.3 Summary of Research Method	21
1.4. Summary of Findings	22
1.4.1 Publishing Delay	22
1.4.2 Usefulness of the annual report	25
1.4.3 Impact of publishing delay on users of annual reports in Libya	29
1.5 Outline of the Research	33

CHAPTER TWO

THE LIBYAN ACCOUNTING ENVIRONMENT

2.1 Introduction	37
2.2 The political System	39
2.3 The Libyan economy	41
2.4 Nature of Business Enterprises	44
2.5 Accounting Regulation	46
2.6 The Auditing Profession	47
2.7 Users of financial statements	54

2.7.1 Tax Authority	54
2.7.2 Central Bank of Libya and Commercial Banks;	54
2.7.3 Auditing Authority	56
2.8 Summary and Conclusion	57

CHAPTER THREE

PUBLISHING DELAY: A LITERATURE REVIEW

3.1 Introduction.	58
3.2 The Publishing Period	58
3.2.1 Empirical results on publishing delay	61
3.3. Empirical findings of the determinants of publishing delay	64
3.3.1 Company Size	64
3.3.2. Auditor type	66
3.3.3 Profitability	66
3.3.4 Industry	67
3.3.5. Year-end	67
3.3.6 Extraordinary Items	78
3.3.7 Ownership structure	68
3.3.8 Audit technology	69
3.4. Limitations of the previous research	74
3.5 Summary and Conclusion	75

CHAPTER FOUR

THE USEFULNESS OF THE ANNUAL REPORT

4.1 Introduction	77
4.2 Objectives of Financial Reporting	77
4.3 Users of Annual Reports	79
4.4 Information Needs of Users	84
4.5 Qualitative characteristics of useful information:	85
4.6 Previous research on the Usefulness of annual reports	89
4.6.1 Introduction	89
4.6.2 Understandability of Annual Reports	90

4.6.3 Timeliness of the Annual report	91
4.6.4 Survey of users on readership and use of annual report	95
4.7 Summary and Conclusion	96

CHAPTER FIVE

HYPOTHESES DEVELOPMENT

5.1. Introduction.	98
5.2. Theoretical Framework	98
5.2.1 Agency Theory	99
5.2.2 Theory of Constraints	101
5.2.3 Signalling Theory	103
5.3 Hypotheses development	104
5.3.1 Company size	104
5.3.2. Profitability	106
5.3.3. Company age	107
5.3.4. Number of accountants.	107
5.3.5. Accountant's qualification.	108
5.3.6. Accounting system	109
5.3.7. Audit opinion	110
5.4 Summary and Conclusion	111

CHAPTER SIX

RESEARCH METHODOLOGY

6.1 Introduction	112
6.2 Selection of Companies	112
6.2.1 Determinants of publishing delay	112
6.2.2 Usefulness of the annual report	113
6.3 Publishing Delay Independent Variables	114
6.4 Hypotheses testing and statistical tests	115
6.4.1. Hypotheses Testing Approach	115
6.4.2. Statistical tests and conditions	115

6.4.3 Univariate Tests	117
6.4.3.1. Mann-Whittney	117
6.4.3.2. Wilcoxon Signed-Rank Test	118
6.4.3.3. Kruskal-Wallis	118
6.4.3.4. Chi-Square Tests;	118
6.4.4 Multivariate tests	119
6.4.4.1.Multicollinearity	119
6.4.4.2.Normality	120
6.4.4.3.Linearity	121
6.4.4.4.Homoscedasticity	121
6.4.4.5. Selection of the Method of Regression	122
6.4.5. Choice of Statistical Tests	123
6.4.6 The Models	124
6.5 The Questionnaire Survey	125
6.5.1 Development and pilot testing questionnaire	127
6.5.2 Mail Questionnaire and the Response Rate	129
6.5.3 Analysis of Questionnaire Responses	132
6.6 Summary and Conclusion	133

CHAPTER SEVEN

PUBLISHING DELAY RESULTS AND DISCUSSION

7.1 Introduction	134
7.2 Descriptive Statistics	135
7.3 Non-parametric tests results	136
7.4 Correlation Analysis	140
7.5 Independent Samples T-tests	143
7.6 Multiple Regression Analyses Results	144
7.7 Logistic Regression results	150
7.8 Diagnostics procedures	152
7.9 Summary and Conclusion	155

CHAPTER EIGHT

USEFULNESS OF THE LIBYAN ANNUAL REPORT

8.1 Introduction	157
8.2 Characteristics of the respondents	158
8.3 Perception of the usefulness of sections of the annual report	160
8.4 Qualitative characteristics of useful information and the annual report	167
8.5 Objectives of financial statements	173
8.6 Summary and Conclusion	177

CHAPTER NINE

THE IMPACT OF PUBLISHING DELAY ON USERS OF ANNUAL REPORTS IN LIBYA

9.1 Introduction	180
9.2 Commercial Banks	181
9.3 Tax Authority	188
9.4 Auditing Authority	193
9.5 Summary and Conclusion.	196

CHAPTER TEN

SUMMARY AND CONCLUSION AND FURTHER RESEARCH

10.1 Introduction	198
10.2 Research Summary Results and Conclusion	198
10.2.1 Publishing Delay	199
10.2.2 Usefulness of the annual report	200
10.2.3 Impact of publishing delay on users of annual reports in Libya	203
10.3 Research contribution	204

10.4 Research policy Implications	206
10.5 Reflection on methodology	209
10.6 Further Research	211
BIBLIOGRAPHY	212
APPENDIXES	235

LIST OF TABLES

TABLE NO.	HEADING	PAGE
T1.1	Publishing delay	23
T1.2	Publishing delay results	24
T1.3	Importance of various sections of the annual reports	27
T1.4	Mann-Whitney tests of differences in perceptions of the qualitative characteristics of useful information	28
T1.5	Independent sample t-test	30
T1.6	Mann-Whitney tests of differences in the net Future Value of accrued corporation tax based on on-time and late annual reports	31
T1.7	Chi-Square test of the association between publishing delay and the issue of a qualified or unqualified audit report	32
T3.1	Summary of studies on the associations between company characteristics and publishing delay	70
T4.1	Users of annual reports as suggested by three reports	81
T4.2	The influence of user groups on voluntary information disclosure	83
T6.1	Sample used for publishing delay and usefulness of annual reports	113
T6.2	Description of variables	125
T7.1	Descriptive statistics for dependent and independent variables	135
T7.2	Preparation Period Mann-Whitney Results	137
T7.3	Auditing Period Mann-Whitney Results	138
T7.4	Publishing Period Mann-Whitney Results	140
T7.5	Correlation Analyses	142
T7.6	T-tests Comparison between preparation and auditing periods	143
T7.7	Preparation Period Results	146
T7.8	Auditing Period Results	147
T7.9	Publishing Delay Results	149
T7.10	Significance of Variables across three methods	151
T8.1	Respondents' characteristics	159
T8.2	Users' ratings of the importance of different sections of annual reports	166

TABLE NO.	HEADING	PAGE
T8.3	Descriptive Statistics of Perception of Qualitative Characteristics of Useful information by Academics and Auditors	168
T8.4	Descriptive Statistics of Perceptions of Qualitative Characteristics of Useful information of On-time and Late Annual reports	170
T8.5	Mann-Whitney Tests of Differences in perceptions of the qualitative Characteristics of useful information by academics and auditors	171
T8.6	Mann-Whitney Tests of differences in perceptions of the qualitative characteristics of useful information of on-time and late annual reports	172
T8.7	Descriptive Statistics of Perception of objectives of financial statements by academics and auditors	173
T8.8	Descriptive Statistics of Perception of objectives of financial statements of on-time and late annual reports	174
T8.9	Mann-Whitney Tests of Differences in perceptions of the objectives of financial statements by academics and auditors	175
T8.10	Mann-Whitney Tests of Differences in perceptions of the objectives of financial statements of on-time and late annual reports	177
T9.1	Commercial Banks Credit to Various Sectors	184
T9.2	Mann-Whitney Tests of Differences in repayment percentages of loans based on on-time and 'late' annual reports	186
T9.3	Independent Sample t-test	187
T9.4	Future Value of income tax accrued for one company	190
T9.5	Mann-Whitney Tests of Differences in the Net Future Value s of Accrued Corporation Tax based on on-time and 'late' annual reports	192
T9.6	Chi-Square test of the association between publishing delay and the issue of a qualified or unqualified audit report	195

LIST OF CHARTS AND DIAGRAMS

CHART DIAGRAM NO.	HEADING	PAGE
D3.1	Publishing Delay	60
D4.1	The qualitative characteristics of financial information	87
C9.1	Loans by Commercial Bank to Industrial Sector and Repayment Loans	185

ABBREVIATIONS

<i>1- THESIS RELATED TERMS.</i>	
AGM	Annual general meeting
AICPA	American Institute of Certified Public Accountants
AIS	Accounting Information System
AIT	Accrual Income Tax
AP	Average number of delay
AS	Academic Staff
B.O.P	Balance of Payments
BTP	Binomial test proportion
CAR	Corporate Annual Report
CPA	Certified Public Accountants
CT	Corporation Tax
DCM	Data Collection Methods
DL	Dead Line
DP	Delay Period
EA	External Auditors
EIT	Estimated Income Tax
FRS	Financial Reporting Standard
FSs	Financial statements
FSsP	Financial statements delay
FSSD	Financial Statements Submission Date
FY	Financial Year
GDP	Gross domestic power
IC	Industry Company
IRR	Internal Rate of Return
IQ	Information quality
NPV	Net Future Value
OLS	Ordinary Least Square
PSP/IQ	Product and service performance information quality
PV	Future Value
QCAI	Qualitative Characteristic of Accounting Information

RQ	Research question
SoP1	The Draft Statement of Principles for Financial Reporting issued by the ASB in November 1995
SoP2	The revised Draft Statement of Principles for Financial Reporting issued by the ASB in March 1999
S.S	Study Sample
VAT	Value add tax
<i>2- PROFESSIONAL AND REGULATORY BODIES</i>	
AA	Auditing Authority
ASB	Accounting Standards Board
ASE	Australian Stock Exchange
CBs	Commercial Banks in Libya
CBL	Central Bank of Libya
CLL	Commercial Law of Libya
ERC	Economic Research Centre
FASB	Financial Accounting Standard Board
FA	Financial Statements
GAAP	General Accepted Accounting Practice (as it applies to the UK) or General Accepted Accounting Principle (as it applies to the US)
GPC	General People's Congress
IASC	International Accounting Standard Committee
IPC	Institute of Public Control
ITL	Income Tax Low
LAA	Libyan Auditing Authority
LAAC	Libyan Accountants and Auditors Committee
MI	Ministry of Industry
RCC	Revolutionary Command Council
SAB	State Accounting Bureau
TAL	Tax Authority of Libya

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CHAPTER ONE

INTRODUCTION AND OVERVIEW OF THE RESEARCH

1.1 Introduction

This research investigates the extent of publishing delay and its determinants, the usefulness of the annual report, and the impact publishing delay has on users in Libya. A number of researchers (e.g., Winfield, 1978; Chang and Most, 1985; Boyne and Law, 1991) have noted the importance of the annual report as a vehicle for discharging accountability. Parker (1982) highlighted the importance of the annual report as a mass communication medium whilst Marston and Shrives (1991) concluded that the annual report is the most comprehensive document available to the public and is therefore the ‘main disclosure vehicle’. The annual report is even more important in the case of Libya because all companies are owned by the government and they do not publish interim reports.

Because of the importance of the annual report as a vehicle for dissemination of information about the company there are a number of previous studies that have examined the ‘timeliness’ (e.g. Abdulla, 1996) or ‘audit delay’ e.g. (Carslaw and Kaplan, 1991) of the annual report and its determinants. Audit delay is important because it affects the timeliness financial statements which convey information to investors (e.g. Dopuch et al., 1986; Loudder et al., 1992 and Jaggi and Tsui, 1999). Timely disclosure of financial information through audited financial statements plays important role in reducing the asymmetric dissemination of information (e.g. SFAC, 1980, Jaggi and Tsui, 1999). Owusu-

Ansah (2000) also suggests that timeliness of financial reporting is a significant characteristic of accounting information because stale information is of little use to market participants in their investment decision making processes. This is supported by Feltham (1972) who demonstrated analytically that timely information affect a decision-maker's expected pay-off. Empirical evidence has also shown that timely information affects the prices of securities on the market (e.g. Givoly and Palmon, 1982 and Chambers and Penman, 1984). All existing studies, however, are based on developed and developing countries with capital markets. This research is based on the Libyan environment with no capital markets and investors. All companies are owned by the government. The research was motivated by the Libyan Auditing Authority Report issued in September 2001 that showed that more than 80% of industrial companies took on average of 267 days to publish their annual reports. The researcher himself has in the past been asked by the Auditing Authority and some companies to help them in the audit and preparation of some overdue annual reports.

The current research uses the term 'publishing delay' instead of 'timeliness' or 'audit delay' for the following reasons. Audit delay as used in extant studies refers to the period between the financial year-end and the date on the auditors' report (Michael et al-2002, Bahram-2002). However, this may be problematic because 'audit delay' implies that the period between financial year-end and publication of the annual report is entirely spent on auditing the financial statements. In most cases companies take some time to prepare and then get auditors to audit the financial statements. So, strictly speaking, there

are two main distinct periods between the financial year end and the publication of the annual report, namely preparation period and auditing period (Michael et al-2002, Bahram-2002) although in most countries the two may overlap. Simnett et al (1995) and Cullinan (2003) recognized the distinction between the time required by the company to prepare the financial statements and the time required by the auditor to audit these statements. The distinction is especially important in the case of Libya where the preparation period does not overlap with the auditing period. This is because companies are required to prepare the financial statements after the financial year-end and once they finish it is only then that they hand the financial statements over to the Libyan Auditing Authority. Thus, the publishing delay investigated in the current research can usefully be separated into 'financial statement preparation period' and 'auditing period'.

Previous research studies have investigated the usefulness of the annual report. Most of these studies surveyed investors as the primary users of the annual reports (e.g. Wilton and Tabb, 1978, Lee and Tweedie, 1975 and Bartlett and Chandler, 1997). A major concern for these was to find out how useful the annual report or sections of it, is in investment decision making. Very few studies have been conducted with other user groups. As discussed above, the fact that there is no stock market provides a unique opportunity to increase our understanding of the utility of the annual report in an environment where the acknowledged primary users of the annual report (investors) are not present.

Apart from investigating the 'timeliness' or 'audit delay' and usefulness of the annual report no existing study has gone further to find out the impact of the

timeliness or delay in respect of other users. For example, the only research on the impact of timeliness of annual reports are studies that show that share prices on average rise if the financial statements are release early and on average share prices fall if the financial statements are released late. There is, therefore, need to extent the impact of delay in releasing financial statements beyond the effect on the investors to include other users of the annual report such as the banks, Tax and Auditing Authorities.

1.2 Objectives of the study:

The research has three main objectives which were carried out in sequence as follows:

1. The first objective is to determine the publishing delay in Libya and its determinants. Publishing delay is defined as the time between the end of the company's financial year and the date when the annual report is published which is the date of the auditors' report. This period is comprised of the preparation period (defined as the time from the end of the company's financial year to the date when the financial statements are handed over for auditing to the auditing authority). The second constituent of the publishing period is the auditing period which is the period between the Auditing Authority receiving the financial statements and the date they sign the financial statements.
2. The second objective is to find out, how useful the Libyan annual report is to five user groups in Libya namely the Tax Authority,

Academics, Auditors, Banks and the Auditing Authority in the light of the results of the publishing delay.

3. The third and final objective of the research is to determine in the light of publishing delay and survey results, the impact publishing delay has on the users, namely the banks, the Tax Authority and Auditing Authority.

1.3 Summary of Research Method

To determine the publishing delay and its determinants in Libya, annual reports of 33 industrial companies out of a population of 43 companies were obtained and used. This equates to 77% of the population of the industrial companies. The publishing delay and the independent variables were obtained from the annual report. To find out if there is an association between publishing delay and the company characteristics (company size, profitability, company age, number of accountants, accountants' qualifications, and accounting system and audit opinion) non-parametric and parametric methods are used.

The non-parametric method used is the Mann-Whitney test. The Mann-Whitney U test is used to test for differences between means when there are two conditions and different subjects have been used in each condition. In other words, it tests the hypothesis that two independent samples come from populations having the same distribution. The Mann-Whitney U test provides the average rank for each group of data and a rank of one is assigned to the smallest value. The 2-tailed p-value indicates whether the smaller value is significant or

not. One parametric test in the form of ordinary least squares (OLS) was applied to find out if some of the variables explained the variation in the publishing delay.

The different nature of the other two objectives dictated that different methodologies be applied. To determine the usefulness of the annual report required the survey of the users of financial statements. Five user groups were surveyed for this purpose. These were the banks, Tax Authority, Auditing Authority, Academics and Auditors. A questionnaire was developed and sent to each of these user groups. A different questionnaire was sent to companies to ask them for some information that could not be obtained from the annual report such as the nature of their accounting system (i.e. company age, whether it was manual or automated, number and qualification of accountants). The analysis of the questionnaire was mainly accomplished by the application of the Kruskal-Wallis to determine the differences in perception of usefulness among the user groups. Finally, to determine the impact of the publishing delay and the usefulness of the annual report on the users Mann-Whitney test, Independent t-tests and Chi-square tests were applied.

1.4. Summary of Findings

1.4.1 Publishing Delay

The results of the publishing delay suggest that Libyan companies take an average of 154.86 days to publish their annual reports. The minimum is 78 days and the maximum is 384 days. The publishing delay period is far too long compared to that reported in Bahrain, another Arab country that has been

investigated. Abdulla (1996) reported that the audit delay in Bahrain ranged from an average of 85.26 days to 96 days, between 1985 and 1991. The non-parametric (Mann-Whitney) results obtained in respect of the association between publishing delay, size, profit, company age, and number of accountants, accountant qualification, and accounting system and audit opinion are shown in Table 1.1. The results show that there is a significant association between publishing delay and company size, company age, and number of accountants, accountant qualification, accounting system and audit opinion.

Table 1.1 Publishing Delay

	BIG		SMALL		
Size	No.	Mean	No	Mean	M-W
Pub	33	Rank	33	Rank	(Sig)
Period		19.44		47.56	0.000
	High		Low		
Profit	No.	Mean	No	Mean	M-W
Pub	33	Rank	33	Rank	(Sig)
Period		35.56		31.44	0.383
	Old		Young		
Coage	No.	Mean	No	Mean	M-
Pub	35	Rank	31	Rank	W(Sig)
Period		25.14		42.94	0.000
	High		Low		
Noacc	No.	Mean	No	Mean	M-
Pub	39	Rank	27	Rank	W(Sig)
Period		28.33		40.96	0.009
	Qualified		Unqualified		
Accqu	No.	Mean	No	Mean	M-
Pub	22	Rank	44	Rank	W(Sig)
Period		25.98		37.26	0.024
	Computerised		Manual		
Accsy	No.	Mean	No	Mean	M-W
Pub	8	Rank	58	Rank	(Sig)
Period		15.00		36.05	0.004
	Unqualified		Qualified		
Audqu	No.	Mean	No	Mean	M-W
Pub	53	Rank	13	Rank	(Sig)
Period		39.13		10.54	0.000

The only insignificant relationship is that between publishing period and profitability. The results of company size are consistent with Dyer IV and McHugh (1975) in Australia, Aston et al (1987) in Canada, Owusu-Ansah (200) in Zimbabwe and Owusu-Ansah and Leventis (2006) in Greece. The result that company age significantly associated with publishing delay is consistent with those reported by Owusu-Ansah (2000) in Zimbabwe. The audit opinion results are consistent with the results reported by Davies and Whitred (1980). The results relating to number of accountants, accountant qualification and accounting system cannot be compared to any of the previous research findings since no such previous research could be located.

The ordinary least square (OLS) multiple regression results of the relationship between publishing delay and company size, profitability, company age, number of accountants, accountant qualification, accounting system, audit opinion are presented in Table 1.2.

Table 1.2 Publishing Delay Results

R	R Square	Adjusted R Square		Std. Error of the Estimate		
.840	.705	.669		.22601		
	B	Std. Error	Beta	t	Sig	
(Constant)	7.377	.557		13.243	.000	
Size	-.184	.043	-.333	-4.320	.000	
Profit	.006	.002	.267	3.588	.001	
Coage	-.016	.006	-.313	-2.451	.017	
Noacc	-.015	.005	-.295	-2.708	.009	
Accqu	.288	.086	.347	3.360	.001	
Accsy	-.073	.109	-.061	-.673	.503	
Audqu	.274	.082	.279	3.342	.001	

The results show that 66.9% of the variation in publishing delay in Libya can be explained by six of the seven variables. These variables are company size, company age, number of accountants, accountant qualification, and audit opinion. The results show that company size, company age and number of accountants are all negatively associated with publishing delay. This is consistent with the agency theory suggestion that when agency costs are high, management are likely to employ reputable audit firms that will allocate more resources to the auditing process resulting in a shorter audit delay. The result is consistent with those reported by Schwartz and Soo (1996) and Henderson and Kaplan (2000) in the US and Jaggi and Tsui (1999) in Hong Kong. However, the results contradict the results reported by Simnett et al. (1995) using Australian data.

In the Arab world context, the results reported by this study in respect of company size and profitability are consistent with those reported by Abdulla (1996) in Bahraini. The other variables, namely company age, number of accountants, accountant qualification, accounting system and audit opinion have not been investigated before in the Arab world and therefore no comparison can be made.

1.4.2 Usefulness of the annual report

The summary results of the usefulness of the annual reports are shown in Table 1.4. The results show the overall mean rating of the five sections of

the annual report by banks, Tax Authority, academics, external auditors and both academics and external auditors. The results show that the balance sheet is perceived as the most important section of the annual report with a mean rating of 4.18. This is followed by the income statement with an average rating of 4.01. In third place is the external auditors' report, on average rated 2.44. The least useful sections of the annual report according to the five user groups are the statement of sources and applications of funds and the management report with mean ratings of 1.69 and 1.41 respectively.

Table 1.4 also shows the results of the Kruskal Wallis test to determine if there are significant differences in the perception of the different sections of the annual report among the surveyed groups. As can be seen from the results, it is apparent that there are significant differences as indicated by Kruskal Wallis values of 0.000 in all cases. This suggests that the five user groups' perception of the usefulness of the balance sheet, income statement, statement of sources and application of funds, external auditors' report and management report are all different.

The results which suggest that the balance sheet is more important than the income statement is inconsistent with similar studies based on Arab countries data. For example, Abu-Nassar and Rutherford (1996), in Jordan, Al-Razeen and Karbhari (2004), in Saudi Arabia, and Al-Ajmi (2009), in Bahrain all found that the income statement is more important than the

balance sheet. One possible explanation for the differences in results between Libya and Bahrain, Jordan and Saudi Arabia that Libya has no stock exchange whilst the other three Arab countries have stock exchanges. Users in countries where there are stock exchange are more inclined to think in terms of income, hence the perception that the income statement is more important than the balance sheet in Bahrain, Jordan and Saudi Arabia.

The results reported are also in contrast to a number of studies elsewhere which found that the chairman statement (equivalent of the management report in Libya) is the most read compared to the financial statements (e.g. Lee and Tweedie, 1975 and Bartlett and Chandler, 1997).

Table 1.3 Importance of various sections of the annual report

ARS	NO	BANKS	TA	AC	EA	AC & E	MEAN	SD	RANK	KWSL
BS	285	3.33	4	3.65	4.17	4.48	4.18	0.728	1	.000
IS	285	4.22	4	3.48	4.04	4.25	4.01	0.728	2	.000
FS	285	2.22	2	2.37	1.13	1.42	1.69	0.725	4	.000
AR	285	3.78	2	1.90	4.48	3.35	2.44	1.265	3	.000
MR	2.85	2	2	1.67	1.09	1.30	1.41	0.647	5	.000
Notes: KWSL: Kruskal-Wallis significance level; Mean values – scoring: 1 represents “not important at all” and 5 represents “very important”. B&CB = Banks- Central Bank of Libya and Commercial Banks (Loans departments); ARS= Annual Report Sections; TA = Tax Authority; AC= Academics; EA = External Auditors; 5 = Both. BS= Balance sheet; IS= Income statement; FS= Funds flow statement; AR= auditors’ report and MR= Management report.										

Two possible explanations for differences may be advanced. The first is the

difference in user groups. The studies which found that the chairman's statement is most widely read are mostly based on the survey of what can be called the 'unsophisticated' investor who presumably does not understand financial statements. This is in contrast to the current study that surveyed what may be called 'sophisticated' user groups.

To find out the usefulness of the annual report in Libya, annual reports that were 'late' and those that were 'on-time' were given to academics and auditors. They were asked to rate the annual reports in terms of seven qualitative characteristics of useful information. The theory behind was that there should be a significant difference between the two types of annual reports, with the 'late' annual reports being rated less favourably. The Mann-Whitney tests results are presented in Table 1.4.

Table 1.4 Mann-Whitney Tests of differences in perceptions of the qualitative characteristics of useful information of on-time and late annual reports

Qualitative Characteristics	ON TIME		LATE		M-W Z (sig)
	N0	Mean rank	No	Mean Rank	
Predictive Value	825	659.58	825	991.42	-16.285 (0.000)
Confirmatory Value	825	674.60	825	976.40	-15.103 (0.000)
Faithful Representation	825	604.20	825	1046.80	-20.708 (0.000)
Neutral	825	814.13	825	836.87	-1.388 (0.165)
Free from material error	825	819.84	825	831.16	-0.798 (0.425)
Completeness	825	828.59	825	822.41	-0.403 (0.687)
Prudence	825	823.21	825	827.79	-0.250 (0.853)
Consistency	825	828.30	825	822.70	-0.473 (0.636)
Disclosure	825	821.65	825	829.35	-0.382 (0.702)

The results suggest that there are significant differences in the ranking of ‘on-time’ and ‘late’ annual reports in terms of predictive value, confirmatory role and faithful representation. No significant differences, however, could be found in terms of neutrality, free from material error, completeness, prudence, consistency and disclosure. These results offer limited support to the theory that ‘on time’ and ‘late’ annual reports would be viewed differently by the users. However, it is important to note that there are significant differences regarding arguably the most important characteristic of useful information, namely predictive value, confirmatory role and faithful representation.

1.4.3 Impact of publishing delay on users of annual reports in Libya

The impact of publishing delay was investigated with the banks, Tax Authority and the Auditing Authority. One hypothesis was developed in respect of each of these user groups. The hypothesis of the impact of publishing delay on banks was that the average repayment percentage of loans that were made (approved) on the basis of ‘late’ annual reports was significantly different from the average repayment percentage of loans made on the basis of ‘on-time’ annual reports. Both the Mann-Whitney and the Independent t-tests were carried out (see Chapter 9) to test the hypotheses. The results of the Independent t-tests are presented in Table 1.5. The descriptive statistics in Table 1.5 show that the average repayment percentage of loans based on annual reports that were produced late is 24.18% compared to an average of 57.52% for the loans that were based on annual reports that were produced on-time.

Table 1.5 Independent Sample t-tests

	Annual Report	N	Mean	Std. Deviation		Std. Error Mean
Repayment	Late	33	.2418	.12895		.02245
Percentage	On Time	27	.5752	.25863		.04977
		Levene's Test for Equality of Variances		t-tests for Equality of Means		
		F	Sig.	t	d.f	Sig.
Repayment	EVA	14.383	.000	-6.492	58	.000
Percentage	EVNA			-6.106	36.428	.000

The independent t-test results show F value of 14.383 and significance of 0.000. The t-value is -6.492 if equality of variances is assumed (EVA) and -6.106 if equality of variances is not assumed (EVNA). These results are consistent with the suggestion that loan decisions made on the basis of annual reports that are produced 'late' are less likely to be repaid compared to those loans made on the basis of annual reports that are produced 'on-time'. The findings, therefore, confirm the hypothesis that 'there is a significant difference between repayment percentage of loans made on the basis of annual reports published 'late' and those based on annual reports that are produced 'on-time'. The results suggest that the Libyan government policy of instructing the banks to advance loans to companies even if the financial statements are not up to date contributes to the losses suffered by banks as a result of loans that are not eventually repaid.

To test the impact of publishing delay on the Tax Authority the hypothesis that there is a significant difference between the average future value of the accrued income tax of companies that published their annual reports 'late'

and those that published their annual report ‘on-time’. The results of the Mann-Whitney test are presented in Table 1.6.

Table 1.6 Mann-Whitney Tests of Differences in the Future Values of Accrued Corporation Tax based on on-time and ‘late’ annual reports

	ON-TIME		LATE		
	No	Mean rank	No	Mean Rank	M-W Z (sig)
Future Value	19	28.87	19	10.13	-5.202 (0.000)

They show that the mean rank for the accrued income tax for the on-time annual report is 28.87 and that of the late is 10.13. This suggests that the future value of companies with ‘late’ annual reports is less than that of the on-time annual reports companies. The Mann-Whitney Z value is -5.202 which is significant at all levels. The conclusion from this test is therefore that companies whose annual reports are late pay less in tax in future value terms. This provides some evidence that the delay in publishing annual reports in Libya has a significant impact on tax authority in terms of the revenue lost. The hypothesis that ‘there is a significant difference between the average future value of the accrued income tax of companies that published their annual reports ‘late’ and those that published their annual report ‘on-time’ is, therefore, confirmed. In the context of Libya, the Tax Authority should think in terms of charging interest for any overdue tax if annual reports are late so that it does not lose money.

Finally, to test the impact of publishing delay on the Auditing Authority the hypothesis was that ‘there is a significant relationship between publishing delay and whether the auditing authority issued a qualified or

unqualified audit report'. To test the hypothesis, the chi-square test of independence was performed. The results of the test are presented in table 1.7. The table show that there are 16 annual reports that were on-time and issued with an 'unqualified' audit report compared to five that were on time and were issued with a 'qualified' audit report.

The chi-square test results show that the Person chi-square statistic is 10.450 which is significant at 0.001. The computed Phi value is 0.524 and is also significant at .001 whilst the Lambada t-value is 2.334 and is significant at 0.020. This result suggests that there is a significant association between the annual report being late and the incidence of being qualified by the Auditing Authority.

Table 1.7 Chi-Square test of the association between publishing delay and the issue of a qualified or unqualified audit report

		Auditing Annual Report Type		Total
		unqualified	qualified	
Annual Report Situation	On time	16	5	21
	Late	4	13	17
Total		20	18	38

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	10.450	1	.001		
Continuity Correction	8.445	1	.004		
Likelihood Ratio	10.971	1	.001		
Fisher's Exact Test				.003	.002
Linear-by-Linear Association	10.175	1	.001		
N of Valid Cases	38				

On the other hand 13 annual reports that were late were issued with a qualified audit report compared to 4 that were late but issued with an unqualified audit report. It may, therefore, be concluded that the hypothesis that there is a significant relationship between publishing delay and whether the Auditing Authority issues a qualified or unqualified audit report is confirmed. Specifically, the results confirm that, in the context of Libya annual reports that are late are likely to be issued with a qualified audit report by the Auditing Authority. Thus it is important that annual reports are prepared on time in Libya so that incidences of qualified are minimised..

1.5 Outline of the Research

Chapter 2 is about the Libyan accounting environment. The purpose of the chapter is to give as much information as possible regarding Libya as the setting of the research. In particular the chapter discusses the political system and economic systems of Libya. The chapter also discusses accounting regulation and accounting profession. The literature review is discussed in Chapter 3. The purpose of the literature review is to identify what has already been investigated in the area of publishing delay and usefulness of the annual report. The chapter in particular discusses previous research findings on publishing delay and its possible determinants. The penultimate section examines some of the limitations of the existing research and the possible contribution of the current research.

Since the other objective of the study is to find out the usefulness of the annual report, Chapter 4 examines the available empirical evidence relating to that

issue. It begins with a discussion of the objective financial reporting. This is followed by the discussion of the users of information and their needs. A discussion of the qualitative characteristics of information follows. Then there is a discussion of the usefulness of the annual report by examining previous research on the qualitative characteristics of useful information and the use of the annual report as an information source. Chapter 5 develops seven hypotheses linking company specific characteristics to publishing delay in Libya. However, before the hypotheses are developed the chapter discusses some of the theories which are used to develop the hypotheses linking company characteristics and publishing delay. The seven hypotheses developed relate to company size, profitability, company age, number of accountants, accountants' qualifications, accounting system and audit opinion.

The research methodology that was followed to achieve the objectives of the research is discussed in Chapter 6. It starts by describing how the sample was selected and then outlines how the company characteristics were measured. The chapter also discusses the nonparametric and parametric tests that were used to test the hypotheses. This is followed by the discussion of how the sample for the questionnaire was selected. The chapter also discusses the development and administration of the survey questionnaire.

Chapter 7 presents and discusses the results of the first objective of the research. It starts with the presentation of the results of the descriptive statistics of the publishing delay. This is followed by the discussion of non-parametric tests results of the association between publishing delay, company size, profitability, company age, number of accountants, accountants'

qualifications, accounting system and audit opinion. Independent t-tests results of the difference between preparation and auditing periods follow this. The multiple regression results of the association between publishing delay and company size, profitability, company age, number of accountants, accountants' qualifications, accounting system and audit opinion are presented in section 7.6.

Chapter 8 presents and discusses the results of a questionnaire survey. The first section discusses the background of the respondents namely banks, tax authority, auditing authority and the academics and auditors groups. This is followed by the discussion of how the various sections of the Libyan annual report are perceived to be useful by the surveyed groups (banks, tax and academics and external auditors). This is followed by a discussion of the extent to which the Libyan annual report is perceived to be useful by the academics and external auditors.

