

## **FINANCIAL REPORTING TIMELINESS IN EGYPT: A STUDY OF THE LEGAL FRAMEWORK AND ACCOUNTING STANDARDS**

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### ***Abstract***

The objective of the study is to present an analysis of the legal framework surrounding the Financial Reporting Timeliness in Egypt, and the problems faced by the Financial Reporting Timeliness. The basic Company Law of 1981 and the Capital Market Law of 1992 mainly govern the legal framework of Financial Reporting Timeliness practice in Egypt.

Furthermore, the Public Authority of capital market board decision of 2002 and the investment ministerial decision of 2006 have had considerable impact and influence on the practice of Financial Reporting Timeliness in Egypt. The combined set of legislative represents the legal framework for Financial Reporting Timeliness in Egypt

Based upon the results of study, the researcher recommends with the modification of the Egyptian company law, to use in the companies listed on Egyptian stock exchange by disclosure about their financial reporting during 3 months from the end of financial year instead of 6 months in order to provide the suitable timeliness.

**Key words:** Financial reporting, Egyptian Accounting standards, legal framework.

**JEL Classification:** G30, M41

### **1. Introduction**

The purpose of the study is to present an analysis of the legal framework surrounding the Financial Reporting Timeliness in Egypt, and the current problems faced by the profession. The system of the financial reporting for the Egyptian stock companies at the beginning of 21st century witnesses a group of proceeding, legal and technological changes, such as those that are witnessed by information technology and the issuance of a decision by the Public Authority of capital market board no. (30) in 18/6/2002 concerning the modernizing the registration rules, continuation of the registration of cancellation in the stock exchange to assure the

requirements of the effective accounting disclosure, as well as the Egyptian accounting standards are modified in the ministerial decision No. (243) of 2006 to achieve compatibility with the international standards of the financial reporting issued by international accounting standards board.

As regard to timeliness, this affects the predicate quality and feedback ,this shows that best timeliness should be an independent character to show the importance of timeliness when corporate financial reporting for aside, from anther side that the timeliness effect on fitted, predicts quality feedback

The timeliness means presenting the financial accounting information must be provided for its users when they need it. this is because that this information losses its benefit, if it is not available when it is needed if there is necessary to do this or if there is delay in presenting it for along timeliness after the occurrence of the actions which are related in it. Thus, it losses its effectiveness in taking decisions.

It is worthy to mention that the information does not get its effectiveness from its availability in the suitable timeliness, but there are other factors beside this, but the delay in the availability of this information leads to the decrease of its benefit and losing this benefit, the timeliness has two sides:

#### **A - Periodical of financial reporting**

Consequently, information of the financial statements can be available in long periodical timeliness. If the timeliness short, the information in income statement will be affected –as much as possible – by the seasonal and random changes which affect the company activities to the extent that the information may be false or not deserved the timeliness of studying it. If the timeliness long, the user of this information must wait a long timeliness before accessing to it, then it will be difficult to benefit this information in evaluating the total of alternatives that face it.

**B - The period between end of fiscal year and the date of publishing corporate financial reporting, as the more the timeliness discrepancy was long, the more the financial information was lesser.**

What is presented shows that identifying the timeliness in which the financial reporting are prepared and the minimum timeliness gap that separate between this timeliness and the date of corporate these financial reporting are considered the significant standards for the utility of accounting information. It is also shown that these two standards are connected to the function of preparing the financial statements more than their connection to collecting the data of the financial accounting and it's measuring.

The process of timeliness of the financial reporting is arranged by legislations, decisions and requirements like the securities Exchange Committee (SEC), such as, according to the requirements of the American securities exchange association, the financial information must be disclosure to users within 90 days

after the end of the fiscal year and 45 days of the periodical reporting. But in Turkey, according to clause no.(48), issued by Capital Market Board, the general financial reporting are disclosed within 10 weeks from the end of the financial timeliness and the periodical statements within 6 weeks from the end of the financial timeliness (8 weeks for the banks) (Dogan, 2007, pp.222).

This is due to the fact that these periods give a relative flexibility for the management to disclose the financial information for the people, but this flexibility depends on some elements which are connected to the content of the disclosed financial reporting and other elements that affect the financial statements and the characteristics of the markets through which the companies practice their activities.

## **2. Legal framework of Financial Timeliness in Egypt**

The most important legal legislations which related with Preparing and corporate financial reporting in Egypt as following:

### ***2.1. The Company Law 159/1981***

The companies' law no. (159) in 1981 included and its executive statement some of the rules of preparing corporate financial reporting as following:

A - The board must prepare about every fiscal year, profits and losses account and report of the company activity through the financial year in timeliness allow holding the public foundation of the holders through 6 months from the date of the company balance sheet and report about the financial situation in the end of year (article no. 64).

