INTERNATIONAL ACCOUNTING STANDARDS AND FINANCIAL REPORTING QUALITY IN TRINIDAD AND TOBAGO

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ABSTRACT

The purpose of this study is to examine the quality of financial reporting by publicly listed Trinidad and Tobago (T&T) companies before and after the country adopted the international accounting standards as its national standards. Two researchers independently analyzed the content of the published financial statements of sixteen public companies for the year prior to the adoption of the IAS (1987) and for eight years after the adoption of the IAS (1999-2006). The results indicate that the overall quality of financial reporting by publicly traded T&T companies improved following the adoption of IAS.

1.0   Introduction

The purpose of this study is to examine the quality of financial reporting by publicly listed Trinidad and Tobago (T&T) companies before and after the country adopted the international accounting standards as its national standards. In 1988 the Institute of Chartered Accountants of Trinidad & Tobago (ICATT), the body authorized to develop National Accounting Standards for companies, formally adopted the accounting standards issued by the International Accounting Standards Committee (IASC).[1]

According to the ICATT, this decision would lead to higher quality financial reporting and associated benefits, such as more efficient capital markets and easier and cheaper access to international capital. These expectations were rationalized in part by the idea that with the adoption of the IAS, accounting professionals would be required to use high quality guidance for most major financial statement items, thereby reducing the number of opportunities available for companies to use questionable accounting practices. Also, given Kinney and McDaniel's (1993) finding of an indirect relationship between the amount of auditor – client negotiations over proper recognition / disclosure and the timeliness of financial reporting, it seems plausible that the adoption of IAS is likely to enhance the bargaining position of auditors relative to client management, due to the new, non-discretionary nature of the IAS. This is likely to reduce delays in the release of financial reports. Similar arguments have been advanced to explain the European Union's adoption of IAS for its member countries effective 2005 (Ball et al. 2003).

However, the overall findings of empirical research into this issue have been mixed with some researchers (e.g. Verdi 2006) providing evidence to support the expectation while others (e.g. Cohen 1993) provided contradictory findings.

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[1] This is the overall governing body for International Financial Reporting (Accounting) Standards and was restructured into the International Accounting Standards Board (IASB) in 2001.

Empirical research has supported the importance of high quality published financial information for investors. For instance, the Association for Investment Management and Research (AIMR) reported in 2003 that 73% of its members rated the disclosure practices and overall financial reporting quality of firms as very important factors in investment decisions and recommendations.

Notwithstanding the theoretical and empirical support for the importance of high quality financial information for the stakeholders of publicly listed firms, no systematic attempt has been made by T&T regulators, the ICATT or academic researchers, following the adoption of the IAS, to determine whether the anticipated improvements in financial reporting quality (FRQ) have been realized. This is unfortunate, given the high costs imposed on preparers and investors by the adoption of the IAS. It is also glaring, given the fact that several organizations in other markets routinely assess FRQ. Therefore, the absence of such assessments in the T&T capital market may serve as a barrier to the inflows of international financial capital that the adoption of the IAS was intended to promote.

This paper helps to rectify this situation by examining the quality of financial reporting by publicly listed T&T companies before and after the adoption of IAS. It also examines whether financial reporting quality among publicly listed firms is related to industry affiliation and firm size.

To investigate these issues, the financial statements of 16 publicly listed companies were subjected to content analyses. FRQ was conceptualized using two qualitative characteristics from the International Accounting Standards Board's (IASB) conceptual framework, relevance and reliability (IASB, 2005). We noted the time between the fiscal year end and the date of the audit report of each company (timeliness), the degree of compliance with selected requirements of six IAS (degree of compliance-reliability) and the appropriateness of the audit opinion given to each company (appropriateness of audit opinion reliability). The data was analysed using non-parametric statistical techniques. The results indicate that the overall FRQ by publicly listed T&T companies improved following the adoption of IAS. The findings also suggest that firm size

and industry affiliation may be significant predictors of FRQ among publicly traded T&T companies.

The remainder of the paper is organized as follows. First, we describe the financial reporting environment in T&T to allow the reader to contextualize the findings related to the primary research questions. Next, we review the prior literature and describe the research methodology used to conduct the study. Then we present the data analysis and results. In the final section we discuss the findings and present conclusions, limitations and implications of the study.

2.0 Nature of Financial Reporting Environment in Trinidad and Tobago

The pronouncements of international professional accountancy bodies and the legislative framework in Trinidad and Tobago play critical roles in shaping the country's financial reporting practices.[2] Three pieces of legislation – the Companies Act, the Securities Industry Act, and the Act incorporating the local professional accountancy body – are particularly influential. In turn, as a culturally dominated society (Nobes 1998) and a satellite of the western metropolis (Wallace and Briston 1993), both the T&T legislative framework and its professional accountancy pronouncements are influenced by the country's colonial legacy and its dominant economic and social ties.

Prior to the adoption of the IAS as the national standards of T&T on February 24, 1988, neither the ICATT nor the government of T&T had officially prescribed any accounting standards for T&T.[3] As a result,

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2 Other factors identified in the international accounting literature, such as the corporate financing system in place when the accounting systems were developed, the level of education, the level of economic development, and the social, political and taxation systems of a country (Nobes 1998) seem to have little unique explanatory power regarding the nature of financial reporting in T&T.

3 Prior to February 1988, ICATT's policy regarding IAS was to adopt individual IASs as appropriate after conducting a detailed review of each IAS, and making modifications as necessary to suit local peculiarities (Lucie-Smith 2002). Interviews with two past presidents of ICATT (Messrs. William Lucie-Smith

members of the ICATT, the T&T accounting profession as a whole, and corporate issuers of financial reports selected, generally accepted accounting principles (GAAP) from several jurisdictions based, in part, on the preferences of auditors and the outcome desired by the management of the reporting entity.