The impact of the publishing delay and usefulness of the annual report to users is discussed in Chapter 9. The chapter begins with a discussion of the decisions that commercial banks need to make based on the annual report and how the delay in publishing the annual reports affects their decisions. The section also quantifies the losses that the banks are making as a result of the delay in the publication of the annual report. The section also tests, in respect of banks, the hypothesis that there is a significant difference between repayment percentage of loans made on the basis of annual reports published 'late' and those based on annual report that are produced on-time. This is followed in section 9.3 by the discussion of the Tax Authority and the decision it needs to make

regarding the estimation and collection of taxes. It also shows how the Libyan annual report publishing delay results in the loss of revenue by the Tax Authority. Specifically, the section tests the hypothesis that there is a significant difference between the average future value of the accrued income tax of companies that published their annual reports 'late' and those that published their annual report on-time. Section 4 discusses the impact of the Libyan annual report publishing delay on the Auditing Authority. It is suggested that the publishing delay means that in most cases the Auditing Authority ends up issuing a qualified audit reports because it cannot verify the inventory existing at a particular date especially if there has been a delay running into a number of years. The hypothesis that 'there is a significant relationship between publishing delay and whether the auditing authority issues a qualified audit report' is tested.

Finally, Chapter 10 is the summary and conclusion. It begins by summarising the objectives of the research and the findings. It then discusses the research subject contribution followed by research policy implication. This is followed by the reflection of the methodology which outlines some of the limitations of the research. The last section of the chapter discuss further research that may be undertake

CHAPTER TWO

THE LIBYAN ACCOUNTING ENVIRONMENT

2.1 Introduction

This chapter discusses the accounting environment of Libya, an Arab developing country. Knowledge of the accounting environment is important to the understanding of the remaining parts of this thesis for two reasons: first, literature suggests that there is a relationship between accounting and its environment and second, the need to put the research in the Libyan context. For example, Radebaugh (1975) explained how the development of accounting objectives, standards and practices are influenced by environmental factors which include the nature of the enterprise, enterprise users, the government, local environmental characteristics, international influences, academic influence and the accounting profession. Further, Barrett (1976 and 1977) suggested that the observed variance in the extent of financial disclosure and comprehensiveness of the annual reports in seven countries can be attributed to the relative degree of efficiency of the respective national markets.

Frank (1979) empirically demonstrated that an association existed between environmental variables and the groupings of countries on the basis of accounting practices. Nair and Frank (1980) undertook a more detailed examination of the relationship between accounting and its environment. Their results indicated that accounting measures may be influenced by a separate set of environmental factors than accounting disclosure practices. Moreover, Scott and Troberg (1976) identified a number of factors that may differentiate accounting systems and practices in developing countries such as Libya from

the developed countries. These include: a shortage of qualified accountants at all levels; lack of timeliness of accounting information; lax accounting regulation and auditing standards; inadequacy of locally authored accounting textbooks and teaching of accountancy at the college level, and lack of qualified accounting instructors. Other surveys in developing countries have confirmed the shortages of qualified and experienced accountants and financial management personnel (Heffer, Derek. 1991) which may affect accounting practices. Because professional accounting bodies in developing countries tend to be weak, no recognition may exist of the need to set standards for accounting and auditing standards and offer training. Of those developing countries which have professional accounting bodies very few of them offer a national qualifying examination such as in Libya, Egypt, Sudan and many others. That constraint and those imposed by the scarcity of educational resources cause gaps to remain between the demand for and the supply of accounting technicians and qualified accountants and the development of the accounting system.

Cooke and Wallace (1990) demonstrated that financial disclosure regulation in developed countries is more likely to be associated with internal factors (e.g. stage of economic development, legal rules and cultural values) while external factors (e.g. colonial history, international trade and international accounting standards) are more likely to be prominent in determining financial disclosure regulations in developing countries. To that extent one would expect the Libyan accounting environment to be closely associated the former colonial masters which include Italians (1911-1942) and the French and British (1942-1951). For example, Buzied (1998) suggests that although the Libyan

Commercial Code has been partially modified from time to time to meet the changing needs of society, the accounting systems and reporting methods in use in Libyan companies reflect those passed down by the country's former colonial masters.

As demonstrated by the above, there are a variety of environmental factors that may influence an accounting system and these may differ from country to country. For the purpose of this chapter, the discussion is limited to selected environmental factors that were deemed more relevant than others to the understanding of the Libyan accounting environment. The rest of the chapter is organised as follows. The next section discusses the political system. Then there is a discussion of the economic system. This is followed by the examination of the nature of the business enterprises. Then there is a discussion of accounting regulation and the auditing profession. The penultimate section examines the principal users of annual reports in Libya. Finally, there is a summary and conclusion.

2.2 The political System

Libya is a developing Arab state located in the north-central part of Africa. It became independent from the British and French in 1951 under King Idris al-Sanusi. Libya has a population of 5.8 million (UN, 2005) and the capital city is Tripoli. The country covers an area of 1.77 million square kilometres (685,524 square miles). The official language is Arabic while English and Italian are also used in business and trade. The state religion is Islam and about 97% of Libyans are Sunni Muslim. The Libyan social environment is characterized by the extended family, clan, tribe and villages. These play a major role in the

community's life and people's relationships (Aagnaia, 1997). Life expectancy is 71 years for men and 76 years for women (UN, 2005). The main exports are crude oil (which was discovered in 1959), petroleum products and natural gas. The Gross national Income per capita is US \$5,530 (World Bank, 2006). King Idris opened a 104-mile pipeline, which links important oil fields in the interior to the Mediterranean Sea and makes it possible to export Libyan oil for the first time in 1961. With it, the country was transformed into a wealthy monarchy.

In 1969, however, the king was overthrown in a coup led by Muammar Al Gaddafi, inspired by the Egyptian leader Gamal Abdul Nasser, who dominated Arab politics in the 1950s and 1960s, in a bloodless coup. Libya embarked on a radically new chapter in its history. Several actions following the seizure of power in 1969 including, for example, the nationalizing foreign companies that were operating in Libya. The private sector and foreign companies disappeared and a wide range of public-owned enterprises were formed (Kilani, 1988).

In the 1970s, Libya adopted a new approach to government which had a great impact on its economic system. Colonel Gaddafi's revolution set out to distinguish Libya from the world around it. The Ideas put forward in his Green Book aim at an alternative to both communism and capitalism, while Islam is adhered to but with a unique slant. For example, Libya has its own calendar based on Muhammad's death. Colonel Gaddafi called the new political system Jamahiriya - a system of governance based around "people's committees" and

free of partisan politics. The concept is loosely translated as a "state of the masses".

The lowest level is a Basic People's Congress and at the top of the pyramid the General People's Congress (a parliament-like annual conference comprised of representatives and officials of Popular Committees (The Cabinet), appointed by the Basic People's Congresses and Municipal Congresses, and representatives of popular associations and trade unions). The Cabinet does not enjoy the normal authorities a government would. It has the authority to recommend to and implement the decisions of General People's Congress. This conferences system is based on the theory that every person of age regardless of gender should participate through direct consultation and consensus building otherwise known in Islamic jurisprudence as 'Shura'.

2.3 The Libyan Economy

This section gives a brief historical account of the Libyan economy from independence to date. According Ahmad and Gao (2004), on attaining independence, the Libyan economy was based primarily based on agriculture, which was divided more or less evenly between field (including tree) crops and livestock products. Agriculture provided raw materials for much of the country's industrial sector, exports, and trade; employed more than 70 percent of the labour force; and contributed about 30 percent of the GDP, dependent on climatic conditions (Ahmad and Gao, 2004). Illiteracy was widespread, the level of skills was low and technical and management expertise were at a premium. The lack of sufficient numbers of skilled Libyans in the labour force remained a problem in the 1980s; despite large sums of money having been

spent on training Libyans, the government still relied on foreign workers (Ahmad and Gao, 2004). The discovery of petroleum, however, changed the Libyan economy into dual economy, in which petroleum and non petroleum sectors operated side by side. The petroleum financing and decisions all came from outside the country.

After 1972 the government began an ambitious plan to modernise the economy, modelled on Algeria's experience. A major part of the plan was to build industrial capacity with emphasis on petroleum-related industry. The industrialisation program met with some limited success, as several categories of imports began to decline in the late 1970s. The decline in GDP placed great strain on government spending, reduced the level of imported goods available in Libyan markets, and increased Libya's debt repayment problems. The decline in oil revenues also caused the Libyan government to revise its somewhat haphazard way of making economic policy decisions, because it no longer possessed the financial resources to achieve its many goals (Ahmad and Gao, 2004).

Oil export revenues, which account for over 95% of Libya's hard currency earnings (and 75% of government receipts) declined as a result of the fall in oil prices during 1998. However, with higher oil prices since 1999, however, Libyan oil export revenues have increased to \$13.4 billion in 2003 and a forecast \$12.9 billion in 2004, up from only \$5.9 billion in 1998. Libya's fiscal situation is now significantly in surplus (around 16% of GDP in 2002) as a result of strong oil export revenues. In part due to higher oil export revenues, Libya experienced strong economic growth during 2003, with real

gross domestic product (GDP) estimated to have increased by around 2.7%-3.8%, up from (0.2%)-1.5% growth in 2002 (Ahmad and Gao, 2004).

Libya is now estimated to have proven oil reserves of around 36 billion barrels. However, Libya remains "highly unexplored" according to Wood Mackenzie Consultants, and has "excellent" potential for more oil discoveries. Despite years of oil production, only around 25% of Libya's area is covered by agreements with oil companies. The under-exploration of Libya is due largely to sanctions and also to stringent fiscal terms imposed by Libya on foreign oil companies. However, this is set to change following the lifting of the sanctions after Libya agreed to pay compensation for the Pan AM victims (BBC, 2008).

The Libyan economy currently depends primarily upon revenues from the oil sector, which contribute practically all export earnings and about one-quarter of Gross Domestic Product (GDP). These oil revenues and a small population give Libya one of the highest GDPs in Africa. The non oil manufacturing and construction sectors, which account for about 20% of GDP, have expanded from processing mostly agricultural products to include the production of petrochemicals, iron, steel, and aluminium (Wikipedia, 2008)

Climatic conditions and poor soils severely limit agricultural output, and Libya imports about 75% of its food. Higher oil prices in the last three years led to an increase in export revenues, which has improved macroeconomic balances but has done little to stimulate broad-based economic growth. Libya is making slow progress toward economic liberalization and the upgrading of economic

infrastructure, but truly market-based reforms will be slow in coming (Wikipedia, 2008)

The expansion in the hydrocarbon sector has, over the past 30 years, driven the country's economy, with the contribution of oil to GDP at over 50% of the 1970s and early 1980s levels. The country has allocated a large amount of money to establishing industrial companies in non-oil sectors over the last two decades, following the government's development plans of 1980s. Thus, the non-oil sectors increased significantly. Nevertheless, the country still faced difficulty in being able to produce enough capital goods and consumer goods to achieve 'self sufficiency' and 'self-reliance' (Ahmad and Gao, 2004).

2.4 Nature of Business Enterprises

The country's socialist philosophy has affected the economy largely in terms of the business ownership and controlling of business objectives. Libyan industrial companies are predominantly owned by the state, and controlled and supervised by government institutions. While those enterprises are financed in different ways in relation to their activities, nature and objectives, most of them have received their funding (e.g., launching grant) from the government. Currently, there are over 190 large public enterprises.

The main objective of those enterprises is to offer services and goods to the public rather than to make a profit. Based on the state socialist philosophy, employees were given the right to set up self-management in their enterprises. Most companies are currently managed by people's committees. Each committee has the responsibility of running the business and achieving all the

enterprise's objectives. The people's committees are also required to implement all the financial regulations and control (including accounting activities), to follow all the instructions and guidelines provided by their relevant secretariats (ministries), and provide these secretariats with all reports (including annual reports) and information they demand. The government has total authority over, for example, imports or exports of a company and even the company's location. Many senior appointments to Libyan companies are in the hands of politicians and civil servants. As a result, Libyan companies, as public enterprises, are very sensitive to any change in the government's policies regarding economic, political and social issues (Aagnaia, 1997).

The central authority often directs companies' day-to-day operations in the areas of organizational structure, location responsibilities, authorized budgets, employment conditions and management appointments. In 1992, Law No. 9 on partnerships provided a new basis for individuals to engage in manufacturing, agriculture, professional service and other ventures as sole owners or in partnerships, leading to the emergence of private businesses. Moreover, in 1997, Law No. 5 relating to encouraging foreign capital investment was enacted by the General People's Congress (GPC) (the highest legislative authority in Libya) for the purpose of attracting foreign investments and accelerating social and economic development. In line with the implementation of 'the Development Plans' of 1980, the emergence of a private sector, the growth of foreign investment and the effect of globalization, there is a strong demand for change to accounting practices.

2.5 Accounting Regulation

Although the Libyan economy is not considered a market economy per se, accounting has played an important role for over half century. Resource allocation, monitoring social and economic development plans and the establishment of the product pricing system all depend on accounting information (rather than the mechanism of market forces).

There are many laws in Libya, which are concerned with accounting, auditing profession and the preparation of financial statements. One of them is the Libyan Commercial Law (LCL), which was published on 28th of November 1953; and it is the first statute in Libya that considered the practical view of preparation and presentation of financial statements. The legal and regulatory framework for financial reporting in Libya is very limited in scope and is expressed in loose and general terms. The Commercial Law issued in 1953 requires that companies must prepare an annual report, including a profit and loss account and balance sheet and explanatory notes within four months from the end of fiscal year. The account must give an 'honest and fair' view and be audited. This perhaps reflects the 'True and Fair View' principle established by the British Companies Act 1948. There are no further requirements concerning the form and content of the financial statements beyond a requirement that companies should maintain proper accounting records in accordance with generally accepted accounting principles, which are not themselves defined by law.

The accounting profession in Libya was formally established in 1973 and has yet to issue local statements of accounting practice. It, however, recommended

adoption of International Accounting Standards. According to Libyan Commercial Law (LCL) section 2\572 “all companies must prepare their financial reports within 120 days after the year-end and the financial reports must include; financial position and profit and loss account”.

2.6 The Auditing Profession

Up to Libya’s independence in 1951, there was no domestic accounting profession and most of the business firms depended upon foreign accounting firms from Italy and the UK (Bait-El-Malet al., 1973). No formal accounting education or training was available locally, and so, when independence came, there was even a shortage of personnel to fill clerical and technical positions in the administrative and public services. This was one of the country’s most serious handicaps and meant that, throughout the 1950s, it relied greatly on advisors from the UK, USA and UN to establish rudimentary accounting systems. Indeed, at that time, many foreign agencies from the UK and the USA (e.g., the Libyan Public Development and Stabilisation Agency, the Libyan American Reconstruction Commission, the Libyan and American Joint Service) flooded into the country to carry out various projects. These agencies were all administrated by non-Libyans and, through them, the British and Americans implemented their own accounting models, significantly influencing the accounting system (Buzied, 1998).

The discovery of oil in 1959 provided the country with financial resources to develop business activities leading to a significant growth of the economy. Accordingly, there were increasing needs from investors, creditors, business managers and governmental agencies for financial information and resultant

accounting services. Subsequently, many foreign accounting firms from Egypt, the USA and the UK opened branches in Libya, predominantly providing audit services. Following the People's Revolution and the major transformation of the country's political system, Libya moved away from the UK and USA colonial system of recognizing and producing professional accountants by putting a strong emphasis on university education and qualifications. Similar to other countries, such as Singapore (Tan et al., 1994; Wijewardena and Yapa, 1998), Libya accredited a university degree as an adequate qualification for professional recognition without requiring further examinations, subject only to acquiring practical experience.

In the 1970s, with the increase of accounting graduates from the University of Libya and the return of many Libyan graduates from abroad, many Libyan-run accounting firms were established. As a result of the increase of accounting firms in both number and size and the lack of regularity in accounting and auditing standards and practices, there was an urgent need to set up a professional body, to take the responsibility for developing a general framework of accounting to meet the demand. Law No. 116 was enacted in 1973. This was the first law to govern accountancy and related areas. It covers: (1) the establishment of the LAAA (Libyan Accounting and Auditing Association); (2) registration of accountants; (3) exercise of profession; (4) fees; (5) pension and contribution fund; (6) obligations of accountants and auditors; (7) penalties; and (8) general and transitional provisions. The LAAA was established in June 1975 with the following objectives:

- to organize and improve the conditions of the accounting profession and to raise the standards of accountants and auditors professionally, academically, culturally and politically;
- to organize and participate in conferences and seminars related to accounting internally and externally and to keep in touch with new events, scientific periodicals, lectures and so on;
- to establish a retirement pension fund for its members;
- to increase co-operation between its members and to protect their rights; and
- to take action against members who violate the traditions and ethics of the profession.

In addition to the LAAA, the State Accounting Bureau (SAB) has also played a key role in the development of an accountancy profession. The SAB was established by the Law No. 31 of 1955 under the responsibility of the Ministry of Treasury. To guarantee its dependence, the SAB became responsible directly to the whole Ministries' Council of Libya under the Audit Bureau Law of 1966. The Revolutionary Government of 1969 changed the government structure to consist of an executive branch and a legislative branch represented by the Revolutionary Command Council (RCC). Accordingly, the SAB was changed under Law No. 79 of 1975 to become responsible directly to the RCC.

Article No. 1 of the SAB Law of 1973 lays down the independence and objectives of the Bureau as follows: the SAB is an independent agency affiliated to the RCC; its purpose is to apply effective control over the public funds. Since the RCC transferred its authority to the GPC in 1977, the SAB

has become responsible directly to this new legislative body. Following the Law No. 7 of 1988, the SAB was combined with the Central Institute for General Administration Control. The new body was initially called the Institute for Public Follow-Up but in 1996 was renamed as the Institute of Public Control (IPC). Initially, it was responsible for auditing all the state agencies, departments, organizations aided by or in receipt of loans from the government and any other corporations to which the state contributes more than 25% of the capital. The purpose of the audits was to ensure that these organizations were running according to the financial regulations and guidelines set up by their relevant secretariats (ministries) and meeting the social and economic objectives.

The IPC's responsibilities have been extended to include the auditing of foreign companies and joint ventures operating in Libya, with the purpose of ensuring that these companies operate in accordance with Libya's laws and regulations. Although there are legal requirements for the auditing of these enterprises, no specific guidelines for carrying out such audits are given by the authorities. The audit process and administration are largely subject to the rules set by the IPC in line with the existing economic policy, regulations and Libyan laws. Due to a dearth of staff, the IPC was not able to complete its task on time and the delay in the auditing of the accounts of the above organizations has become a serious problem. Consequently, much auditing of state enterprises' reports has had to be outsourced to public accountants, which in turn increased the demand for qualified public accountants.

The primary professional qualification of accountancy in Libya is membership of the LAAA. Accountants who want to qualify as members must meet the following requirements:

- Hold Libyan nationality.
- Have a bachelor's degree in accounting
- Have five years experience of accountancy-related jobs in an accounting office after obtaining the bachelor's degree.
- Be active over political and civil rights
- Be of good conduct, reputation and respectability, commensurate with the profession.

An accountant who has a bachelor's degree in accounting without experience and intends to practise accountancy may be registered as an assistant accountant in practice. During the first two years, an assistant accountant can practise in the profession by joining a firm of accountants.

After two years of experience, an assistant accountant has the right to practise in the profession in his area with some limitations. He may only certify (a) accounts and balance sheets of firms with no shares; (b) audit and certify accounts of taxpayers who are subject to taxes on incomes from commerce, industry and independent professions whose capital does not exceed 20 000 LD(US\$32 800) or whose annual net income does not exceed 5000 LD (US\$8200); and (c) audit and certify accounts of taxpayers who are subject to general tax on income and whose revenue does not exceed 10 000 LD (US\$16 400). Other registered accountants who have a bachelor's degree in accounting

with no practical experience and do not intend to practise in the profession are listed on the register of assistant accountants not in practice.

Accountants who hold a degree higher than a bachelor's degree in accounting are exempt from the experience requirement if the higher degree requires four or more years of study and training. Accountants who are registered in the list of accountants in practice have the right to certify accounts and balance sheets of all types of firms and taxpayers. Accounting firms in Libya, which are required to be licensed by the LAAA, can offer services in such areas as preparing financial reports, auditing, tax services, bankruptcy, management consulting, system design and installation. Because of a shortage of expertise and experience in many service areas, along with low demands from companies and organizations for other services, most of the public accountants are predominantly occupied in auditing and preparing financial reports. Other services are seldom provided (Buzied, 1998). The secondary professional accounting qualification available in Libya is membership of the IPC. An accountant who wants to qualify as a member must meet the following requirements:

- Hold Libyan nationality
- Have a bachelor's degree in accounting
- Have five years of accountancy experience in the IPC
- Be active over political and civil rights
- Be of good conduct, reputation and respectability, commensurate with the profession; and swear to do work with complete honesty and sincerity.

Just as admittance to full membership of the LAAA and the IPC does not require any study beyond a bachelor's degree but only practical experience no continuing professional training is required after becoming a member of the LAAA. For this reason, accounting firms normally do not conduct any training programmes for their accounting staff. These circumstances bring the competence of Libyan professional accountants into question, on the basis of Dewing and Russell's (1998) contention that competence in accounting is ultimately recognized not only by completing a period of 'apprenticeship' but also by passing the examinations of a professional accountancy body; possession of a university degree in accounting is insufficient. Similarly, Annisette (2000) argues that 'professional education, examination and certification play important roles in demarcating and defining the boundaries of a profession both in terms of its membership and in terms of its knowledge-base' (p.654).

Under the LCL, all companies are required to prepare an annual report, including an income statement and a balance sheet, but there is no formal set of Libyan accounting standards about the form and content of the annual reports, nor any requirements about what foreign accounting principles and standards should be adopted (Bait-El-Mal et al., 1973; Kilani, 1988; Buzied, 1998). Thus, significant differences arise in the ways in which accounting principles, rules, methods and procedures are applied within different companies, even ones in the same industry.

2.7 Users of financial statements

Given the unique nature of the Libya accounting environment this section discusses some of the users of the Libyan annual report. This is important given that most of the enterprises in Libya are owned by the state. As such a pertinent question is who the users of annual reports are.

2.7.1 .Tax Authority

Today taxes are a major tool by which the government directs and influences the reallocation of resources necessary to achieve a nation's economic and social objectives. Taxes in Libya, like most of the taxation systems in the world are classified into two broad categories, direct and indirect taxes. All companies incorporated in Libya are assessed for tax at corporate rate of 30%. However, the effective rate is likely to differ on account of allowances and exemptions related to industry, location, exports, etc. In all cases the tax authority relies on the audited annual report to confirm the information that is submitted by the companies on the income tax returns. The Tax Authority has, however, powers to demand production of further information by the company.

2.7.2 Central Bank of Libya and Commercial Banks;

The Central Bank of Libya (CBL) is 100% state ownership and represents the monetary authority in Libya and enjoys the status of autonomous corporate body. The law establishing the CBL stipulates that the objectives of the Central Bank shall be to maintain monetary stability in Libya, and to promote

the sustained growth of the economy in accordance with the general economic policy of the state.

Management of the general affairs of the Bank within the policies of the country is entrusted to a board of directors consisting of the governor as chairman, deputy governor as vice-chairman, and six other members, who usually represent other financial and economic interests. The governor is the chief executive officer responsible for the implementation of the policy of the bank and the management of its affairs; he also represents the bank in all its relations with other parties. The CBL started its operations on April 1, 1956 to replace the Libyan Currency committee which was established in the year 1951 and whose functions were confined to maintaining sterling assets against the issue of local currency, thus having no role in controlling money supply or credit or in supervising banks.

To make the CBL's services more accessible to commercial bank branches and public departments located far from its headquarter; the CBL has three branches located in Benghazi, Sebha and Sirte. The main functions of the CBL are as follows: 1) Issuing and regulating the currency; 2) Management of reserves and control of foreign exchange; 3) Acting as a banker to the state; 4) Acting as a banker to commercial banks and 5) Supervision and regulation of banking activities.

In addition to the central bank, the banking system is made up of six (6) State deposit banks and of two specialized banks. Foreign banks are not allowed to open branches in Libya and the other banking and financial systems are controlled by the central bank. The main commercial banks in Libya are as

follows: Agricultural Bank, Jomhorya Bank, Libyan Arab Foreign Bank, National Commercial Bank SAL, Sahara Bank, Savings and Real Estate Investment Bank, Umma Bank SAL and Wahda Bank.

2.7.3 Auditing Authority

During the last two decades the country allocated a great amount of money in order to establish many industrial complexes (companies). As a result, the state has become aware of the need for auditing and monitoring these companies and this was accomplished by establishing effective body to perform the auditing and monitoring tasks of these companies. Therefore, the General People's Congress (GPC)¹ issued sanction number 7\1988 to establish a body called "Accounting Committee" to do auditing and monitoring assessments. The Accounting Committee was consisted by three departments, Fiscal Control, Administration Control and Public Control. The most important functions of this body were monitoring the states administrations and their performance. Also they attempt to find out any weakness in this system and explore errors and frauds. In 1988 the GPC issued a resolution number 7 to incorporate these three departments in one under a new name which is "Auditing Authority". According to section 2\Law number 79\1975, the functions of the Auditing Authority have been changed since its establishment, and now include the following tasks: audit all State Accounts

¹ GPC is both an executive and legislative body that convenes several times annually, primary formal instrument of government; membership of more than 1,000 delegates drawn from sub national -level people's committees, people's congresses, and revolutionary committees. Leadership of GPC vested in General Secretariat headed by secretary general, official chief of state. Cabinet functions performed by national-level General People's Committee. Sub national Governmental Divisions.

and public enterprise; audit and monitoring companies in which the state owns 25% of the share capital and enterprises which obtained any sort of exemptions or received funds from the state.

2.8 Summary and Conclusion

The chapter discussed selected environmental factors that were deemed more relevant than to the understanding of the Libyan accounting environment. These factors are: the political system, the Libyan economy, nature of the business enterprises, accounting regulation, auditing profession and the users of annual reports in Libya. The main conclusion from the discussion is that the accounting environment of Libya is one characterised by a peculiar accounting environment due to the reforms that were introduced following the Libyan revolution of 1969. The accounting environment is also characterised by an economy which is mainly dependent on oil revenues. It was also discussed that until 2005 most of the companies were state owned with no profit objective. The discussion also showed that accounting regulation is not well developed presumably because of the nature of the enterprise and also because the auditing profession is not well developed. It was also argued that because of the state ownership of companies, the users of the annual reports are limited to the tax authority, the auditing authority and banks, academics and auditors.

CHAPTER THREE

PUBLISHING DELAY: A LITERATURE REVIEW

3.1 Introduction.

The whole thesis is focused around two main themes. The first is publishing delay and the second is the usefulness of the annual report to the users in Libya. The objective of the current chapter is to review literature on publishing delay so that the potential contribution of the research can be identified clearly. Chapter four will then deal with the subject of the usefulness of the annual report. The rest of the chapter is organised as follows: the next section discusses why this thesis uses the term ‘publishing delay’ instead of ‘audit delay’ or ‘timeliness’ which have been used by previous studies. This is then followed by a discussion of the publishing delay period based on the findings of existing research. The chapter then examines the possible determinants of audit delay. The penultimate section examines some of the limitations of the existing research and the possible contribution of the current study. The final section is the summary and conclusion.

3.2 The Publishing Period

The publishing delay as used in this thesis is equivalent to what is popularly known as ‘audit delay’ or ‘timeliness’ in accounting literature. Audit delay in most cases refers to the period between the financial year-end and the date on the auditors’ report (Michael et al-2002, Bahram-2002). However, defining audit delay as the time between the end of the financial year and the date of the

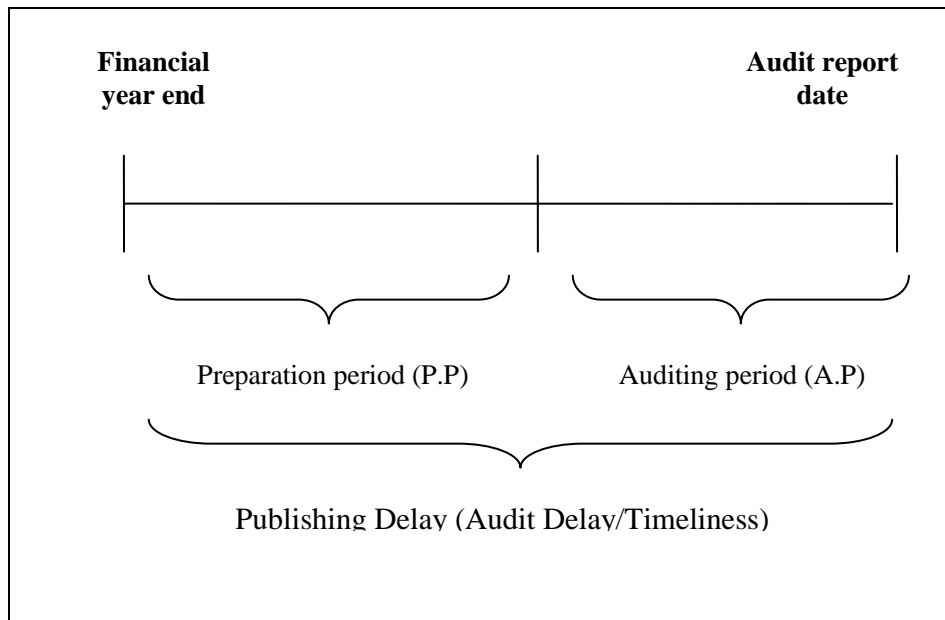
auditor's report may be problematic. First, the time from the end of the financial year to the time of the auditor's report may not accurately represent audit delay because 'audit delay' implies the time spent auditing the financial statements. Inevitably companies will require time to prepare financial statements and then auditors will need time to audit the financial statements. So strictly speaking, there are two distinct period between the financial year end and the auditor's signature, namely preparation period and auditing period ((Michael et al-2002, Bahram-2002). Second, the auditor's signature date may or may not be the same as the annual report release date because the release may be delayed until a copy of the annual report has been received by the stock exchange. Despite the fact that there may be a further time lapse between the auditors' signature date and the day of publication, most studies on audit delay and timeliness have assumed (sometimes erroneously) that the date of the auditors' signature is the date of publication because of the problem in ascertaining the actual date of publication. Simnett et al (1995) and Cullinan (2003) recognized the distinction between the time required by the company to prepare the annual report (financial statements) and the time required by the auditor to audit these statements. They suggested that companies required time to close their books and prepare their financial statements and called this component 'client preparation time'.

The second component of publishing period is the time required to conduct the audit's year end investigation called 'auditor completion time'. This period includes the time elapsed between the dates the financial statements are ready

and commencement of the yearend audit - called the 'pause' portion of audit delay in some studies as a study conducted by Cullinan (2003).

A notable exception is Owusu-Ansah (2000) who distinguishes the delay in terms of the auditor's reporting lag and the publication lag. The use of the word 'timeliness' again may be problematic in the sense it suggests how quickly the annual reports become available after the end of the financial year and also implies that the time between the financial year-end and the publication is a single period. What is perhaps more helpful is to look at the publishing delay which is subdivided into preparation and audit delay as depicted in diagram 3.1 below.

Diagram 3.1 Publishing Delay



Knowledge of both the preparation period and audit delay is arguably more helpful in any policy recommendation to reduce the publishing delay of the financial statements

3.2.1 Empirical results on publishing delay

The Commercial Law issued in 1954 requires that companies must prepare an annual report, including a profit and loss account and balance sheet and explanatory notes within four months (120 days) from the end of fiscal year. In the UK the Companies Act 1985 requires that companies should deliver to the Registrar of Companies under CA, 1985 [s244(1)] financial statements within six months. In August 2002, the Securities and Exchange Commission passed new disclosure rules making shorter the period by which public companies must publish their financial statements. Among the rules are requirements to accelerate the filing of 10-Q quarterly financial statements from the 45 days to 35 days from the end of the quarter and 10-K annual reports from the current 90 days to within 75 days of fiscal year end (John L, 2002). In France there is a legal requirement to publish financial statements within 180 days and the audited annual report to be submitted no later than 15 days prior to the firm's annual general meeting (AGM). In Australia, the Australian Stock Exchange (ASE) specifies a maximum period, whereby firms have to file their annual reports within 120 days after the financial year-end.

In the context of the above requirements many researchers investigated the publishing delay in many countries which include both the developed and developing countries. Dyer and McHugh (1975), for example, investigated the publishing delay from 1965 to 1971 of Australian companies. Their findings revealed that the average publishing delay period was between 82 to 92 days. A year later, Courtis (1976) examined the publishing delay of annual reports of 204 New Zealand companies. He reported that the average publishing delay was 83 days. Also in New Zealand Gilling (1977) found the average the

publishing delay to be between 53 and 70 days. Other studies based on the Australian data also include Whittred (1980) and Whittred and Zimmer (1984) who reported publishing delays of 62 days and 82 to 86 days respectively. Simnett et al (1995) also investigated the publishing delay in Australia between 1982 and 1989. Their findings revealed a publishing delay of between 79 and 94 days.

Publishing delay has also been investigated extensively in US. First, Givoly and Palmon (1982) examined the relationship between the information content of the accounting report and its timeliness using a sample of 210 US firms during the period 1960-1974. They observed an improvement in timeliness of the annual earnings announcement over the period, down to a median delay of 37 days in 1974. Their study also indicates that bad news tends to be delayed. In their concluding remarks, the authors also recommend re-examination of the adequacy of the 90-day deadline with a view to shortening it. Second, Bamber et al., (1993) found that the publishing delay on average was 40 days in the US. Third, Kinney and McDaniel (1993) using a matched pair research design reported a publishing delay of 50 to 68 days. Fourth, Schwartz and Soo (1996) reported a publishing delay of 62 days over a five year period from 1988 to 1993. Finally, in the last ten years Knechel and Payne (2001) and Cullinan (2003) all concluded that the US publishing delay was 42 days.

Apart from Australia and the US, there are also a number of studies on publishing delay in Canada. For example, Ashton et al (1987) reported a publishing period of 62.53 days based on 465 companies' annual reports. In a similar study Ashton et al (1989) reported a publishing delay of 64 days.

Further, Newton and Ashton (1989) found a publishing period of 51 to 53 days on average.

Elsewhere, Gilling (1977) investigated the same issue of audit delay in New Zealand. He found that the average publishing delay was 53-70 days. Carslaw and Kaplan (1991) also in New Zealand reported a publishing delay which ranged from 87 to 95 days.

