

Preparers' Perceptions Towards Quarterly Financial Reporting in Malaysia

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ABSTRACT

This study examines the perceptions of preparers of financial reports towards the issues surrounding corporate quarterly financial reporting in Malaysia. Questionnaires were mailed to chief financial officers of the Kuala Lumpur Stock Exchange (KLSE)¹ listed companies, from whom 106 usable responses were gathered. The findings provide evidence that some preparers are not keen of the idea of quarterly reporting, despite the enforcement of the requirement. However, a majority of preparers are content with the current allowable reporting lag of two months, satisfied with the current content of the quarterly reports, and agree that management should at least discuss the quarterly results with the auditors. With respect to other matters, preparers expressed the view that the quarterly reports are reliable. However, there is also evidence that the first three quarterly reports are perceived to be less reliable than the fourth quarterly reports. The findings serve as an avenue for more research on quarterly financial reporting in Malaysia and other jurisdictions.

ABSTRAK

Kajian ini meninjau pandangan penyedia laporan kewangan terhadap laporan kewangan suku tahunan di Malaysia. Soal-selidik telah dihantar kepada ketua pegawai kewangan syarikat yang disenaraikan di Bursa Saham Kuala Lumpur. Analisis adalah berdasarkan kepada 106 soal-selidik yang diterima. Kajian menunjukkan bahawa sebahagian daripada penyedia laporan kewangan tidak begitu bersetuju dengan penyediaan laporan suku tahunan. Walau bagaimanapun, sebahagian besar daripada mereka berpuashati dengan peraturan semasa, iaitu menyediakan laporan dalam masa dua bulan dan melaporkan kandungan seperti dalam peraturan yang sedia ada. Responden bersetuju supaya sekurang-kurangnya pihak pengurusan berbincang keputusan kewangan dengan juruaudit. Mereka merasakan laporan suku tahunan secara amnya adalah boleh dipercayai, namun tahap kebolehppercayaan laporan bagi tiga suku pertama adalah dianggap rendah daripada laporan suku terakhir. Hasil kajian ini merupakan asas bagi kajian-kajian di masa hadapan berhubung dengan laporan suku tahunan syarikat di Malaysia dan juga negara-negara lain.

INTRODUCTION

In line with the increasing complexity of business operations, investors are making greater demands for relevant and timely information. As a result, today we see that interim financial reporting has been required by various stock exchanges throughout the world, with the objective of providing users with timely and high quality financial information in making informed financing and investing decisions. Interim financial reporting was claimed by the financial analysts worldwide to be an important source of information in making decisions (Deppe 1994, Razani 2000). Interim reporting plays an important role in forecasting annual earnings, in making forward projections, in ascertaining turning points and in supplementing the annual report (Hussey and Woolfe 1994). It is argued that forecasts of earnings and share prices would be more accurate when interim reports are produced in addition to the annual reports (IASC 1998). In addition, such timely information would enhance investors' confidence in the capital market, reduce uncertainties and help improve users' decisions (Capulong et al. 2000).

In Malaysia, following the 1997/98 Asian financial crisis, the KLSE, in March 1999, issued a memorandum which requires companies listed on the Exchange to issue quarterly financial reports beginning July 1999. Prior to that, companies have been required to issue half-yearly reporting within three months after the end of first half-yearly period in the financial year. The quarterly reports on the other hand are to be submitted to the KLSE within two months of the quarter-end, upon which the Exchange will release it to the public. Apart from being more frequent and more timely compared to the half-yearly report, the contents of the quarterly report are much more comprehensive. However, the reports, including that of the fourth quarter, are not subject to audit. Following the KLSE's requirement on quarterly financial reporting, the Malaysian Accounting Standards Board (MASB) issued *Draft Statement of Principle (DSOP) 4, Interim Financial Reporting*, in 1999 to assist preparers on the issue of recognition and measurement in

reporting quarterly reports. The *Statement* became a Standard in 2002, known as *MASB 26, Interim Financial Reporting*.