When the ICATT adopted the IAS as the national accounting standards of T&T in 1988 the financial reporting environment changed drastically. It meant that publicly traded companies, and their auditors, were legally required to comply with the IAS in their published financial statements.

3.0   Literature Review

3.1   Definition of Financial Reporting Quality

Several groups have attempted to define FRQ, including the Financial Analysts Federation (FAF), a branch of the AIMR; the Financial Accounting Standards Board (FASB); and the IASB. While the content and scope of these definitions vary, FRQ generally refers to the extent to which the published financial statements and related disclosures capture the essence of the operations and financial position of the reporting entity (Robinson and Munter 2004).

As used in this study, FRQ is conceptualized using two qualitative characteristics from the IASB conceptual framework (IASB 2005). The first feature, relevance, captures the ability of information to influence users' decision-making processes and comprises timeliness, predictive value and feedback value. This study focuses on the timeliness dimension of relevance. The second feature, reliability, refers to the extent to which information is free from material errors and bias, and can be depended upon by users to faithfully represent that which it purports to represent. It comprises the attributes of neutrality, representational faithfulness,

and Vishnu Maharaj) failed to indicate when this policy began and which IASs were adopted under this policy.

substance-over-form, completeness and prudence. This study focuses on the representational faithfulness dimension of reliability.

3.2   Importance of Finance Reporting Quality

Empirical research has supported the importance of high quality published financial information for investors. For instance, Cohen (2003) reported that FRQ was positively related to the precision of investors' belief about future earnings. Also, Frost et al. (2006) reported a positive relationship between FRQ and emerging market companies' access to global capital markets.

Other researchers have found that markets apparently penalize firms for delaying the release of financial information, as firms that announce earnings late are, on average, viewed more negatively by the market than those that announce earnings early (Givoly and Palmon 1982; Chambers and Penman 1984). For instance, Chambers and Penman (1984) provided evidence that investors interpret the failure to report on time as a forecast of bad news.

It has also been suggested that delays in the release of audited financial information can diminish the value of public disclosures and create inequity among market participants with differing levels of access to private information (Chambers and Penman 1984; Knechel and Payne 2001). For instance, Knechel and Payne (2001) reported that the value of information from audited financial statements wanes as the timeliness declines, probably because competitively oriented users may obtain information from alternative sources. In this environment, relatively "well-informed" investors can then exploit their private information at the expense of relatively "less-informed" counterparts. Similarly, Givoly and Palmon (1982) reported greater responsiveness of securities prices to early earnings announcements than to late announcements and attributed this to a decrease in the information content as timeliness declines.

The timely release of corporate financial reports assumes greater importance in emerging economies such as Trinidad and Tobago since other non-financial statement sources such as media releases, news conferences and financial analysts' forecasts are not well developed and

regulatory bodies are less effective than in developed countries (Wallace and Briston 1993).

3.3   Factors Influencing Financial Reporting Quality

There is substantial consensus that the financial reporting practices adopted in a particular jurisdiction, and the quality of financial reporting, are sensitive to several factors including firm characteristics, the incentives of the managers and auditors responsible for financial statement preparation and the quality of accounting standards comprising GAAP (Ball et al. 2003 Holthausen 2003). There is also evidence which suggests that the relative importance of these factors may vary across jurisdictions (e.g. Leuz 2003; Ball et al. 2003). Two firm characteristics that have received considerable research attention as potential determinants of FRQ are Industry Affiliation and Firm Size. See Karim et al. (2006) for a comprehensive review of the FRQ literature. Those studies that are particularly relevant to this paper are reviewed below.

3.3.1   Industry Affiliation and Financial Reporting Quality

We expect that firms in the banking industry will provide higher quality financial reporting than firms in other industries. This expectation is consistent with an extensive body of empirical evidence from a wide range of reporting jurisdictions (e.g. Knechel and Payne 2001 – USA; Bamber et al. 1993 – USA; Ashton et al. 1989; Newton and Ashton 1989 – Canada; Carslaw and Kaplan 1991 – New Zealand; Abdulla 1996 – Bahrain; Simnett et al. 1995 – Australia.

These studies have consistently found that the timeliness of financial reporting varies systematically across industries, with financial firms out-performing non-financial firms. For instance, Bamber et al. (1993) reported that on average banks released audited financial statements 17 days earlier than firms in other industries. Based on this evidence the following hypothesis is presented:

> **H1:** *Financial Reporting Quality (FRQ) will be better for banks than for other firms*

3.3.2 *Firm Size and Financial Reporting Quality*

Dyer and McHugh (1975) pioneered research on financial reporting timeliness and found that it was inversely related to firm size. This finding has been replicated by several studies in different countries. For example, Ashton et al. (1989), Bamber et al. (1993), Jaggi and Tsui (1999), Gilling (1977) , Abdulla (1996), Owusu-Ansah (2000) and Karim et al. (2006) all noted a positive relationship between firm size and the timeliness of financial reporting (report lag) for firms in Canada, USA, Hong Kong, New Zealand, Bahrain, Zimbabwe and Bangladesh, respectively.

These findings are consistent with the idea that larger firms are more likely than their smaller counterparts to be audited by international CPA firms which, as noted by Ashton et al. (1989), are likely to complete audits of large clients on a more timely basis because of their resources and experience, Also, larger audit firms have been associated with better audit quality (Palmrose 1988; Krishnan 2003). Therefore, larger audit firms have more reputational capital at stake and may be less inclined to overlook a material misstatement than their smaller counterparts (Palmrose 1988).