Not surprisingly the number of studies on publishing delay based on developing countries is very few and started much later than those on developed countries. Ng and Tai (1994), for example, investigated the issue of publishing delay in Hong Kong. They found that the average publishing delay was 109 days. Jaggi and Tsui (1999) also on Hong Kong reported a publishing delay of 105 to 106 days. Abdulla (1996), on Bahraini found an average publishing delay of 59 to 64 days. In 2000, Owusu-Ansah reported an average publishing delay of 62 days in Zimbabwe. Finally, Imam et al (2001) found an average publishing delay of nearly six months in Bangladesh.

All the findings discussed above are presented in table 3.1. Generally speaking it is evident that the publishing delay has got shorter as time progressed. Although it is not possible to say exactly why this is, it is probable that the development of technology and capital markets has something to do with the publishing delay becoming shorter. It also appears from the studies presented in table 3.1 that publishing periods in developing countries are longer than those in developed countries. Again, it is possible that the developments in

respective capital markets may explain these variations in publishing delays. The next section discusses the studies on the determinants of publishing delay.

3.3 Empirical findings of the determinants of publishing delay

Apart from investigating the extent of publishing delay, the researchers have also sought to investigate which company specific characteristics determine the publishing delay. The purpose of this section is to discuss some of the determinants that have been investigated and highlight the consistency or otherwise of such studies. Due to the number of factors that have been investigated it is not possible to discuss all the factors. So the discussion below is essentially selective. In selecting the characteristics for discussion preference has been given to those that have been investigated by most researchers. However, some characteristics are discussed even though they have been investigated by few researchers because they are investigated by the current study.

3.3.1 *Company Size*

The association between corporate size and publishing delay is probably the most widely investigated. Dyer IV and McHough (1975) were among the first to investigate the company size as a possible determinant of publishing delay. From several prior publishing delay studies, some theories suggest that large companies will have shorter publishing delay because these companies have better accounting and control systems which enable them to prepare their financial statements more quickly, and also stronger internal control allows auditors to place more reliance on interim compliance tests than on substantive tests (Simentt, et al 1995).

Alternative theories suggest that larger companies will have longer publishing periods because they have a greater number of transactions which take a longer time to prepare and examine financial statements by auditors. Alternatively, shorter delays may occur because of the greater incentives for auditors to satisfy the demands of larger clients (Cullinan, 2003). Furthermore, it has also been suggested that larger companies have better internal controls, allowing faster preparation of their financial statements (Ashton et al. 1989). So, the relationship between company characteristics and publishing delay may be positive or negative. Dyer IV and McHough (1975) in Australia found that company size measured by total assets was a significant determinant of audit delay. Many other researchers since, have come to a similar conclusion. These include Davies and Whittred (1980); Ashton et al (1987); Culliniam (2003) and Owusu-Anshah (2006).

However, some researchers have reported that company size is not associated with publishing delay. These studies include Courtis (1976) in New Zealand, Garsomboke (1981) in the US and Aston et al (1987) in Canada. The inconsistency in the association of company size and publishing delay continued with later studies reporting contradictory results. For example, Ng and Tai (1994) reported a significant association whilst Sminett et al's (1995) results suggest that company size is not significantly associated with audit delay. Also, Tauringana et al in Zimbabwe (2005) found that company size does not have an impact on

audit delay. The conclusion, therefore, has to be that the relationship between company size and publishing delay is not a settled issue.

3.3.2. Auditor type

The general argument for linking publishing delay and auditor type is that the 'big four auditor firms' are better, more efficient and put in more resources into the audit. The end result should be that companies audited by the 'big four' audit firms should have shorter publishing delay. The argument is not, however, supported by the available empirical evidence. This is because the influence of auditor type on audit delay similarly varies from one study to the other. For example, Gilling (1977) reported a significant relationship whilst Davies and Whittred (1980) and Garsomboke (1981) reported insignificant relationships. Ashton et al (1987) also found that for some years auditor type was a significant determinant of audit delay but was not for others.

3.3.3 Profitability

The arguments for associating profitability with a shorter publishing delay are presumably based on the signalling and agency theories. The signalling theory suggest that those companies reporting good news are much keener to publish their results much earlier and take credit for good performance. However, if the company has not performed well, it is suggested that managers take time discussing how to present the bad results in a good light. Profitability's association with publishing delay was investigated by Courtis (1976) who reported significant associations. Similarly, Davies and

Whittred (1980), Abudulla (1996), Jaggi and Tsui (1999) and Owusu-Ansah (2000) found that profitability is associated with short publishing delay. However, other studies, e.g. Ashton et al (1987) and Simnett et al (1995) reported insignificant associations.

3.3.4 Industry

Other researchers have also examined whether publishing delay is influenced by the type of industry. The reasoning is that more complex industries take time to audit because it requires more time to verify the evidence. However, the results in respect of the industry variable are similarly conflicting. Courtis (1976), Newton and Ashton (1989) and Carslaw and Kaplan (1991), for example, all reported significant associations between industry and publishing delay yet Ashton et al (1987) and Jaggi and Tsui (1999) came to different conclusions. Further, Bamber et al (1993) reported conflicting results for the industry variable over a number of years.

3.3.5. Year-end

Research on the link between publishing delay and year-end is motivated by the fact that in some countries, the financial year-ends of most companies fall in one or a few months. In some cases this is meant to coincide with the government's fiscal tax year. Also in some countries most companies adopt the calendar year as the financial year. This means that the financial years end in December. The effect of most companies' financial year-ends in one or a few calendar months means that auditors

cannot finalise the audits as quickly as other periods when they are less 'busy'. The empirical results addressing this question are, however, mixed. Davies and Whittred (1980) and Knechel and Payne (2001) are among those who found that the busy year-end increases audit delay whilst Garsomboke (1981) and Ashton et al (1987) did not find any significant relationships. Ashton et al (1987), Newton and Ashton (1989) and Ng and Tai (1994) reported mixed results over a number of years

3.3.6 Extraordinary Items

Researchers have suggested that companies reporting extra-ordinary items or exceptional items may experience longer publishing delays because such companies may get involved in lengthy discussions with auditors. This is because auditors may need to be satisfied that such items are indeed exceptional or extra-ordinary before signing off the financial statements. The impact of extra-ordinary items on audit delay has also been subject of enquiry by a number of previous studies. Ashton et al (1987), Newton and Ashton (1989) and Bamber et al (1993) all found significant associations between audit delay and extra-ordinary items whilst Henderson and Kaplan (2000) did not find any significant relationship and Carslaw and Kaplan (1991) and Ng and Tai (1994) reported mixed results over a number of years.

3.3.7 Ownership structure

Another variable whose influence on publishing delay has been investigated on numerous occasions is that of ownership structure (or

managerial share ownership).The results of the investigation into the influence of ownership structure in previous studies have been similarly mixed. For example, Carslaw and Kaplan (1991) in New Zealand and Bamber et al (1993) in the US concluded that ownership structure had a significant impact on audit delay. However, Simnett et al (1995) in Australia, Jaggi and Tsui (1999) in Hong Kong and Henderson and Kaplan (2000) in the US found that ownership structure had no influence on audit delay.

3.3.8 Audit technology

Audit technology has also been investigated as a possible influence on the publishing delay. The reasoning behind is that audit firms with superior audit technology can go through the task of verifying transactions much more quickly. Newton and Ashton (1989), for example, reported mixed results on the impact of audit technology on publishing delay. They found audit technology as having a significant influence for the years 1979, 1981 and 1982 but insignificant for 1978 and 1980. Bamber et al (1993) found that audit technology has a significant influence on the length of the publishing period. On the other hand, Simnett et al (1995) found that audit technology has no significant influence on audit delay.

Table 3.1: Summary of studies on the associations between company characteristics and publishing delay

<i>RESEARCHER (S) AND YEAR</i>	<i>COUNTRY AND SAMPLE SIZE</i>	<i>AVERAGE PUBLISHING DELAY*</i>	<i>VARIABLES CONFIRMED</i>	<i>VARIABLES NOT CONFIRMED</i>
Dyer IV & McHugh (1975)	Australia N= 120 (1965 to 1971)	82.5 to 91.8 days	Company size	Profitability and financial year-end
Courtis (1976)	New Zealand N = 204	83 days	Industry, profitability	Company size (sales, assets and number of employees), company age, number of shareholders, and number of pages of annual report.
Gilling (1977)	New Zealand N = 187	53-70 days	Auditor type	
Davies & whittred (1980)	Australia (for 1972 to 1977) N = 100	82.5 to 91.8 days	Company size (assets), financial year, profitability for 1974-76 and changes absolute value of extraordinary items, audit qualification.	Profitability for 1972,1973 and 1977.
Whittred (1980)	Australia N= 245	86-157 days	Audit qualification	
Garsombke (1981)	US N = 120	62 days	Listing	Company size, auditor type, year-end, management attitude and favourableness of reported earnings.
Givoly & Palmon (1982)	US N = 210	41 to 63 days	Inventory ratio	Company size (sales), sales growth and inventory ratio (1974), news (good\bad).
Lawrence (1983)	N=110	3.9 months	Failed firms	
Whittred & Zimmer (1984)	Australia (37 matched pairs)	81.91 to 85.51 (for non-failed) & 94 to 142 days (for failed).	Failed firms	
Ashton et al. (1987)	Canada	62.53 days	Company size (assets), industry	Company size (assets) for 1980, year-end for

<i>RESEARCHER (S) AND YEAR</i>	<i>COUNTRY AND SAMPLE SIZE</i>	<i>AVERAGE PUBLISHING DELAY*</i>	<i>VARIABLES CONFIRMED</i>	<i>VARIABLES NOT CONFIRMED</i>
	N = 465		(1977), extraordinary item (1977), auditor opinion (1979)	1977 to 1980, auditor for 1977 to 1981, loss for 1987.
Ashton et al. (1989)	Canada N = 465	64 days	Company size (assets) for 1977 to 1979, industry for 1977 to 1982, year-end for 1981 and 1982, auditor for 1982, loss for 1977, 1979, 1981 and 1982, extraordinary items for 1977 and 1979, auditor opinion for 1979 to 1981.	Company size (assets) for 1980 to 1981, year-end for 1977 to 1980, auditor for 1977 to 1981, loss for 1978 and 1980, contingency items for 1978, 1980 to 1982 auditor opinion for 1977, 1978 and 1982.
Newton and Ashton (1989)	Canada N = 307 to 333	51 to 53 days	Company size (assets) for (1978 to 1981, industry for 1977 to 1982, year-end for 1980 and 1982, change in earning for 1981, extraordinary for 1978 to 1982, audit technology for 1979, 1981 and 1982.	Company size (assets) for 1982, year-end for 1978 and 1979, change in earning for 1978 to 1980 and 1981, contingency items for 1978 to 1982, auditor opinion for 1977 to 1982, audit technology for 1978 and 1980.
Carslaw and Kaplan (1991)	New Zealand (n= 245 for 1987 and 206 for 1988)	87 to 95 days	Company size (assets) for 1987 and 1988, industry for 1988, loss for 1987 and 1988, extraordinary items for 1987 and ownership for 1987.	Industry for 1987 , extraordinary items for 1988, auditor opinion for 1987 and 1988, auditor type for 1987 and 1989, year-end for 1987 and 1988, ownership for 1988, debt proportion for 1987.
Bamber et al (1993)	US N = 972	40 days	Ownership concentration, financial condition, extraordinary items, loss, auditor opinion, company size (assets), audit technology, industry (banks).	Number of client of business, news, industry (building or electrical, automotive or technical instruments and utility).
Kinney jr and McDaniel (1993)	US N = 85 matched pairs	50 to 68 days	Interim earnings overstated earnings down, correction of interim earning overstated earnings down.	Interim earnings understated, interim earnings overstated - earnings up, correction of interim earning understated, correction of interim earning overstated earnings up,

<i>RESEARCHER (S) AND YEAR</i>	<i>COUNTRY AND SAMPLE SIZE</i>	<i>AVERAGE PUBLISHING DELAY*</i>	<i>VARIABLES CONFIRMED</i>	<i>VARIABLES NOT CONFIRMED</i>
				extraordinary items, new uncertainty and return.
Ng and Tai (1994)	Hong Kong (260 for 1990 and 292 for 1991.	109 days	Company size (turnover) for 1990 and 1991, year-end for 1990, extraordinary items for 1991 and degree of diversification for 1990 and 1991.	Change in earnings per share for 1990 and 1991, year-end for 1991, industry for 1990 and 1991, extraordinary items for 1990, auditor type for 1991, auditor change for 1990 and 1991, Chinese principal subsidiary for 1990 and 1991
Simnett et al (1995)	Australia (156 to 369 over the period 1982 to 1989)	79 to 94 days	Proportion of inventory to total assets for 1986, auditor opinion for 1988 and 1989, profitability for 1982, 1987 to 1989, year-end for 1983, 1986, 1987 and 1989 and audit delay for the previous year for 1982 to 1989.	Size (assets and revenue), proportion of inventory (1982 to 1985, 1987 to 1989), leverage, extraordinary items, audit opinion for 1982, to 1987, profitability for 1983 to 1986, year-end for 1981, 1984, 1985 and 1988, complexity, auditor, technology, ownership structure, internal controls and correction of earnings numbers.
Abdulla (1996)	Bahraini N=26	59 to 64 days	Company size, return on assets, gearing (1988 & 1989), dividends	Industry, gearing 1985, 1986, 1987, 1990 & 1991)
Schwartz and Soo (1996)	US 925 to 123 for years 1988 to 1993)	62 days	Change of auditor, audit structure, size (assets), extraordinary items, loss, financial index, going concern, audit opinion and industry.	Late change of auditor, change of audit structure, intermediate structure, year-end and auditor type.
Jaggi and Tsui (1999)	Hong Kong (N = 393)	105 to 106 days	Model 1-financial condition, structured audit, no. Of subsidiaries, auditor opinion and size (assets). Model 2- structured audit, no. Of subsidiaries, auditor opinion, size	Model 1- ownership, industry, extraordinary items, loss and news. Model 2- ownership, industry, extraordinary items, loss, news, liquidity and financial leverage.

<i>RESEARCHER (S) AND YEAR</i>	<i>COUNTRY AND SAMPLE SIZE</i>	<i>AVERAGE PUBLISHING DELAY*</i>	<i>VARIABLES CONFIRMED</i>	<i>VARIABLES NOT CONFIRMED</i>
			(assets) and profitability.	
Henderson & Kaplan (2000)	US (N = 558)	10.5 to 50.83 (over a six year period)	Probability of bankruptcy, regulatory statutes, income diversity, annual loss, uncertainty, other auditor.	Ownership concentration, foreign activity, merger activity, extraordinary items, consistency exception, change of auditor, size (total assets) and change in earnings per share.
Owusu-Ansah (2000)	47	62 days	Size, profitability, company age	Gearing, year-end, extraordinary items, operations
Imam et al. (2001)	Bangladesh (n = 115)	5.86 months		Association with international firm.
Knechel and Payne (2001)	US (n = 226)	42 days	Year-end, public, delay, interim work, extensive interim work, engagement hours, percentage of total audit hours.	Size of client, line of business, geographical dispersion, timing of audit work, management advisory services, clients provided with tax work.
Charles & Cullinan (2003)	U.S.A N = 928	42days	Total assets (positive)	Profit turnover – number of securities held
Leventis and Weetman (2004)	Greece N=227	106.95	Public issue, change in profitability, Number of remarks, concentration ratio	Trading volume, barriers to enttry
Owusu-Ansah and Leventis (2006)	Greece N= 95	113 days	Large company, services companies, big-5 companies	Construction sector, auditor opinion, proportion of the equity shares.

*Defined as the interval in days between the end of the financial year and the date of the auditor's report.

3.4 Limitations of the previous research

The preceding literature review clearly demonstrates that publishing delay is not a settled issue since there is contradictory evidence even with studies based on the same country. For example, the publishing delay in Australia is reported as 82.5 days to 91.8 days by Dyer IV and McHugh (1975) and 86-157 days by Whittred (1980), whilst Simnett et al (1995) reports a period of 79 to 94 days. Also in Greece two studies conducted 2 years apart also reported different results. For example, Leventis and Weetman (2004) reported a publishing delay of 106.95 days yet Owusu-Ansah (2006) reported an average publishing delay of 113 days. It is also not clear whether publishing delay in developed countries is shorter than that of developing countries. For example Andrew and Giroux (2000) reported a publishing delay of 61 days in the US whilst Owusu-Ansah (2000) reported a publishing delay of 62 days in Zimbabwe (a developing country).

It is also evident from a summary of the studies in Table 3.1 that out all the studies listed, only Ng and Tai (1994) and Jaggi and Tsui (1999) in Hong Kong, Abdullah (1996) in Bahraini, Owusu-Ansah (2000) in Zimbabwe, Imam in Bangladesh and Leventis and Weetman (2004) and Owusu-Ansah (2006) in Greece are based on data a developing country data. There is therefore, need for more research so that the pattern of the extent of publishing delay can begin to emerge especially in the developing countries.

Furthermore, variables found to be associated with publishing delay in one study during a particular period are found not to determine the extent of publishing delay in other studies. For example, company size (assets) was found to significantly determine the extent of publishing delay in Australia by Davies & Whittred (1980) but not confirmed by Ashton et al (1987) in Canada. Also in trend analysis studies some variables are found to be significant determinants of publishing delay in some years but not others. For example, proportion of inventory to total assets has been confirmed by Simnett et al in (1995) for the year 1986 in Australia, but not confirmed for years 1982 to 1985.

Finally, the studies identified, in most cases, obtained their data from publicly available annual reports because of problems associated with accessing company internal records such as the nature of accounting systems, accountant qualification etc. This limits our understanding of publishing delay because some of the factors that may influence publishing delay may be internal to the company. A significant contribution of this study is therefore in the sense that it surveys the relevant companies to obtain some internal variables that may influence extent of publishing delay.

3.5 Summary and Conclusion

The purpose of this chapter was to review existing research on publishing delay. The chapter began by clarifying why the thesis uses the term 'publishing delay' instead of 'audit delay' and 'timeliness' as used by previous research. It was argued that the distinction is necessary because in the case of

Libya the preparation period can clearly be distinguished from the audit period. The chapter then reviewed the studies of the timeliness or audit delay of financial statements. It was found that the time taken to publish financial statements differs and there is no clearly established pattern. The penultimate section of the chapter examined the determinants of publishing delay. It was found that the results of all the variables are conflicting although company size results appear to show some consistency. The chapter concluded that because of difficulties in accessing company records few studies have sought to investigate internal determinants of publishing delay. For this reason this research will include some variables that were gathered by a questionnaire survey as possible determinants of publishing delay.

CHAPTER FOUR

THE USEFULNESS OF THE ANNUAL REPORT

4.1 Introduction

The purpose of this chapter is to discuss the literature on the usefulness annual reports. The literature review discussed relates mostly to developed countries and then try to contextualise the review in the Libyan context in 2002 when the data for the thesis was collected. The chapter is organised as follows: First, there is a discussion of the objective financial reporting. This is followed by the discussion of the users of information and their needs. A discussion of the qualitative characteristics of information follows. Then there is a discussion of the usefulness of the annual report by examining previous research on the qualitative characteristics of useful information and the use of the annual report as an information source.

4.2 Objectives of Financial Reporting

The annual report is the most important document through which companies communicate with the users. For a proper assessment of the usefulness of the annual report it is therefore important to identify the objectives of financial reporting. Most of the academic and professional efforts to define the objective of financial reporting started in the US. The American Accounting Association (AAA, 1936), for example, suggested that the primary objective of financial statements is the expression, in financial terms, of the utilisation of economic resources of the enterprise and resultant changes in the position of the interests of

creditors and investors. Also in the US the Accounting Principles Board of the American Institute of Certified Public Accountants (AICPA, 1970) referred to financial statements as “giving information which will be useful in estimating the earnings potential of a company”. Later, The Trueblood Report in 1973 concluded that the basic objective of financial statements is to provide information useful to investors and creditors for making economic decisions, that is, for predicting, comparing, and evaluating potential cash flows to them in terms of amount, timing, and related uncertainty (AICPA, 1973).

In the UK, The Corporate Report (ASSC, 1975, p. 28) concluded that: "The fundamental objective of corporate reports is to communicate economic measurements of and information about the resources and performance of the reporting entity useful to those having reasonable rights to such information". During the last decade the UK's ASB (1999) in its conceptual framework concluded that "the objective of financial statements is to provide information about the financial position, performance and financial adaptability of an enterprise that is useful to a wide range of users in making economic decisions."

It is evident from the above that the purpose of financial reporting is to provide information to users for decision making. However, it is not universally agreed who those users are. For example, the American Accounting Association (1936) and AICPA (1973) identify creditors and investors as the users whilst The Corporate Report (1975) assumes that there are seven user groups and ASB (1999) identifies seven user groups which are generally similar to those identified by The Corporate Report (1975). The following section, therefore, discuss the available empirical evidence to find out who the users of the annual report are.

4.3 Users of Annual Reports

The purpose of this section is to discuss both normative and empirical evidence identifying the users of annual reports. For simplicity purposes the evidence will be discussed in chronological order. First, Stone (1967) argues that several "interested" groups have been cited in the literature as users of financial reports. These include management, employees, customers, stockholders, suppliers, and the general public. He suggests that all these groups have a legitimate interest in the activities of a corporation, although clearly some groups are more affected by these activities than others. Further, he argues that while the corporation is not legally obligated to report directly to all these groups, it certainly can be argued that a moral obligation does exist. Second, Buzby (1974) argues that there are many potential user classes with direct or indirect interest in financial accounting information. Present and potential owners, creditors, employees, financial analysts, government, labour unions and socially-oriented action groups are cited by Buzby (1974) as examples.

Third, The Corporate Report (ASSC, 1975) defines users of corporate reports as those having reasonable right to information concerning the reporting entity. The report considers such rights to arise from the public accountability of the entity whether or not supported by legally enforceable powers to demand information. A reasonable right to information is said to exist where the activities of an organisation impinge or may impinge on the interest of the user group; and where the provision of such information is not in conflict with practical consideration of cost and confidentiality. The Corporate Report (ASSC, 1975) goes on to suggest seven groups having reasonable right to information and whose information needs should be recognised by corporate reports. These user groups are the equity

investor, the loan creditor, the employee, analyst-adviser, business contact, the government and the public. These user groups have broadly been adopted by the International Accounting Standards Committee (IASC, 1989) in their conceptual framework and the Accounting Standards Board (1999).

Fourth, Gray et al. (1984) suggest that while accountability and information disclosure by corporations has historically developed in response to those with a direct financial investment, in recent years there has been increasing acknowledgement that since finance providers, (i.e. shareholders, bankers, lenders, creditors), are not the only group affected by the actions of a corporation, there is an obligation to report to a wider audience which includes employees, trade unions, consumers, government agencies and the general public

Making Corporate Reports valuable (ICAS, 1988), on the other hand, suggested that corporate reporting should aim to communicate directly with four user groups, namely the equity investor, the loan creditor, the employee and business contact groups. The ICAS Report, (1988) excludes the analyst-adviser group, the government and the public suggested by the Corporate Report (ASSC, 1975) because these groups do not have a direct right to information from the reporting entity. While the report admits that the analyst-adviser group certainly use external reports (along with other information) it suggests that they do so as agents for other groups. As far as the other two groups are concerned, the ICAS Report, (1988; section 4.9) considers that "in corporate reporting we should not be seeking specifically to meet the information needs of government or public (other than in their capacities as investors, loan creditors and business contacts)".

Table 4.1 Users of Annual Reports as Suggested by Three Reports

THE CORPORATE REPORT (1975)	MAKING CORPORATE REPORT (1988)
The equity investor group The loan creditor group The employee group The analyst-adviser group The business contact group The government The public	The equity investor group The loan creditor group The employee group The business contact group
Accounting Standards Board (1999)	Libyan Context (2002)
Present and potential investors Employees Lenders Suppliers and other creditors Customers Government and their agencies Public	Banks Auditing Authority Tax Authority Academics Auditors

The reason stated is that the government as a rule-making authority can readily impose information requirements disclosure by demanding, for example, the completion periodically, or on an *ad hoc* basis, of statistical returns, such as those of the Department for Employment. Regarding the public as a user group, the report considers that this group's interest is covered by those of other groups. This contention is supported by the fact that the authors of the ICAS Report (1988) reportedly could not identify any information need which could be attributed solely to the general public. Furthermore, the report considers that the interest of the public (as users) could and should be taken care of by the government as representative of the public. Contrary to the view expressed by the ICAS Report

(1988), Blake (1989) notes that anyone who has any form of interest in the activities of an enterprise is a potential user of published accounts. Blake (1989) lists twelve users of annual reports. Seven of the users are the same as those identified by The Corporate Report (ASSC, 1975). The other five are competitors, non-executive directors, regulatory bodies, researchers and journalists.

The user groups suggested by The Corporate report (1975), MCRV (1988) and ASB (1999) are summarised in Table 4.1. As discussed in Chapter 2, in the context of Libya, banks, the Auditing Authority, Tax Authority, academics and auditors are seen as the main users of the annual report. These are also stated in table 4.1.

Gray and Roberts (1989) used a questionnaire to find the perception of UK finance directors of the relative influence of 14 user groups on the degree of voluntary disclosure (see Table 4.2). They reported that responding UK finance directors ranked, in descending order of importance, financial analysts, institutional investors, potential investors, private investors and the financial press as having above average degree of influence on what is disclosed voluntarily.

According to Gray and Roberts (1989), employees, bankers, general public, creditors, consumer groups, domestic government agencies, foreign government agencies, domestic taxation authorities and foreign tax authorities have the least influence (that is mean scores are below 3 in a 5-point likert scale) on what is voluntarily disclosed in the annual reports. Because all companies in the Gray and Roberts's (1989) sample were listed companies it is not surprising that they

preferred to provide more voluntary reports to financial analysts and institutional investors.

It may also be argued that private investors may have been ranked behind financial analysts, institutional and potential investors by respondents to the Gray and Roberts' (1989) survey because private investors may be too diffuse to have any influence (as a user group) on the information disclosed in annual reports.

Table 4.2. The Influences of User Groups on Voluntary Information Disclosure

RANK	MEAN (N = 116)	COEFFICIENT OF VARIATION (%)	WILCOXON TEST PROB.
1 Financial Analysts	4.86	27	0.4662
2 Institutional Investors	4.78	27	0.0000**
3 Potential Investors	4.24	35	0.2675
4 Private Investors	4.12	31	0.8697
5 The Financial Press	4.05	34	0.4378
6 Employees	2.93	35	0.1757
7 Bankers	2.71	43	0.0000**
8 General Public	1.84	48	0.0429**
9 Creditors	1.58	47	0.8109
9 Consumer Groups	1.58	56	0.5521
11 Domestic Government Agencies	1.51	52	0.5014
12 Foreign Government Agencies	1.46	59	0.4342
13 Domestic Taxation Authorities	1.39	57	0.1614
14 Foreign Taxation Authorities	1.33	55	
Range = 1-5; 1= no influence 5= large influence = significant at 5% level			

(Adapted from Gray and Roberts (1989, p. 123), Table 7.3)

Overall, Table 4.2 clearly indicates that there are many users of annual reports in the UK. Having identified the users of annual reports, the next section will now examine the information needs of the different users of annual reports.

4.4 Information Needs of Users

The information needs of the different user-groups may differ because of their differing relationships with the company. For example, the American Accounting Association (AAA, 1966) argues that investors and prospective investors must decide whether to buy, sell or retain their equity holdings. The Corporate Report (1975, p. 22), suggests that "equity investors will wish to make judgements concerning the likely movements in share prices, future dividends and management efficiency. In each case, financial information concerning the reporting company present position, future prospects and management performance will be relevant".

Suppliers must decide about lines of credit to be made available to the company. Credit grantors, on the other hand, must decide whether to make loans to a company, what security or terms are required or, in the case of existing commitment, whether to increase or decrease the loans or to require payment in full at maturity (American Accounting Association -AAA- 1966). Employees and prospective creditors must decide whether the goals of the firm are compatible with their own, whether the company has attractive stability or growth prospects to them and whether, under existing agreements, they are entitled to bonuses or other special compensation.

Other external users have information needs that are not directly related to the commitment of personal or financial resources. Government units, including regulatory bodies, are interested in financial and statistical information to assist in making policy decisions. Trade Unions need information for broad policy decisions and for summarisation and transmittal to their members. Customers may also be properly concerned with such matters as the ability of the company to produce a product of an assured quality at an economic price. On the other hand The Corporate Report (1975, p. 25-26) states that "members of the community may wish to know about the role of economic entities as employers, contributions to political organisations, pressure groups and charities...expenditure affecting society and the environment".

It appears from the preceding discussion that the information needs of different users may be different depending on the relationship between a particular user-group and the company. However, whatever those needs are, the ASB (1999) suggests that in order for information to be useful it should possess certain characteristics which make it useful. The next section examines these characteristics upon which the usefulness of the annual report will be examined.

4.5 Qualitative characteristics of useful information:

The Accounting Standards Board published its Statement of Principles for Financial Reporting in December 1999. The concept of usefulness was a significant feature in this publication. The Statement of Principles seeks to identify what financial statements are and whether they are meeting their

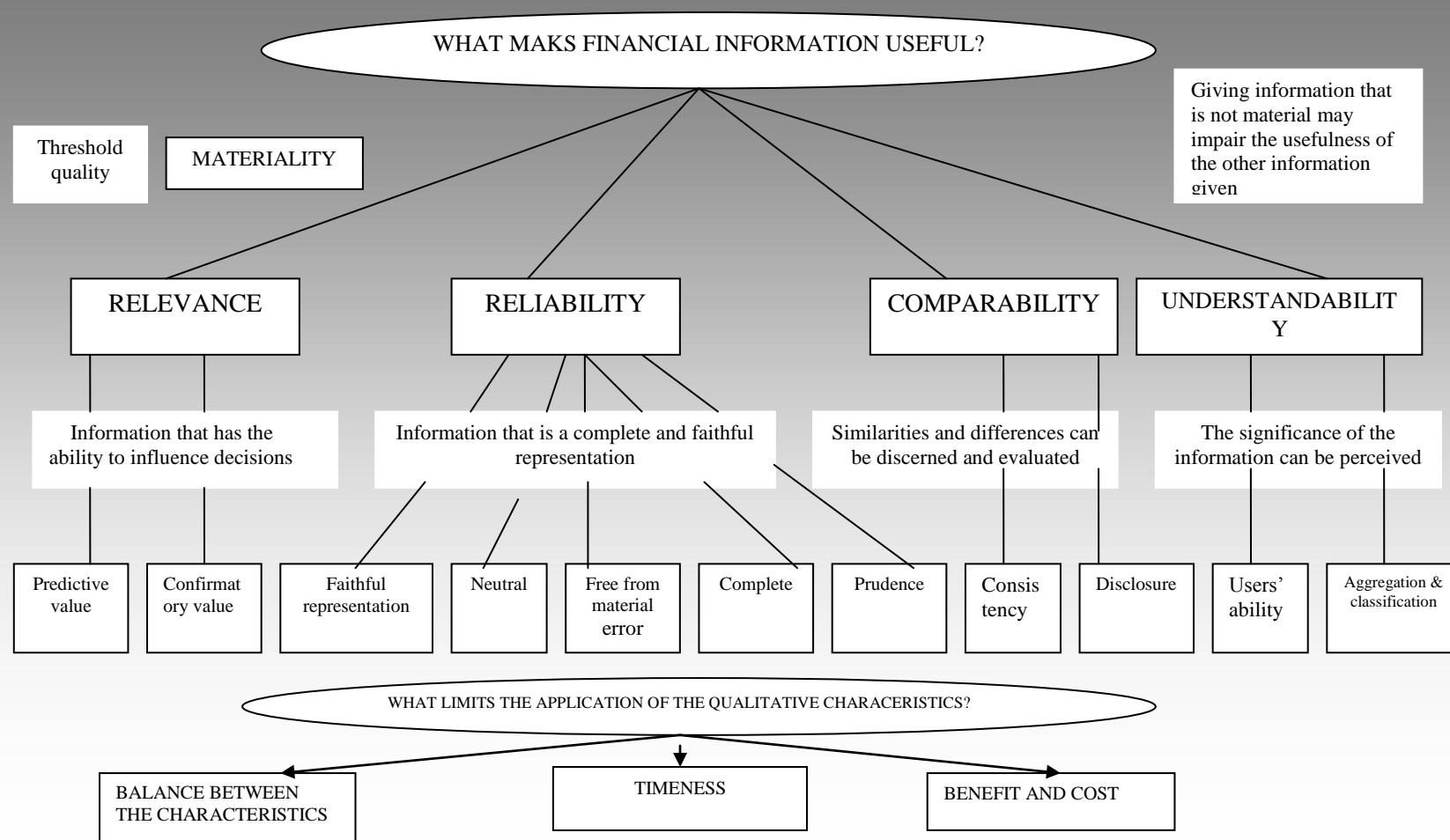
objective. The characteristics and qualities of information discussed in this study are the ingredients that make information useful.

In the US, The FASB (1975) suggests that the purpose of the statement is to examine the characteristics that make accounting information useful. According to FASB (1975) the usefulness of information must be evaluated in relation to the purposes to be served. The central role assigned to decision making leads straight to the overriding criterion by which all accounting choices must be judged. The better choice is the one that, subject to considerations of cost, produces from among the available alternatives information that is most useful for decision making. FASB (1975) also examines the characteristics that make accounting information useful to the users.

According to ASB's (1999), Statement of Principles, accounting information needs to be relevant, reliable, comparable, and understandable. Materiality cuts across these divisions. Material information is information whose omission or misstatement might reasonably be expected to influence the economic decisions of users. If information is deemed to be immaterial, either due to its relatively small size or actual nature, then it should be excluded from the accounts. From the hierarchy presented in diagram 4.1, relevance and reliability are the two primary qualities that make accounting information useful for decision making. Subject to constraints imposed by cost and materiality, increased relevance and increased reliability make information more desirable.

Diagram 4.1

The qualitative characteristics of financial information



The hierarchy separates user-specific qualities, for example, understandability, from qualities inherent in information. Information cannot be useful to decision makers who cannot understand it, even though it may otherwise be relevant to a decision and be reliable. However, understandability of information is related to the characteristics of the decision maker as well as the characteristics of the information itself and, therefore, understandability cannot be evaluated in overall terms but must be judged in relation to a specific class of decision makers. The ASB (1999) *Statement of Principles* does make the point that the fact that information may be complicated is not an excuse for excluding it from financial statements, if it is also relevant and reliable (Chopping and Stephens, 2002).