B - The board must spread the balance sheet, profits and losses account and the report of the Auditor in two daily journals and this before the date of Holding The public association it is decided to look in its budget within 20 days at least, it may if the company system allow that sufficiency with sending copy of these papers to every contributor by recommended post, at least 20 days before the data of the association contract and its sent an image spreading or it's sent to the contributes to both of the public organization for the capital Market and the general administration for companies (article No. 65).

A it is indicated from the previous beams that the financial report to the company include the balance sheet and profits and losses account and the timeliness to corporate that report is within 5 months and 20 days from the data of the fiscal year that it is report about it.

### ***2.2. Capital Market Law 95/1992***

Egypt has a Stock Exchange since 1882. This exchange was considered the fifth most active market in the world in the 1950s. In the late 1950s, the activities of the Stock Exchange decreased and remained inactive for 30 years because of a process of nationalization. In the 1990s, the Egyptian government decided to refresh its capital market by recovering its status and the confidence of investors.

The Egyptian government has encouraged new foreign capital along with national capital. Therefore, a new Capital Market Law No. 95 was issued in 1992.

Also the legislators kept to prepare and spread the financial reporting of companies that have securities in the stock exchange in the capital market law (95) and its executive list through article No. 6 from the law and article No. 58 from its executive statement as follows:

A-preparing corporate financial reporting according to the Egyptian accounting standards and the international accounting standards that what isn't found an Egyptian accounting standard about it

B - The company presents on its responsibility to the public association for the capital market semiannual report about its activity and its business results, and these reporting include the elate that indicate about the financial situation for the company and these report are presented though the next month to this period.

C - these reporting must include two statements of the financial situation and activity results are approved from auditor in the company According to the Egyptian and international auditing standards

D-the company must spread a complete summary for the semiannual reporting and the annual financial statements in two journals one of them at least with Arabic.

- it's appeared from the previous sentences that :

The capital market law avoided some of incapacity sides in the companies law about the financial reporting system, wherever they require preparing and spreading of the cash flows statement and also preparing and spreading the periodical financial statements next to the annual financial reporting , in addition to disclosure about the emergency essential conditions that face the company and affect on it's activity and financial situation and that by spreading in two daily journals one of them at least with Arabic.

The executive statement of the capital market look the vertical statements from when presenting the financial statement models at the contrary of the executive statement of the companies law that depended on the two-side account form in the presentation of the financial statements models wherever that the capital market law and it's executive statement worked at the Achievement with the accounting standards.

### ***2.3. The Public Authority of capital market board decision of 2002***

The article no. 20 from the register and deletion rules that corporate by the public association board of the capital market obligated to transmission of the stock exchange as follows:

A-a copy from the annual financial statement after it's preparation from the company board companied with the audit report, and that is before the stats of assembly of the circulation session in the next day at the most from it's preparing,

Also it must give to the stock exchange copy from these statement through 10 days from it's approving from the public association, and that is on CD prepared according to the programs that the stock exchange determine it by coordination with association.

B-the annual financial statement are companied with the annual board report.

C-Copy from the guar to annual financial statement is attached the limited examination report from the accounts supervisor through 45 days at the most from the data of mentioned timeliness and it is but on CD according to the programs that the stock exchange determine it by the coordination with the association.

D-The article no.21 stipulated at preparation the financial statement according to the Egyptian accounting standards and the financial statement models that are written in the append ix no. (3) From the executive list of the law no. 95 of 1992, and it auditing According to the Egyptian auditing standards and it must refer to that in the audit report.

E-every company that has financial papers in the unofficial schedules (1, 2) or the unofficial schedules (2) comply with spreading annual and semiannual statement summary and the clears that complete it, and the audit report and the public association observation for the capital market in two journals, one of them at least with Arabic and that through one week from the approving date of the public foundation (article no. 22).

In that is related with un-disclosure procedures that the item (D) from the article no. (2) To the register, continuing register and deletion rules for the securities as follows:

A- every company didn't disclosure about any thing that caused any to the contributors or investors is obligated to pay LE 5000 and the amount will become double if it repeat the same breach in the same year.

B-if the company don't present the financial statements and data required or don't spread in the determined dates , it is committed with paying 500 pound in the case of late for timeliness not be more than 5 days start in the next day the dates and it increases to 1000 pound about every day after this period.

#### ***2.4. Income tax law 91/2005***

The corporation is committed with presentation of its tax report attached with the financial year termination date according to the requirements of article No. (38).from income tax law No. 91/ 2005.