It appears that the introduction and enforcement of financial reporting requirements in Malaysia, including that of quarterly reporting are primarily the decisions of the regulatory bodies. Such decisions tend to be based on the development of financial reporting in other countries, such as the US, UK and Australia. In most instances, the need for reporting does not originate directly from market participants (Rahman 1998). Rather it emerges from economic misfortunes such as the Asian financial crisis. Commenting on investors' attitudes towards financial disclosure prior to the Asian financial crisis, Rahman (1998) noted that "the financial analysts made no such demands for better information and fund managers invested, despite the lack of information, possibly knowing or not knowing the riskiness of these investments" (p. 37).

In spite of its benefits, several problems have been associated with interim reporting. One of the difficulties is that in preparing an interim report, more estimates are required than in preparing an annual report. For example, to save cost and time in measuring inventory at interim dates, estimates are made rather than stock-taking. Other problems include the costs involved in preparing the reports, allocation of expenses to interim periods (Schadewitz 1996) and seasonal variations in businesses (Coates 1972). Interim reporting is also criticized because of the view that it might induce "short-termism" in management's approach to corporate performance. Being forced to report on a more frequent basis, management is argued to act only in promoting short-run performance while ignoring the company's long-term interests (Businessline 1998).

Despite the fact that there might be some problems and costs associated with the preparation of quarterly financial reports, there seem to be no reported debates or public resistance from the preparers when the KLSE requirements were going to be mandated. This may look as if the preparers were in total agreement with the

regulators that the reports are useful to the financial community and that they have strong feelings that it is their responsibility to satisfy the needs of the users by preparing quarterly reports. However, the timing of the release of the requirements (i.e. immediately after the financial crisis) might have left the preparers with few arguments but to adhere to the rules.

The fact that Malaysia has the culture of low masculinity and high power distance² (see Azham 1999, and Haniffa and Cooke 2002) may explain the lack of resistance from the preparers. There is a possibility that preparers might have some reservations on the issues regarding quarterly financial reporting, but reluctantly prepare the reports merely to satisfy the minimum requirements of the regulatory bodies. Because preparers play significant roles in the development of financial reporting, it is important to know their views concerning the issues of quarterly reporting. Findings on these issues serve as inputs towards the development of improved regulation concerning quarterly reporting in Malaysia.

The rest of this paper is organised as follows. Following this, the objectives of the study will be presented. Next, there will be a section that reviews the literature, following which the research methods will be discussed. Subsequently, this paper will discuss the results and finally the conclusions will be provided.

STUDY OBJECTIVES

This study attempts to determine preparers' perceptions towards some of the issues surrounding quarterly reporting in Malaysia. In particular, the objectives of this study are:

1. to examine companies' practices with regard to auditor's involvement and accounting basis of recognition;
2. to identify preparers' perceptions regarding the problems associated with the preparation of the quarterly reports; and
3. to seek preparers' perceptions on the issue of timeliness, disclosure, auditor involvement and reliability of the reports;

Since quarterly reporting is still in its infant stage in Malaysia where companies have just shifted from half-yearly to quarterly reporting, this will be the appropriate time to have the study conducted. The study will contribute to the body of knowledge and enrich the accounting literature on quarterly reporting in Malaysia. The fact that quarterly reporting requirements were introduced immediately after the financial crisis makes Malaysia an interesting jurisdiction for such a study.

LITERATURE REVIEW

Various studies have been conducted to gather views regarding interim reporting, particularly from users and preparers. Following are the reviews of literature with respect to timeliness, disclosure, auditor involvement and reliability of the reports.

The Timeliness of Interim Reporting

There are two aspects of timeliness where interim financial reporting is concerned. One refers to the frequency of the reports, and the other refers to the time lag from the date of the report to the date of release of the report, or often referred to as the reporting lag.

It has been argued that frequent disclosure reduces investors' incentives to acquire costly information, resulting in reduced information asymmetries, transaction costs, and uncertainty of the current stock price. This would in turn reduce the cost of equity capital (Botosan and Harris 2000). Quarterly reporting, as opposed to some other reporting interval has now become a trend. It is argued that quarterly reporting is consistent with users' needs for updated information, which is neither too long a time nor too short a time for the users to be without information. It is believed that quarterly reporting helps users with a longer-term focus, provides for an orderly dissemination of reliable information and reduces the problems of trading on inside information, as the reports are made equally accessible to the public (AICPA 1991).