The secondary characteristic of comparability embraces notions of consistent application of accounting methods throughout an enterprise and through time, as well as the ability to compare one enterprise with another, which implies adequate disclosure of accounting policies. In terms of the primary characteristics of accounting information, the ASB (1999) acknowledges that efforts to provide accounting information that is both relevant and reliable is almost impossible in certain situations, thus requiring a degree of trade-off. In such situations of conflict, ASB (1999) suggests that if a choice exists between relevant and reliable approaches that are mutually exclusive, the approach chosen needs to be the one that results in the relevance of the information provided being maximized. Therefore, the ASB (1999) takes the view that relevance takes priority over reliability.

This assertion of relevance over reliability is a substantial departure from the traditional emphasis towards prudence in accounting (Eccles & Holt, 2005). As is shown in diagram 4.1, the importance of prudence to the ASB is much reduced, with it being relegated to just one of the five components comprising reliability. Whilst this move away from prudence in UK accounting standard-setting has been criticised, it reinforces the view that ASB is moving towards “fair value” accounting since there are more relevant than cost-based values even if they are somewhat unreliable. For example, the £1 million historical purchase cost of a property bought in 1990 is a totally objective and “reliable” value to include in the financial statements, but it is not a decision “relevant” measure for investors if the property has a current open market value of £42 million (Eccles & Holt, 2005).

Having discussed the qualitative characteristics that make information useful as defined by various accounting bodies, the following section discusses previous research that has examined how useful the annual report is given the qualitative characteristics of useful information.

4.6 Previous research on the usefulness of annual reports

4.6.1 Introduction

A number of researchers have noted the importance of the annual report as a vehicle for discharging accountability (Lucia & Kenneth, 1986; Boyne and Law, 1991). Trayer and Warren (2005) emphasised that the annual report is one of the most complete sources of information available on every public

company. Also, Marston and Shrides (1991) concluded that the annual report is the most comprehensive document available to the public and is therefore the 'main disclosure vehicle'. Parker (1982) highlighted the importance of the annual report as a mass communication medium. Anderson & Epstein (1995) confirmed that the corporate annual report could make a major contribution to improved corporate communications, corporate accountability, and corporate governance. However, there are some who have questioned the usefulness of the annual report in terms of the qualitative characteristics of useful information. Some of these studies are highlighted below.

4.6.2. Understandability of annual reports

The problem of the differences in understanding particularly between private shareholders and other sophisticated users of annual reports such as financial analysts and institutional investors is recognised in the UK by The 1985 Companies Act (section 251) which states that a listed company may send summary financial statements (derived from annual accounts and directors' report) to those members who do not wish to receive the full accounts and reports. One reason for the introduction of summary financial statements is the need to simplify corporate annual reports for the majority of shareholders (especially private) who would, otherwise, not understand the detailed annual reports. In a study of the level of understanding, by shareholders of the accounting information contained in a company's annual financial report, Lee and Tweedie (1977) reported that whilst two-thirds of the respondents stated that they understood accounting information, tests on various aspects of the reporting process revealed that actual knowledge was well below the respondents'

perception of their comprehension. Thus Lee and Tweedie (1977) could not reject the hypotheses that private shareholders are ignorant of the nature, meaning and implications of financial reporting practice.

Lee and Tweedie (1981) also investigated the understanding of accounting information by institutional investors. They reported that the responses to their questionnaire suggest that nearly all the institutional shareholders understood accounting information, although their actual understanding was characterised by imprecision and variability in many instances. The general conclusion that may be derived from the discussion in this section is, therefore, that some private and institutional shareholders do not understand accounting information provided in the annual report. This conclusion tends to support the argument that the annual report may not be useful because it is not well understood by the users.

4.6.3 Timeliness of the annual report

According to the various conceptual frameworks discussed before, timeliness is one of the qualitative characteristics of useful information. To be useful, information must be provided to the users as soon as possible otherwise it loses its value. According to the review of literature chapter 3 it is evident that the annual reports are published anything between 1 month and 3 months after the end of the financial year-end. In some cases the period is even longer. Although in most cases the period is within that prescribed by law, the presence of more timely information such as press releases may mean that by the time the annual report is published the information is already useless.

Naser & Nusebeh (2003), in a similar environment to that of Libya, found the timeliness of the source of information are perceived to be the most important criteria for all user groups, except government officials who ranked timeliness third. Also a study conducted by Abu-Nssar & Rutheford (1996), in Jordan found the 'timeliness' to be the most important qualitative characteristic of financial information.

One way of directly finding out the usefulness of information has been to test the reaction of capital markets to the publication of the annual reports. Ball and Brown (1968) investigated whether the information initially announced in the Wall Street Journal and subsequently published in annual reports was used by investors. Actual earnings were compared with these estimates and two portfolios were formed. Firms whose actual earnings exceeded "expected" earnings (called a positive forecast error) were in one portfolio and firms whose actual earnings were less than expected (a negative forecast error) were in another portfolio. These portfolios were formed twelve months prior to the actual release of the earnings number to test whether the foreknowledge of actual earnings would enable an investor to earn superior returns. Their results indicated that stocks with positive forecast errors tended to outperform the market and the stocks with negative forecast errors tended to do worse than the market. Of even more interest, Ball and Brown (1968) found that much of the movement in security prices occurred early in the year, well in advance of the actual release of the year's income. In fact, Ball and Brown (1968) could find little price reaction by the time the actual earnings were released, implying that delays in issuing these numbers caused

them to be almost entirely discounted by the time they were issued. The implication of this early study is that the annual reports are of little value if they are not timely.

Another study, this time in the UK, on the implication of timeliness was performed by Firth (1981) who examined the information content of annual reports and accounts in the United Kingdom. In addition, he investigated the information content of preliminary announcements, annual general meeting and half-yearly reports. His results indicate that, on average, the week of preliminary announcement gives the highest weekly level of information. He argues that although the earnings announcements are anticipated to a large extent by the stock market, the actual release of the figures still results in substantial additional information being given. He also found that the release of annual reports and accounts and the release of the interim results also has higher levels of information content than that of the average week. He further argues that although some items in the annual reports and accounts are known in advance from the preliminary announcement, the additional detail contained in annual reports and accounts clearly has substantial incremental value.

Cready and Mynatt (1991), in the US, also examined and interpreted the security market's response around annual report release dates. Their results indicate an increase in the number of transactions, weaker evidence of an increase in volume of shares traded, and the absence of any sizeable price response at annual report dates. They interpret their results as evidence that (1) at their release, annual reports are informative to investors in making

investment decisions; and (2) annual reports appear to provide a social benefit to investors. Cready and Mynatt (1991), however, conclude, via simulation that any price change accompanying the annual report is on average very small in terms of an observable one-day effect in the time period immediately surrounding the annual report release date. Furthermore, they also concluded that their failure to detect much of a volume response along with an estimated increase in the number of transactions of between four and five transactions per report may suggest that only a very small number of investors find annual reports informative.

Another UK-based study which tested the information content of financial disclosure was undertaken by Rippington and Taffler (1995). They examined four major releases of information. These were the preliminary announcement (PA), annual reports and accounts (ARA), annual general meeting (AGM) and interim reports. Their results show that both the preliminary announcement and interim statements convey substantial amounts of new information whereas the AGM and ARA appear to convey relatively little information. Rippington and Taffler (1995) argue that their results, on face value basis, appear to confirm the lack of value of the annual report and accounts to market participants as an information source in aggregate.

To explore the issue of the information content of annual reports further, Rippington and Taffler (1995) matched 29 firms with large annual report and accounts outlier residuals with similar number of firms but low residuals. All financial press comments relating to annual reports and accounts information event was carefully reviewed for mention of potentially price sensitive items.

An average of 1.34 such items were identified per company, 60% relating to the chairman's statement and balance sheet, compared with just one such item for the control group. Rippington and Taffler (1995) concluded that despite the problems associated with such a subjective analysis, they appear to have some evidence consistent with information of substance being provided in the annual reports and accounts of at least some firms.

To summarise the discussion in this section, it may be argued that the issue of whether information contained in annual reports is useful to market participants is unresolved either in the UK or in the international context. According to the evidence based on the UK data, Firth (1981) indicates that annual reports have some incremental value whilst Rippington and Taffler (1995) found that annual reports have very little information content. In the US context, Ball and Brown (1968) indicated that annual reports have very little information content whilst Beaver (1968) and Cready and Mynatt (1991) both indicate that annual reports have some incremental value for the market participants.

4.6.4 Survey of users on readership and use of annual report

There are other studies that directly survey users to find out the readership and information sources used by investors to make investment decisions. These studies include Anderson, 1981; Chang & Most, 1985; Epstein & Pava, (1993); Anderson and Epstein. 1995; Bartlett and Chandler (1997), Abu-Nassar & Rutherford, 1995; Naser et al, 2003; Naser and Nuseibeh, 2003; Al-Razeen and Karbhari, 2004; Mirshekary and Saudagaran 2005).

Bartlett and Chandler (1997, for example, concluded that annual reports are still not widely read and suggested that little had changed since Lee and Tweedie (1975). They also pointed out that readers appeared not to read the newer sections of the annual report that had been introduced since Lee and Tweedie (1975). Further, Al-Razeen and Karbhari (2004) also found that in comparison with previous research, the balance sheet and the income statement are the most important sections of the annual report to most of the Saudi Arabia users' groups.

4.7 Summary and Conclusion

The purpose of this chapter was to discuss the usefulness of the annual report. The chapter started with a discussion of the objectives of financial reporting and concluded that there was a general consensus that the objective of financial reporting was to provide users with information useful for decision making. A discussion of accounting literature on the nature of the users of annual reports indicated that some studies suggest that annual reports are used by shareholders and creditors only whilst others suggest that there are many users of annual reports. However, most studies suggested that annual reports have many users. This was found to be consistent with empirical UK evidence produced by Gray and Roberts (1989) which suggests that there are many users of annual reports.

The chapter then went on to discuss whether the information needs of the users are similar or different. The evidence is conflicting. Some studies suggest that

information needs are substantially similar whilst others suggest that information needs are different. The studies arguing that information needs are similar were criticised on the grounds that they investigated a narrower range of user-groups. Those studies which argued that the information needs were different, suggest that the differences in the levels of understanding among the users may contribute to the differences in information needs.

It was argued that in the UK the lack of understanding of the full annual report by most private shareholders had been recognised by the 1985 Companies Act which gives an option to listed companies to send an abridged version of the annual report if the shareholder so wishes. The reason for the change in law was because the privatisation policies adopted in the 1980's led to an increase in number of private shareholders with little or no understanding of accounting information. It was therefore, thought that an abridged version would be less confusing and therefore, better understood by the private shareholder.

The chapter then evaluated the usefulness of the annual report in terms of understandability. It was concluded that the annual report was less well understood by the private investors. Timeliness of annual report was also discussed as a way of assessing the usefulness of the annual report. It was suggested that the lack of timeliness of the annual report makes it less useful. Evidence was provided from the market reaction studies which supported the notion that timeliness was an important attribute in the usefulness of the annual report. The final section examined the studies that have been contacted through the survey of users to find out whether they use the annual report.

CHAPTER FIVE

HYPOTHESES DEVELOPMENT

5.1 Introduction.

Chapter 3 discussed the literature concerning the publishing delay of the annual reports in both developing and developed countries. It concluded that there appears to be no established pattern of publishing delay. The results of the impact of company characteristics in both developed and developing countries were found to be mixed. Chapter 4 then examined the usefulness of the annual report. It was concluded, among other things, that publishing delay may limit the usefulness of the annual report.

The purpose of this chapter is to develop seven hypotheses linking company specific characteristics to publishing delay in Libya. However, before the hypotheses are developed the chapter discusses some of the theories which are used to develop the hypotheses linking company characteristics and publishing delay. The seven hypotheses developed relate to company size, profitability, company age, number of accountants, accountants' qualifications, accounting system and audit opinion. The final section of the chapter is the summary and conclusion.

5.2 Theoretical Framework

Research on the association between company characteristics and publishing delay (timeliness) has been unique in the sense that most research does not make explicit reference to theory. This section, however, discusses some of the

theories that may be relevant in explaining the link between company characteristics and publishing delay. The theories discussed are agency theory, theory of constraints and signalling theory.

5.2.1 Agency Theory

Developed in the information economics literature (Jensen and Meckling, 1976, Fama and Jensen, 1983), agency theory is based on the relationship between one party (the principal) who delegates work to another (the agent). In this relationship, principals represent individuals, or group of individuals, who are in control of economic functions or assets in some form of ownership or property rights. Control of these functions or assets has been delegated, by the principals, to agents, who operate them on their behalf (Jensen and Meckling, 1976). In the context of principal-agent relationship, agency theory highlights the importance of the information asymmetry problem and associated monitoring costs. Under the agency theory arises the problem of information asymmetry because agents have control and detailed knowledge of the corporation's operations. The principals have neither access, nor, in many case the ability to interpret information. Information asymmetry becomes a problem in the agency relationship when combined with moral hazard.

Moral hazard is the potential for agents to operate in their own self-interests against the objectives of the principals. As a result, principals demand an effective mechanism to control agent behaviour before entering into a principal-agent relationship. One effective mechanism involves monitoring the

agent behaviour. The audited financial reports serve as one way of monitoring the agent's behaviour.

There are a number of examples from previous studies on audit delay that make reference to agency theory arguments for predicting a relationship between corporate attributes and audit delay. For example, one reason for expecting an association between gearing and audit delay is that when agency costs are high (because of high financial leverage) management is likely to desire a higher quality audit to the accounts as a means of reducing monitoring costs. As a result management of high financial leverage companies are likely to employ reputable audit firms because accounts audited by large audit firms are seen as more credible (Firth and Smith, 1992). Reputable audit firms are known to allocate more resources and use high quality staff (Chan et al. 1993) in their audit engagements that result in a shorter audit delay.

Similarly, the influence of profitability on audit delay is also partly based on agency theory. The suggestion is that if a firm releases its earnings report earlier than expected, its share price rises, on average, whilst if the report is late its share price declines (Chambers and Penman, 1984). The rationale for such market reactions is that management tends to delay the release of bad news (Kross and Schroeder, 1984). A possible reason for such a delay is to give, management time to complete a planned sale of securities before the bad news is announced (Trueman, 1990). This has led to the prediction of an inverse relationship between profitability and audit delay since the later is highly correlated with timeliness of the release of earnings.

5.2.2 Theory of Constraints

Theory of Constraint (TOC), developed by Goldratt (1990) is an overall management philosophy that recognises constraint on any system restricts the maximum performance level that the system can obtain in relation to a goal. Rahman (1998, p. 337) suggests that the concept of TOC can be summarised as follows:

- *Every system must have at least one constraint.* If it were not true, then a real system such as profit making organisation would make unlimited profit. A constraint therefore, “is anything that limits a system from achieving higher performance versus its goal”. (Goldratt, 1988, p. 453).

- *The existence of constraints represents opportunities for improvement.* Contrary to conventional thinking, TOC views constraints as positive, not negative. Because constraints determine the performance of a system, a gradual elevation of a system’s constraints will improve its performance.

As a system the goal of auditing process is to finalise the audit as quickly as possible so that the financial statements can be released. However, as the TOC suggests, every system has at least one constraint. There are many constraints that may prevent the audit being finalised as soon as the management would like. The constraints may be internal or external to the company. Internal constraints relate to the lack of physical resources by the company such as funds to engage ‘big’ audit firms that will finalise the audit quicker than small

audit firms. Internal audit constraints may also relate to unavailability of funds to purchase technology to improve internal control systems.

On the other hand the external constraints have to do with time required by auditors to audit the companies. For example, large companies with complex transactions may require more time than smaller companies by virtue of their size. Auditing of extra-ordinary items, for example may also require extended negotiations. Further, auditing of inventory, which requires physical counting, is also a time constraint on the part of auditors. Finally, the need to have confirmation of the existence of receivables before finalising the audit is also a time constraint on the auditors.

A review of previous research on audit delay shows that a number of arguments for predicting a relationship between corporate attributes and audit delay are based on TOC as discussed below. For example, one reason for expecting company size to influence audit delay is that more time is required to audit larger companies because they are more complex in structure and simply take more time to audit (Courtis, 1976). The other reason is that larger companies may have stronger internal controls that allow auditors to place more reliance on interim compliance tests than on substantive tests of year-end balances (Simnett et al., 1995). Finally, Davies and Whittred (1980) suggest that company size may be inversely related to audit delay because their greater resources enable them to purchase less delay. Although the researchers do not refer to TOC it is not difficult to see that auditing large companies is constrained by the volume of the work to be done. Further, small

companies are constrained by the lack of resources (i.e. availability of funds) to purchase good internal control systems that might speed up the auditing process.

The influence of financial leverage on audit delay may also be explained in terms of TOC in the sense that high financial leverage increases the probability of company failure that in turn increases the probability of the auditor being sued (Carslaw and Kaplan, 1991). This gives the auditor incentive to perform more work to minimise the possibility of a successful lawsuit. Clearly in this case the constraint is the fear of being sued on the part of auditors that will lead them to be more careful and hence delay the completion of the auditing process. Finally, the argument for expecting a relationship between audit delay and year-end is the time constraint on the part of auditors. This is because during the busy period they simply have more companies whose accounts need to be audited and they cannot finalise them all at the same time.

5.2.3 Signalling Theory

Signalling theory addresses problems of information asymmetry in the markets. The theory shows how information asymmetry can be reduced by the party with more information releasing it to others. Although the theory was developed in the labour market, signalling is a general phenomenon applicable in any market with information asymmetry (Morris, 1987). In the capital market, signalling theory operates through the timing of release of information. Initially, managers of listed companies are assumed to possess more

information about the prospects of the company than the market. Based on the information available, the market will reach a consensus about the market value of each company's shares. Some companies' share prices may be undervalued and others overvalued. Companies whose shares are undervalued will incur an opportunity loss because their shares could sell at a higher price if the market knew more about the company's prospects. The companies whose shares are overvalued will make an opportunity gain.

Companies whose shares are undervalued will have an incentive to speed up the audit process to signal their superior performance. The signalling is accomplished by more timely release of the audited financial statements. As those companies signal that they have better future prospects than their competitors by releasing their audited financial statements, the market will re-assess the market values of the companies' shares. Those companies' shares previously overvalued will be re-assessed downwards accordingly and those previously undervalued will be adjusted upwards to take into account better prospects previously unknown. It is, therefore, in the interest of managers to speed up the audit process so that if their companies' shares are initially undervalued the market can adjust them upwards.

5.3 Hypotheses development

5.3.1 Company size

The relationship between company size and audit delay may be positive or negative. According to theory of constraints (TOC) a positive association

might be expected if it is assumed that more time would be required to audit larger companies. This argument is consistent with Courtis (1976) who suggested that large public corporations are more complex in structure and simply take more time to audit. However, the relationship between company size and audit delay may be a negative if it is assumed that auditors have flexibility in timing their work. More work could be performed before the financial year-end and by assigning more staff after the year-end (Ashton et al, 1987).

Large companies normally produce annual reports more timely reports for several reasons. They have more resources, more accounting staff and sophisticated accounting information system that result in more timely annual reports. Second, large companies tend to have strong internal control system with the consequence that auditors spend less time in conducting compliance and substantive tests (Owusu-Ansah, 2000). Previous research findings on the relationship between company size and audit delay have been mixed. Davies and Whittred (1980), Ashton et al (1987) and Ng and Tai (1994) found that company size is significantly associated with audit delay. However, Courtis' (1976), Garsomboke (1981), Givoly and Palmon (1982), Sminett et al (1995) and Henderson and Kaplan (2000) found no significant relationship between company size and audit delay. It can, therefore be hypothesized that:

H1₀: Company size (capital employed) is not a determinant of publishing delay.

5.3.2. Profitability.

Research by Chambers and Penman (1984) and Kross and Schroeder (1984) among others, found that if a firm releases its earnings report earlier than expected, its share price rises, on average, rises whilst if the report is late its share price declines. The rationale for such market reactions is that management tends to delay the release of bad news.

Trueman (1990) suggests that the possible reason for such a delay is to give management time to complete a planned sale of securities before the bad news is announced. This has led to the prediction of an inverse relationship between profitability and audit delay since the latter is highly correlated with timeliness of the release of earnings. It has also been suggested that a longer period of time is required to audit earnings reports reflecting bad news, delaying their disclosure relative to those containing good news (Givoly and Palmon, 1982). The presence of such a delay implies that good news is on average, released before bad, and so is consistent with empirical findings that on average market response to an early (late) earnings announcement is positive (negative).

Courtis (1976) also reports that where losses (or inferior results) have occurred, certain delays must be expected while divisional managers 'explain' their results. Moreover, companies with poor results often hold back from releasing their audited figures as long as possible so that they can continue any local or overseas (finance or trade) negotiations in the best possible light. A significant inverse relationship was reported by Courtis (1976) and Henderson and Kaplan (2000). However, Davies and Whittred (1980) and Ashton et al

(1987) found that profitability was not significantly associated with audit delay. Based on the preceding arguments it can be hypothesized that:

H2₀: *Profitability is not a significant determinant of publishing delay.*

5.3.3. Company age.

Some previous studies (Owsus-Ansah, 2000) adopts the learning curve theory which suggest that a reduction in reporting time would occur as the number of annual reports produced increases. He proposed that promptness in financial reporting by a company is influenced by its development and growth. He suggested that as the company continues and its accountants learn more, the ‘teething problems’ which would cause unusual delays are minimised. As a result, an older, well established company is likely to be more proficient in gathering, processing and releasing information when needed because of the learning experience. It, can, therefore, be hypothesised that:

H3₀: *Company age is not a significant determinant of publishing delay.*

5.3.4. Number of accountants.

As explained in Chapter 2, Libya has a shortage of qualified accountants. Since publishing delay is defined as the sum of preparation period and auditing period, delay in preparation period is expected when a company employs a limited number of accountants. If the preparation period is longer the publishing period will be longer as well since auditors cannot start their auditing until the accountants have finished preparing the accounts and handed over the financial statements to the auditors.

Another reason why the number of accountants would impact the publishing delay is that the more people are involved, the less time it takes to accomplish the task. This is consistent with the Theory of Constraints which recognised that there is at least one constraint to every system. It can, therefore, be hypothesised that:

H4₀: *Number of accountants is not a significant determinant of publishing delay.*

5.3.5. Accountant's qualification.

There is ample evidence that suggests that the skills and qualification of employees has an impact on the productivity. For example, researchers at the National Institute of Economic and Social Research took a number of UK manufacturing firms and matched them with continental Europe producing similar products to allow them to carry out direct productivity comparisons. They found out that, in all the examined sectors, the higher average levels of labour productivity in continental Europe were closely related to greater skills and knowledge (Dally et al, 1985, Mason and van Ark, 1994 and Steedman and Wagner, 1987). By contrast, in the UK, the lower level of manpower skills was found to affect negatively labour productivity. Other studies have also shown that skills or qualification has a large effect on productivity e.g. Bartel (1991 and 1995).

Other studies have, however, shown that qualifications and skills have little or no effect on productivity (e.g. de Koning, 1994 and Black and Lynch, 1996 and 1997). In the same vain if qualification improves productivity; it can be argued that qualified accountants will be better at performing tasks than

unqualified accountants. Qualified accountants could be expected to prepare accounts much more quickly than unqualified accountants. It can, therefore, be hypothesised that:

H5₀: Accountant's qualification is not a significant determinant of publishing delay.

5.3.6. Accounting system.

An accounting system can either be manual or computerised. In Libya the traditional system (manual system) is most common, and there are two main reasons for this. First, information technology, in general, is still rarely used by Libyan companies. The second reason is the unavailability of special skills needed to operate these accounting packages (Mustafa, 2004).

There are many reasons for expecting an accounting system to be associated with publishing delay. A computerised accounting system performs the task of financial preparation faster than doing the task manually (Clark and Cooper, 1985). The use of automated accounting packages such as spreadsheets, financial modelling, database, decision support and expert system software have offered support to accountants in their analytical and decision-oriented tasks and allowed them to move from the accumulation, analysis and preparation of financial information towards interpretation, evaluation, control and involvement in decision making much faster (Carr, 1987 and Collier, 1984). As a result, information quality has been improved in terms of comprehensiveness, accuracy, timeliness, and frequency (Clark and Cooper, 1985; King *et al.*, 1991; Mantle, 1983). It can, therefore, be hypothesized that:

H6₀: Accounting system is not a significant determinant of publishing delay.

5.3.7. Audit opinion

There are two main reasons why qualified audit reports may delay the publication of the annual report. One reason is that the company would seek to avoid the report being qualified by engaging in lengthy talks with auditors to try and persuade them not to qualify the report. The other reason is that if the management cannot persuade managers to qualify the audit report they will delay the publication of annual report whilst they seek an explanation why then audit report was qualified.

Whittred (1980) compared the reporting behaviour of companies which receive audit qualifications, with a random sample of companies which receive no such qualification, and with the reporting behaviour of the same companies in the years preceding the qualification. The results indicate that the more serious the qualification, the greater is the delay of the preliminary profit report and the final annual accounts. Over the test period, 1965-1974, companies which received clean audit reports took, on average, 107 days to forward their annual report to the Stock Exchange. Companies which received "subject to" qualification took, on average, an additional 17 days to make their annual reports public.

Keller (1986) also focused on the issue of the timing of annual and earnings report releases. He hypothesized that companies that receive subject-to-audit qualifications will take longer to report than those that do not. The analysis employs the sample database of Keller and Davidson (1983), who studied the relative behaviour of trading volume in company shares of matched pairs of

US firms over the period 1973-1977. The results of the analysis provide evidence that earnings releases are delayed when a company is about to receive a subject-to-audit qualification. It can, therefore, be hypothesised that:

H7₀ Audit qualification is not a significant determinant of publishing delay.

5.4 Summary and Conclusion

The purpose of this chapter was to develop seven hypotheses which are to be tested in chapter seven. The chapter began with the discussion of the theoretical framework which can be used as a basis for linking company characteristics and publishing delay. The theories discussed are agency theory, theory of constraints and signalling theory. The seven hypotheses developed relate to company size, profitability, company age, number of accountants, accountants' qualifications, accounting system, and audit opinion. The following chapter discusses the research method used.

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CHAPTER SIX

RESEARCH METHODOLOGY

6.1 Introduction

The purpose of the current chapter is to describe the various steps taken from data gathering through to the testing of the hypotheses. As indicated in chapter one, the thesis has three main objectives, namely to determine whether seven company specific characteristics determine the publishing delay, to find out the usefulness of the annual report in Libya and determine the impact of publishing delay on banks, Tax and Auditing Authorities. These three objectives require different methodologies. As a result the sample selection and statistics used to address each objective are discussed below. The rest of the chapter is organised as follows: The next section discusses the samples selection. This is followed by the definition of how the company characteristics were measured. The hypotheses testing and statistical tests are discussed in 6.4. This is followed by the discussion of the development and administration of the survey questionnaire. The final section is a summary and conclusion.

6.2 Selection of Companies

6.2.1 Determinants of publishing delay

The companies used to determine the impact of company characteristics on publishing delay consists of 33 out of 43 Libyan industrial companies which is 77% of the population of Libyan industrial companies over a two year period from 2000 to 2001. The details are in Table 6.1. The annual reports of these companies were collected by means of a letter written to all the 43 companies

requesting their annual report. Forty companies responded by sending in their annual reports and three were obtained from the Auditing Authority which is responsible for auditing all the companies in Libya making a total of 43 annual reports available for the study. Because some of the variables investigated as possible determinants of audit delay can only be obtained internally it was also necessary to send a questionnaire to all 43 companies to obtain information on these variables. The variables are company age, number of accountants, accountants' qualifications, and accounting system. However, after several reminders 33 of the 43 companies respondent – a response rate of 77%. As a result the research on publishing delay is based on 33 companies over a two-year period.

6.2.2 Usefulness of the annual report

The following five user groups were surveyed by a questionnaire. The first user group is the banks which consist of 9 commercial banks and the Central Bank of Libya (see table 6.1).

Table 6.1: Sample used for publishing delay and usefulness of annual reports

PARTICIPANTS	SAMPLE SIZE	PERCENTAGE TO THE POPULATION
Banks (including Central bank of Libya)	10	100%
Academics & External Auditors	Academics 250 Auditors 400	15% 42%
Tax authority	1	100%
Auditing authority	1	100%

The second user group is the academics and the third is the external auditor group. The accounting academics sample size is 250 drawn from 3 main Libyan Universities which is 15% of the population. Since there was no publicly available list of faculty members, the researcher contacted the universities to obtain the accounting lecturers names. The external auditors surveyed consist of 400 external auditors which is 42% percent of the population of Libyan external auditors. The fourth group surveyed is the Tax Authority and the final group is the Auditing Authority.

6.3 Publishing Delay Independent Variables

To investigate the association between publishing delay and the company characteristics the following dependent and independent variables are used based on the literature review in Chapter 3 and availability of data.

1. Size of the company is measured by capital employed. Capital employed is expressed in millions (Libyan Dinars).
2. Profitability is profit before interest and tax divided by capital employed.
3. Company Age – measured by years elapsed since the formation of the company (obtained through a questionnaire)
4. Number of accountants – number of qualified accountants employed by the company
5. Accountant's qualification - whether the chief accountant is qualified or not (obtained through a questionnaire)
6. Accounting system whether computerised or manual (obtained through a questionnaire)
7. Audit report qualification (coded 1 if the audit report is qualified; 0 otherwise).

6.4 Hypotheses testing and statistical tests

6.4.1. Hypotheses Testing Approach

The choice of the approach to test the hypotheses is determined by the purpose of the research. In this study, one of the objectives is to investigate the relationships between publishing delay and company characteristics and to determine the incremental explanatory power of the company characteristics in explaining publishing delay. As such, both univariate and multivariate analyses are undertaken. This approach has been adopted because on the one hand, univariate analysis indicates only the relationship between the dependent variable and each of the independent variables. On the other hand, multivariate analysis indicates the collective and separate contributions of two or more independent variables to the dependent variable. Thus not only is attention paid to the univariate relationships between the independent variables and dependent variable, but also to the potential incremental power an independent variable could contribute to explaining the variations in publishing delay.

6.4.2. Statistical tests and conditions

The tests commonly applied are divided into two major groups: parametric tests and non-parametric tests (Nachmias and Nachmias, 1976). The application of each type of statistical procedure depends on the data meeting certain conditions. The application of non-parametric tests is based on a model that only requires very general conditions with no specific form of distribution from which the sample was drawn; the observations are independent and that the variables under study have underlying continuity.

These assumptions are, however, weaker than those associated with parametric tests (e.g., Siegel and Castellan, 1988). However, non-parametric statistical methods are generally considered to be less powerful than parametric statistical methods (e.g., Noether, 1991, Field, 2000). The applications of parametric tests require a number of more stringent conditions to be met. For example, the employment of parametric tests is based on four major assumptions (Siegel, 1956):

- (i) The observations must be independent, i.e. the selection of any one case from the population for inclusion in the sample must not bias the chances of any other case for inclusion, and the score which is assigned to any case must not bias the score which is assigned to any other case.
- (ii) The observations must be drawn from normally distributed populations.
- (iii) In the case of analyses concerning two groups, the population must have the same variance.
- (iv) The variables must have been measured on at least an interval scale, so that it is possible to interpret the results.

However, Gaito (1980) considers that some of the preconditions specified by Siegel (1956) are a misconception. Gaito (1980) asserts that statistical procedures do not require specific scale properties - "the numbers do not know where they come from". In support of this assertion Gaito (1980) refers to a number of statisticians and concludes that confusion between measurement theory and statistical theory has led to the persistence of this misconception. In

connection with this area of controversy and debate, Gregoire and Driver (1987) have shown empirically that using parametric tests on ordinal data does not lead to great problems. Further, Davidson and Sharma (1988) provide theoretical proof that there is no need for the measurement to be on an interval scale if the assumptions of parametric tests (normality and homogeneity) are met.

6.4.3 Univariate Tests

Univariate statistical tests are tests of association between the dependent and one independent variable. These tests may be non-parametric (e.g. Mann-Whitney U test, Kruskal Wallis and Chi-square) or parametric (e.g. Pearson correlation and the *t*-tests. These are now discussed briefly below.

6.4.3.1 Mann-Whitney

The Mann-Whitney U test is used to test for differences between means when there are two conditions and different subjects have been used in each condition (e.g., Field, 2000). In other words, it tests the hypothesis that two independent samples come from populations having the same distribution (e.g., Field, 2000, Coakes and Steed, 2001). As a result this test is used to examine the association between the publishing delay and the categorical variables. The Mann-Whitney U test provides the average rank for each group of data and a rank of one is assigned to the smallest value. The 2-tailed p-value indicates whether the smaller value is significant or not (e.g., Norusis, 1995, Coakes and Steed, 2001).

6.4.3.2 Wilcoxon Signed-Rank Test

The Wilcoxon signed ranks test is the nonparametric version of the paired samples t test. This test is used in situations in which there are two sets of scores to compare, but these scores come from the same subjects. For example, in order to determine whether publishing delay is mostly caused by the preparation period or audit period the research can compare whether there are significant differences in these two periods. If the results show, for example, that the preparation period is significantly longer than the auditing period, efforts could then be made to reduce the preparation period..

6.4.3.3 Kruskal-Wallis

This test is based on ranked data and could be used for examining any differences between independent groups (e.g. external user groups in this study). The value of the coefficient varies from zero, where no agreement among the respondents, to one where there is total consensus among the respondents. This test is used by this study to analyse if there is any agreement among external users in Libya about the degree of annual report usefulness and the quality (objectives of annual report, their qualitative characteristic and timeliness) of annual report published in Libya.

6.4.3.4 Chi-Square Tests;

These tests fall into three categories: test of independence, homogeneity test and goodness-of-fit test. These tests are suited for analysing qualitative (nominal variables) or discrete quantitative variables, and the relationship between two such variables. The chi-square goodness-of-fit test uses frequency data from a sample to test hypotheses about population. The test

are assess how well the sample data fits the population proportion specified by the null hypothesis. For example in this research the chi-square test can be applied to test the relationship between publishing period and each factor influencing delay period (accounting system, accountant qualifications).