Conversely, other studies have provided evidence of a positive relationship between firm size and the timeliness of financial reporting. For instance, Henderson and Kaplan (2000) reported that increases in the size of US commercial banks were associated with longer financial reporting lags. They suggested that this may be related to the greater complexity of larger banks. Also, using a sample of Australian firms, Whittred (1980) reported an inverted U-shaped relationship between firm size and financial reporting timeliness, with small and large firms providing more timely reports than their medium-sized counterparts. Furthermore, Simnett (1995), Courtis (1976) and Ahmed (2003) found no relationship between firm size and financial reporting timelines among Australian, New Zealand and Bangladesh firms, respectively.

Based on this mixed evidence, the following non-directional hypothesis is presented:

H2: *Financial Reporting Quality (FRQ) is related to Firm Size*

4.0 Methodology

4.1 Research Design

This study employed one of the designs suggested by Holthausen (2003) as ideally suited to analysing differences in reporting outcomes as a function of changes in accounting standards. We employ an *ex post facto* design that held financial incentives (including the nature and intensity of enforcement mechanisms) approximately stable during the study period while there was one major change in accounting standards. That change involved the adoption of IAS as the financial reporting standards of Trinidad and Tobago effective 1988. This setting allows us to test for the effects of two distinct standard regimes, the pre-1988 period when there were no mandated standards [4], and the post-1987 period when IAS was required and when the quality of the IAS had improved (Holthausen 2003). [5] A similar design was used by Leuz (2003) to study liquidity and information asymmetry for German firms listed on the "New Market".

4.2 Procedure Used to Select Public Companies and Years Examined

The entire population of companies listed on the Trinidad and Tobago Stock Exchange (TTSE) in 1987 was eligible for inclusion in the study (21 firms). This group was considered the most sophisticated

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4 The nature of this regime means that some firms may have adopted IAS before they became mandatory, a fact which potentially makes it more difficult to identify changes in financial reporting quality due to the mandatory adoption of the IAS. This complication is somewhat ameliorated by the differing quality of IAS before and after they became mandatory in Trinidad and Tobago (see Holthausen 2003).

5 The improved quality of the IAS is the result of the IASC's Comparability/Improvement Projects which commenced in 1987.

presenters of financial statements in T&T. Initially all firms trading on the TTSE in 1987, the year prior to the adoption of the IAS, were identified. Then, all 1987 firms that were still trading in the years 1999 to 2006 (the comparison years), a total of sixteen firms were included in the study. [6]

The 1999 financial statements were selected as the first comparison year primarily because 1999 was the first full fiscal year after the IAS strengthened its policy (IAS1) regarding the use of the IAS to enhance compliance by adopting firms. Additionally, by using 1999 to 2006 as comparative years we are able to get a better idea of the change in FRQ, following the adoption of IAS, than would have been obtained if only one comparative year had been used.

4.3 Procedure Used to Examine Financial Statements

4.3.1 *Timeliness of Financial Reporting*

Timeliness of Financial Reporting was operationalized as the number of days between the fiscal year end of each firm and the date of the audit report for each year examined. This information was then compared with the 90-day period allowed by Section 56(2)a of the Securities Industries Act (1995) for the filing of annual financial statements by listed companies to determine whether the deadline was

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6   There were 21 firms listed on the TTSE in 1987 that number had risen to 26 in 1999 and 2000, 29 in 2001, 30 in 2002, 32 in 2003, 33 in 2004 and 2005, and 34 in 2006. The firms included in the study were Agostini's Limited, Angostura Holding Limited, ANSA Mc Al Limited, Barbados Shipping and Trading Company Limited, Berger Paints Limited, Flavorite Foods Limited, Furness Trinidad Limited, Lever Brothers (West Indies) Limited, L.J. Williams Limited, Neal and Massy (Holdings) Limited, Point Lisas Industrial Port Development Corporation (PLIPDECO), Trinidad Publishing Company Limited, Royal Bank (Trinidad and Tobago) Limited, Republic Bank (Trinidad and Tobago) Limited, Scotia Bank (Trinidad and Tobago) Limited and CIBC (West Indies) Holdings Limited. This decision to hold the sample of firms stable for all years examined was intended to minimize the possibility that some element of the financial reporting incentive structure, such as ownership structure, would have changed appreciably during the study period.

being achieved. Also, the 1999 – 2006 timeliness scores were compared with that for 1987 to evaluate the change in the timeliness of financial reporting following the adoption of the IAS.

4.3.2 *Appropriateness of Audit Opinion*

Appropriateness of Audit Opinion was operationalized by first examining the contents of each financial statement and noting any deviations from selected measurement and disclosure requirements of six international accounting standards. These deviations are summarized in Table 1. [7] Next, the deviations noted were compared with the requirements of the International Standards on Auditing and IASI to determine whether they (the deviation(s)) appear to have warranted a modification to the standard unqualified audit report.

4.4   **General Procedure**

This assessment was guided by the fact that both the International Standard on Auditing and the IAS dictate that wrong or inappropriate treatment of items in the financial statements is not rectified either by disclosure of the accounting policies used or by notes or other explanatory material. These criteria also provide that if the effects of such departures from GAAP are likely to be material, [8] even though the

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[7] The following six financial statement elements that are governed by the IAS adopted by T&T were selected for analysis: Expense Recognition for Retirement Benefit Plans; Depreciation of Property Plant and Equipment; Valuation of Property Plant and Equipment; Valuation of Short-term Investments; Valuation of Associated Companies and; Inventory Cost Flow Assumptions. These financial statement elements were chosen based on their being identified as areas prone to diversity in prior studies, and the perceived likelihood of the permitted alternative accounting treatments having a material effect on asset valuation and income determination (Hoyle et al. 1998; Street and Shaughnessy, 1998).