In the US, financial analysts have shown persistent support for quarterly reporting (see Barton et al. 1979 and AIMR 1992) although there is some opposition, including those in the management teams (AICPA 1991). In Ireland and the UK, generally both preparers and users were not in favour of quarterly reporting, but preferred half-yearly reporting (see Holmes 1971, Lunt 1982 and ICAI 1992). In Australia, Carnegie (1990) found that users favoured quarterly reporting but preparers preferred half-yearly reporting.

The allowable reporting lag for interim reporting differs among countries. In the US, companies have been required to issue quarterly reports within 45 days from the period-end. However, as a move to implement the *Sarbanes-Oxley Act 2002*, the Securities Exchange and Commission (SEC) in August 2002, required companies with public stock values of US\$75 million after a three-year phase-in period to file their quarterly reports within 35 days of the end of the quarter. In Malaysia, quarterly reports are to be submitted to the KLSE within two months of the quarter end. In the UK, the London Stock Exchange (LSE) allows companies to issue the half-yearly reports within 90 days. Carnegie (1990) and Al-Bogami (1996) sought users' and preparers' opinions on reporting lags in Australia and Saudi Arabia, respectively. There were disagreements between the two groups of respondents. While users preferred a shorter reporting lag, preparers did not favour the idea.

The above studies provide evidence that there are differences in the attitudes of respondents, particularly between the users and preparers, towards the timeliness of interim reporting. While respondents in the US and other countries prefer quarterly reports, those in the UK and Ireland favour half-yearly reporting. While users of reports prefer a very timely report, preparers on the other hand do not generally agree. Among the arguments put forward by the opponents of quarterly reporting are that: (i) the seasonal nature of businesses would give rise to misleading statements, (ii) it is costly to prepare quarterly reports, and (iii) the quarterly reports are not reliable. One other possible explanation could be that after the introduction of half-yearly

reporting, there was no major misfortune such as economic disaster that could trigger the need for quarterly reporting.

Disclosure in the Quarterly Reports

The disclosure of interim reporting differs between countries and is usually prescribed under the requirements of their respective stock exchanges or standard setting bodies. The requirements with respect to disclosure have been through various changes. Since the introduction of interim reporting, in Malaysia, several revisions have been made to the requirements of the KLSE, and currently, the contents of the quarterly reports should include an income statement, a balance sheet, a cash flow statement, a statement showing changes in equity and explanatory notes. The requirements are as prescribed under *MASB 26, Interim Financial Reporting*. The requirements are also in line with the need of investors who continuously call for more detail information as have been shown by studies in other jurisdictions (e.g. Edwards, Dominiak & Hedges, 1972; Malloy, Sale & Willis, 1975; Barton, Carper & O'Connor 1979; Carnegie 1990 in Australia; AIMR, 1992, in the US; and Al-Bogami 1996 in Saudi Arabia).

Reliability and Auditor Involvement

The Financial Accounting Standards Board (FASB), in its Statement of Financial Accounting Concepts No. 2 (1980) defined reliability as "the quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent" (p. xvi). The reliability of interim reporting has always been regarded as an important issue due to the fact that the report is not subjected to audit, and thus is more exposed to the risk of accounting errors and the practice of earnings management. Kinney and McDaniel (1989) noted that since only year-end statements are audited in the US, fourth quarter results might include corrections of previous errors in reported interim earnings. Givoly and Ronen (1981) argued that the three quarterly reports are less reliable than the annual reports. However, in order to provide reliable information by way of auditing, timeliness has to be sacrificed because ample time is needed to undertake the full audit process.

Auditor involvement can take several forms, ranging from full audit to no involvement at all. A high level of auditor involvement could be found in the US. The SEC is seen as taking the lead in mandating the requirement, despite some resistance from the reporting companies. The SEC has required reviews of the quarterly reports by the external auditors since 1975 (Ettredge et al. 1997). In the UK, the Cadbury Committee (1992) suggested the external auditors review the interim reports. Subsequently, the Auditing Practices Board (APB) issued a series of non-mandatory guidance relating to the review of interim financial information, the most recent one being *APB Bulletin 1999/4, Review of Interim Financial Information*. In Malaysia, there is no requirement for auditor involvement as far as quarterly reports are concerned.