6.4.4 Multivariate tests

To examine the incremental explanatory power of the independent variables on publishing delay, multivariate regression techniques were used in the form Ordinary least Square (OLS) method. As discussed before, certain assumptions have to be met before these statistics can be applied. These assumptions are briefly discussed below. These assumptions include multicollinearity, normality, linearity, and homoscedasticity.

6.4.4.1 Multicollinearity

Multicollinearity exists when there is a strong correlation between two or more predictors in a regression model (e.g., Koutsoyiannis, 1972, Moore and Buzby, 1972). High levels of collinearity increase the probability that a good predictor of the outcome will be found non-significant and rejected from the model (e.g., Wright, 1997, Field, 2000). In order to identify the problem of multicollinearity, three tests were conducted. The first involved an examination of the correlation matrix to determine whether the independent variables were significantly correlated. It is suggested (e.g., Judge et al., 1985, Kennedy, 1985, Myers, 1990, Gujarati, 1995, Field, 2000, Pallant, 2001) that multicollinearity problems are considered harmful only when they exceed 0.8 or 0.9.

According to Myers (1990), a certain degree of multicollinearity can still exist even when none of the bivariate correlation coefficients is very large. This is because one independent variable may be an approximate linear function of a set of several independent variables (e.g., Field, 2000). Therefore other diagnostics involving an examination of the Variance Inflation Factor (VIF) and Tolerance values were also conducted. The VIF indicates whether a predictor has a strong linear relationship with other predictors (e.g., Field, 2000). Neter et al. (1983) and Myers (1990) suggest that VIF values should create a problem only when they reach values of 10. Another statistic examined is the tolerance statistic which is the reciprocal of the VIF. Values below 0.1 indicate serious problems (e.g., Norusis, 1995, Field, 2000), although Menard (1995) suggests that values below 0.2 are worthy of concern.

6.4.4.2. Normality

To assess the magnitude of the problems associated with normality of the data in this study, histograms, stem-and-leaf plots, and normality probability plots were constructed for each continuous dependent and independent variable. Standard tests on skewness and kurtosis, and Kolmogorov-Smirnov tests of normality were also used to determine whether the sample came from a normal population. Where the assumptions of normality were not met, data was transformed into natural logarithms (e.g., Cooke, 1998).

6.4.4.3. Linearity

To check the assumption of linearity, the scatter plots of the residuals produced by SPSS are examined. It is assumed that the residuals have a linear relationship with the predicted dependent variable scores, and that the variance of the residuals is the same for all predicted scores (e.g., Field, 2000, Coakes and Steed, 2001, Pallant, 2001). If funnel pattern is observed, then the linearity assumption is violated and where there are extreme deviations, the problem is overcome by transforming that data (e.g., Norusis, 1995). Mild deviations from linearity are not considered serious (e.g., Tabachnick and Fidell, 1996, Coakes and Steed, 2001, de Vaus, 2002).

6.4.4.4. Homoscedasticity

Homoscedasticity refers to a situation where the variability in the scores for one variable is roughly the same at all values of the other variable (Coakes and Steed, 2001). It is concerned with how the scores cluster uniformly about the regression line. The assumption of homoscedasticity is checked by a visual examination of the standardised residual scatterplots produced by the SPSS. If the residuals appear to be randomly scattered around the regression line, then the equal variance assumption is satisfied (e.g., Norusis, 1995, Field, 2000, Coakes and Steed, 2001). If this assumption is violated, data may be transformed (e.g., Norusis, 1995).

6.4.4.5 Selection of the method of regression

There are a number of model selection criteria and procedures that can be used in multiple regression analysis to select independent variables to include in the model. The main three types are: standard or forced method, the blockwise entry method, and the stepwise method (Field, 2000, Pallant, 2001). In the forced entry method, all the independent variables are forced into the regression model simultaneously. Each independent variable is evaluated in terms of its predictive power, over and above that offered by all the other independent variables. This approach also reveals how much unique variance in the dependent variable is explained by each of the independent variables (Pallant, 2001, p.135).

In the block wise entry method, independent variables are entered in order of their importance based on prior research (e.g., Field, 2000, Pallant, 2001). Any new variables can either be entered on a forced entry basis or using the stepwise method on entry. In the stepwise method, the independent variable that is most correlated with the dependent variable is introduced in the model first. Subsequently the other exogenous variables are included one by one, on the basis of the partial correlation coefficients. The value of the t-statistics gives the decision rule about including or not a new variable in the model. A new variable is included in the model only if its t-statistic is not smaller than a critical value, and the t-statistics of the other variables that are already in the model do not diminish below that value after the inclusion of the new variable.

It was decided to use the standard multiple regression method in order to determine how much of the variance in the dependent variable (publishing delay) is explained by each independent variable. In addition, this method enables one to determine the explanatory power of the selected independent variables as a group (Pallant, 2001). Such an approach is consistent with studies such as Wallace et al.(1994), Wallace and Naser (1995), Depoers (2000) and Ho and Wong (2001).

6.4.5. Choice of statistical tests

The above discussion indicates that the options available were either to apply univariate or multivariate or both. The problem with using univariate tests on their own is that, for example, if one company characteristic is found to be significantly associated with publishing delay, it may be difficult to conclude that the variable causes the company to delay the publication of its annual report. This is because there may be many other factors that may cause a company to delay the publication of its report. What is required to be able to conclude that the variable caused publishing delay is to include many other plausible explanatory variables at the same time and isolate the effects of other factors. The problem with using the multivariate tests alone is that, as has been seen in the above discussion, the conditions to be met are often controversial and it may be impossible to have data which is strictly normally distributed.

It, therefore, appeared that a reasonable way to proceed was to adopt both methods. The rationale for this is that the two statistical methods possess

different strengths (e.g., Field, 2000). This strategy of using multiple methods of data analysis is known as triangulation, and was recommended by Denzin (1970, p. 26) because “...no method is ever free of rival causal factors.” Cooke (1989) also argues that employing both tests allows triangulation of the results and thus reduces the probability of incorrectly rejecting the null hypothesis.

6.4.6 The models

$$\text{PreD} = \beta_0 + \beta_1 \text{Size} + \beta_2 \text{Profit} + \beta_3 \text{Coage} + \beta_4 \text{Noacc} + \beta_5 \text{Accqu} + \beta_6 \text{Accsys} + \beta_7 \text{Audqu} + e_i$$

$$\text{AudD} = \beta_0 + \beta_1 \text{Size} + \beta_2 \text{Profit} + \beta_3 \text{Coage} + \beta_4 \text{Noacc} + \beta_5 \text{Accqu} + \beta_6 \text{Accsys} + \beta_7 \text{Audqu} + e_i$$

$$\text{PubD} = \beta_0 + \beta_1 \text{Size} + \beta_2 \text{Profit} + \beta_3 \text{Coage} + \beta_4 \text{Noacc} + \beta_5 \text{Accqu} + \beta_6 \text{Accsys} + \beta_7 \text{Audqu} + e_i$$

Where:

Table 6.2: Description of Variables

Symbol	Variable description	Acronym/ sign
PreD	Number of days between end of financial year end receipt of accounts by auditing authority	N/A
AudD	Number of days between receipt of annual accounts by the audit authority and the date on the audit report	N/A
PubD	The number of days between the end of the financial year and the date on the audit report	N/A
β_1	Size of a company is measured by capital employed	Size (-/+)
β_2	Profit – measured by profit before interest and tax divided by capital employed.	Profit (-/+)
β_3	Company Age – Measured by years elapsed since the formation of the company.	Coage (-/+)
β_4	Number of accountants – number of qualified accountants employed by the company.	Noacc (-)
β_5	Accountant's qualification – 1 if the chief accountant is qualified; 0 Otherwise.	Accqu (+)
β_6	Accounting System – 1 if the accounting system is computerised; 0 Otherwise	Accsy (-/+)
β_7	Audit qualification. 1 if the audit report is qualified; 0 otherwise.	Audqu (+)

6.5 The questionnaire survey

In attitudinal research, three main different research methodologies are available to study the phenomena under investigation. These include telephone interviews, personal interviews and questionnaire methods. In the current study, the questionnaire method was considered to be the most appropriate methodology for a number of reasons. Firstly, questionnaires are the most widely used data collection technique in attitudinal research. Secondly, the objective of the survey was to obtain an overall picture of the users' perceived

importance of the various sections of the annual report and therefore the questionnaire method provides an efficient way of creating the data (mean rating) required for analysing the importance of the various sections of the annual report. Furthermore, through a questionnaire survey, a large number of the population can be surveyed easily. Finally, the questions are exactly identical to all participants and therefore the findings are to a large extent generalisable.

Questionnaires can be administered in three different ways, namely, face-to-face, by telephone or by mail. Each of these techniques has advantages and disadvantages and these can be compared in terms of the response rate, ability to produce a representative sample, limitations on questionnaire design, quality of responses and implementation problems (e.g., Sekaran, 2000). Mail questionnaires are particularly criticised on poor response rates and the quality of responses (e.g., Kerlinger, 1986). However, all these limitations can be mitigated by good techniques in questionnaire design and mailing out procedures.

While it is accepted that there are disadvantages associated with the mail questionnaire, there are a number of advantages for using this method. Firstly, by using the mail questionnaire, it is possible to obtain a large enough sample to reduce sampling error to acceptable levels (e.g., Roberts, 1999). Secondly, the costs are normally considerably less for a mail questionnaire than the face-to-face interview (e.g., Sekaran, 2000), and finally, the mail questionnaire does not introduce interviewer bias that is a potential problem for both face-to-face

and telephone interviews. Accordingly, the mail based questionnaire approach was selected as the means to collect data.

6.5.1 Development and pilot testing questionnaire

Since the second objective was to determine the usefulness of the annual report to five user groups, five different questionnaires were developed, pilot tested and administered to each of the five target user group. In developing the questionnaires it was important to simultaneously consider the recording of the response (e.g., Oppenheim, 1966, Sudman and Bradburn, 1982, Neuman, 1992, Ryan, 1995, Sekaran, 2000). There are two ways in which this can be done. One approach is to use an open-answer format. Sudman and Bradburn (1982, p. 150) point out that the open format allows and encourages respondents to give their opinion fully and with as much nuance as they are capable. The alternative approach is to use a closed-answer format. Sudman and Bradburn (1982) point out that whilst closed answer questions are more difficult to construct, they are easier to analyse, particularly in the statistical sense. There is also less likelihood of researcher bias in summarising the responses.

It was also considered important to establish not only the direction of the responses, but also the degree of intensity with which the views on the various statements were held. Therefore, an intensity scale was built into the response categories. This took the form of a five-point Likert Scale, which allowed the user groups to register the degree of agreement with the various statements. In other questionnaire surveys (e.g., Atrill, 1986), the middle point represented an indifferent point. The degree of intensity ranged from 1 (not at all useful) to 5 (extremely useful).

Once developed, the questionnaire was put through two tests for comprehensiveness and understandability. First, initial reviews were made by the two supervisors. Secondly, the questionnaire was pilot tested using a small sample of respondents. The respondents were asked to fill in the questionnaire, making note of any ambiguous or confusing questions or instructions. These were then corrected. A brief description of the contents of each of the five questionnaires is below.

Questionnaire one (see appendix 1) was developed for the 43 industrial companies. The purpose of the questionnaire was to gather some background information about the respondent (questions 1-7) and about the company (questions 8 -11). The last two questions concerned the perceived usefulness of the annual report to the industrial companies.

Questionnaire two (see appendix 2) was developed and administered to the banks including the Central Bank. Section A is about the respondent details. Section B is concerned with the decision making process using annual reports (especially questions 9-12). Question 13 is about the qualitative characteristics of the annual report as perceived by the banks. Questions 14 to 18 sought to find out whether the banks had incurred financial losses due to their lending decisions based on the annual report.

Questionnaire 3 (see appendix 3) was developed and administered to the academics and external auditors. The first four questions are to do with the characteristics of the respondent. Section B was contains various questions

which were aimed at finding the views of the external auditors and academics concerning the usefulness of the annual report. Section C required the academics and external auditors to rate the extent to which they believe Libyan annual reports meet the qualitative characteristics of useful information.

Questionnaire 4 (see appendix 4) was developed for the Tax Authority. The first four questions are aimed at gathering the details regarding the respondent. Section B questions sought to find out the decision making process regarding the use of the annual report in estimating the tax due from the companies. The same section also sought to find out if the Tax Authority perceives the annual report as having the qualitative characteristics of useful information. Section C required the Tax Authority to disclose the total amount of tax accrued from the companies for the five years ending 2001.

Finally, questionnaire 5 (see appendix 5) was administered to the Auditing Authority which is responsible for auditing all companies. Section A requires the background information of the respondent and section B is to do with the decision making process. Section B also sought to find out if the Auditing Authority finds the annual report useful.

6.5.2 mail questionnaire and the response rate

As discussed above, the questionnaire was distributed to all respondents. An important issue associated with mail questionnaires relates to the response rate. A low proportion of returns can result in the twin problem of non-response bias and relatively high survey costs. Both problems, however, can

be reduced if concerted efforts are made to improve the response rate beyond the levels often associated with this form of research. The literature is laden with suggestions concerning ways by which response rates to mail questionnaires can be increased.

Dillman (1978) sets out a number of points that the letter accompanying the questionnaire should cover in order to improve the response rate. Such factors and points include; what the study is about and its usefulness, why the respondent is important, a promise of confidentiality and explanation of identification number, what to do if questions arise, promising to send a summary of results to respondents if they wanted them, and thanking the respondents for their help. These points were addressed in the covering letter sent to respondents with the questionnaire and based on Sudman and Bradburn's (1982) suggestion, the covering letter was kept to a one-page format.

It has been suggested that pre-notifying the respondents before-hand may increase the response rate in a mail questionnaire survey (e.g., Fox et al., 1988). Murphy et al. (1991) report that in two cases, the use of a postcard pre-notifying potential respondents of the survey increased response rates from 10.67 per cent to 16.51 per cent, and from 19.54 per cent to 27.60 per cent. Several other studies (e.g., Kanuk and Berenson, 1975, Taylor and Lynn, 1998) found response speed was faster for pre-notified respondents than for those who were not pre-notified. In addition, Dillman (1978, 1991) suggested that personalising cover letters could also increase response rates in mail questionnaire surveys. A personalised letter addressed to a specific

individual shows the respondent that he or she is important (e.g., Schaefer and Dillman, 1998).

Furthermore, a prepaid envelope was also included with the questionnaire in order to further improve the response rate (e.g., Moser and Kalton, 1971, Dillman, 1978, Fox et al., 1988, Armstrong and Lusk, 1987, Yammarino et al., 1991). In addition, a follow-up letter and duplicate questionnaire were sent out to non-respondents two weeks after the original questionnaire was sent out in order to maximise response rates. A further follow-up was made through the telephone after another two weeks following the follow-up letter. Yammarino et al. (1991) suggested that follow-up mailings and repeated contacts seemed to have greater effect on response rates.

Other design issues such as the length of the questionnaire can also influence response rate. For example, the longer the questionnaire, the less likely respondents are to respond (e.g., Heberlein and Baumgartner, 1978, Steele et al., 1992, Yammarino et al., 1991). This aspect of questionnaire design was extremely important for this research where the respondents are more likely to have a very busy schedule (e.g., Ho and Hong, 2001). A concerted effort was made to make the questionnaire short without omitting any important questions. Copies of the questionnaire are contained in the Appendices.

6.5.3 Analysis of questionnaire responses

The analysis of the questionnaire responses was performed in the following sequential manner using SPSS for windows and the results are presented in Chapter 8:

- (i) Analysis based on first part of the questionnaire to give a clear
- (ii) experience).picture of the nature of the respondents (i.e., education,
- (iii) Analysis of those questions measured on a likert scale.

In analysing the questionnaire responses, descriptive statistics were employed to compute overall mean rating of each question. In testing for the variability in the perceptions of the users both non-parametric and parametric tests were employed. Since the perception of users using the likert scale fall into ordinal data category, non-parametric tests such as the Mann-Whitney U Test, Wilcoxon t-tests and Kruskal-Wallis test are considered the most appropriate to test the differences in mean ratings. However, Siegel (1956) suggested that parametric tests (e.g., independent samples t-tests, paired samples t-tests) could also be used with ordinal variables because tests apply to numbers and not to what those numbers signify. Furthermore, Bryman and Cramer (1996) also suggest that when the size of the sample is quite large, a departure from non-parametric tests is allowable. The sample in this study was considered relatively large and hence both non-parametric and parametric tests were used to allow for triangulation of the results.

6.6 Summary and conclusion

The purpose of the current chapter was to describe the various steps taken from data gathering through to the testing of the hypotheses. The chapter started by describing the sample used to answer the three objectives set in the first chapter of the thesis. This was followed by describing the nature and measurement of the independent characteristics investigated. The chapter then described the hypotheses testing and statistical tests used. The aspects discussed include the hypotheses testing approach, statistical tests and conditions, the univariate and multivariate tests. The regression models used were then presented. The second part of the chapter described the questionnaire. The following aspects of the questionnaire were described: development and pilot testing; the mail questionnaire and response rate and analysis of the questionnaire. The next chapter presents and discussed the results of the association between company characteristics and audit delay.

CHAPTER SEVEN

PUBLISHING DELAY RESULTS AND DISCUSSION

7.1 Introduction:

Chapter 3 focussed on the literature review of previous work done on audit delay or timeliness of annual reports. It was suggested that the unique nature of the Libyan financial reporting environment makes it possible to separate the time required to prepare financial statements after the annual report (hereafter, the preparation period) from the time required to audit the financial statements (hereafter, the auditing period). Hence the time from the end of the company's financial year to the time when the annual report is published is for the purpose of this thesis referred to as the publishing delay.

The overall purpose of this chapter is to present the results of the extent of publishing delay in Libya and investigate whether the delay is associated with seven company-specific characteristics (size, profitability, age, number of accountants, accounting system, accountant qualification and audit opinion). The rest of the chapter is organised as follows: section 7.2 presents the results of the descriptive statistics of the dependent and independent variables. This is followed in section 7.3 by the discussion of non-parametric tests results of the association between preparation period, auditing period, publishing delay and the company-specific characteristics. This is followed in section 7.4 by the correlation analysis between the dependent and each of the independent variables. Independent samples t-tests of the difference between the preparation and auditing periods follow this. Section 7.5 discusses the multiple regression results of the association between preparation period, auditing

period, publishing delay and the company-specific characteristics. The final section of the chapter is a summary and conclusion.

7.2 Descriptive statistics

The descriptive statistics of the preparation, audit period, publishing period and company-specific characteristics are presented in Table 7.1. The table shows that the mean preparation period is 89.53 days whilst the mean audit period is 65.33 days. This makes an average publishing delay of 154.86 days. The minimum publishing period is 78 days and the maximum is 384 days. The mean publishing delay period in Libya is much longer than comparable audit delay periods reported in both developed and developing countries. For example, Soltani (2006) reported a mean audit delay of 114.7 days in 1986 and 101.1 days in 1995 using French companies.

Table 7.1 Descriptive Statistics for dependent and independent variables (N=66)

	Minimum	Maximum	Mean	Std. Deviation
PrepP	22	248	89.53	49.303
AudP	25	312	65.33	52.890
PubD	78	384	154.86	69.708
Size	43075.00	5003634.0	522059.50	645995.8853
Profit	-61.23	73.35	4.1914	17.32270
Coage	2.00	28.00	11.9394	7.79325
Noacc	0	1	.59	.495
Accqu	0	1	.33	.475
Accsys	0	1	.12	.329
Audop	0	1	.80	.401

Owusu-Ansah (2000) reported a mean audit delay period of 61.70 days using Zimbabwean companies. Further, Ng and Tai (1994), reported a mean audit delay of 105 days in respect of Hong Kong. Even taking into account studies

dating back over twenty to thirty years ago, the publishing period in Libya does not compare favourably. For example, Gilling (1977) reported an audit delay of 53-70 days in New Zealand whilst Aston et al (1987) reported an average of 62.53 days for Canada. It is not clear why the publishing delay in Libya is much longer than other countries. However, it may be suggested that one reason may be the separation of the preparation period and the auditing period. In most countries it is normal practice for auditors to come in and do some preliminary work before the financial year end with the result that the auditing period is shorter. It may also be suggested that because all the companies are owned by the state, there is less pressure for them to prepare and publish their annual reports on time.

7.3 Non-parametric tests results

Although the ultimate goal is to determine which company-specific characteristics are associated with publishing delay through parametric tests it is important to use non-parametric tests as well for triangulation purposes. In this section, the Mann-Whitney tests results are discussed. These relate to the association between preparation period, auditing period, publishing period and the company-specific characteristics. Table 7.2 presents the Mann-Whitney results of the association between preparation period, size, profit, company age, number of accountants, accountant qualification, accounting system and audit opinion. The results show that size, company age, accountant qualification and audit opinion are all significantly associated with preparation period at the 5% level of significance. In all cases, the z-value is negative. This suggests that big companies, older companies, and companies with qualified

accountants and annual reports that are unqualified took less time to prepare. However, the nature of the accounting system (whether computerised or manual), profitability and number of accountants are not significantly associated with preparation period (though the number of accountants is significant at the 10% level). The significant results obtained for size, age, accountant qualification and audit opinion are means that the null hypotheses of no association in chapter 6 are rejected.

Table 7.2 Preparation Period Mann-Whitney Results

	Big		Small		
Size	No. 33	Mean Rank 23.47	No 33	Mean Rank 43.53	M-W Z (sig) -4.26 (0.000)
	High		Low		
Profit	No. 33	Mean Rank 34.56	No 33	Mean Rank 32.44	M-W Z (sig) -0.449 (0.653)
	Old		Young		
Age	No. 35	Mean Rank 28.33	No 31	Mean Rank 39.44	M-W Z (sig) -2.326 (0.020)
	High		Low		
No. Accountants	No. 39	Mean Rank 29.88	No 27	Mean Rank 38.72	M-W Z (sig) -1.839 (0.066)
	Qualified		Unqualified		
Acc Qualification	No. 22	Mean Rank 25.66	No 44	Mean Rank 37.42	M-W Z (sig) -2.347 (0.019)
	Computerised		Manual		
Acc System	No. 8	Mean Rank 24.63	No 58	Mean Rank 34.72	M-W Z (sig) -1.395 (0.163)
	Unqualified		Qualified		
Auditor's Opinion	No. 53	Mean Rank 37.75	No 13	Mean Rank 16.15	M-W Z (sig) -3.637 (0.000)

The results in Table 7.3 show the Mann-Whitney results of the association between audit period, size, profit, company age, and number of accountants,

accountant qualification, accounting system and audit opinion. It is clear that only company size, age, accounting system and audit opinion are significantly associated with the audit period at the 5% level of significance (though, again, the number of accountants is significant at the 10% level). As suggested in chapter 6, ‘big’ companies may take less time to audit than ‘small’ companies because they have better accounting systems that can be verified easily. This is also confirmed by the results of the accounting systems which show that those companies with computerised accounting system took less time to audit.

Table 7.3 Auditing Period Mann-Whitney Results

	Big		Small		
Size	No. 33	Mean Rank 26.62	No 33	Mean Rank 40.38	M-W Z (sig) -2.913 (0.004)
	High		Low		
Profit	No. 33	Mean Rank 36.20	No 33	Mean Rank 30.80	M-W Z (sig) -1.142 (0.253)
	Old		Young		
Age	No. 35	Mean Rank 26.27	No 31	Mean Rank 41.66	M-W Z (sig) -3.252 (0.001)
	High		Low		
No. Accountants	No. 39	Mean Rank 29.88	No 27	Mean Rank 38.72	M-W Z (sig) -1.840 (0.066)
	Qualified		Unqualified		
Acc Qualification	No. 22	Mean Rank 29.77	No 44	Mean Rank 35.36	M-W Z (sig) -1.116 (0.264)
	Computerised		Manual		
Acc System	No. 8	Mean Rank 14.88	No 58	Mean Rank 36.07	M-W Z (sig) -2.929 (0.003)
	Unqualified		Qualified		
Auditor's Opinion	No. 53	Mean Rank 35.93	No 13	Mean Rank 23.58	M-W Z (sig) -2.081 (0.037)

The results which also show that those companies which were eventually issued with an unqualified audit report are also consistent with the hypotheses

developed which suggested that companies try by all means to avoid a qualified audit report by negotiating with the auditors over a long time. This procedure is likely to result in a long auditing period. The results in Table 7.3 thus suggest that the null hypotheses in respect of company size, company age, accounting system and audit opinion can be rejected in favour of alternative hypotheses. However, the null hypotheses relating profitability, number of accountants, accountant qualification cannot be rejected.

The results of the association between publishing delay, size, profit, company age, and number of accountants, accountant qualification, accounting system and audit opinion are shown in Table 7.4. The results show that there is a significant association between publishing period and size, company age, and number of accountants, accountant qualification, accounting system and audit opinion. The only insignificant relationship is that between publishing period and profitability. The results of company size are consistent with Dyer IV and McHugh (1975) in Australia, Aston et al (1987) in Canada, Owusu-Ansah (2000) in Zimbabwe and Owusu-Ansah and Leventis (2006) in Greece.

The company age significant results are consistent with those reported by Owusu-Ansah (2000) in Zimbabwe. The audit opinion results are consistent with the results reported by Davies and Whitred (1980). The results relating to number of accountants, accountant qualification and accounting system cannot be compared to any of the previous research findings since no such previous research could be located.

Table 7.4 Publishing Period Mann-Whitney Results

	Big		Small		
Size	No. 33	Mean Rank 19.44	No 33	Mean Rank 47.56	M-W Z (sig) -5.951 (0.000)
	High		Low		
Profit	No. 33	Mean Rank 35.56	No 33	Mean Rank 31.44	M-W Z (sig) -0.872 (0.383)
	Old		Young		
Age	No. 35	Mean Rank 25.14	No 31	Mean Rank 42.94	M-W Z (sig) -3.759 (0.000)
	High		Low		
No. Accountants	No. 39	Mean Rank 28.33	No 27	Mean Rank 40.96	M-W Z (sig) -2.628 (0.009)
	Qualified		Unqualified		
Acc Qualification	No. 22	Mean Rank 25.98	No 44	Mean Rank 37.26	M-W Z (sig) -2.251 (0.024)
	Computerised		Manual		
Acc System	No. 8	Mean Rank 15.00	No 58	Mean Rank 36.05	M-W Z (sig) -2.908 (0.004)
	Unqualified		Qualified		
Auditor's Opinion	No. 53	Mean Rank 39.13	No 13	Mean Rank 10.54	M-W Z (sig) -4.813 (0.000)

The implication of the results in Table 7.4 is that all the null hypotheses are rejected except that relating to profitability.

7.4 Correlation analysis

Before undertaking tests and regression analysis to ascertain the relationship between preparation period, audit period and the company-specific characteristics (company size, profitability, age, and number of accountants, accountant qualification, accounting system and audit opinion) it is important

to find out if any of the independent variables are highly correlated so that they may be entered into the multiple regression model one at a time to avoid the problem of multicollinearity. The results of the correlation analysis are set out in Table 7.5. The results show that the highest correlation is between company age and number of accountants at .742. However, many previous authors have suggested that correlation needs to be .80 or above to cause collinearity problems (e.g. (Field, 2000)). There are also a number of independent variables that are significantly associated with the preparation period, audit period and publishing delay. These are size, company age, number of accountants and audit opinion.

Table 7.5 Correlation Analyses (N=66)

	Prep	AudP	PubD	Size	Profit	Coage	Noacc	Accqu	Accsy	Audop
PrepP	1									
AudP	-.129	1								
PubD	.652**	.625**	1							
Size	-.341**	-.368**	-.563**	1						
Profit	.155	.268*	.369**	-.133	1					
Coage	-.346**	-.348*	-.530**	.255*	.007	1				
Noacc	-.353**	-.338**	-.526**	.214	-.050	.742**	1			
Accqu	-.286*	-.043	-.211	.067	-.049	.675**	.593**	1		
Accsys	-.177	-.304*	-.342**	.060	-.146	.543**	.417**	.525**	1	
Audop	.419**	.257**	.539**	-.252*	.189	-.418**	-.342**	-.3771**	-.400**	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

7.5 Independent Samples T-tests

Since the overall objective is to investigate the extent of publishing delay and its causes it is important to examine where improvements may need to be made in order to improve the publishing period. As already seen from the descriptive statistics, the publishing delay in Libya is one of the longest. Because the period can be split into preparation and audit period it is important to examine where the problems lies.

Table 7.6 T-tests Comparison between preparation and auditing periods

cat		N		Mean		Std. Deviation		Std. Error Mean		
PrepP & AudP	.00	66		89.53		49.303		6.069		
	1.00	66		65.33		52.890		6.510		
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)		Mean Difference	S E D 95% CID	
		Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	
PrepP & AudP	EVA	.643	.424	2.719	130	.007	24.197	8.900	6.589	
	EVN A			2.719	129.4	.007	24.197	8.900	6.588	

The results of the independent t-tests are presented in Table 7.6. The results show that the mean number of days taken to prepare financial statements is 89.53 days compared with 65.33days auditing period. The t- statistic of 2.719 suggests that there is a significant difference between the time taken to prepare financial statements and that taken to audit them. Specifically the results suggest that the auditing process is much faster than the preparation period.

The results are important since they inform Libyan authorities how long it currently takes the industrial companies to prepare and auditors to audit the financial statements. This should enable the authorities to take relevant actions as they see fit to reduce the publishing delay.

7.6 Multiple regression analyses results

The following multiple regression models were used to examine the association between company-specific characteristics (company size, profitability, company age, and number of accountants, accountant qualification, accounting system and audit opinion) and preparation period, auditing period and publishing delay:

$$\text{PreP} = \beta_0 + \beta_1 \text{Size} + \beta_2 \text{Profit}_i + \beta_3 \text{Coage} + \beta_4 \text{Noacc} + \beta_5 \text{Accqu} + \beta_6 \text{Accsys}_i + \beta_7 \text{Audop} + e_i$$

$$\text{AudP} = \beta_0 + \beta_1 \text{Size} + \beta_2 \text{Profit}_i + \beta_3 \text{Coage} + \beta_4 \text{Noacc} + \beta_5 \text{Accqu} + \beta_6 \text{Accsys}_i + \beta_7 \text{Audop} + e_i$$

$$\text{PubD} = \beta_0 + \beta_1 \text{Size} + \beta_2 \text{Profit}_i + \beta_3 \text{Coage} + \beta_4 \text{Noacc} + \beta_5 \text{Accqu} + \beta_6 \text{Accsys}_i + \beta_7 \text{Audop} + e_i$$

Whereas:

PrepP = Preparation period in days.

AudP = Auditing period in days.

PubD = Publishing delay in days.

Size = Company size measured by capital employed.

Profit = Profit before interest and tax divided by capital employed

Coage = Company age measured in years since incorporation.

Noacc = Number of accountants employed by the company.

Accqu = Accountant qualifications (1 if the chief accountant is qualified accountant; 0 Otherwise).

Accsys = Accounting system type (1 if computerized; 0 Otherwise).

Audop = Audit opinion (1 if unqualified; 0 Otherwise).

The multiple regression results of the association between preparation period, company size, company age, and number of accountants, accountant qualification, accounting system and audit opinion are presented in Table 7.7. The results suggest that overall the model can only explain just 19.7% of the variation in the publishing period. From the table it is evident that the only significant explanatory variable is the audit opinion.

The positive relationship suggests that those companies that were issued with a qualified audit report take longer than those that were not to prepare their financial statements. This may be due to the fact that the longer the company takes to prepare its financial statements the more difficult it becomes to verify the existence of some of the assets such as debtors and inventories at balance sheet date.

Table 7.7 Preparation Period Results

R	R Square		Adjusted R Square	Std. Error of the Estimate	
.532	.283		.197	.47614	
	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.202	7	.743	3.278	.005
Residual	13.149	58	.227		
Total	18.350	65			
	Un-standardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
(Constant)	6.282	1.174		5.353	.000
Size	-.159	.090	-.212	-1.766	.083
Profit	.002	.004	.077	.661	.511
Coage	-.004	.014	-.054	-.270	.788
Noacc	-.011	.011	-.159	-.935	.354
Accqu	-.093	.180	-.083	-.518	.607
Accsys	.159	.230	.099	.693	.491
Audop	.374	.173	.282	2.164	.035

Company size although negatively associated with preparation period is only significant at 10% level. The negative association suggest that big companies take less time to prepare their financial statements. This is in accordance with the hypothesised relation although in this case it is not significant at the conventional 5% level. Of the remaining variables, the results show that company age, number of accountants and accountant qualification are all negatively associated with preparation period but the relationship is insignificant. The profitability and accounting systems variables are positively associated with preparation period but again the relationship is not statistically significant

The multiple regression results of the relationship between company size, profitability, company age, and number of accountants, accountant

qualification, accounting system, audit opinion and audit period are presented in Table 7.8.

Table 7.8 Auditing Period Results

R		R Square		Adjusted R Square		Std. Error of the Estimate	
.612		.375		.299		.45149	
	Sum of Squares	Df	Mean Square	F	Sig.		
Regression	7.080	7	1.011	4.962	.000		
Residual	11.823	58	.204				
Total	18.903	65					
		Un-standardized Coefficients		Standardized Coefficients			
		B	Std. Error	Beta	t.	Sig.	
(Constant)		6.438	1.113		5.786	.000	
Size		-.171	.085	-.226	-2.008	.049	
Profit		.007	.003	.210	1.936	.058	
Coage		-.020	.013	-.285	-1.534	.130	
Noacc		-.015	.011	-.221	-1.393	.169	
Accqu		.501	.171	.441	2.930	.005	
Accsys		-.375	.218	-.228	-1.721	.091	
Audop		.055	.164	.041	.339	.736	

The results show that the model explains 29.9% of the variation in time taken to audit financial statements. However, there are only two significant variables at the conventional level of 5%, namely company size and accountant qualification. Company size is negatively associated with the auditing period whilst accountant qualification is positively related to auditing period. The positive association between auditing period and accountant qualification suggest that auditors took longer to audit companies whose chief accountant was qualified. It is difficult to say why this may be the case. However, it may be suggested that if the accountant is qualified it is possible that there may be some disagreement which may take time to resolve as opposed to unqualified

accountant who may accept the auditors' opinion without question. Apart from the two variables, profitability and accounting system are also significant at the 10% level. Profitability is positively associated whilst accounting system is negatively related to auditing period. Of the remaining three variables company age and number of accountants are all negatively associated with auditing period and audit opinion positively associated with auditing period but the relationships are not significant.