[8] The determination of materiality is situation specific and highly judgmental. It depends on the complex interaction of factors such as the nature of the financial statement item, its measurability and its relative size. Since all the detailed circumstances surrounding the deviations from GAAP noted above for the sample firms are not available to the researchers, the statements concerning their materiality are tentative as are the comments about the appropriateness of the audit opinions.

overall financial statements are fairly presented (present a true and fair view), then the audit report must be modified from the standard unqualified format.

The nature of the actual audit report (clear, qualified, adverse or disclaimer) was then compared with the suggested report determined above and an assessment made about its appropriateness. At this stage we also assessed whether the auditors met the requirement of ensuring that significant departures from GAAP are disclosed and stating the extent of their concurrence, and if so, a justification for their concurrence.

Two researchers independently performed this procedure. Where their findings conflicted, the item(s) in question was re-examined by both reviewers and a mutually agreeable decision reached.

4.4.1 Firm Size

Firm Size was operationalized using the average gross revenues of firms and was dichotomized at the median sales level ($371m for the period 1999-2006). [9] According to this criterion all four banks included in the sample were classified as large.

4.4.2 Industry Affiliation

Industry Affiliation was operationalized as a dichotomous variable. Firms were classified as belonging to either the banking industry or "other" industries. The "other" category comprises 12 companies. Six of these companies operate in the manufacturing industry, four companies are conglomerates, one company is engaged in publishing and one company is involved in property development and management.

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9 For all nine years included in this study the same set of firms were classified as small (and large). The median gross sales are based on the each firm's mean gross revenues for the period 1999 to 2006.

Table 1
Summary of Non-Compliance with IAS Requirements
Panel A: By Industry

IAS No. & Description	1987		1999		2000		2001		2002		2003		2004		2005		2006	
	Bank	Other	Bank	Other	Bank	Other	Bank	Other	Bank	Other	Bank	Other	Bank	Other	Bank	Other	Bank	Other
2 - Inventory	NA	6	NA	4	NA	2	NA	1	NA	0	NA	0	NA	1	NA	1	NA	1
4 and 16 – PPE and Depreciation	0	8	0	1	0	1	2	5	2	2	2	2	0	0	0	0	0	0
18 – Revenue	6	11	3	5	3	4	0	1	0	1	0	0	0	0	0	0	0	0
25 - Investments	1	4	2	2	0	2	0	1	0	1	0	0	0	0	0	0	0	0
19 and 26 – Retirement Benefit Plans	18	36	10	6	3	4	2	0	2	0	2	0	0	0	0	0	0	0
27 – Associated companies	2	6	0	7	0	6	0	0	0	0	0	0	0	0	0	0	0	0
Total number of deviations	27	71	15	25	6	19	4	8	4	4	4	2	0	1	0	1	0	1

Panel B: By Firm Size

IAS No. & Description	1987		1999		2000		2001		2002		2003		2004		2005		2006	
	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small
2 - Inventory	5	1	4	0	2	0	0	0	0	0	0	0	0	1	0	1	0	1
4 and 16 – PPE and Depreciation	3	5	1	0	0	1	5	2	5	2	5	2	0	0	0	0	0	0
18 – Revenue	10	7	4	4	5	2	0	1	0	1	0	0	0	0	0	0	0	0
25 - Investments	2	3	4	0	0	2	1	0	0	0	0	0	0	0	0	0	0	0
19 and 26 – Retirement Benefit Plans	29	26	11	5	3	4	2	0	2	0	2	0	0	0	0	0	0	0
27 – Associated companies	4	4	2	3	3	3	0	0	0	0	0	0	0	0	0	0	0	0
Total number of deviations	53	45	27	12	13	12	8	3	7	3	7	2	0	1	0	1	0	1

5.0   Data Analysis and Results

The data on the timeliness of financial reporting and the appropriateness of auditors' opinions were independently analysed.   The analysis was mainly restricted to informal review of descriptive statistics because of the small sample size, the assumed inherently low frequency of questionable audit opinions and the fact that more than 76 % of the 1987 population of publicly traded firms were included in the sample.   Non-parametric statistics were also used to analyse the timeliness of financial reporting data.

5.1   Description of Sample

As shown in Table 2, the average firm in the sample had gross revenues of $794M for the period 1999-2006 (SD $854M). Table 2 also shows that firms in the banking industry had higher average gross revenues ($1,338.5M) than their counterparts in other industries ($609.7M). The average firm had total assets of $4,831M and total liabilities of $7,417M for the eight year period 1999-2006 (SD $8,275M and $7,417M, respectively).

At the level of the industry, the average total assets ($17,495M) and average total liabilities ($15,569M) of banks were larger than the average total assets ($839.7M) and average total liabilities ($497M) of firms in other industries. Also, consistent with the situation internationally, the average bank was more highly levered (89%) than the average firm in other industries (59%).

5.2   Appropriateness of Audit Opinions

As shown in Panel A of Table 3, all 16 firms received clean/unqualified audit reports for eight of the nine years examined. One firm received a qualified audit opinion in 2001. Conversely, our examination revealed that during four of the comparative years examined (1999 – 2003), there were firms whose financial statements contained deviations from the International Standard on Auditing and/or the IAS that may have warranted a departure from the clean (unqualified) audit

report but still received unqualified audit reports (i.e., they received an audit opinion of questionable reliability). These deviations are summarized in Table 4.