Several survey studies sought respondents' views on the issues of reliability and auditor involvement. Malloy et al. (1975) revealed that analysts found quarterly reports less credible compared to the annual reports. The respondents believed that management managed the earnings by deferring material adjustments to the fourth quarter. However, analysts showed little support for a requirement that quarterly reports be audited. In another study, Nickerson et al. (1975) revealed that preparers agreed with the idea of no auditor involvement. Reckers and Pany (1979) sought users' views on the issues of auditor involvement and reliability of quarterly financial reports through interviewing. Their findings reveal that users of quarterly reports placed greater reliability on statements that had been subjected to an audit as opposed to a limited review. The respondents expressed low confidence for statements with no auditor involvement.

In the UK, interviews conducted by Lunt (1982) showed the respondents reacted negatively towards quarterly reporting. Respondents (preparers, users, auditors and regulators) felt that quarterly reports were not reliable. Commenting on the issue of auditor involvement, users of interim reports supported the idea, but not at the cost of delaying the release of the information. The respondents generally did not encourage a full audit but would support an audit review. In Australia, Carnegie (1990) provided evidence that

both preparers and users were generally not keen on the idea of auditor involvement, but more users than preparers were supportive of it. If in any case auditor involvement should be required, they preferred an interim review.

The above findings show that although users agreed that auditor involvement would improve the reliability of quarterly reporting, a full audit was felt unnecessary because this might delay the reporting of interim data. Instead, a review of interim reports gained support from the users.

RESEARCH METHOD

This study adopted a mailed questionnaire approach to seek views from the respondents. The construction and validation of the questionnaire are primarily based on informal discussion and interviews, an extensive review of the literature, accounting standards and regulations, and similar questionnaire surveys that have been previously conducted in other studies, either locally or in other countries. A pilot survey was conducted before the final questionnaires were sent to the respondents. This was to ensure that the questions were appropriate, would work as intended and were properly sequenced and worded (Ott et al. 1983).

The questionnaire was organized into several sections. First, it explores preparers' practices and problems associated with the preparation of the quarterly reports. Second, the questionnaire attempts to obtain respondents' views on current requirements regarding the frequency, reporting lag and content of the reports, as well as auditor involvement. The section also seeks preparers' views towards the overall reliability of each of the four quarterly reports. On a five-point Likert scale ranging from 1 ("not reliable at all") to 5 ("extremely reliable"), preparers have to indicate their confidence towards the reliability of the reports. The questionnaire also includes open-ended questions to allow respondents to express their views on any deficiencies with regard to quarterly reporting, as well as any other comments that they think are

relevant. Finally, it tries to gather some background information about the respondents as well as about the companies that they represent.

Data Collection

In this study, chief financial officers (CFOs) of KLSE listed companies represent the preparers. These individuals are chosen because they are ultimately responsible for the preparation of the financial reports and have the necessary knowledge and competency in understanding and preparing the financial reports. The sampling frame for the preparers consists of the CFOs of companies that were already listed when the requirement for quarterly reporting came into effect in 1999. It includes companies listed on the main and second boards of the KLSE. These companies were chosen to ensure that companies had been preparing the half-yearly reports before the transition occurred. Therefore, their CFOs are assumed to have sufficient experience of both half-yearly and quarterly reporting and thus would have better perception and cognition of the issues surrounding interim reporting. The judgements

made by the CFOs may be consistent. Therefore, their views should have some informed views.

There were 757 companies listed on the KLSE as at the end of 1999, out of which only 734 addresses could be traced. To ensure that sufficient responses were gathered and were representative of the population, the questionnaires were sent to all CFOs of the 734 companies. Due to changes in addresses, 20 sets of questionnaires were returned. Hence, the number of questionnaires that were actually distributed was 714. Of the 714 questionnaires distributed, 111 (15.5 %) were answered, and due to five incomplete responses, only 106 (14.8 percent) of them were usable. Because CFOs are busy people and are generally unwilling to participate in survey studies (see, for example, Ho and Wong 2001), the low response rates (between 10 to 20 %) were in line with the expectation of this study. PricewaterhouseCoopers (2002) reported that the average response rate for postal surveys in Malaysia is around 16 percent. Table 1 summarises the distribution of usable questionnaires according to KLSE boards .