Finally, the results of the relationship between publishing delay and company size, profitability, company age, and number of accountants, accountant qualification, accounting system, audit opinion are presented in Table 7.9. The results show that 66.9% of the variation in publishing delay in Libya can be explained by six of the seven variables. These variables are company size, profitability, company age, and number of accountants, accountant qualification, and audit opinion. The results show that company size, company age and number of accountants are all negatively associated with publishing delay. Of the three variables company size is the most important variable as indicated by the t statistic of -4.320 and significance at all levels. The negative sign suggests that big companies experienced shorter publishing delays. This is consistent with the agency theory suggestion that when agency costs are high, management are likely to employ reputable audit firms that will allocate more resources to the auditing process resulting in a shorter audit delay. The result is consistent with those reported by Schwartz and Soo (1996) and Henderson and Kaplan (2000) in the US and Jaggi and Tsui (1999) in Hong Kong. However,

the result contradicts that reported by Simnett et al. (1995) using Australian data.

Table 7.9 Publishing Delay Results

R	R Square	Adjusted R Square		Std. Error of the Estimate	
.840	.705	.669		.22601	
	Sum of Squares	Df	Mean Square	F	Sig.
Regression	7.083	7	1.012	19.809	.000
Residual	2.963	58	.051		
Total	10.045	65			
PubD	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	7.377	.557		13.243	.000
Size	-.184	.043	-.333	-4.320	.000
Profit	.006	.002	.267	3.588	.001
Coage	-.016	.006	-.313	-2.451	.017
Noacc	-.015	.005	-.295	-2.708	.009
Accqu	.288	.086	.347	3.360	.001
Accsys	-.073	.109	-.061	-.673	.503
Audop	.274	.082	.279	3.342	.001

The results of company age are consistent with previous studies on audit delay which have also found a significant association. The results of company age are also consistent with previous findings such as Owusu-Ansah (2000) on Zimbabwe. No study, however, could be found which has examined the effect of the number of accountants on audit delay and as a result, the result could not be compared to previous research. Table 7.9 results also show that profitability, accountant qualification, and audit opinion are also significantly associated with audit delay but the relationship is positive. The profitability results are inconsistent with some of the previous results which found a

positive significant association. The audit opinion result is surprising in the sense that one expected a negative relationship between an unqualified audit report and audit delay as reported by some of the extant studies. However, it may be suggested that in the Libyan context a delay may occur if there is an effort made to avoid auditors issuing a qualified audit report. As suggested earlier, the one variable that is not significantly associated with audit delay is the accounting system. Although the negative relationship is in the direction predicted the relationship is not statistically significant.

7.7 Overall discussion and analysis

This chapter has applied three different methods to determine the association between preparation period, audit delay, publishing delay, company size, profitability, company age, number of accountants, accountant qualification, accounting system, audit opinion. The methods applied are: Mann-Whitney tests, correlation analysis, and ordinary least square regression. The purpose of this section is to discuss and analyse the results obtained from these methods in an attempt to make sense of the results. Since the purpose of the research is to find which variables influence preparation period, audit period and publishing delay the analysis is based on the seven variables namely: company size, profitability, company age, and number of accountants, accountant qualification, accounting system, audit opinion.

Table 7.10 show the significance of the variables according to publishing period, audit opinion and publishing delay. Unfortunately not much can be

said regarding the preparation period and audit period since no previous study has tried to separate the preparation period or the auditing period from the audit delay due to data problems.

Table 7.10 Significance of Variables across three methods

VAR	PreP		AudP		PubD	
	MW	OLS	MW	OLS	MW	OLS
Size	Yes	No*	Yes	Yes	Yes	Yes
Profit	No	No	No	No*	No	Yes
Coage	Yes	No	Yes	No	Yes	Yes
Noacc	No*	No	No*	No	Yes	Yes
Accqu	Yes	No	No	Yes	Yes	Yes
Accsys	No	No	Yes	No*	Yes	No
Audop	Yes	Yes	Yes	No	Yes	Yes

* Significant at 10% level.

PreP = Preparation period; AudP = Auditing period; PubD = Publishing delay

However, the results should be indicative of whether the variables that influence the publishing delay are also associated with either preparation or auditing period. The results of the company size variables clearly indicate some consistency. As can be seen from Table 7.10 the company size variable is significantly associated with preparation period, audit period and publishing delay using Mann-Whitney test (MW). It is also associated with audit period and publishing delay using the ordinary least squares method (OLS). It is also significantly associated with preparation period at the 10% level. The profit variable is, however, only significantly associated with publishing delay using the OLS. Company age, on the other hand, shows a number of significant associations with the preparation period, audit period and publishing delay. The number of accountants is only significantly associated with publishing delay using the MW and the OLS. The accountant qualification is significantly

associated with preparation period using MW, and with audit period using OLS and with publishing delay using MW and OLS.

The accounting system variable is largely insignificant apart from the MW under the auditing period and publishing delay. The audit opinion is also significant in a number of cases. In fact it is not only significant under audit period using the OLS method. Thus overall, size has been found to be the most significant factor affecting preparation, audit period and publishing delay. However, since previous studies have not examined preparation period and audit period the conclusion of this section has to be based on the results of publishing period. Since most of the studies have used the OLS method, the overall conclusion of the research is that company size, profitability, company age, number of accountants, accountant qualification and audit opinion are significantly associated with publishing delay.

7.8 Diagnostics procedures

A number of diagnostics procedures were undertaken to determine whether there were any problems with the model. The first one was the examination of standardized residuals produced by the SPSS package. Standardized residuals have characteristics of a normal distribution. The general rule is that not more than 1% of the sample should have standardized residual with an absolute value greater than 2.5 and if more than 5% of the cases have standardized residuals with absolute values greater than 2 then there is evidence that the model is poor representation of the actual data (Field, 2000). The examination of the standardized residuals indicated that the preparation period model

(Table 7.7) had two cases with a residual greater than 2.5, and four cases with values of greater than 2 out of the 66 cases. No cases with standardized residuals of greater than 2.5 and three cases had values greater than 2 with the auditing period model (AudP, Table 7.8). In the publishing delay model (PubD, table 7.9), no cases with standardized residuals of greater than 2.5 and two cases had values greater than 2. All these statistics are below the 1% and 5% guidelines discussed above suggesting that the guidelines were not violated.

Another diagnostic statistic examined was the *Cook's distance* which measures the overall influence of a case on the model. Cook and Weisberg (1982) have suggested that values greater than 1 may be cause for concern. An examination of the Cook's distance showed that no case had a value greater than 1 in the three models (preparation period, auditing period and publishing period). The Durbin-Watson values were also examined to determine whether the assumption of independent errors was tenable. As a very conservative rule of thumb, values less than 1 or greater than 3 are definitely cause for concern. The results showed that the Durbin-Watson values for the preparation period, auditing period and publishing delay models were 1.93, 1.96 and 1.70 respectively. This suggests that the assumption of independent errors was met.

The VIF indicates whether a predictor has a strong linear relationship with other predictor(s). Although there are no hard and fast rules about what value of the VIF should be cause for concern a value of 10 is a good value at which

to worry (Myers, 1990 and Bowerman and O'Connell, 1990). If the average VIF is substantially greater than 1 then the regression may be biased (Bowerman and O'Connell, 1990). The average VIF reported in Table 7.7, 7.8 and 7.9 for the preparation period, auditing period and publishing period of 1.78, 1.84 and 1.84 respectively are not substantially greater than 1 suggesting no strong linear relationship among the predictors.

Further, standardized DFBetas were also analysed and revealed that no single case significantly influenced the three models (Table 7.7, 7.8 and 7.9) since none had a standardized DFBeta value greater than 1. The difference between a parameter estimated using all cases and estimated when one case is excluded is known as the *DFBeta* in SPSS. By looking at *DFBetas*, it is possible to identify cases that have large influence on the parameters of the regression model. Again, units of measurement will affect these values and so SPSS produces a *standardized DFBeta*. Cases above 1 indicate cases that substantially influence the model parameters (although Stevens 1992, suggests looking at cases with absolute values greater than 2).

To test for normality of the data histograms and normal probability plots (P-P) were produced for the three models (preparation period, auditing period and publishing delay). The histograms for each model are in appendix 6. As can be seen from appendix the histograms of the three models look like a normal distribution (bell-shaped curve). The normal-probability plots are in appendix 7. Overall, the plots appear to be on a straight line which suggests that the data is normally distributed although there is variation among the three probability plots. Of the three plots in appendix 7, the publishing delay

(PubD) probability plot appears most normal than the other two plots. Finally, to check the assumptions of linearity and homoscedasticity have been met the standardised residuals were plotted against standardised predicted values. The results of the plots of the three models are presented in appendix 8. The graphs show that the points are randomly and evenly dispersed throughout the plot. This pattern is indicative of a situation in which assumptions of linearity and homoscedasticity have been met.

7.9 Summary and Conclusion

The main objective of this chapter was to present the results of the extent of publishing delay in Libya and investigate whether the delay is associated with seven company specific characteristics (company size, profitability, company age, number of accountants, accounting system, accountant qualification and audit opinion). The results of the descriptive statistics showed that the mean publishing delay is 154.86 days. It was suggested that the publishing delay was far too long compared to the audit delay reported in other countries. The chapter suggested that the delay is still too long even if one takes into account the audit delay that was reported by studies carried out within the past twenty to thirty years ago.

The Mann-Whitney (MW) non-parametric test results show that the preparation period is significantly associated with company size, company age, accountant qualification and audit opinion. The results also show that company size, company age, accounting system and audit opinion are significantly associated with auditing period. Finally, the results also show that there is a

significant association between publishing delay and company size, company age, number of accountants, accounting system, accountant qualification and audit opinion.

In an effort to ascertain what was mainly responsible for the publishing delay between preparation period and audit period the research performed a t-test. The results indicated that the preparation period was considerably longer than the auditing period. This difference in the preparation and auditing time was found to be significant at the 5% level. The OLS regression results suggest that only audit opinion was significantly associated with preparation period. The audit period results, however, showed that company size and accountant qualification were significant explanatory variables of the auditing period.

Finally, the OLS regression results also showed that company size, profitability, company age, number of accountants, accountant qualification and audit opinion are significant variables in explaining variation in the publishing delay. The overall discussion of the results was followed by the diagnostics to see if the data met the conditions for the application of parametric tests. Various diagnostics tests were applied and overall the evidence suggests that the conditions have been met.

CHAPTER EIGHT

USEFULNESS OF THE LIBYAN ANNUAL REPORT

8.1 Introduction:

The usefulness of annual reports has been investigated in a number of studies (e.g. Lee and Tweedie, 1975; Arnold and Moizer, 1984; Epstein and Pava, 1993; Bartlett and Chandler, 1997 and Naser et al., 2003). There are many benchmarks that can be used to assess whether the annual report information is useful. These include whether the information meets the qualitative characteristics of useful information (e.g. timeliness, understandability, completeness, reliability, relevance etc). It is also possible to examine the usefulness of the annual report information depending on whether the various sections of the annual reports are used, the market's reaction to publication of the annual reports and the extent to which the annual reports meet the objectives of financial reporting.

The purpose of this chapter is to discuss the results of the investigation of usefulness of the annual report. For the purpose of this research, the usefulness of the annual report is determined by: (1) the extent to which five user groups (banks, tax authority, auditing authority, academics and external auditors) perceive the various sections of the Libyan annual report to be useful, (2) the extent to which the Libyan annual report is perceived as possessing the qualitative characteristics of useful information by academics and auditors, and (3) the extent to which the Libyan annual report is

perceived as meeting the objectives of financial reporting as specified by the ASB and the FASB by academics and auditors.

The rest of the chapter is organised as follows: The next section discusses the background of the respondents, namely banks, tax authority, auditing authority and the academics and auditors groups. This is followed by a discussion in section 3 of how the various sections of the Libyan annual report are perceived to be useful by the surveyed groups (banks, tax authority, and academics and external auditors). In section 4, the extent to which the Libyan annual report is perceived by the academics and external auditors is discussed. The extent to which the Libyan annual report is perceived by academics and auditors as meeting the objectives of financial statements as specified by the ASB and the FASB is discussed in section 5. Finally, there is a summary and conclusion.

8.2 Characteristics of the respondents

A total of five Libyan user groups were surveyed to get their opinions regarding the three issues identified above in respect of the usefulness of the annual report. These are the banks (commercial banks and the central bank), the Tax Authority, the Auditing Authority and the Academics and Auditors groups. The characteristics of the respondents are presented in Table 8.1.

The table shows that most respondents (9 banks, Tax Authority and Auditing Authority and 275 academics and auditors) completed the questionnaire. This represented an overall response rate of about 71% of the bank sector, 100% of the state agencies and 76% of academics and auditors. The

qualification profile of the respondents indicates that more than a half of the sample (58 per cent) were postgraduates or had a higher education qualification, 26 per cent were also graduates. Moreover, 16 per cent of the respondent were holders of a PhD.

Table 8.1 Respondents' characteristics

Description	Bank sector n = 9	Tax Authority n = 1	Auditing Authority n = 1	Academics and Auditors N = 275	% n=286
Participants Qualifications					
BA	5 55%			68 25%	26
MSc	1 11%	1 100%	1 100%	162 59%	58
PhD	0 0%			45 16%	16
Others	3			0 ² 0%	
* Place of study					
Africa	2 22%			44 16%	16
Australia				5 2%	0.01
Asia				25 9%	0.08
UK	1 11%			36 13%	13
USA				21 8%	0.07
Libya	6 67%	1 100%	1 100%	144 52%	53
*Work Experience					
Junior (<6 years)	3 33%			65 24%	24
Middle (6-15)	5 55%		1 100%	188 68%	68
Senior (>15 years)	1 12%	1 100%		22 8%	8
Participant Position					
Director of Loans department	6 67%				2
Accountant	1 12%	1 100%	1 100%	179 65%	64
Financial Director	2 21%				0.07
Head Office				20 7.7%	7
Lecturer				75 27%	26
Dean of faculty				1 1%	0.03

² A minimum qualification is the first degree (BA in accounting or equivalent) to become an auditor in Libya and the minimum qualification to be a lecturer is master degree (MA or Ms).

Table 8.1 also shows that more than 50 per cent of the respondents graduated in Libya and most of them (64 per cent) hold a position of accountant. The table also shows that 76% of the respondents have work experience spanning six years or more.

8.3 Perception of the usefulness of sections of the annual report

The introduction to this chapter suggested that one way of determining the usefulness of the annual report is by examining how the various sections of the annual report are perceived by the users of annual reports. For the purpose of determining whether the Libyan annual report is useful, sections of the questionnaire survey of banks (9), Tax Authority (1), external auditors (81), academics (22), external auditors and academics (172) asked them to indicate to what extent they perceive the balance sheet, income statement, statement of sources and application of funds, external auditors' report, management report, as useful.

Specifically, banks (see appendix 2, question 12) were asked to indicate on a scale of 1 to 5 (1= not useful; 5= very useful) how useful the sections of the annual report are in their lending decisions. The results of the responses of the bank officers are presented in Table 8.2. They indicate that the most important section of the annual report is the income statement with a mean rating of 4.22. This is followed in second place by the auditors' report, whilst the balance sheet was ranked third with a mean rating of 3.33. The results that the profit and loss account is more important than the balance sheet to bankers in Libya suggests that banks are mostly concerned with the income stream rather than

the security of their money. This is mostly so given that banks are often forced to lend to companies.

The average rating of the other two sections of the annual report, namely statement of sources and application of funds and management report are 2.22 and 2 respectively. Since these two ratings are below the average rating of 3 on a five-point scale it can be concluded that the bank officers do not regard these two sections as very useful. One possible explanation for the low rating of the management report may be the difficulty of verifying narrative information and the fact that it is not audited.

The Tax Authority was also asked (see appendix 4, question 8) to rate the importance of the five sections of the annual report depending on how useful they are in estimating tax, using the same a scale of 1 to 5 (1= not useful; 5= very useful). The results in Table 8.2 reveal that the two most important sections of the annual report are the income statement and the balance sheet both with a rating of 4. The other three sections, namely the statement of sources and application of funds, external auditors' report and management report were all rated below the average, all were rated 2 out 5. This again suggests that the tax authority finds this information less useful. These results are consistent with the notion that the Tax Authority in Libya is mostly concerned with how much tax is due from each company.

The third column of Table 8.2 shows the results of how important the academics perceive the various sections of the annual report. Surprisingly the

results show that this group perceive the balance sheet as the most important section of the five sections of the annual report with a mean rating of 3.65. This is closely followed by the income statement with an average rating of 3.48 among the eighty-one academics in Libya. The result is surprising because most available studies indicate that the profit and loss account is more important than the balance sheet. For example, Abu-Nassar and Rutherford (1996), in Jordan, reported that academics rated the profit and loss account to be more useful than the balance sheet with a mean rating of 4.17 and 4.09 respectively. The results which show that the statement of sources and application of funds was on average rated 2.37, the auditors' report 1.90 and the management report 1.67 suggest that these three statements are again regarded as less important by academics in Libya.

The results of the responses of the twenty two external auditors are also presented in Table 8.2. They indicate that, according to the auditors, the most important section of the annual report is the balance sheet with a mean rating of 4.17. This is followed in second place by the auditors' report (4.48), whilst the income statement was ranked third with a mean rating of 4.04. The average rating of the other two sections of the annual report, namely the statement of sources and application of funds and management report, are 1.13 and 1.09 respectively. These results suggest that the external auditors do not regard these two sections as very useful. As suggested earlier, one possible explanation for the low rating of the management report by Libyan auditors may be the difficulty of verifying narrative information because narrative information is not audited.

Apart from the eighty-one academics and twenty-two external auditors, one hundred and seventy-two respondents worked both as academics and external auditors. Although the questionnaire sent to them was the same as that sent to academic and external auditors, it was felt that it was important to identify these separately so that any difference in perception could be identified. The results of their responses are also presented in Table 8.2. They indicate that the most important section of the annual report is the balance sheet with a mean rating of 4.48. This is followed in second place by the income statement with a mean rating of 4.01, whilst the external auditors report was ranked third with a mean rating of 2.35. The average rating of the other two sections of the annual report, namely the funds flow and management report is 1.42 and 1.30 respectively. Consistent with the other findings these results show that the statement of sources and application of funds and management report are not perceived as important by those who work both as academics and external auditors.

Table 8.2 also shows the results of the overall mean rating of the five sections of the annual report by all five user groups surveyed. The results show that the balance sheet is perceived as the most important section of the annual report with a mean rating of 4.18. This is followed by the income statement with an average rating of 4.01, in third place is the external auditors' report, on average rated 2.44. The least useful sections of the annual report according to the five user groups are the statement of sources and applications of funds and the management report with mean ratings of 1.42 and 1.30 respectively. These

results contradict the results reported by Abu-Nassar and Rutherford (1996) in another Arab country, Jordan and also those by Al-Razeen and Karbhari (2004) in Saudi Arabia.

Table 8.2 also shows the results of the Kruskal Wallis test to determine if there are significant differences in the perception of the different sections of the annual report among the surveyed groups. As can be seen from the results, it is apparent that there are significant differences as indicated by Kruskal Wallis significance values of 0.000 in all cases. This suggests that there are statistically significant differences in the five user groups' perceptions of the usefulness of the balance sheet, income statement, statement of sources and application of funds, external auditors' report and management report. The differences can be expected in the context of Libya since the user groups use the annual report for different purposes. For example, the Tax Authority is mostly concerned with the income statement to determine how much tax is due whilst the auditing authority is mostly concerned with the auditors' report.

The results reported in this section are in contrast to a number of studies which found that the chairman statement (equivalent of the management report in Libya) is the most read compared to the financial statements (e.g. Lee and Tweedie, 1975 and Bartlett and Chandler, 1997). Two possible explanations for differences may be advanced. The first is the difference in user groups. The studies which found that the chairman's statement is most widely read are mostly based on surveys of those who may be called the 'unsophisticated' investors who presumably do not understand the issues very well. This is in

contrast to the current study in Libya that surveyed what may be called knowledgeable or 'sophisticated' user groups. The second reason for differences in results may be due to the fact that the other studies (e.g. Lee and Tweedie, 1975) asked the respondents to what extent they read the various sections. This is in contrast to the current study which asked the respondents how useful they find the various sections.

Table 8.2 Users' ratings of the importance of different sections of annual reports

FINANCIAL STATEMENTS SECTIONS	<i>FREQUEN CY</i>	B&CB N = 9	TA N = 1	AC N = 81	EA N = 22	AC&E A N = 172	MEAN	SD	RANK	KWSL
Balance sheet	285	3.33	4	3.65	4.17	4.48	4.18	0.728	1	0.000
Income statement	285	4.22	4	3.48	4.04	4.25	4.01	0.728	2	0.000
Funds statement	285	2.22	2	2.37	1.13	1.42	1.69	0.725	4	0.000
External auditors' report	285	3.78	2	1.90	4.48	2.35	2.44	1.265	3	0.000
Management report	285	2	2	1.67	1.09	1.30	1.41	0.647	5	0.000
<p>Notes: KWSL: Kruskal-Wallis significance level; Mean values – scoring: 1 represents “not important at all” and 5 represents “very important”. B&CB = Banks- Central Bank of Libya and Commercial Banks (Loans departments); TA = Tax Authority; AC= Academics; EA = External Auditors; 5 = Both AC and EA.</p>										

8.4 Qualitative characteristics of useful information and the annual report

For the purpose of determining to what extent the Libyan annual report is seen as possessing the qualitative characteristics of useful information, the individuals who described themselves as both academics and external auditors were asked to describe whether most of their working hours are spent as academics or external auditors so that they could be classified as academics or external auditors. If their main occupation was teaching at university but occasionally acting as external auditors there were classified as academics. On the other hand, if someone was an external auditor but occasionally taught at a university he was classified as an external auditor for the purpose of this survey.

This resulted in a grouping of 89 academics and 186 external auditors. Six latest annual reports (three which were published after the 120 days required by Libyan law and three which were published within the 120 days) were sent to each of the 89 academics and 186 external auditors. The respondents were required to indicate on a scale of 1 to 3 (1= completely agree, 2 = neutral and 3= completely disagree) the extent of their agreement or disagreement with the statements that each of the six annual reports were: predictive; confirmatory; faithfully representative; neutral; free from error; complete; prepared prudently, produced on a consistent basis , and had adequate disclosure.

Table 8.3 presents the descriptive statistics of the perception of the 89 academics and 186 auditors of the extent to which they perceive the six annual reports (making 534 observations for the 89 academics and 1116 for the 186 auditors) possessed the nine qualitative characteristics of useful information namely predictive value, confirmatory value, faithful representation, neutrality, free from material error, completeness, prudence, consistency and disclosure. The results show that academics perceive the Libyan six annual reports supplied to them as mostly free from material error, neutral and had predictive value as suggested by the positive agreement ranking of these three characteristics.

Table 8.3 Descriptive Statistics of Perception of Qualitative Characteristics of Useful information by Academics and Auditors

Qualitative Characteristics	ACADEMICS (N=534)			AUDITORS(N=1116)		
	Mean	Std Dev	Rank	Mean	Std Dev	Rank
Predictive Value	1.20	.518	=2	1.70	.780	5
Confirmatory Value	2.04	.823	5	1.25	.528	2
Faithful Representation	2.14	.807	6	2.29	.876	6
Neutral	1.20	.529	=2	1.30	.599	3
Free from material error	1.08	.306	1	1.21	.470	1
Completeness	2.77	.563	9	2.74	.613	8
Prudence	2.55	.631	7	2.73	.534	7
Consistency	2.76	.606	8	2.93	.292	9
Disclosure	1.34	.529	4	1.52	.656	4

On the other hand, the auditors perceive the six annual reports given to them as mostly free from material error, with confirmatory value and neutrality. The perception by both academics and auditors that the annual reports are free from error in Libya tends to confirm the fact that both academics and auditors are

aware that auditing involves sampling to determine if figures reported are free from substantial errors. The results also show that the academics have negative views regarding completeness, consistency and prudence of the annual reports they examined as suggested by the less favourable ranking of these qualitative characteristics. The auditors also perceive the annual reports less favourably as far as consistency, completeness and prudence are concerned. Whilst there are some cases where the qualitative characteristics are ranked similarly between academics and auditors (e.g. free from material error, disclosure, faithful representation and prudence), there are some qualitative characteristics that are not (e.g. confirmatory value, neutrality, completeness and consistency). In the Libyan context the differences in perceptions may be due to the fact that auditors are more closely associated with the auditing process than the academics.

Table 8.4 also presents the descriptive statistics of the perceptions of the qualitative characteristics of useful information according to whether the annual reports were on-time (i.e. published within the 120 days legal requirement period) or were late (i.e. published after the 120 days Libyan legal requirement period). The results show that the on-time annual reports are positively perceived in terms of being free from material error, neutral, predictive and their confirmatory role. This is indicated by rankings close to 1, which suggest positive agreement by the respondents. However, these annual reports are not viewed so favourably in terms of consistency, completeness and prudence. The 'late' annual reports are perceived positively in terms of free from material error, neutral and disclosure. The 'late' annual reports are,

however, perceived negatively in terms of consistency, completeness and faithful representation.

The findings that only ‘on-time’ annual reports are positively perceived in terms of predictive and confirmatory role is important in the context of Libya where audit delay is particularly long. The results are consistent with the notion that the ‘on-time’ annual reports are more useful than ‘late’ annual reports.

Table 8.4 Descriptive Statistics of Perceptions of Qualitative Characteristics of Useful information of On-time and Late Annual reports

Qualitative Characteristics	ON TIME (N=825)			LATE (N=825)		
	Mean	Std Dev	Rank	Mean	Std Dev	Rank
Predictive Value	1.26	.570	=3	1.82	.787	5
Confirmatory Value	1.26	.612	=3	1.75	.768	4
Faithful Representation	1.80	.877	6	2.69	.548	7
Neutral	1.25	.571	2	1.29	.588	2
Free from material error	1.16	.415	1	1.17	.441	1
Completeness	2.75	.591	8	2.74	.604	8
Prudence	2.67	.569	7	2.67	.577	6
Consistency	2.87	.428	9	2.87	.426	9
Disclosure	1.45	.631	5	1.47	.657	3

To find out if there are significant differences in the way the six annual reports were perceived to possess the nine qualitative characteristics of useful information by academics and auditors, Mann-Whitney tests were performed for each of the qualitative characteristics. The results are presented in Table 8.5. The results show significant differences in the mean rankings of predictive

value, confirmatory value, and faithful representation, neutrality, free from material error, prudence, consistency and disclosure. This suggests that auditors and academics have different opinions as to whether the Libyan annual reports possess the qualitative characteristics of useful information.

Table 8.5 Mann-Whitney Tests of Differences in perceptions of the qualitative Characteristics of useful information by academics and auditors

	ACADEMICS		AUDITORS		
Qualitative Characteristics	No	Mean rank	No	Mean Rank	M-W Z (sig)
Predictive Value	534	627.99	1116	920.01	-13.410(0.000)
Confirmatory Value	534	1113.31	1116	687.78	-19.926(0.000)
Faithful Representation	534	761.65	1116	856.05	-4.133(0.000)
Neutral	534	775.87	1116	849.25	-4.191(0.000)
Free from material error	534	763.14	1116	855.34	-6.088(0.000)
Completeness	534	834.05	1116	821.41	-.772(0.440)
Prudence	534	746.84	1116	863.14	-5.941(0.000)
Consistency	534	776.18	1116	849.10	-5.766(0.000)
Disclosure	534	735.72	1116	868.46	-6.176(0.000)

The only qualitative characteristic where there is no significant difference in the ranking is completeness. The significant differences in the perception of whether the Libyan annual reports have predictive value can be explained in terms of Table 8.3. According to this table academics ranked predictive value as equal second whilst auditors ranked this characteristic a lowly sixth. It is also evident in Table 8.3 that whilst academics ranked confirmatory role as fifth, the auditors ranked this characteristic second.

Mann-Whitney tests were also carried out to find out if there was a significant difference in the rankings of annual reports that were published on-time and those published late. The results are presented in Table 8.6.

Table 8.6 Mann-Whitney Tests of differences in perceptions of the qualitative characteristics of useful information of on-time and late annual reports

Qualitative Characteristics	ON TIME		LATE		M-W Z (sig)
	No	Mean rank	No	Mean Rank	
Predictive Value	825	659.58	825	991.42	-16.285 (0.000)
Confirmatory Value	825	674.60	825	976.40	-15.103 (0.000)
Faithful Representation	825	604.20	825	1046.80	-20.708 (0.000)
Neutral	825	814.13	825	836.87	-1.388 (0.165)
Free from material error	825	819.84	825	831.16	-0.798 (0.425)
Completeness	825	828.59	825	822.41	-0.403 (0.687)
Prudence	825	823.21	825	827.79	-0.250 (0.853)
Consistency	825	828.30	825	822.70	-0.473 (0.636)
Disclosure	825	821.65	825	829.35	-0.382 (0.702)

The results suggest that there are significant differences in the ranking of on-time and 'late' annual reports in terms of predictive value, confirmatory role and faithful representation. The significant differences in the perceptions of on-time and 'late' annual reports regarding predictive value can be explained in terms of Table 8.4. According to the table 'late' annual reports are ranked fifth compared to joint third ranking of the on-time annual reports. It is also evident in Table 8.4 that whilst confirmatory role was ranked joint third with

the on-time annual reports, the same characteristic was ranked fourth with the ‘late’ annual reports.

8.5 Objectives of financial statements

The academics and auditors were also asked to indicate the extent of their agreement with seven statements regarding the objectives of financial statements. Table 8.7 presents the descriptive statistics regarding the rating of the statements on a scale of 1 to 3 (1= completely agree, 2 = neutral and 3= completely disagree) the extent of their agreement or disagreement with the statements.

Table 8.7 Descriptive Statistics of Perception of objectives of financial statements by academics and auditors

	ACADEMICS (N=534)			AUDITORS(N=1116)		
Characteristics	Mean	Std Dev	Rank	Mean	Std Dev	Rank
User abilities	2.24	.913	=5	1.68	.896	5
Help investors & creditors	1.25	.483	3	1.30	.562	3
Identifies entity resources	2.24	.776	=5	2.31	.788	6
Enterprise performance	2.79	.539	7	2.64	.708	7
Enterprise liquidity	1.43	.514	4	1.42	.524	4
Decisions in the best interest of owners	1.00	.043	1	1.01	.084	1
How managers have discharged responsibilities	1.22	.524	2	1.26	.576	2

The results in Table 8.7 suggest that academics mostly see the objectives of financial reporting as providing managers and directors with information to take decisions that are in the best interest of the owners. The other statements

that were also rated positively (completely agree) include the provision of information on how managers have discharged their responsibilities and providing information to investors and creditors to make investment decisions. The auditors also rated decision in the interest of the owners, information on how managers and directors discharged their responsibility and provision of information to help investors and creditors take investment decision and positively. Surprising, both academics and auditors perceived the provision of information regarding the performance of the company negatively (completely disagree) as suggested by the ranking of this objective last by both groups.

The research also wanted to find out if the rating of the statements differed due to the fact that some of the annual reports were on-time and some were ‘late’.

The descriptive statistics of the results are in Table 8.8.

Table 8.8 Descriptive Statistics of Perception of objectives of financial statements of on-time and late annual reports

	ON TIME (N=825)			LATE (N=825)		
Characteristics	Mean	Std Dev	Rank	Mean	Std Dev	Rank
User abilities	1.86	.947	5	1.86	.930	5
Help investors & creditors	1.28	.551	3	1.28	.526	3
Identifies entity resources	2.28	.787	6	2.29	.783	6
Enterprise performance	2.69	.659	7	2.68	.664	7
Enterprise liquidity	1.45	.527	4	1.40	.514	4
Decisions in the best interest of owners	1.01	.078	1	1.00	.070	1
How managers have discharged responsibilities	1.25	.557	2	1.25	.563	2

The results suggest that the way the auditors and academics rated the annual report does not differ because some reports are produced on-time and some are 'late'. As can be seen in table 8.8 the ranking of the seven objectives is the same although there are differences in terms of the average ratings.

To find out whether there are significant differences in the perceptions of academics and auditors on the objectives of financial statements Mann-Whitney tests were also conducted. The results are presented in Table 8.9. The results suggest that there are significant differences in the ranking with respect to user abilities and enterprise performance.

Table 8.9 Mann-Whitney Tests of Differences in perceptions of the objectives of financial statements by academics and auditors.

Characteristics	ACADEMICS		AUDITORS		M-W Z (sig)
	No	Mean rank	No	Mean Rank	
User abilities	534	997.70	1116	743.10	-11.319 (0.000)
Help investors & creditors	534	811.34	1116	832.27	-1.120 (0.263)
Identifies entity resources	534	793.87	1116	840.63	-2.031 (0.042)
Enterprise performance	534	873.23	1116	802.66	-4.010 (0.000)
Enterprise liquidity	534	830.51	1116	823.10	-0.345 (0.730)
Decisions in the best interest of owners	534	822.54	1116	826.91	-1.366 (0.172)
How managers have discharged responsibilities	534	806.76	1116	834.47	-1.628 (0.103)

However, no significant differences were found regarding objectives relating to helping investors and creditors, enterprise liquidity, decisions in the best

interest of owners and helping managers and directors to discharge their responsibilities.

The results reported under this section are broadly contrary to those reported by Naser et al (2003) who asked the respondents to rate similar objectives. For example, the objective of evaluating company performance was ranked second out of 7 in the study by Naser et al (2003) whilst the results of the current study suggest that assessing company performance is ranked 7 out of 7. Further, the objective of helping investors assess liquidity was ranked fourth by the respondents of this study but was ranked 6 out of 7 in the study by (Naser et al., 2003).