Table 2

Demographic Profile of Sample Firms

Panel A -	Average Gross Revenues 1999 – 2006 (millions)				
		N	**Mean**	**Median**	**SD**
	Banks	4	$1,388.5	$1,501.7	$865.8
	Other	12	609.7	155.7	667.7
	Total sample	16	$794.1	$377.1	$854.3
Panel B -	Average Total Assets 1999 – 2006 (millions)				
		N	**Mean**	**Median**	**SD**
	Banks	4	$17,494.8	$16,554.7	$9,873.5
	Other	12	839.7	149.8	1,203.8
	Total sample	16	$ 4,831.4	$ 653.5	$8,274.9
Panel C -	Average Total Liabilities 1999 – 2006 (millions)				
		N	**Mean**	**Median**	**SD**
	Banks	4	$15,569.1	$14,702.1	$8,706.3
	Other	12	496.7	71.2	783.9
	Total sample	16	$ 4,109.9	$ 268.3	$7,417.3
Panel D -	Mean Leverage				
	Banks	89.0%			
	Other	59.2%			
	Total sample	85.1%			

An examination of Table 3 revealed a difference in the nature of the deviations identified during the earlier years (1987, 1999 and 2000) when compared to the later period (2001 to 2006). In each of the three earlier years, at least one firm failed to implement at least one entire IAS. On the other hand, none of the deviations in the later years involved such a failure.

Table 3
Appropriateness of Audit Opinions

PANEL A – Overall	1987	1999	2000	2001	2002	2003	2004 - 6
Number of firms with clean audit reports	16	16	16	15*	16	16	16
Number of firms with questionable audit reports	5[1]	4[2]	4[3]	2[1]	3[1]	1[1]	0

PANEL B	1987		1999		2000		2001		2002		2003		2004 - 6	
By Industry Affiliation	Banks	Other	Banks	Other	Banks	Other	Banks	Other	Banks	Other	Banks	Other	Banks	Other
Number of Inappropriate audit opinions	2	3	1	3	1	3	0	2	0	3	0	1	0	0
No. of firms	4	12	4	12	4	12	4	12	4	12	4	12	4	12
Percentage of firms	50	25	25	25	25	25	0	16.67	0	25	0	8.33	0	0

PANEL C	1987		1999		2000		2001		2002		2003		2004 - 6	
By Firm Size	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small	Banks	Other
Number of inappropriate audit opinions	5	0	2	2	3	1	1	1	1	2	0	1	0	0
No. of firms	8	8	8	8	8	8	8	8	8	8	8	8	8	8
Percentage of firms	63	0	25	25	37.5	12.5	12.5	12.5	12.5	25	0	12.5	0	0

* One company received a modified audit report for failing to include profits of $2.2 million on the sale of Treasury securities in the Income Statement rather than the Stockholders' Equity section of the Balance Sheet.

(1) Big 4 public accounting firms audited all companies.

(2) An international CPA firm audited two companies, while two Big 4 firms audited the other two companies.

(3) A local CPA firm audited one company while two Big 4 firms audited the two other companies.

Table 4
Nature of Departures from IAS Requirements

1987 1 company did not depreciate freehold investment properties valued in excess of $18M. This likely resulted in the overstatement of income and assets.

1 company provided no details regarding equity compensation benefits for its CEO. Neither the accounting policy nor the amount of expense for the current period was disclosed, contrary to the IAS.

2 companies failed to adopt IAS 12 and asserted that its use would be misleading or immaterial. The auditor did not explicitly comment on these assertions.

1 company established a $50M "cookie jar reserve" from retained earnings to provide for unforeseen contingencies rather than passing the items through the income statement

1999 3 companies failed to implement IAS 19 – Pensions.

1 company did not use full costing to value merchandise inventory for a subsidiary company.

1 company inappropriately accounted for its interest in an associated company using the cost method.

N.B. One company had two deviations.

2000 2 companies did not implement IAS 19, 1 claiming it would not have a material effect on the financial statements but did not substantiate the assertion.

1 company did not depreciate certain commercial properties.

1 company accepted gains and losses on the revaluation of investment properties to the revaluation reserve account rather

than the profit and loss account as required by the benchmark treatment of IAS 40. This same firm failed to provide for depreciation on these properties according to the old standard (IAS 16). This was also contrary to the general principle of conservation, which suggests that only decreases in the value of investment properties should be booked.

2001 1 company excluded the cost of direct labour and manufacturing overheads for the value of its work in process and finished goods inventories.

1 company failed to disclose its policy for the treatment of unrealized gains and losses on securities classified as Available for Sale.

2002 2 companies excluded the cost of direct labour and manufacturing overheads for the value of their work in process and finished goods inventories. In both cases, this resulted in an understatement in asset value of just over $0.5 million.

1 company included $9.3 million unrealized gains and losses on Available for Sale Securities in the Income Statement and classified the securities as "current" in the Balance Sheet.

2003 1 company excluded the cost of direct labour and manufacturing overheads from the value of its work in
2006 process and finished goods inventories. These inventories were valued at TT$0.66M, 0.56M, 1.06M and 1.72M in 2003, 2004, 2005 and 2006, respectively.

It is also apparent from Table 3 that the number of firms receiving questionable audit opinions fluctuated during the period examined but displayed a generally downward trend. Five firms received questionable audit opinions in 1987 compared with one firm during the period 2003 to 2006. This overall downward trend is also evident in the distribution of questionable audit opinions across the two industry categories (see Panel B of Table 3). In the case of the banking industry, the number of questionable audit opinions declined from two in 1987 to one in 1999 and 2000, and zero during the period 2001-2006. The distribution of questionable audit opinions among "Other" companies was fairly stable between 1987 and 2002 but after declining in 2003 ended the period at the same level as for banks, zero. Based on these results H1 was not supported for the "appropriateness of audit report" measure.