Table 1
Questionnaires Sent, Responded to and Usable

	Sent	Usable	Percentage
Board:			
Main Board	477	74	15.5
Second Board	237	32	13.5
Total	714	106	14.8

Detecting Non-Response Bias

A low response rate might give rise to a problem of non-response bias that might in turn cause the data to be unreliable or invalid. Accordingly, in order to establish the reliability and validity of the data, tests were conducted to detect the possible presence of non-response bias. Openheim (1966, p. 34) suggested that one

practical way to detect non-response bias is to compare the answers to the questionnaire given by early respondents with those of late respondents. He stated "... it has been found that respondents who send in the questionnaire very late are roughly similar to non respondents" (p. 34). In this study, the latest 30 questionnaires received were categorised as late. The responses

to all the Likert-scale questions were compared to those of the first 30 questionnaires received. To observe if the perceptions between early and late respondents were different, a t-test was run for the equality of means for each of the questions. An analysis of the test results revealed that the mean scores were not significantly different. This suggests that non-response bias is not incorporated in the research results. In other words, non-respondents would generally have the same opinion as those who responded. Thus, the data are considered representative of the population, and generalisations may be made.

RESULTS

Background Information

Table 2 exhibits the distribution of CFOs' gender and age. It shows that a majority of the respondents are male. Most of them are between 31 to 50 years old.

To determine if gender and age would influence the respondents' perceptions on quarterly reporting, chi-square tests were conducted. Results show that neither of the variables has any effect on the perceptions.

Table 2
Gender and Age of Respondents

	Frequency	Percentage
Gender:		
Male	78	73.6
Female	26	24.5
Not stated	2	1.9
Total	106	100.0
Age:		
30 and less	6	5.7
31 to 40	47	44.3
41 to 50	41	38.7
51 to 60	10	9.4
Not stated	2	1.9
Total	106	100.0

Company Practices

Auditor Involvement

Respondents were also asked about the extent of auditor involvement with the company's quarterly reports. Table 3 shows that for the first three quarterly reports, none of the companies undertook full auditing. About 50 percent of the companies had their first three quarterly reports partially audited, reviewed or involved management discussion with the auditors. About

49 percent of the companies involved no external auditors and one respondent (0.9 %) gave no opinion.

The involvement of external auditors with the fourth quarterly report is very much greater, where 60.4 percent of the companies had their reports audited. Reports of 13.2 percent of the companies were partially audited and 6.6 percent reviewed. Only 13 companies (12.3 %) did not involve the external auditors. The high rate

Table 3
Extent of External Auditors' Involvement with QFR

	First 3 quarters' reports		4th quarter's report	
	Frequency	Percent	Frequency	Percent
Full audit similar to annual audit	0	0.0	64	60.4
Partial audit involving the verification of only material items	7	6.6	14	13.2
Limited review involving no detailed testing of supporting data	28	26.4	7	6.6
Management discusses interim results with auditors. No examination of underlying figures undertaken by auditors.	18	17.0	8	7.5
No external auditor involvement	52	49.1	13	12.3
Missing opinion	1	0.9	0	0.0
Total	106	100.0	106	100.0

of auditor involvement may be because the release of the fourth quarter's report coincides with annual auditing. While the fourth quarter's report is to be released within two months of the year-end, the audited annual report is to be issued within three months of the year-end.

The findings show that although regulations governing quarterly reporting require no auditor involvement, quite a large number of companies are taking the initiative to get the auditors involved with their reports. The findings support the signalling hypothesis of agency theory that suggests that there is no need for the statutory requirement for auditor involvement. Instead, the market will motivate managers to have their financial reports audited or reviewed.

It could be argued that large companies might involve auditors to a greater extent compared to the smaller ones. Because large companies are highly scrutinized by the investors, they are expected to be more concerned about the

reliability of their quarterly reports. To find out if size of a company has any influence on the external auditor involvement, a Chi-square test was conducted. In this regard, companies are considered large if they are listed on the Main Board and small if listed on the Second Board of the KLSE. Results indicate that size of a company has no influence on the extent of auditor involvement with the reports in all quarters.