The Mann-Whitney tests were also carried out to determine whether academics and auditors rated the objectives of the annual reports that were on-time and those that were 'late' differently. The results are presented in Table 8.10. The results suggest that there is a significant difference in the objective of assessing enterprise liquidity. However, there are no significant differences as far as all user abilities, help investors and creditors, identifying entity resources, enterprise performance, decisions in the best interest of owners and how managers have discharged responsibilities.

Table 8.10 Mann-Whitney Tests of Differences in perceptions of the objectives of financial statements of on-time and late annual reports

	ON TIME		LATE		
Characteristics	N0	Mean rank	No	Mean Rank	M-W Z (sig)
User abilities	825	824.30	825	826.70	-0.114 (0.910)
Help investors & creditors	825	822.04	825	828.96	-0.396 (0.692)
Identifies entity resources	825	822.90	825	828.10	-0.241 (0.809)
Enterprise performance	825	829.16	825	821.84	-0.444 (0.957)
Enterprise liquidity	825	847.85	825	803.15	-2.224 (0.026)
Decisions in the best interest of owners	825	826.00	825	825.00	-0.334 (0.738)
How managers have discharged responsibilities	825	827.58	825	823.42	-0.262 (0.794)

8.6 Summary and Conclusion

The purpose of this chapter was to discuss the results of the investigation of usefulness of the annual report. For the purpose of this research, the usefulness of the annual report is determined by the extent to which the surveyed user groups (banks, tax authority, auditing authority, academics and external auditors) perceive various sections of the Libyan annual report to be useful, (2) the extent to which the Libyan annual report is perceived as possessing the qualitative characteristics of useful information by academics and auditors, and (3) the extent to which the Libyan annual report is perceived as meeting the objectives of financial reporting as specified by the ASB and the FASB by academics and auditors.

The results of the importance of the various sections of the Libyan annual report suggest that the balance sheet is perceived as the most important section in the annual report. This is followed by the income statement, auditors' report, statement of sources and application of funds and finally the management report. The results of the perceptions of qualitative characteristics suggest that the academics and auditors perceived the annual report as being free from material error most positively. The academics and auditors, however, perceive the Libyan annual report negatively (i.e. completely disagree with the statement put to them) in terms of consistency and completeness. The results of the Mann-Whitney test to find out if there are significant differences in the way the Libyan annual report is perceived to possess the nine qualitative characteristics of useful information show significant differences in the mean ranking of predictive value, confirmatory value, faithful representation, neutrality, free from material error, prudence, consistency and disclosure.

The results of the perception of the objectives of financial statements suggest that academics mostly see the objectives of financial reporting as providing managers and directors with information to take decisions that are in the best interest of the owners. The other statements that were also rated positively include the provision of information on how managers have discharged their responsibilities and providing information to investors and creditors to make investment decisions. The results of the Mann-Whitney test to find out whether there are significant differences in the perception of academics and auditors on the objectives of financial statements suggest that there are significant differences in the rankings of user abilities and enterprise performance.

Overall the results in this chapter show some similarities and also some differences between the perceptions of the auditors and academics. In the context of Libya this is to be expected given that the only difference between those individuals classified as ‘auditors’ and those classified as ‘academics’ is in the proportion of time spent on ‘auditing’ or ‘teaching’ respectively. Given the similarity in their backgrounds their perception are likely to be the same. However, perceptions may also differ as auditors spent most of their time auditing and academics most of their time on teaching.

CHAPTER NINE

THE IMPACT OF PUBLISHING DELAY ON USERS OF ANNUAL REPORTS IN LIBYA

9.1 Introduction

The main aim of this chapter is to investigate the impact of the annual report publishing delay on external users in Libya (banks, tax authority and auditing authority). Chapter 7 has already found evidence that there is a long publishing delay in Libya whilst Chapter 8 examined the usefulness of the annual report to five user groups namely banks, tax authority, auditing authority, academics and auditors. In one respect this chapter is an extension of Chapter 7 in the sense that it examines what impact the long publishing delay has on the users.

Existing research suggests that delay in the publication of annual reports has an impact on company share prices (Bamber and Stratton, 1997; Cloyed et al., 1998; Lennox, 1999; Robertson, 1988; Teoh, 1992). However, in the case of Libya, there is no capital market and investors as such, since the shares in the companies are owned by the state. The most important users of the annual reports are, therefore, the banks (who have to lend money to the companies), the tax authority (which needs to collect taxes due from the companies) and the auditing authority (which is charged with the responsibility of auditing the annual reports of the companies).

The rest of the chapter is organised as follows. The next section discusses the decisions the commercial banks need to make based on the annual report and

how the delay in publishing the annual reports affects their decisions. The section also quantifies the losses that the banks are making as a result of the delay in the publication of the annual report. The section also tests, in respect of banks, the hypothesis that there is a significant difference between the repayment percentage of loans made on the basis of annual reports published 'late' and those based on annual report that are produced on-time. This is followed in section 3 by a discussion of the Tax Authority and the decision it needs to make relating to the estimation and collection of taxes. It also shows how the Libyan annual report publishing delay is leading to lost revenue. Specifically, the section tests the hypothesis that there is a significant difference between the average future value of the accrued income tax of companies that published their annual reports 'late' and those that published their annual report on-time.

Section 4 discusses the impact of the Libyan annual report publishing delay on the Auditing Authority. It is suggested that the publishing delay means that in most cases the Auditing Authority ends up issuing qualified audit reports because it cannot verify the inventory existing at a particular date especially if there has been a delay running into a number of years. The hypothesis that 'there is a significant relationship between publishing delay and whether the auditing authority issues a qualified audit report' is tested. The final section is a summary and conclusion.

9.2 Commercial Banks

The industrial sector is believed to be of major importance to the banking institutions, in terms of the number and value of accounts and it is thought that

the companies are major contributors to the amount of a retail bank's profits (Carroll, 1999). Industrial companies in Libya (petroleum, food processing, textiles, handicrafts, cement) play an increasingly important role in the country's economy. Libya has around 265 companies (which include all sectors and some smaller companies not investigated), which employ over a quarter of the workforce and provide a contribution of over 45 per cent to the country's GDP.

From the questionnaire survey administered to banks, the most frequent decisions taken by banks in relation to industrial companies are long-term loans, overdraft and credit facilities. The survey also revealed that the bank officers mostly look for five aspects of a company when assessing an application for a loan. These aspects are: management expectations, financial progress and position, management expertise, firm environment and credit history. The financial progress and position of the firm are evaluated primarily from recent years' balance sheets and income statements, and the firm environment is evaluated by the use of statistical data compiled by lending institutions and from press cuttings.

All bank officers interviewed as part of the study said that financial statements (annual reports) are the most important source of information in order to evaluate the company's financial position, especially the balance sheet and the income statement. The auditor's report and management report (directors' report) are less important, while information supplied by external sources was of even less importance. No wonder 85 per cent of the interviewees cited the

lack of timely annual reports as having the most significant impact on their loan decision-making process.

As in many other countries, in addition to assessing the ability of the company to repay the loan the banks require collateral security in case the company defaulted on the payment. The rationale for collateral (on the bank's part) is derived from the information asymmetry between the firm and the bank (Cowling & Westhead. 1996). In the case of Libya, banks officers and loan managers rely on the market value of the assets (collateral) as stated in the financial statements. However, as seen in Chapter 7, some latest annual reports are often more than two years old. In such cases it is not possible for the banks to refuse a company a loan since they will simply be instructed by state officials to approve the loans.

In such circumstances it is difficult to avoid the risk. Even without being forced to approve the loan by the state officials, the delay in publishing annual reports by Libyan companies means that most bank officers are unable to evaluate the ability of their clients to re-pay their loans (long term and overdraft facilities).

Table 9.1 below shows the total amounts of loans advanced to industrial companies by the commercial banks, housing loans, the Great Man Made River Project (GMMRP) and the social loans.

Table 9.1 Commercial Banks Credit to Various Sectors (Million L.D).

End of	Loans to industrial activities	% of industrial loans to total credit	Housing Loans	GMMRP Loans*	Social Loans	Total
1997	2 072.0	50	1 326.0	373.0	394.9	4 165.9
1998	2 290.8	51	1 360.4	373.0	506.0	4 530.2
1999	2 647.9	51	1 459.7	373.0	723.0	5 203.6
2000	2 802.9	50	1 468.9	373.0	939.2	5 584.0
2001	3 156.0	52	1 436.9	373.0	1 091.7	6 057.6
2002	3 183.2	50	1 484.7	373.0	1 316.9	6 357.8

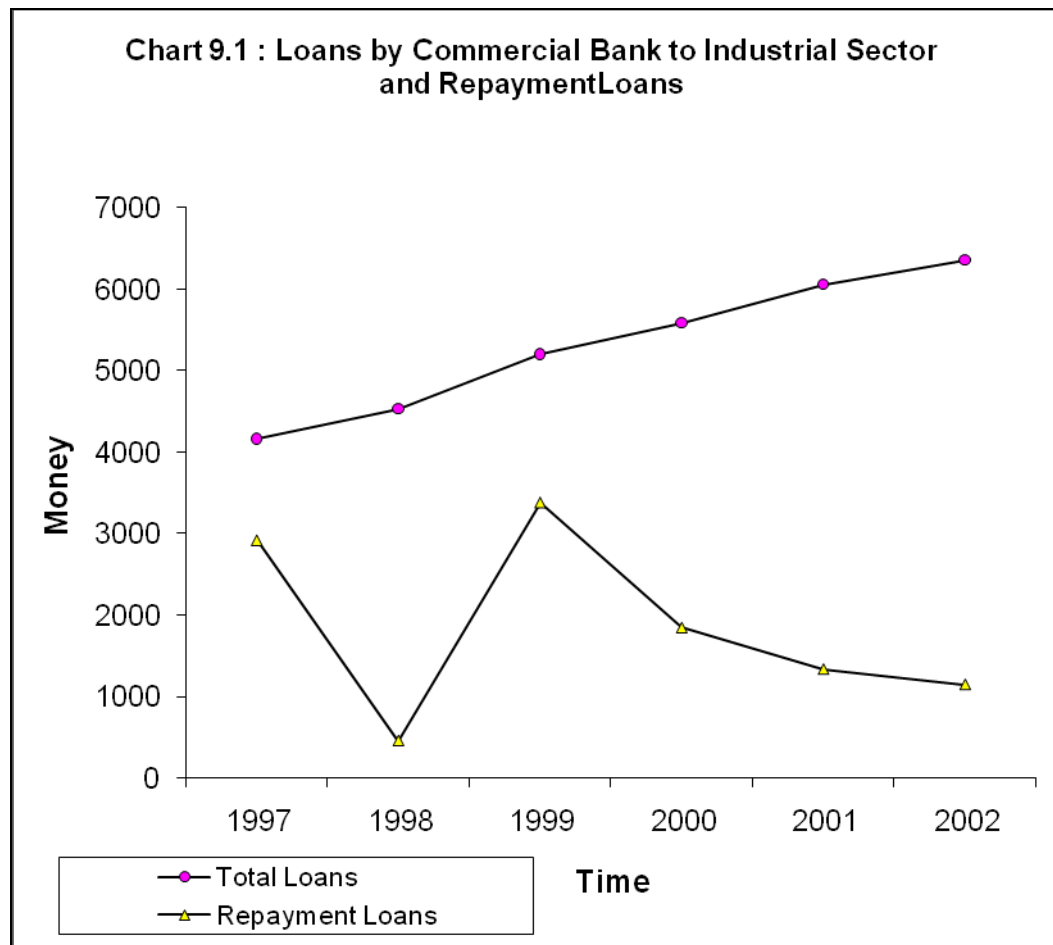
(*) GMMRP: Means the Great Man-Made River Project.

Source \ Research and Statistical Department – Central Bank of Libya – Vol. No 42.

The table shows that 50% or more of the total value of loans advanced by the commercial banks during the six year period from 1997 to 2002 were made to the industrial companies. This means that the sector is of great importance to the country and with that comes the political attention from the state. Inevitably these loans were advanced on the basis of outdated annual reports and in some cases under a directive from the state regardless of the worthiness of the companies concerned.

Chart 9.1 shows the amount of loans outstanding at the end of each year from 1997 to 2002 and how much was repaid over the same period. According to the repayment data of these loans, 70 per cent of loans are unpaid. Asked for a reason why so much is unpaid in a personal interview, most bank officials said that the major reasons for the loan default were the lack of information to evaluate the client's financial position and also the fact that some loans were

advanced not on the strength of the company but because of a mandatory instruction from the state.



Source: Central Bank of Libya – Economic Bulletin, vol. 42, 2002.

To provide empirical evidence on the impact of publishing delay on commercial banks, 60 loan decisions were randomly selected from the 10 commercial banks in Libya for investigation. Thirty three cases related to loans made on the basis of annual reports that were ‘late’ (i.e. published after the 120 days within which companies must publish their annual report). The remaining twenty seven cases related to loan decisions made on the basis of ‘on-time’ annual reports (i.e. published within the 120 days within which companies

must publish their annual report). The loan decision cases had the same repayment period but the amounts involved differed. To investigate whether the annual report publishing delay had an impact on the percentage of the loans that were repaid, the following hypothesis was formulated:

H_1 *‘There is a significant difference between the repayment percentage of loans made on the basis of annual reports published ‘late’ and those based on annual report that are produced on-time’.*

To test this hypothesis the average repayment percentage of loans that were made (approved) on the basis of ‘late’ annual reports was compared to the average repayment percentage of loans made on the basis of ‘on-time’ annual reports to determine if there was a significant difference. Both the Mann-Whitney and t-tests were carried out to test the hypotheses.

The results of the Mann-Whitney tests are presented in Table 9.2. They indicate that the mean rank for the late annual reports is 21.23 and that for the on-time is 41.83 which suggest that a higher percentage of loans made on the basis of annual reports which were on-time were repaid compared to that of the loans that were made on the basis of ‘late’ annual reports.

Table 9.2 Mann-Whitney Tests of Differences in repayment percentages of loans based on on-time and ‘late’ annual reports

	ON-TIME		LATE		
	No	Mean rank	No	Mean Rank	M-W Z (sig)

Repayment Percentage	27	41.83	33	21.23	-4.573 (0.000)
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The Mann-Whitney test Z-value of -4.573 is significant at all levels suggesting a significant difference in the repayment percentages of loans made on the basis of annual reports that are ‘late’ and the decisions made on the basis of annual reports that are ‘on-time’.

In addition to the Mann-Whitney test, an Independent-samples t-tests was also performed to test the same hypothesis on the difference between average repayment percentage of loans made on the basis of late and on-time annual reports.

Table 9.3 Independent Sample t-test

	Annual Report	N	Mean	Std. Deviation	Std. Error Mean
Repayment Percentage	Late	33	.2418	.12895	.02245
	On Time	27	.5752	.25863	.04977
		Levene's Test for Equality of Variances		t-tests for Equality of Means	
		F	Sig.	t	d.f
Repayment EVA		14.383	.000	-6.492	58
Percentage EVNA				-6.106	36.428
					Sig.
					.000
					.000

The descriptive statistics in Table 9.3 show that the average repayment percentage of loans based on annual reports that were produced late is 24.18% compared to an average of 57.52% for the loans that were based on annual reports that were produced on-time.

The Levene F statistic of 14.383 means that the hypothesis of equal variances can be rejected. The t-value is -6.492 when equality of variances is assumed (EVA) and -6.106 if equality of variances is not assumed (EVNA). This result is consistent with the suggestion that loan decisions made on the basis of annual reports that are produced 'late' are less likely to be repaid compared to those loans made on the basis of annual reports that are produced 'on-time'. The findings, therefore, confirm the hypothesis that 'there is a significant difference between repayment percentage of loans made on the basis of annual reports published 'late' and those based on annual report that are produced on-time'.

9.3 Tax Authority

The Tax Authority in Libya formally imposes and collects taxation. The authority administers income tax, stamp duty and other taxes such as inheritance tax. Taxpayer service offices are being set up to do routine checking, computation and collection work, while taxpayer district offices investigate selected accounts, deal with corporation tax and enforce the payment of tax when it is not paid willingly. Companies are responsible for submitting their annual income tax return to the Tax Authority within 60 days after the fiscal year end and the company must pay corporation tax on their profit chargeable to corporate tax for each accounting period. Therefore, the most frequent decisions taken by Tax Authority relating to the industrial companies in Libya are: routine checking, computation and collection of taxes

due; investigating selected accounts and estimating accrued income tax in the case of annual reports published late.

In the case of overdue annual reports, companies must submit an estimated income for tax return within 60 days. In most cases the companies underestimate the taxes due which results in underpayment of the taxes until the annual report is published. During the face to face-to-face interviews, the tax officers in Libya told the researcher that under-estimation of taxes due to late publication of annual reports was a huge problem for the tax authority. As a result of the delay in the publication of annual reports, the tax authority loses a huge amount of money in the form of interest they could have received on amounts underpaid. This is because when the annual report is eventually published the companies will simply pay the difference between the estimated amount and the actual amount without any interest.

Table 9.4 gives an indication of the impact of the delay in publishing the annual reports in Libya. The table presents figures of one company over a 10 year period. The table show the actual amount of tax (column 2), the estimated tax that was originally paid (column 3) the difference (column 4), and the month in which the annual report was published (column 5).The delay in publishing (DP) the annual report is in column 6, whilst column 7 shows the interest rates and the final column shows the future value. In terms of the time value of money, an enormous amount of money was lost due to lost interest on accrued income tax which came about as a result of under-estimation of tax

payable – around LD 2 866 495, (i.e. about £1,405,145) in the study sample (one company) during the study period.

Table 9.4
Future Value of income tax accrued for one company

1	2	3	4	5	6	7	8
F- Year	Actual income tax AIT	Estimated Income Tax EIT	AIT (2) – EIT (3)	Annual Report - Submission Date (mm\yy)	Delay Period in months	I R** (%)	Future Value
1991	256 230	112,000	144 230	6\1996	49	9	205 001
1992	314 400	112,000	202 400	8\1996	39	8	259 919
1993	322 000	112,000	210 000	1\1997	32	7	251 578
1994	316 510	112,000	204 510	5\1997	24	7	234 143
1995	328 130	112,000	216 130	10\1997	17	5.5	233 203
1996	411 800	112,000	299 800	1\1999	20	5.5	327 841
1997	410 120	112,000	275 120	6\1999	13	5.5	291 497
1998	463 200	112,000	328 200	3\2001	22	5.5	361 985
1999	469 600	112,000	334 600	4\2001	11	5.5	351 306
2000	482 300	112,000	347 300	6\2001	2	5.0	350 022
Total	3 774 290	1 120 000	2654290				2 866 495

** IR = Interest rate as presented by Central Bank of Libya – Economic Bulletin - vol-no42, 2002.

For example, in the financial year 1991, the difference between actual income tax and estimated income tax was 144,230 LD and the delay period was 49 months (4.08 years). Using the future value tables of 1 LD received in year 4.08 at 9% the future value amount was calculated as follows:

The Future Value of Ordinary Annuity of 1LD: $FV = P (1+i)^t$

Where: FV is future value

P is the principal amount

i is the interest rate.

t is the time in years

Thus, the future value of the amount of $FV = P (144,230) \times (1+.09)^{4.08} = 205,001$ LD. Although the Libyan Tax authority estimates a figure of an income tax for companies that publish annual reports late and the reconciliation of the actual and estimate is only possible when the annual report is published which in some cases takes years. There are many cases in which the amount of the actual income tax is greater than the estimated amount. There is no law or sanctions or rules to deal with these differences between these two figures, especially if the actual income tax turns out to be greater than the estimated one. The tax authority accepts the payment of the difference between the original estimate and the actual without charging interest. However, if the *time value of money concept* is taken in account, these companies should pay the original amount with interest accrued. To find out the impact of the delay in publishing annual reports the research tested the following hypotheses:

H₂ *‘There is a significant difference between the average future value of the accrued income tax of companies that published their annual reports ‘late’ and those that published their annual report on-time.’*

To test this hypothesis the difference between the estimated and actual income tax (the underpayment amount) was used to compare the impact of annual reports being published on-time and being late. The amount used for testing

the hypothesis is the difference between the average estimated income tax for year 2000³ and the average actual amount for the same year, which is LD 112,000. Due to the small sample size, only the non-parametric tests in form of Mann-Whitney tests could be used to test the hypothesis. The results of the Mann-Whitney tests are presented in Table 9.5.

Table 9.5
Mann-Whitney Tests of Differences in the Net Future Value s of Accrued Corporation Tax based on on-time and ‘late’ annual reports

	ON-TIME		LATE		
	No	Mean rank	No	Mean Rank	M-W Z (sig)
Net Future Value	19	28.87	19	10.13	-5.202 (0.000)

They show that the mean rank for the accrued income tax for the on-time annual report is 28.87 and that of the late is 10.13. This suggests that the future value of companies with ‘late’ annual reports is less than that of the on-time annual reports. The Man-Whitney Z value is -5.202 which is significant at all levels. The conclusion from this test is therefore that companies whose annual reports are late pay significantly less in tax in future value terms. This provides some evidence that the delay in publishing annual reports in Libya has a significant impact on the tax authority in terms of the revenue lost. The hypothesis that ‘there is a significant difference between the average Future Value of the accrued income tax of companies that published their annual reports ‘late’ and those that published their annual report on-time’ is, therefore, confirmed.

³ The researcher selected the 2000 fiscal year as the basic year to calculate Future Value because in this year all industrial companies have prepared and audited their annual report according to the survey results and information collected from the Auditing Authority.

9.4 Auditing Authority

The Auditing Authority is responsible for the audit of the industrial companies in Libya, which are all wholly owned by the state. The audit consists of applying the audit procedures as outlined in the audit program. The audit procedures must be performed by the auditor before an opinion may be expressed on the annual reports. Unlike other countries where the audit procedures may be performed some time prior to the company's year-end (referred to as "preliminary," "interim," or "bring up" work) or on a continuous basis throughout the year, in Libya most auditing procedures are performed by the auditing authority when the company presents their financial statements for auditing.

Publishing delay has an impact on the Auditing Authority for a number of reasons. First, the auditing authority needs to study and review their client's internal control system to determine the nature of those systems, i.e., their reliability in avoiding material errors and irregularities, and their state of maintenance and operational effectiveness. Because in most cases annual reports are presented to the auditing authority for auditing months or even years after the end of the financial year to which they relate, the auditors find this procedure not useful, because sometimes the current internal control systems may not reflect the previous system and any review findings would not be able to reflect the actual internal control procedures relating to the

previous period. In turn, this omission might lead to an underestimation of the extent of testing required as this depends on the auditor's evaluation of the effectiveness of the client's internal control system.

Second, the auditing authority is unable to perform some auditing procedures in the case of annual reports presented for auditing long after the financial year to which they relate, such as attendance at stock-taking at the end of each financial year. Ideally, auditors should attend this event to evaluate the existence, amount and condition of material inventory and not rely solely on the evidence provided from management's stock-taking⁴. Because of the delay in financial statements, the Auditing Authority failed to perform an inventory observation in more than 87% of companies. The longer the time between stocktaking and the annual report period end, the greater the difficulty auditors have in substantiating the amount at the period end.

Third, because of the delay, some documents and records are more likely to become lost, so rendering them unavailable for audit inspection. Fourth, the publishing delay also causes problems for the auditing authority because analytical procedures⁵ (consisting of the analysis of relationships between items of financial data, or between comparable financial information deriving from different periods) are difficult to carry out when the annual report has been delayed. Fifth, if an annual report is presented for auditing after three years, then auditors cannot take any responsibility for subsequent events.

⁴ SAS 400.1 'Auditors should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusion on which to base the audit opinion'.

⁵ SAS 410.1 "Auditors should apply analytical procedures at the planning and overall review stage of the audit".

Finally, the auditing authority also faces some difficulties in auditing financial statements that are long overdue because in many cases management who were in post at the end of the financial year would have left the company and auditors often cannot determine the responsibility for any fraud or errors discovered during the auditing process. Due to the difficulties that face the auditing authority in auditing long overdue financial statements it was hypothesised that publishing delay would be related to whether the auditing authority issues a qualified or unqualified audit report. The hypothesis to be tested was, therefore:

H₃ ‘There is a significant relationship between publishing delay and whether the auditing authority issues a qualified or unqualified audit report’.

To test the hypothesis, the chi-squared test of independence was performed. The results of the test are presented in table 9.6. The table show that there are 16 annual reports that were on-time and issued with an ‘unqualified’ audit report compared to five that were on time and were issued with a ‘qualified’ audit report.

Table 9.6 Chi-Square test of the association between publishing delay and the issue of a qualified or unqualified audit report

		Auditing Annual Report Type		Total
		unqualified	qualified	
Annual Report Situation	On time	16	5	21
	Late	4	13	17
Total		20	18	38

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	10.450	1	.001		
Continuity	8.445	1	.004		

Correction					
Likelihood Ratio	10.971	1	.001		
Fisher's Exact Test				.003	.002
Linear-by-Linear Association	10.175	1	.001		
N of Valid Cases	38				

On the other hand 13 annual reports that were late were issued with a qualified audit report compared to 4 that were late but issued with an unqualified audit report.

The chi-squared test shows that the Pearson chi-squared statistic is 10.450 which is significant at the 0.001 level. The computed Phi value is 0.524 and is also significant at .001 whilst the Lambda t-value is 2.334 and is significant at 0.020. This result suggests that there is a significant association between the annual report being late and the incidence of being qualified by the auditing authority. It may, therefore, be concluded that the hypothesis that there is a significant relationship between publishing delay and whether the auditing authority issues a qualified or unqualified audit report is confirmed. Specifically, the results confirm that annual reports that are late are likely to be issued with a qualified audit report by the auditing authority.

9.5 Summary and Conclusion.

The main aim of this chapter was to investigate the impact of the annual report publishing delay on external users in Libya (banks, tax authority and auditing authority). Specifically it formulated and tested three hypotheses relating to the impact of auditing delay on the banks, tax authority and auditing authority.

First, it was hypothesised that there is a significant difference between the repayment percentage of loans made on the basis of annual reports that are published 'late' and those based on annual report that are produced on-time. The reported findings are consistent with the suggestion that loan decisions made on the basis of annual reports that are produced 'late' are less likely to be repaid compared to those loans made on the basis of annual reports that are produced 'on-time'.

Second, in respect of the tax authority it was hypothesized that there is a significant difference between the average future value of the accrued income tax of companies that published their annual reports 'late' and those that published their annual report on-time. The conclusion was that companies whose annual reports are late pay significantly less in tax in future value terms. This provides some evidence that the delay in publishing annual reports in Libya has a significant impact on the tax authority in terms of the revenue lost.

Finally, in respect of the impact of publishing delay on the auditing authority, it was hypothesised that 'there is a significant relationship between publishing delay and whether the auditing authority issues a qualified or unqualified audit report. The chi-squared test results suggest that annual reports that are late are likely to be issued with a qualified audit report by the auditing authority. Thus, overall, the results reported in this chapter show that publishing delay has an impact on banks, the tax authority and the auditing authority in Libya.

CHAPTER TEN

SUMMARY AND CONCLUSION AND FURTHER RESEARCH

10.1 Introduction

This chapter summarises and explains the contribution and policy implications, conclusions and limitations of the research. The chapter also suggests some possible areas of future research. The rest of the chapter is organised as follows. Section 2 is a research summary, conclusion and a comparison of the results from this research with those from previous research. Section 3 explains the contribution made by this research. This is followed in section 4 by the discussion of the implications of the results of research for policy makers and other researchers. Section 5 reflects on the methodology adopted by the research and suggests further research.

10.2 Research Summary Results and Conclusion

The research had three objectives as follows. The first was to investigate the extent of publishing delay in Libya and its determinants. Publishing delay was defined as the time between the end of the company's financial year and the date when the annual report is published which is the date of the auditors'

report. This period is comprised of the preparation period (defined as the time from the end of the company's financial year to the date when the financial statements are handed over for auditing to the auditing authority). The second constituent of the publishing period is the auditing period which is the period between the Auditing Authority receiving the financial statements and the date they sign the financial statements. The second objective was to find out how useful the Libyan annual report is to five user groups in Libya namely the Tax Authority, Academics and Auditors, Banks and the Auditing Authority in the light of the results of the publishing delay. The final objective was to determine in the light of publishing delay and survey results, the impact publishing delay has on the users namely the banks and the Tax Authority. The findings were as follows.

10.2.1 Publishing Delay

The mean average publishing delay was found to be 154.86 days. This publishing delay is far too long compared to the only other study of an Arab country. Abdulla (1996), in Bahrain, for example, found that the audit delay ranged from 85.26 to 96 days between 1985 and 1991 with a minimum of 12 days and maximum of 204 days. The results of the non-parametric (Mann-Whitney) results in respect of the association between publishing delay, size, profit, company age, and number of accountants, accountant qualification, and accounting system and audit opinion show that there is a significant association between publishing period and size, company age, and number of accountants, accountant qualification, accounting system and audit opinion. The only insignificant relationship is that between publishing period and

profitability. The ordinary least square (OLS) multiple regression results of the relationship between publishing delay and company size, profitability, company age, and number of accountants, accountant qualification, accounting system and audit opinion showed that 66.9% of the variation in publishing delay in Libya can be explained by six of the seven variables. These variables are company size, profitability, company age, and number of accountants, accountant qualification, and audit opinion. The results show that company size, company age and number of accountants are all negatively associated with publishing delay. The result is consistent with those reported by Schwartz and Soo (1996) and Henderson and Kaplan (2000) in the US and Jaggi and Tsui (1999) in Hong Kong. However, the result contradicts that reported by Simnett et al. (1995) using Australian data. The result in respect of company size and profitability are also consistent with those reported in Bahrain by Abdulla (1996). However, there is no study that has investigated the association between publishing delay and company age, number of accountants, accountant qualification, accounting system and audit opinion in the Arab world. As a result the results relating to these variables cannot be compared.

10.2.2 Usefulness of the annual report

The results of the usefulness of the annual reports showed the balance sheet is perceived as the most important section of the annual report, followed by the income statement and in third place is the external auditors' report. The least useful sections of the annual report according to the five user groups are the

statement of sources and applications of funds and the management report. The Kruskal Wallis test carried out to determine if there are significant differences in the perception of the different section of the annual report among the surveyed groups suggested that there are significant differences. This suggested that the user groups' perception of the usefulness of the balance sheet, income statement, statement of sources and application of funds, external auditors' report and management report are all different.

The results contradict similar studies in other Arab countries. For example, Abu-Nassar and Rutherford (1996), in Jordan, found that the income statement was perceived as the most important, followed by the balance sheet. The notes to the accounts were third most important statement, followed by the auditors' report and then the cash flow statement. The directors' report came last. Further, Al-Razeen and Karbhari (2004), in Saudi Arabia, also found that the income statement was perceived as the most important, followed by the balance sheet. The auditors' report was the third most important statement, followed by the notes to the accounts, and then the cash flow statement. The directors' report was found to be the least important. Finally, Al-Ajmi (2009), in Bahraini, also found that the income statement was perceived as the most important, followed by the balance sheet. The cash flow statement came third with a mean rating of 4.30, followed by the auditors' report and notes to the accounts. The directors' report was also rated the least important. The differences in results can be attributed to the absence of a stock exchange in Libya compared to the other three countries Arab countries which have a stock exchange.

The results reported are also in contrast to a number of studies elsewhere which found that the chairman statement (equivalent of the management report in Libya) is the most read compared to the financial statements (e.g. Lee and Tweedie, 1975 and Bartlett and Chandler, 1997). Two possible explanations for differences may be advanced. The first is the difference in user groups. The studies which found that the chairman's statement is most widely read are mostly based on the surveyed of what can be called the 'unsophisticated' investor who presumably does not understand. This is in contrast to the current study that surveyed what may be called knowledgeable or 'sophisticated' user groups.

To find out the usefulness of the annual report in Libya, annual reports that were 'late' and those that were 'on-time' were given to the users. They were asked to rate the annual reports in terms of seven qualitative characteristics of useful information. The Mann-Whitney tests results suggested that there are significant differences in the ranking of on-time and 'late' annual reports in terms of predictive value, confirmatory role and faithful representation. The results also indicate that there are significant differences in ranking in terms of predictive value, confirmatory value and faithful representation. No significant differences, however, could be found in terms of neutrality, free from material error, completeness, prudence, consistency and disclosure. These results offer limited support to the theory that 'on time' and 'late' annual reports would be viewed differently by the users. However, it is important to note that there are significant differences regarding arguably the most important characteristic of useful information, namely predictive value, confirmatory role and faithful

representation. Since no other study has investigated these aspects it is not possible to compare the results.

10.2.3 Impact of publishing delay on users of annual reports in Libya

The impact of publishing delay was investigated with the banks, Tax Authority and the Auditing Authority. One hypothesis was developed in respect of each of these user groups. The hypothesis of the impact of publishing delay on banks was that the average repayment percentage of loans that were made (approved) on the basis of 'late' annual reports was significantly different from the average repayment percentage of loans made on the basis of 'on-time' annual reports. The Independent t-tests were carried out to test the hypotheses. The results showed that there was a significant difference. These results are consistent with the suggestion that loan decisions made on the basis of annual reports that are produced 'late' are less likely to be repaid compared to those loans made on the basis of annual reports that are produced 'on-time'. The findings, therefore, confirm the hypothesis that 'there is a significant difference between repayment percentage of loans made on the basis of annual reports published 'late' and those based on annual report that are produced on-time'. This suggests that the Libyan government policy of instructing banks to advance loans to companies even if the financial statements are late has an adverse effect on the banks' performance in terms of loan repayment.

To test the impact of publishing delay on the Tax Authority the hypothesis that "there is a significant difference between the average future value of the

accrued income tax of companies that published their annual reports 'late' and those that published their annual report on-time.' The results of the Mann-Whitney tests results suggest that the future value of companies with 'late' annual reports is less than that of the on-time annual reports. The conclusion from this test is therefore that companies whose annual reports are late pay significantly less in tax in future value terms. Perhaps the Libyan Tax Authority should consider charging interest of late payment of tax as a result of financial statements that are late. Finally, to test the impact of publishing delay on the Auditing Authority the hypothesis that 'there is a significant relationship between publishing delay and whether the auditing authority issues a qualified or unqualified audit report'. The result suggest that there is a significant association between the annual report being late and the incidence of being qualified by the auditing authority.