A similar trend is observed in the distribution of questionable audit opinions among larger firms (see Panel C of Table 3). In 1987, all five firms that received questionable audit opinions were classified as larger, compared to two firms in 1999, three firms in 2000, one firm in 2001 and 2002 and none during 2003 – 2006. In the case of smaller firms, the number of questionable audit opinions fluctuated from one year to the next. These findings suggest a slight decline (increase) in the incidence of questionable audit opinions overall and among large (small) firms after the adoption of the IAS. Based on these findings for the "appropriateness of audit report" measure, H2 was supported for five of the eight comparative years examined (1999 – 2003).

Another potentially important finding relates to the nature of the auditing firms that issued the questionable audit reports. Of the 19 questionable audit reports issued during the nine years examined, a local auditing firm issued only one. Furthermore, as shown in Table 1, there was a large and continuous reduction in non-compliance with the requirements of the IAS after they were adopted as the national standards of T&T.

5.3.   Timeliness of Financial Reporting

This section describes the timeliness of financial reporting by publicly traded T&T companies. The statistics presented in Table 5 indicate, among other things, that the overall timeliness of financial reporting seems to have been better in only three of the eight comparative years (1999, 2000 and 2001) than in 1987. The mean (median) number of days that elapsed between the companies' fiscal year-ends and the issuance of their audit report declined from approximately 64 (56) days in 1987 to 57 (48) days in 1999, 53 (48) days in 2000, and then increased to 60 (55) days in 2001. The upward trend continued in 2002 and 2003 before declining in 2004 only to increase again in 2005 and 2006. As a result, the mean (median) timeliness scores were higher in 2006 than in 1987.

A Friedman test was conducted to evaluate the differences in the median timeliness scores for 1987 (median = 56 days), 1999 (median = 48 days), 2000 (median = 48 days), 2001 (median = 55 days), 2002 (median = 79 days), 2003 (median = 58 days), 2004 (median = 63 days), 2005 (median = 64 days) and 2006 (median 64 days). The test was not statistically significant, $\underline{X}^2$ ($\underline{df}$ = 8, $\underline{N}$ = 16) = 12.74, $\underline{P}$ = 0.121.

The median/mean timeliness scores for all nine years examined were lower than the statutory limit of 90 days established in the T&T Securities Industry Act (1995). A one-sample $\underline{t}$ test was conducted to determine whether the mean timeliness score for each year was different from the statutory time allowed for financial reporting. The results indicated that the mean timeliness score each year was significantly lower than 90 days ($\underline{t}(\underline{15})$ ≤ 2.25, $\underline{p}$ ≤ 0.04). The effect size, $\underline{d}$ ≥ 0.56 indicates at least a medium effect and suggests that publicly traded T&T companies were taking less than the statutorily allowed time to publish their annual financial statements.

Table 5
Overall Timeliness of Financial Reporting (Days)

	N	**Mean**	**Median**	**SD**	**Range**	**SE Mean**
1987	16	63.87	56.00	31.99	102	8.00
1999	16	56.56	48.00	34.81	119	8.70
2000	16	52.50	48.00	28.24	96	7.06
2001	16	59.88	54.50	37.14	139	9.28
2002	16	68.44	79.00	30.04	93	7.51
2003	16	68.50	58.00	36.05	135	9.01
2004	16	65.19	63.00	27.94	93	6.96
2005	16	67.06	63.50	32.99	139	8.25
2006	16	70.31	63.50	35.04	137	8.76

* Statutory requirement – 90 days

Based on the descriptive statistics, the timeliness of financial reporting apparently varied systematically with firm size and industry affiliation. As shown in Table 6, the timeliness of financial reporting by both smaller and larger firms fluctuated over the nine years examined. Also, the smaller firms were not as timely as their larger counterparts in producing their financial reports during all nine years examined. The difference in mean (median) timeliness between small and large firms was 16 (11) days in 1987, 30 (19) days in 1999, 15 (15) days in 2000, 21 (37) days in 2001, 14 (19) days in 2002, 39 (35) days in 2003, 26 (25) days in 2004, 27 (27) days in 2005, and 27 (30) days in 2006. However, the results of the Mann-Whitney $\underline{U}$ tests conducted to evaluate the difference in average timeliness rank between smaller and larger firms for each of the nine years examined were only statistically significant in 2003 ($\underline{Z} \leq$ - 2.32; $\underline{P} \leq 0.03$). See Panel B of Table 6. H2 was only supported for one of the

eight comparative years based on the "financial reporting timeliness" measure.

Notwithstanding this finding, and given the small sample used in this study, it is quite likely that the observed difference in timeliness between smaller and larger firms could influence the potential usefulness of the financial information involved (i.e. it may have practical significance) for all nine years examined.

In terms of industry affiliation, companies in the banking industry consistently provided more timely information than companies in other industries during the nine years examined. The difference between the mean (median) timeliness scores of banks and other firms was 29 (29) days in 1987, 45 (38) days in 1999, 41 (26) days in 2000, 43 (45) days in 2001, 30 (51) days in 2002, 46 (40) days in 2003, 41 (37) days in 2004, 43 (40) days in 2005 and 48 (42) days in 2006. See Panel A of Table 7.

For each of the nine years examined, a Mann-Whitney U test was performed to evaluate whether the average rank of timeliness score for companies in the banking industry was lower than that for companies in other industries. The results of this test were statistically significant, $Z \leq -1.70$ $P \leq .05$ for seven of the nine years examined. See Panel B of Table 7 for details. Additionally, the mean timeliness scores for the banking industry fluctuated with an overall downward trend during the nine years examined. Companies in the "Other" category also experienced fluctuations in timeliness scores during the period examined. However, they ended the period with higher timeliness scores (less timely reporting) than they had at the beginning of the period. See Table 7. Overall, H1 was supported for the "financial reporting timeliness" measure.