Application of Accounting Method

There are two approaches that could be adopted in recognising income items, that is, the discrete and the integral approach. Revenues and product costs are normally recognised on a discrete basis, thus these items do not pose so much of a problem. On the other hand, the recognition of period costs would depend on the views taken by the preparers. In this study, preparers were asked to state the method adopted in recognising period costs.

The integral perspective regards an interim period as part of the larger annual reporting cycle. Bartsch (1989) for example stated:

“Under this perspective, deferrals, accruals and estimates reported in each interim statement reflect the accountant’s belief of what is likely to transpire relative to the results of operations for the entire year. Essentially, interim-period allocations are components of interim accounting reports prepared by the integral method”.

Those who share the discrete view believe that each interim period should be treated as an accounting period distinct from the annual cycle. Under this method, deferrals, accruals and estimates at the end of each interim period should be determined by the principles that apply to the annual periods. The transactions reported in the interim period should reflect the economic activity of that period, rather than outcomes based on forecasts of the operations of the forthcoming year. The discrete view rests on the belief that when an annual period is both a discrete accounting period and a segment of the total life of an enterprise, the interim period should likewise be seen as both a discrete accounting period and a fraction of an annual period (MASB 2000). The only difference is that the interim figures must sum up to equal the annual figures.

There is an argument that both the discrete and integral approaches are distinct from

each other and may be adopted individually in preparing the interim financial statements. Another argument is that neither the discrete nor the integral approaches, in their pure form, produce entirely acceptable results. Therefore, it is argued that a combined approach should be adopted (Hamidi-Ravari 1999).

Accounting standards on interim reporting appear not to adopt either the integral or the discrete approaches in their strict sense. Essentially, a combination of both approaches has been adopted, but one may be integral-prone and the other discrete-prone.

Data on the application of accounting method in recognising period costs (discrete or integral) are shown in Table 4. It shows that 66.1 percent of the companies adopted the discrete method in dealing with most of the transactions, while 25.5 percent were inclined towards the integral method. Another 7.5 percent of companies showed no tendency towards any of the methods, while one respondent (0.9 %) did not state his method of recognising period costs. This implies that the discrete method has gained reasonable support from companies. At the time the quarterly reports under study were prepared, *MASB ED 30, Interim Financial Reporting*, was in place to provide guidance for the use of the discrete method.

Problems in Preparing Quarterly Reports

In the questionnaire, preparers were also asked to indicate their problems in preparing the quarterly

Table 4
Method of Recognising Period Costs

	Frequency	Percentage
Discrete method	29	27.4
Integral method	8	7.5
Both, but more towards the discrete method	41	38.7
Both, but more towards the integral method	19	18.0
No tendency of leaning towards any method	8	7.5
Missing opinion	1	0.9
Total	106	100.0

reports. Six problems were listed and preparers were asked to state their agreement on a scale of 1 ('strongly disagree') to 5 ('strongly agree'). The distribution of the responses is depicted in Table 5.

The figures in the brackets signify the percentages of the responses. For the first four problems, a mere majority of the preparers are 'undecided' or do not face these problems in preparing and disclosing the quarterly information. Due to the advanced computerised systems companies are expected to possess, time and cost would not be so much of a problem to them. Estimation and allocation of period costs also seem not to be much of a problem to the majority of preparers because a majority of them are using the discrete method. These problems may be

associated with the use of the integral method of reporting. To observe if the perceptions of managers towards the problem of estimating and allocating period costs would defer between those who use the discrete and integral approaches, a Chi-squared test was conducted. Results show that there were no differences in perceptions between both groups of users.

On the other hand, more preparers agree that 'revealing of information to the competitors' and 'seasonal activities of the company might result in unsatisfactory reports' are among the problems and difficulties that they face. For the problem of seasonality, the number of respondents is only 49 because only financial managers whose businesses are seasonal in nature are asked to answer the question.