10.3 Research Contribution

This research makes a number of contributions to audit delay research in accounting. First, the research found that the average publishing delay is 154.86 days which is far higher than comparable audit delays reported by previous findings. The unusually long audit delay may be explained by the fact that at the time of the research there was no stock market and the directors were no under pressure to release their annual reports early. The other reason which may explain the publishing delay is that all the companies were state owned which means that there is less pressure to release annual reports especially when the government can force banks to advance loans to certain companies even if the company has not produced annual reports.

Second, the research also make a contribution to the research on audit delay in the sense that it has investigated for the first time, the relationship between number of accountants, accountant qualification and publishing delay. As reported before, the findings suggest that there is a negative relationship between number of accountants and publishing delay. This is consistent with the argument advanced in the hypotheses development chapter. The research also contribute to publishing delay literature by finding that accountant qualification is positively associated with publishing delay. However, this is inconsistent with the arguments advanced in the hypotheses development chapter which suggested that there should be a negative relationship. The finding is, however, consistent with other studies that have suggested that qualifications and skills have little or no effect on productivity (e.g. de Koning, 1994 and Black and Lynch, 1996 and 1997).

Third, the current research also makes a contribution in that it is among the first to subdivide the publishing delay into preparation period and auditing period. Because of the lack of data, most existing studies do not distinguish between preparation period and auditing period. Dividing publishing delay into preparation and auditing period is important for policy making because the reasons for unusually long publishing delay can be identified as having been caused by either the delay in the preparation of the financial statements or by the time taken in auditing. Once identified, managers may take steps to shorten either the preparation period or auditing period.

Fourth, the study also makes a contribution to publishing delay research and usefulness of annual reports as it is only the second to investigate audit delay in a Moslem country after Abudulla (1996) in Bahrain. It is also only the fourth that has investigated the usefulness of the annual report in a Moslem country after Abu-Naser and Rutherford (1996) in Jordan and Al-Razeen and Karbhari (2004) in Saudi Arabia and Al-Ajmi (2009) in Bahrain

Finally, the study also makes an important contribution to literature since it is the first to quantify the impact of publishing delay on the three user groups. Specifically, the study showed that loans made by banks on the basis of 'on-time' annual reports are likely to be repaid compared to those that are made on the basis on 'late' annual reports. The study further showed that Tax Authority lose money because of the 'late' annual reports and those auditors are more likely to qualify annual reports that are not prepared 'on-time'.

10.4 Research policy Implications

There are a number of policy implications emanating from the results of this research and these are as follows. First, the research found that the average publishing delay is 154.86 days which equates to over 5 months. Clearly this is too long especially compared to other countries where average period for publishing annual reports is below 60 days. The Libyan company law requires the annual report to be published within 120 days. So clearly most companies are breaking the law and the authorities should enforce the 120 day period by imposing penalties on those companies who do not meet the deadline.

Second, the results also indicate that larger companies tend to report earlier than small companies which suggest that smaller companies are more likely to report late compared to large companies. This may suggest that the requirement to publish the annual report in 120 days may be too onerous for small companies. The authorities may want to consider three courses of actions. The first is to have separate requirements for smaller companies as in other countries. The second course of action is to concentrate the enforcement of the 120 days deadline more on the small companies compared to large companies. The authorities may also want to consider giving more resources to smaller companies to enable them to meet the deadline. This should not be much of a problem since all companies are owned by the state.

Third, the findings also revealed that number of accountants and accountant qualification is an important factor in reducing the publishing delay. The problem for most companies is recruiting a qualified accountant since there are not enough qualified accountants in Libya. As this problem may not be limited to the industrial companies investigated, the state may wish to commit a large amount of money to train enough accountants. This should enable enough accountants to be recruited not just by the surveyed companies, but country wide.

Fourth, the results of the usefulness of the annual report suggest that the management report is not regarded as useful. This is surprising because in the research done in developed and some developing countries, the management report (equivalent to the chairman's report) has been consistently been found to be useful. If it is found not to be useful, the accounting profession in Libya

may want to consider what steps to take to improve its usefulness. This may be along the lines suggested by the International Accounting Standards Board in its Management Commentary project. However, as suggested in Chapter 8, the lack of usefulness may be due to the fact that the respondents of the questionnaire in this study were ‘professional users’ as opposed to private investors surveyed by researchers in developed and other developing countries.

Fifth, the research also found that the Tax authority lose a lot of money because of the publishing delays. Ideally, the Tax Authority should be able to charge interest on any late payment. However, for two reasons, this is not feasible in the case of Libya. First, because of the law of usury, charging of interest is not allowed in Libya. Second, because the companies are all state owned, charging interest would simply amount to taking with one hand and giving with the other. The only feasible course of action is perhaps to increase the payment on account those companies make. This will minimise any losses that the Tax Authority is currently incurring as a result of publishing delay.

Sixth, the results also revealed that the banks lose a lot of money because they make lending decisions on the basis of ‘stale’ annual report information. It is time that banks insist that any company that wants to borrow money produce an up to date annual report before any money can be advanced. This should give incentives to those companies that regularly borrow money to keep their financial affairs up to date and in particular, produce their annual report on time. However, since in some cases the government can force the banks to

advance money, banks may be powerless in some instances to insist on the production of an up to date annual report before any loan advance is made.

Seventh, the research has also documented the impact the publishing delay has on the Auditing Authority. In particular it was documented that the Auditing Authority in most cases are forced to issue a qualified audit report because they cannot verify whether the items included in the financial statements existed at the financial year-end to which they relate. The Auditing Authority need to make sure that for all the companies that they audit, they agree at the end of each financial year the assets and liabilities. This will minimise the number of qualified audit reports that it has to issue.

Finally, because of the audit delay, it often happen that Auditing Authority find something missing when they eventually audit the financial statements. However, by that time, the managers would have left the company. This means that some new managers cannot be held accountable for the actions of the predecessors. In some cases this may also encourage some individuals to commit fraud knowing that they will not be held to account. Perhaps the authorities may want to consider making sure that before the managers leave they sign a contract that they will be held to account wherever they may be. Alternatively, the authorities may want to consider making it a requirement that any finance manager leaving the company should make sure that all audits relating to his period of tenure are completed. This move should encourage most managers to publish their annual reports on time.

10.5 Reflection on Methodology

The findings and conclusions to be drawn from this research must be interpreted in the light of the limitations of the research methodology adopted by the research. First, the research is based on annual reports which are only a part of the information set available to users. There are sources of information internal to the companies that are not published but shared with interested parties. The results, therefore, only relates to annual reports and should not be taken as applying to reports available internally. The study could have looked at how timely the management reports are. Second, the data used in respect of the annual report was limited to 2 years and 77% of the population because some companies did not respond to the questionnaire regarding their internal variables. Moreover, the questionnaire was administered once only rather than over the years. It is possible that opinions and perception may change over the period. However, given the time it was not possible to follow the respondents over a longer period since some people move and some people may simply get tired of answering the same questions every year. Third, the research used Mann-Whitney and Ordinary Least Square (OLS) regression to identify the relationship between publishing delay and the company variables. Because of the sample size (33), the data of some of that variables may have violated some of the conditions for the application of OLS.

Finally, the research used a questionnaire as the research instrument to investigate the usefulness of the annual report to annual report users in Libya. Many textbooks discuss the limitations of the questionnaire such as the risk of misinterpretation, the fact that you can only get the information from those that agree to answer the questions. As such the results reported in this research are

only valid as far as those who respondent are concerned. It may be that those that refused to take part have significantly different views. However, given that it is not possible to force individuals to answer the questions, nothing more could be done to alleviate this problem.

Despite these limitations I believe that this research has made some important contribution towards the understanding of the problem of publishing delay in Libya. Should the authorities act on some of the recommendations suggested above, the problem of publishing delay may be alleviated.

10.6 Further Research

This research investigated an important area of and there is more that can be done in terms of further research to take this work forward. First, because the problem of publishing delay is very bad it may be important for other research to examine the problem over a period longer than the two years investigated by this research. This should give an indication of whether the problem is getting better or it is still as bad.

Second, as suggested before, very few studies have investigated the impact of publishing delay beyond the investors. Since this study reports that the publishing delay is having a significant impact on the Tax Authority, Auditing Authority and banks it may be interesting to investigate this area in other countries so that a comparison can be made.

Third, because of the small population, the number of variables that could be investigated had to be limited. For example, it may be interesting in future to

investigate whether the publishing delay is influenced by some corporate governance characteristics. Fourth, this research has used publicly available company characteristic to model the determinants of publishing delay. Future researchers may want to ask the company managers what influence publishing delay.

Further, the question of the usefulness of the annual report addressed by this research may also be subject of further research. For example, the findings suggest that the management report is not very useful. It may be important for research in future to investigate why the management report is not useful in the context of Libya.

Finally, now that there is a stock market was introduced from 2006, it may also be interesting to investigate whether the publishing delay of the companies change significantly when they get listed on the stock market.

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APPENDIXES

Appendix 1

Publishing Usefulness and Publishing Delay of Annual Reports in Libya – Industrial Companies

Section A: General information:

Section 1.01

1. Which of the following qualifications do you hold? (Please tick)

Bachelor in accounting ☐

MSc in accounting ☐

PhD in accounting ☐

Others (please

state) ☐ _____

2. Which country did you obtain your qualification(s) from?-----

3. How many years accounting work experience do you have?

More than 15 years ☐

10 ≥ 15 years ☐

5 years ≤ 10 years ☐

less than 5 years ☐

4. Employment Position;

Head of accounting department ☐

Accountant Financial Director ☐

Other (please indicate) -----

5. Which industry does your company belong to? _____

6. For how long has your company been in existence?

From 0 to 10 years ☐

10 ≥ 20 years ☐

20 ≥ 30 years ☐

More than 30 years ☐

7. Which financial statements do you include within your annual report?

Balance sheet ☐

income statement ☐

Cash flow statement ☐

Others (please specify)-----

8. How many of your accounting staff hold the following qualifications?

	High school	B.A	MSc	PhD	Others
1997					
1998					

1999					
2000					
2001					

9. What type of accounting system where you using in each of the years below (Please tick)

Year	1997	1998	1999	2000	2001
Manual					
Computerized					

Section B: Historical data during the study period from 1997 to 2001

10. Historical data

Company name\number: _____, Establishment Date: _____,
 Current situation: active ☐; closed \ bankruptcy ☐ indicate the date _____; other (please state) \ -----

Please fill in the required information in each of the cells below

Year	Total Capital	Total Assets	Net Income	Sales	Accounting System		Qualification			Accountant Number	Branch Number
					Manual	COMP	Juni	Midd	Seni		
1997											
1998											
1999											
2000											
2001											

COMP\ Computerised.

Juni \ juineor-level; Midd\ Middle-level; Seni\ Senior-level.

11. Financial Statements Preparation Data

	Financial Year-end	FSs Preparation Date	FSs Approval Date From AA	AGM date	Auditing opinion -Q -UQ - D -A					
1997										
1998										
1999										
2000										
2001										

Q \ Qualified opinion -UQ\ Unqualified opinion - D\ disclaimer opinion -A\ Adverse opinion

FSs\ Financial statements (financial position & income statement –profit & loss account-).

AA \ Auditing Authority – AGM \ Annual General Meeting

Section C:

12. Do you think that your annual report is useful to its users in Libya?

Yes ☐ **No** ☐

13. If the answer is “No”, what do you think the most important reasons?

1-----

2-----

3-----

4-----

Thank you very much for your help. We would also be grateful if you could take part in a short follow-up interview. If you agree to do so, please give your contact email, address and telephone numbers below.

Name:

Email:

Telephone number:

Address

Please return the completed questionnaire using the enclosed envelope(no stamp required) to: Mr Zuhir Omar Dardor – Sirt University \ Libya

Appendix 2

Usefulness of Annual Reports in Libya to Banks

Section A: General information:

Section 1.02

10. Which of the following qualifications do you hold? (Please tick)

Bachelor in accounting ☐

MSc in accounting ☐

PhD in accounting ☐

Others (please state) ☐ _____

11. Which country did you obtain your qualification(s) from?-----

12. How many years accounting work experience do you have?

More than 15 years ☐

10 ≥ 15 years ☐

5 years ≤ 10 years ☐

less than 5 years ☐

13. Which department in your bank do you work in?

Loans department's director ☐

Accountant ☐

Financial Director ☐

Other-----

14. For how long has your bank in existence?

From 0 to 3 years ☐

3 ≥ 6 years ☐

6 ≥ 9 years ☐

More than 9 years ☐

Section B: Decision Making Process

6. Please tick the most common decision that you make in relation to in industrial companies:

Overdraft ☐

short term loan ☐

Long term loans ☐

investment decision ☐

7. If you have ticked short term or long term loans decision above what documentation does your bank require in order to make such decisions?

1-----

2-----

3-----

4-----

5-----

6-----

7-----

8. If financial statements are one of the documents required, how up to date should they be?

Should be within one year of the latest financial year end ☐

Should be within two years of the latest financial year ☐

Other (please indicate)
No limit

☐

9. To what extent you rely on the financial statements in order to make loan decisions? (where 1 is very much and 5 very little)

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

10. Please list the major procedures during the loan decision making process?

1-----
2-----
3-----
4-----
5-----
6-----

11. If evaluation of financial position is one of these procedures please describe how

you assess the financial strength of the company?

12. In your lending decisions, how useful do you find the following financial statements? (1 very useful and 5 not useful)

Balance sheet	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Income statements	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Cash position statement	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Statement of sources and application funds	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
External auditors' report	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Management report		1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
Information from the company		1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
Expenditure commitments to future budgets statements	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

13. In your experience, to what extent do you think the annual reports produced by industrial companies possess the following attributes? (1 = very and 5 not at all)

Timely	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Understandable	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Complete	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Reliable	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Relevant	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

14. How many loans requested from industrial companies during the last 3 years?

31/12/1999:-----

31/12/2000:-----

31/12/2001:-----

15. How many loans did you approve? -----

16. Please tick the most important reasons why the loans were approved?

Their financial statements were approval by Auditing Authority. ☐

Their financial statements were up to date. ☐

Strong financial positions ☐

Unqualified auditing opinion on financial statements ☐

Other (please specify)-----

17. Please fill in the value of short term, long term, other loans and bad debts for each

of the five years listed below?

	Short term loans	Long term loans	Other loans	Bad debts
1997				
1998				
1999				
2000				
2001				

18. Please indicate the repayment in respect of short term, long term and other loans

for each of the five years listed below.

	Repayments of Short term loans	Repayments of Long term loans	Repayments of Other loans
1997			
1998			
1999			
2000			
2001			

Thank you very much for your help. We would also be grateful if you could take part in a short follow-up interview. If you agree to do so, please give your contact email, address and telephone numbers below.

Name:

Email:

Telephone number:

Address

Please return the completed questionnaire using the enclosed envelope(no stamp required) to: Mr Zuhir Omar Dardor – Sirt University \ Libya

Appendix 3

Usefulness of Annual Reports in Libya to Academics and External Auditors

Section A: General information: Section 1.03

1. What is your occupation?

University member ☐ External Auditor ☐
Both ☐

Section 1.04

2. Qualification of participant:

Bachelor in accounting ☐ MSc in accounting ☐
PhD in accounting ☐ others (please Indicate) ☐-----

3. Which country did you obtain your qualification(s) from?-----

4. How many years accounting work experience do you have?

More than 15 years ☐ 10 ≥ 15 years ☐
5years ≤ 10 years ☐ less than 5 years ☐

Section B: Objectives of financial statements

Instructions

Please find attached financial statements belonging to a sample of 6 Libyan industrial companies for financial years ending between 1997 and 2001 marked by serial number from 1 to 6. Please use these financial statements to answer the questions below.

To what extent do you believe the financial statements meet the objectives of financial reporting as specified by specified by Accounting Standards Board (UK) or the Financial Accounting Standard Board (USA)? (1 very much to 5 “not at all”). Please feel free to add any comments you may have in the spaces provided.

5. Financial statements provide information to help investors; creditors and others assess the amount, timing and uncertainty of prospective net cash inflows to the related enterprise

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

6 Financial statements provide information that identifies entity resources and the creditor's and owner's claims against resources arising from transaction, events, and circumstances

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

7. Financial statements provide information about an enterprise's performance

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

8. Financial statements provide information about how an enterprise obtains and spends cash and about other factors that may affect an enterprise's liquidity or solvency

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

9. Financial statements provide information that allows managers and directors to make decisions that are in the best interest of the owners

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

10. Financial statements provide information that allows the owners to assess how management has discharged its stewardship responsibility

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Section C - Qualitative Characteristics of Financial Information.

In your opinion, to what extent do you believe Libyan annual reports meet the qualitative characteristics listed below as stipulated in the Accounting Standards Board (UK) and Financial Accounting Standards Board (USA) conceptual frameworks? (1 = completely agree; 5 completely disagree).

11. In your experience, to what extent do you think the annual reports produced by industrial companies possess the following attributes? (1 = very and 5 not at all)

Timely	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Understandable	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Complete	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Reliable	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Relevant	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

Thank you very much for your help. We would also be grateful if you could take part in a short follow-up interview. If you agree to do so, please give your contact email, address and telephone numbers below.

Name:

Email:

Telephone number:

Address

Please return the completed questionnaire using the enclosed envelope (no stamp required) to:

Mr Zuhir Omar Dardor – Sirt University \ Libya

Appendix 4

Usefulness of Annual Reports in Libya to the Tax Authority

Section A: General information:

Section 1.05

15. Which of the following qualifications do you hold? (Please tick)

Bachelor in accounting ☐

MSc in accounting ☐

PhD in accounting ☐

Others (please

state) ☐ _____

16. Which country did you obtain your qualification(s) from?-----

17. How many years accounting work experience do you have?

More than 15 years ☐

10 ≥ 15 years ☐

5years ≤ 10 years ☐

less than 5 years ☐

18. What is your position within the Tax Authority?

Head of accounting department ☐

Accountant ☐

Head of companies department ☐

Other-----

Section B: Decision Making Process

5. Please list the most common decision that you make in relation to in industrial companies:

1-----

2-----

3-----

4-----

5-----

5-----

6-----

7-----

6. Please state the documents you require to estimate taxes due from industrial companies.

1-----

2-----

3-----

4-----

7. To what extent you rely on the financial statements in order to estimate taxes due from industrial companies? (where 1 is very much and 5 very little)

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

8. In your tax estimation decisions, how useful do you find the following financial statements? (1 very useful and 5 not useful)

Balance sheet	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
5 <input type="checkbox"/>				
Income statements	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
5 <input type="checkbox"/>				
Cash position statement	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
5 <input type="checkbox"/>				
Statement of sources and application funds	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
5 <input type="checkbox"/>				
External auditors' report	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
5 <input type="checkbox"/>				
Management report	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
5 <input type="checkbox"/>				
Information from the company	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>
5 <input type="checkbox"/>				
Expenditure commitments to future budgets statements	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	
4 <input type="checkbox"/> 5 <input type="checkbox"/>				

9. In your experience, to what extent do you think the annual reports produced by industrial companies possess the following attributes? (1 = very and 5 not at all)

Timely	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Understandable	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Complete	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Reliable	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Relevant	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

Section C: Historical Data

10. What is the total accrual income tax for the industrial companies during the period from 1991 to 2003 (for each company);

Company name\number_____

F.Year	Estimated income tax		Actual income tax		Payment details		
	Date	Value	Date	Value	Amount	date	
1997							
1998							
1999							
2000							
2001							

Thank you very much for your help. We would also be grateful if you could take part in a short follow-up interview. If you agree to do so, please give your contact email, address and telephone numbers below.

Name:

Email:

Telephone number:

Address

Please return the completed questionnaire using the enclosed envelope(no stamp required) to:

Mr Zuhir Omar Dardor – Sirt University \ Libya

Appendix 5

Usefulness of Annual Reports in Libya to the Auditing Authority

Section A: General information:

Section 1.06

19. Which of the following qualifications do you hold? (Please tick)

Bachelor in accounting ☐

MSc in accounting ☐

PhD in accounting ☐

Others (please

state) ☐ _____

20. Which country did you obtain your qualification(s) from?-----

21. How many years accounting work experience do you have?

More than 15 years ☐

10 ≥ 15 years ☐

5 years ≤ 10 years ☐

less than 5 years ☐

22. What is your position within the Auditing Authority?

Head of accounting department ☐

Accountant ☐

Head of companies department ☐

Other-----

Section B: Decision Making Process

5. Please list the most common decision that you make in relation to in industrial companies:

- 1-----
- 2-----
- 3-----
- 4-----
- 5-----
- 5-----
- 6-----
- 7-----

6. What is the current position of financial statements preparation of industrial companies in Libya?

Less than one year late ☐ One year to 2 years late ☐ More than 2 years late ☐

7. Please complete this table for each company

Company name\number_____

	FSs Preparation date	Transfer date to AA	AGM Date	Approval Date	Auditing opinion QO,UQO,AO or DO	
1997						
1998						
1999						
2000						
2001						

QO\ Qualified opinion, UQ\ Unqualified opinion, AO\ Adverse opinion or DO\ Disclaimer opinion.

8. Please list the most important reasons for financial statements preparation delay

1. _____
2. _____
3. _____
4. _____

9. In your lending decisions, how useful do you find the following financial statements? (1 very useful and 5 not useful)

Balance sheet **1** ☐ **2** ☐ **3** ☐ **4** ☐ **5** ☐

Income statements 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Cash position statement 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Statement of sources and application funds 1 ☐ 2 ☐ 3 ☐ 4 ☐
5 ☐

External auditors' report 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Management report 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Information from the company 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Expenditure commitments to future budgets statements 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

10. In your experience, to what extent do you think the annual reports produced by industrial company possess the following attributes? (1 = very and 5 not at all)

Timely 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Understandable 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Complete 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Complete 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Reliable 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Relevant 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

11. When financial statements preparation is delayed, are you able to perform one or more of the following auditing procedures? If not please give a reason why you are not able to perform such procedure (s)?

Evaluate the internal control system

☐ _____

Attend physical inventories

☐ _____

Sending vendor's statements

☐ _____ **Analyse some relationship**

between items of financial Data ☐ _____

12. To what extent you think these procedures are usable in case of financial statements delay? (1 very usable to 5 not usable).

Evaluate the internal control system 1 ☐ 2 ☐ 3 ☐ 4

☐ 5 ☐

Attend physical inventories 1 ☐ 2 ☐ 3 ☐ 4

☐ 5 ☐

Sending vendor's statements 1 ☐ 2 ☐ 3 ☐ 4

☐ 5 ☐

Analyse some relationship between

items of financial Data 1 ☐ 2 ☐ 3 ☐ 4

☐ 5 ☐

13. Do you obtain a management acknowledgment for each engagement?

Yes ☐

No ☐

14. In the event that financial statements are delayed and previous managers have left the company, who is responsible for the auditing results?

The current administration ☐ **the previous administration** ☐

The Ministry of Industry ☐ **other indicate** _____ ☐

Thank you very much for your help. We would also be grateful if you could take part in a short follow-up interview. If you agree to do so, please give your contact email, address and telephone numbers below.

Name:

Email:

Telephone number:

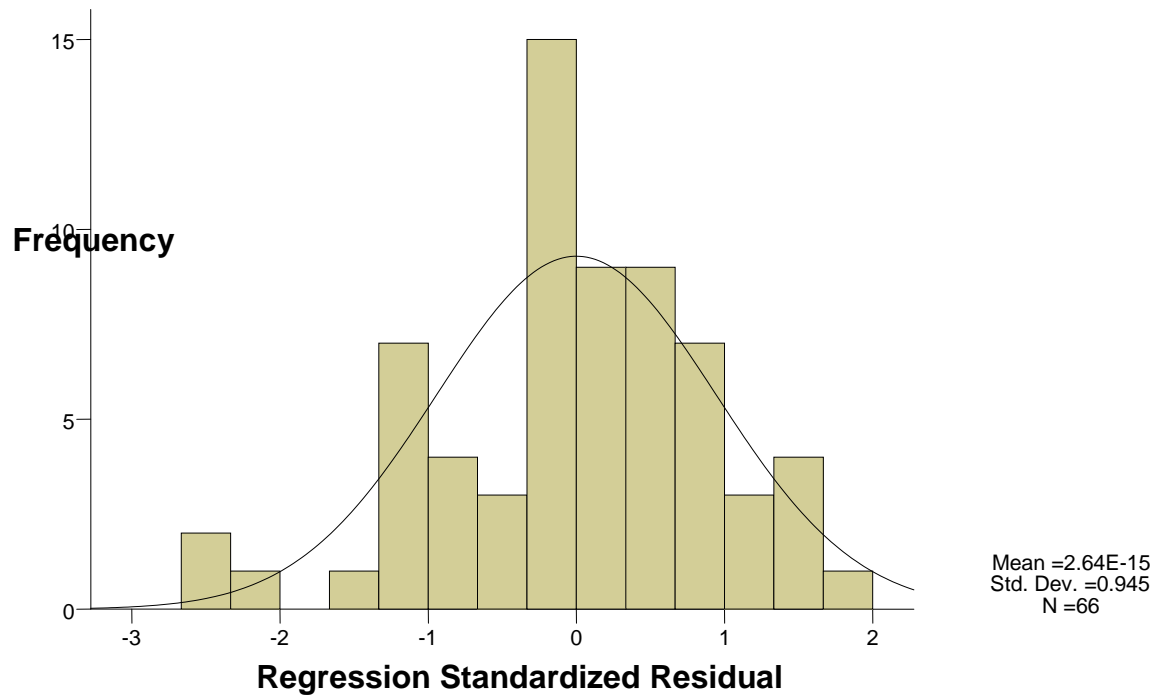
Address

Please return the completed questionnaire using the enclosed envelope(no stamp required) to:

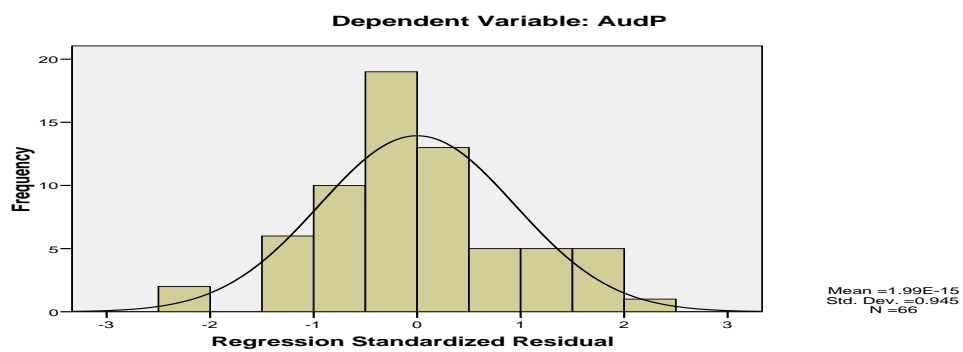
Mr Zuhir Omar Dardor – Sirt University \ Libya .

Appendix 6 - Histograms

Histogram of the preparation period model
Dependent Variable: PreP

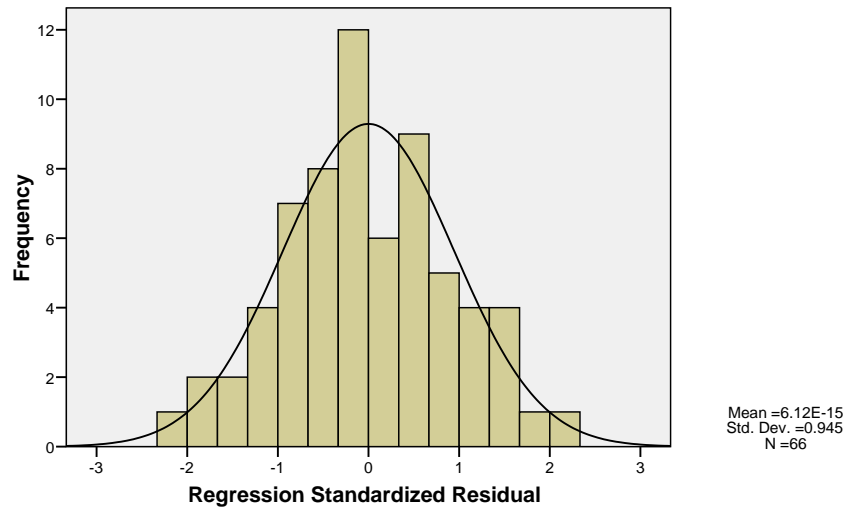


Histogram of Auditing Period



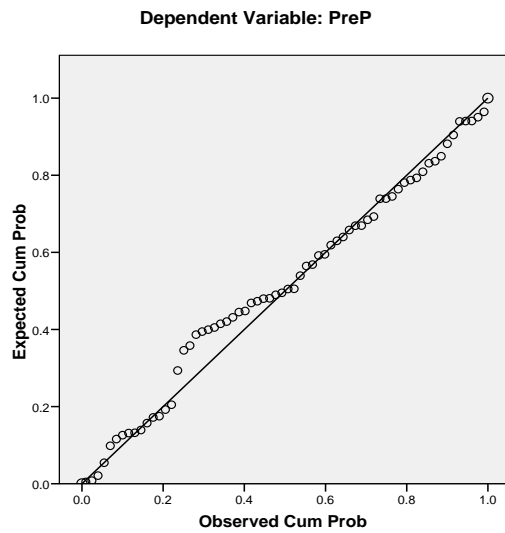
Histogram

Dependent Variable: PubD

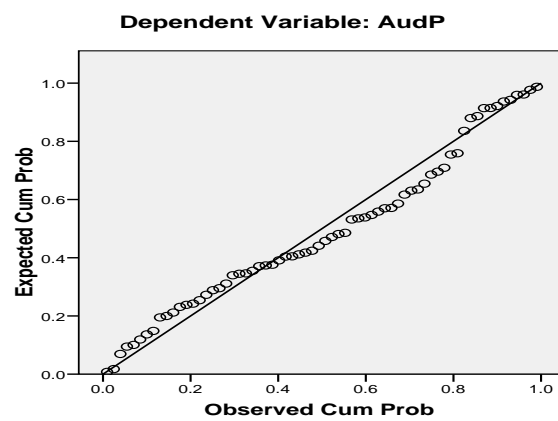


Appendix 7 Normal P-P plots

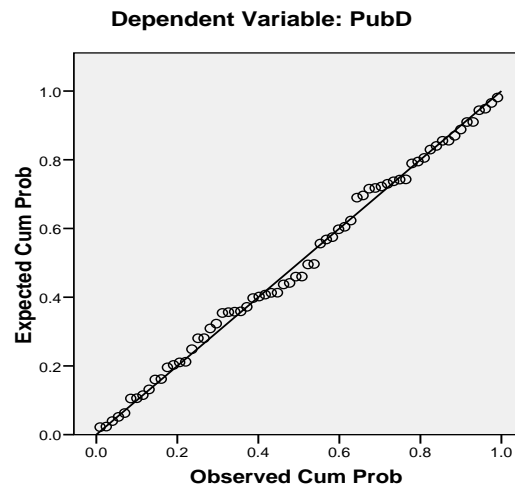
Normal P-P Plot of Regression Standardized Residual



Normal P-P Plot of Regression Standardized Residual

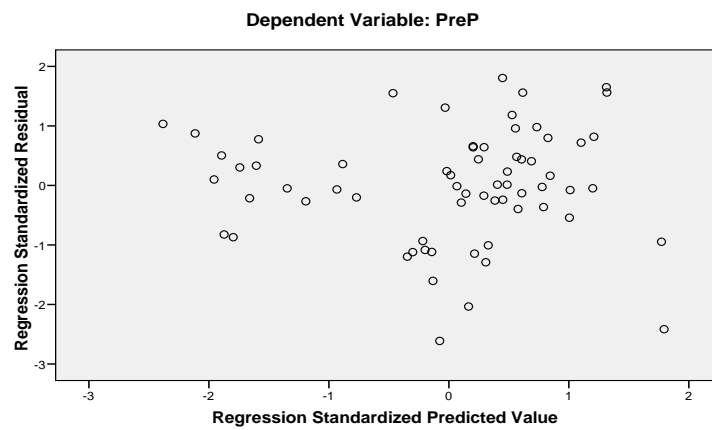


Normal P-P Plot of Regression Standardized Residual

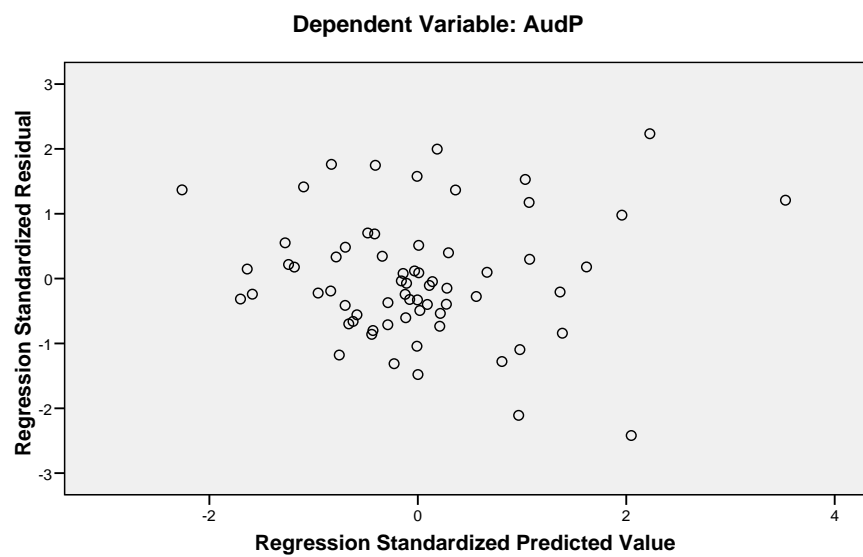


Appendix 8 – Plots of Standard residuals against Standard predicted values

Scatterplot



Scatterplot



Scatterplot

Dependent Variable: PubD