Table 6
TIMELINESS BY FIRM SIZE (GROSS SALES)

	Size	N	Mean	Median	SD	Range	SE Mean
1987	Smaller	8	71.75	67.00	32.26	77	11.40
	Larger	8	56.00	56.00	31.78	86	11.24
	Difference		15.75	11.00			
1999	Smaller	8	71.38	61.00	40.87	110	14.45
	Larger	8	41.75	42.00	20.63	49	7.29
	Difference		29.63	19.00			
2000	Smaller	8	60.00	54.00	27.85	80	9.85
	Larger	8	45.00	39.00	28.38	79	10.03
	Difference		15.00	15.00			
2001	Smaller	8	70.25	71.00	43.83	139	15.50
	Larger	8	49.50	34.50	28.08	68	9.93
	Difference		20.75	36.50			
2002	Smaller	8	75.38	80.50	28.75	90	10.16
	Larger	8	61.50	62.00	31.59	75	7.51
	Difference		13.88	18.50			
2003	Smaller	8	87.88	77.00	39.46	117	13.95
	Larger	8	49.13	42.00	19.23	47	9.01
	Difference		38.75	35.00			
2004	Smaller	8	77.88	68.50	27.83	73	9.84
	Larger	8	52.50	44.00	23.02	56	8.14
	Difference		25.38	24.50			
2005	Smaller	8	80.25	74.00	37.16	119	13.14
	Larger	8	53.88	47.50	23.54	61	8.32
	Difference		26.37	26.50			
2006	Smaller	8	83.75	74.50	36.04	109	12.74
	Larger	8	56.88	45.00	30.32	85	10.72
	Difference		26.87	29.50			

Table 6 (Continued)
PANEL B: MANN-WHITNEY U-TEST
Test Statistic

	1987	1999	2000	2001	2002	2003	2004	2005	2006
Mann-Whitney U	23.00	17.00	21.000	23.5	24.50	10.00	16.00	17.50	17.00
Wilcoxom W	59.000	53.00	75.000	59.5	60.50	46.00	52.00	53.50	53.00
Z	-0.945	-1.578	-1.157	-0.895	-0.788	-2.317	-1.682	-1.524	-1.576
Asymp.Sign (2 tailed)	0.345	0.115	0.247	0.371	0.431	0.020	0.093	0.128	0.115

Table 7
PANEL A: Timeliness of Financial Reporting (Days) by Industry

	INDUSTRY	N	MEAN	MEDIAN	SD	RANGE	SE MEAN
1987	Other	12	71.08	65.50	27.43	77	7.92
	Banks	04	42.25	27.50	39.04	86	19.52
	Difference		28.83	28.50			
1999	Other	12	67.75	59.50	33.19	110	9.58
	Banks	04	23.00	22.00	4.24	10	2.12
	Difference		44.75	37.50			
2000	Other	12	62.75	58.50	24.95	80	7.20
	Banks	04	21.75	22.50	5.06	10	2.53
	Difference		41.00	26.00			
2001	Other	12	70.58	72.00	37.14	139	10.72
	Banks	04	27.75	27.00	2.22	5	1.11
	Difference		42.83	45.00			
2002	Other	12	75.92	81.50	26.11	90	7.54
	Banks	04	46.00	31.00	33.43	70	16.71
	Difference		29.92	50.50			
2003	Other	12	79.82	72.50	34.73	123	10.03
	Banks	04	34.50	33.00	4.51	10	2.26
	Difference		45.32	39.50			
2004	Other	12	75.75	71.00	23.86	73	6.89
	Banks	04	35.50	34.00	5.05	12	2.75
	Difference		40.25	37.00			
2005	Other	12	77.58	74.50	31.21	119	9.01
	Banks	04	35.50	35.00	9.98	20	4.99
	Difference			39.50			
2006	Other	12	82.25	76.50	32.07	118	9.26
	Banks	04	34.50	34.50	9.40	19	4.70
	Difference		47.75	42.00			

Table 7 (Continued)
PANEL B: MANN-WHITNEY U-TEST
Test Statistics

	1987	1999	2000	2001	2002	2003	2004	2005	2006
Mann-Whitney U	10.0	1.0	0.000	4.50	11.00	0.000	0.00	0.00	0.00
Wilcoxon W	20.0	11.00	10.000	14.50	21.00	10.00	10.00	10.50	10.00
Z	-1.698	-2.793	-2.915	-2.372	-1.578	-2.919	-2.913	-2.852	-2.913
Asymp. Sign. (2 tail)	0.090	0.005	0.004	0.0018	0.115	0.004	0.004	0.004	0.004

6.0   Discussion

The findings suggest that the quality of financial reporting (as measured by the number of questionable audit opinions issued and the number of instances of non-compliance with the requirements of the IAS) by publicly traded T&T firms improved following the adoption of IAS as the national standards of T&T. These findings are consistent with the arguments used by the ICATT to justify the wholesale adoption of the IAS as the national standards of T&T. According to the ICATT, the adoption of the IAS was expected to free up resources for more rigorous compliance monitoring and to provide auditors with higher quality, more authoritative guidance to discharge their responsibilities.

This finding is probably related to the high quality of IAS relative to the mixture of standards that were used in T&T prior to 1988, a suggestion that is especially plausible in the light of the challenges faced by T&T regulators in their attempts to enforce compliance with financial reporting requirements. These challenges are exemplified by the comments of the Deputy Governor of the T&T Central Bank, that T&T regulatory bodies often lack the political will and human resources to enforce regulations (Chang Fong 2001).