Table 5
Perceptions on Problems in Preparing Quarterly Reports

	Strongly Disagree 1	Disagree 2	Undecided 3	Agree 4	Strongly Agree 5
	Frequency (percent)	Frequency (percent)	Frequency (percent)	Frequency (percent)	Frequency (percent)
1. Insufficient time to gather information to be able to produce quarterly reports (n=105)	10 (9.5)	44 (41.9)	17 (16.2)	29 (27.6)	5 (4.8)
2. Gathering and processing information are costly (n=103)	7 (6.8)	47 (45.6)	15 (14.6)	28 (27.2)	6 (5.8)
3. A lot of estimates involved (n=105)	3 (2.9)	51 (48.6)	20 (19.0)	25 (23.8)	6 (5.7)
4. Allocation of period costs to quarterly reports (n = 104)	4 (3.9)	42 (40.4)	18 (17.3)	38 (36.5)	2 (1.9)
5. Revealing of information to competitors (n=104)	6 (5.8)	22 (21.1)	28 (26.9)	34 (32.7)	14 (13.5)
6. Seasonal activities of the company might result in unsatisfactory reports (n=49)	2 (4.1)	10 (20.4)	7 (14.3)	17 (34.7)	13 (26.5)

One may argue that size of a company will influence financial managers' perceptions about the problems associated with the preparation of the quarterly reports. This is because large companies would normally have more subsidiaries which might give rise to some difficulties during consolidation. To determine whether size of a company would have any impact on the preparers' perceptions towards each of the problems, Chi-square tests were conducted. It was found that size has no significant influence on the perceptions. Regardless of the size of the company, (large if listed on the Main Board and small if listed on the Second Board) the financial managers' perceptions regarding the stated problems are the same. The fact that larger companies may have better internal control and more efficient reporting system than smaller companies might offset the problems and difficulties that they might have.

Preferences for Timeliness

Table 6 presents the results of preparers' preferences for the frequency and reporting lag of quarterly reporting.

Only half of the preparers prefer quarterly reporting and the remaining half are in favour of the half-yearly or tri-annually reporting. This shows that preparers were about equally divided between quarterly reporting and a less frequent reporting although quarterly reports have been mandated.

A majority of the preparers (62.3 %) prefer a reporting lag of 60 days. Thus, they support the current allowable period of two months, although 15.1 percent and 5.7 percent of them would prefer 45 or 30 days, respectively. The remaining 16.9 percent of the preparers prefer reporting lags of longer than 60 days.

Comments made by preparers in the open-ended questions may give some insights into the issue of reporting lags. A number of financial

Table 6
Preferences for Frequency and Reporting Lag

	Frequency	Percent
Frequency of reporting:		
Quarterly basis	54	50.9
Tri-annually basis	7	6.6
Half-yearly basis	45	42.5
Total	106	100.0
Reporting Lag:		
3 weeks	0	0.0
30 days	6	5.7
45 days	16	15.1
60 days	66	62.3
75 days	10	9.4
90 days	8	7.5
Total	106	100.0

managers stated that the current deadline of two months is very tight and may not give adequate time for management and the audit committee to review in detail and investigate figures, accounting bases and so forth. They were of the opinion that information released within two months may not be complete or provide insufficient details.

Preferences for Content and Auditor Involvement

In the questionnaire, preparers were further asked to state their preferences for the content of quarterly reporting and auditor involvement. The results are presented in Table 7.

A majority of the preparers (75.5 %) are content with the current requirement as prescribed

by the KLSE. Only 9.4 percent of the preparers preferred more disclosure, while the remaining 15.1 percent favoured less disclosure. The findings support the literature that the cost of preparing additional information and the fear that the information would jeopardise the preparers' competitive advantage may be the possible reasons for the competing perceptions.

Table 7 also reveals that a majority of preparers prefer some kind of auditor involvement, but they were less responsive to the idea of full audit. About 20 percent felt that no auditor's involvement is necessary. Earlier, it was reported that 49.1 percent of the companies involved no auditors in the preparation of their first three quarterly reports. Therefore, this study suggests

Table 7
Preferences for Contents and Auditor Involvement

	Freq.	%
Contents:		
Comprehensive as in corporate annual reports	1	0.9
More than is currently required but to a lesser degree compared to the annual report.	9	8.5
As it is now, as prescribed by the KLSE.	80	75.5
Less information than is currently required.	10	9.4
Some currently required information should not be disclosed while some other information should be disclosed.	6	5.7
Total	106	100.0
Auditor Involvement:		
Full audit similar to annual audit	2	1.9
Partial audit involving the verification of only material items.	12	11.3
Limited review involving no detailed testing of supporting data.	33	31.1
Management discusses interim results with auditors.	38	35.9
No examination of underlying figures undertaken by auditors.		
No external auditor involvement necessary.	21	19.8
Total	106	100.0

that although currently the reports do not involve auditors, preparers prefer to have some auditor involvement. However, only a few preparers show support for full audit. The fact that full audit is costly may explain the mild support for such degree of auditor involvement.

Confidence towards Reliability of Quarterly Reports

In the questionnaire, preparers were required to state their confidence towards the reliability of quarterly financial reporting on a scale of 1 to 5 ('not reliable at all', 'not reliable', 'undecided', 'reasonably reliable', and 'extremely reliable').

The mean scores of preparers' confidence towards the reliability of each of the four quarterly reports are depicted in Table 8.

The means of the perception scores reveal that preparers regard the fourth quarter's report the most reliable of them all. This is followed by reports of the third, second and first quarter which lie between 'undecided' and 'reasonably reliable'. Taking the fourth quarter reports as proxies for annual reports, the findings support the argument that annual financial statements provide more important input for investment decisions than do any of the other three quarterly reports (Givoly and Ronen 1981). Givoly

Table 8
Perceptions Towards the Reliability of Quarterly Reports

	Mean	Rank	T-test Sig. (between quarters)	
1 st Quarter	3.79	4		
2 nd Quarter	3.92	3	1 st and 2 nd	0.002**
3 rd Quarter	3.96	2	2 nd and 3 rd	0.351
4 th Quarter	4.48	1	3 rd and 4 th	0.000**

** Significant at 0.01

and Ronen argued that the three quarterly reports are less reliable than the annual reports because the former are more susceptible to random fluctuation, incorporate a seasonal element not easily isolated and are not audited.

It is observed that preparers rank the quarterly reports in ascending order of reliability. One possible explanation is that judgement in making estimates may improve as the year goes on. Any deficiencies reported in the earlier quarter(s) will be adjusted in the following quarter(s). As pointed out by Reilly et al. (1972), managers might encounter estimation problems in allocating expenses. As the year goes on, more information is available; therefore, better estimation could be made. The finding supports that of Coates (1972), who found that predictive ability improved with the issuance of each additional quarterly report.

Results of t-tests which compare the means of perception scores indicate that, the differences between the first and second quarter, and between the third and fourth quarter, are significant at the one percent level. However, there is no significant difference between the perceptions of respondents towards the reliability of the second and third quarter.

CONCLUSION

A number of important conclusions emerge from these findings. First, the findings provide evidence that preparers are about equally divided between the idea of quarterly reporting and a less frequent reporting. This may be due to the additional costs

(monetary and non-monetary) incurred to prepare the quarterly reports. In terms of the speed of issuing quarterly reports, a majority of preparers are content with the current regulation of two months. Secondly, as far as the contents of the quarterly reports are concerned, a majority of the preparers are satisfied with the current content of the quarterly reports, that is, as prescribed under the *KLSE Listing Requirements* before the 2002 amendments.

Thirdly on the issue of auditor involvement, a majority of preparers agree that management should at least discuss the quarterly results with the auditors. With respect to reliability preparers express the view that the quarterly reports are reliable. However, there is also evidence that the first three quarterly reports are perceived to be less reliable than the fourth quarterly reports. The finding is consistent with the literature, which contends that the quarterly reports are less reliable than the annual reports because the former are not audited. The fourth quarter's report is assumed a proxy for annual reporting. Overall, although this is an exploratory study and lacks conclusive findings, it provides useful insights as an avenue for more future research on quarterly reporting in Malaysia, as well as in other jurisdictions.

END NOTES

- ¹ Currently known as Bursa Malaysia
- ² As suggested by Hofstede (1991) in Haniffa and Cooke (2002), low masculinity was characterised by values such as being considerate, caring and preserving 'face', while high power distance was evidence by values such as respect for others, acceptance of social rank, and loyalty to the ruler.

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