The apparent improvement in the quality of financial reporting by T&T firms is significant as it reduces the likelihood of the casual financial statement user being misled into placing unwarranted confidence in the financial statements associated with such questionable audit reports.

Conversely, the timeliness of financial reporting seems to have deteriorated following the adoption of the IAS as the national standards of T&T (though the increase in timeliness scores was not statistically significant). This finding is contrary to the expectation that the quality of financial reporting would improve as companies are required to use the IAS. This result may reflect additional workload imposed on firms and their auditors by the more stringent recognition and disclosure requirements of the IAS.

On a more positive note, this study found that the overall timeliness of financial reporting was substantially better than the benchmark established by the Trinidad and Tobago Securities Industries Act (1995). However, one should not be lulled into a false sense of confidence regarding the quality of financial reporting.

Take, firstly, the consistency with which the 90-day reporting requirement imposed by the Securities Industries Act (1995) was surpassed by publicly traded T&T firms. While on the surface it may seem to indicate very timely financial reporting, upon closer reflection it becomes clear that the regulatory requirement may be too lenient. This interpretation is supported by Givoly and Palmon's (1982) argument that if almost all companies issue their financial statements within a much shorter period than the statutory requirement, then the requirement may be too loose. Additional support for this interpretation is provided by the realization that the 90-day reporting requirement was initially established in a very different, (less dynamic, easier paced) environment. This means that the demand for quick access to financial information might not have been as acute as it is today. On the supply side, recent innovations in technology have enhanced the ability of firms to capture, process and report financial information in a more timely manner and may have rendered the existing benchmark obsolete.

As a result, it may be necessary to revise the 90-day reporting requirement downward, notwithstanding the apparent trend towards less timely financial reporting during the period examined. This conclusion is reinforced when one compares the timeliness of financial reporting by T&T firms with that of their counterparts in other (more developed) countries. For instance, the timeliness of financial reporting by T&T firms in 1987 (64 days) is more than 50% higher than that reported by Bamber et al. (1993) for the three 3-year period 1983 - 1985 for a sample of US firms (40 days). It is also higher than the average timeliness reported by Newtown and Ashton (1989) for a sample of Canadian firms over the period 1978 - 1982. [10]

6.1   Industry Affiliation and Financial Reporting Quality

Firms in the banking industry exhibited consistently higher FRQ than firms in other industries. This finding is consistent with an extensive body of empirical evidence from a wide range of reporting jurisdictions which have consistently found that the timeliness of financial reporting varies systematically across industries, with financial firms out-performing non-financial firms.

Also, it may reflect the fact that in T&T banks are the "Blue Chip" Stocks and both the financial sector and the general market look closely for and at their reports to help form expectations for the entire market. This visibility may provide an incentive for banks to provide more timely and reliable information than their counterparts in other industries. The better FRQ observed among banks may also be related to the relatively greater effectiveness of monitoring and enforcement mechanisms and the more severe penalties they are likely to face for non-compliance (Accountancy 2001).

Companies operating in the banking industry in T&T are subjected to two independent supervisory processes while other firms are only

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[10] Conversely the 1987 financial reporting timeliness of publicly traded T&T companies in 1987 compares favorably with that of a sample of US firms (60 days) for the period 1988 to 1993 reported by Schwartz and Soo (1996).

subjected to one supervisory process. Similar to other publicly listed companies, the T&T Securities and Exchange Commission supervises commercial banks. However, unlike the other publicly listed firms, T&T commercial banks also report to the Central Bank of T&T. Furthermore, this additional level of monitoring is more frequent, ongoing and comprehensive than that provided by the T&T Securities and Exchange Commission; and the Central Bank of T&T has more, and a higher quality of, monitoring resources than the T&T Securities and Exchange Commission (Bowrin 2007).

6.2   Firm Size and Financial Reporting Quality

The quality of financial reporting among publicly listed T&T companies was positively associated with their size. As noted earlier, this finding is consistent with prior results in organizational studies and the relationship is probably due to the greater economic and political visibility of larger firms relative to their smaller counterparts (Watts and Zimmerman 1986). This visibility leads to heightened scrutiny for large(r) firms as exemplified by the greater attention paid to the regulation of large(r) firms in the corporate governance literature (Jensen and Meckling 1976).

If we assume that larger firms are aware of their greater visibility and scrutiny which increase the likelihood that deviations from regulations, including accounting standards, will be detected, then we can expect larger firms to be more likely than their smaller counterparts to comply with financial reporting requirements This finding is also consistent with larger companies having greater leverage with their auditors and being able to negotiate more timely audits than smaller firms.

7.0   Limitations and Suggestions for Future Research

7.1   Limitations

The findings of this study are subject to a number of limitations. First, because only eight years were examined from the 19-year period 1988-2006, it is possible that the actual pattern of change in the quality of

financial reporting may be different from that presented. Secondly, the operational definition of "financial reporting quality" was a bit narrow. Key elements of both the relevance construct (such as the predictive value and feedback value of reported financial information) and the reliability construct (such as prudence and neutrality) were not systematically examined. Third, the small sample size raised questions about the representativeness of the findings. Notwithstanding these limitations, the findings of this study provide several potentially valuable insights about the relationship between the adoption of the IAS as the national standards of T&T and the FRQ of publicly traded firms.

7.2   Suggestions for Future Research

The findings of this study suggest a number of avenues for future research. First, future studies could examine other dimensions of financial reporting quality such as the predictive and feedback value of financial reporting, and the quality of audit work before and after the adoption of IAS. Second, future studies can be broadened to include other Caribbean countries that have securities exchanges and have adopted the standards issued by the IASB. Additionally, the reliability of the results may be enhanced by examining the financial statements of a larger number of, and possibly more representative, years before and after the adoption of the IAS.

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