It is declared that the suitable timeliness attributes considerers one of the most important attributes of the accountable information Quality in the professional versions and studies, and the timeliness of financial reporting corporate through months from the end of financial year according to the companies law requirements ,but the capital market law timeliness deter mind through ten days from its approving date from the public association, while the tax law obligated the

companies with presentation of their tax report attached with the financial reporting through four months next to the end financial year date.

### **3. Accounting standards of Financial Timeliness .**

The process of timeliness of the financial reporting is arranged by legislations, decisions and requirements like the securities Exchange Committee (SEC), such as according to the requirements of the American securities exchange association, the financial information must be disclosure to users within 90 days after the end of the fiscal year and 45 days of the periodical reporting. But in Turkey, according to clause no.(48), issued by Capital Market Board, the general financial reporting are disclosed within 10 weeks from the end of the financial timeliness and the periodical statements within 6 weeks from the end of the financial timeliness (8 weeks for the banks) (Dogan,2007,pp222).

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#### **3.1. American Accounting standards**

The financial accounting standard board (FASB 2002) made interviews with 56 people from the financial information users who are working in different companies, most of them have a wide experience in dealing with and using the financial information and they present their suggestions to improve the timeliness of corporate the financial reporting. Their classification is as the following: 32 property analyst- 7 managers and financial analysts-2 credit analysts and 3 loaners, the result of these interviews is asking the financial information users to improve the timeliness through preparing the quarterly reporting or the lesser if it is necessary and this is because of the importance of the timeliness for these classes.

As well as, AICPA was interested in the timeliness and they issue a study in 2003 titled "improving the financial information quality for the companies" (AICPA, 2003, PP.1:16)

This study concentrated on asking the creators of accounting standards to complete the model of the financial reporting showing the types and timeliness of the information and the facts which users need to evaluate and estimate their investment risks. This is according to the requirements of SEC which created 10 elements for the financial reporting model like types and timeliness of information that are included in these reporting. As well as the study of AICPA includes the following elements:

A: the timeliness frame of the financial reporting:

The study refers to the necessary of the agreement between the companies' manager's and the financial reporting users on number of periods in which the company discloses the financial information through the financial reporting.

B: the financial reporting timeliness:-

The financial information users are not obliged to agree on the delay of corporate the financial reporting to submit the companies to the legal and legislative requirement before corporate the financial reporting.

C: the financial reporting quality:-

The financial reporting differs by the difference of the company's type whether public or private in terms of the following:-

Multitude and variety of the financial reporting which are prepared by the public companies.

Few numbers of users of the reporting of public companies have an evaluation for the management, so they have to depend on special reporting about the public companies.

The users of the financial reporting of the public companies are submitting to interior restricts that limit their ability in accessing the information about the company.

So the reporting that are prepared by the listed companies in the securities market must meet and agree on the wide range of the users need from the information that is related to the company. As well as identifying the contents and timeliness of the financial reporting is made by different ways according to the non-central negotiations with the users which work in the special companies (AICPA, March, 2003).

### ***3.2. Australia accounting standards***

Although Australia applies the international accounting standards, the requirement of the disclosure in Australia is different from the disclosure requirements according to the international standards of the financial reporting and this is due to the difference in some of the additional disclosure since some of definition and available measurement are discarded in the international standards of the financial reporting. This is due to the wish to issue the financial reporting in the suitable timeliness for the financial information users (ASIC, 2005).

### ***3.3. Canadian Accounting standards***

The institute of Canadian accountants (ICC, 2005) conducts a study titled "improving the financial reporting information quality". Its results were the existence of the available financial information quality in many countries and the different prospects of the information users, become of the increase demand of the suitable financial information by the users and corporate them in the suitable

timeliness. In the future, the information users need to access the information in the suitable timeliness with high quality.

### ***3.4. England accounting standards***

In England, the importance of timeliness has increased (TILLAL, 2007). Report of Jenkins indicates that the general form of report business should be developed and concentrates on kinds and timeliness of getting the users to financial information to evaluate advance risks, so it must keep the following: Offering information from a future vision including management, chances, risks and UN sure operations.

Increasing concentrate on factors that creates along quality including UN financial measures that indicate to performance of main operations.

Offering information in the same timeliness of project management get to it.

FASB handles the characteristic of timeliness in a common study with IASB titles "objective of financial reporting and qualitative characterizers of Decision-useful financial reporting information" to develop the definition of accounting by concentration on the objectives and characteristics of the financial information.

The suggested frame will replace the definition report no. (1) that is related to purposes of the financial reporting, and the statement no.(2) that is related to the quality of the characteristics of the accounting information (FASB, JULY, 22/2006)shows that the suitable timeliness means that the users' information Access to it before it is lost.

Consequently, the timeliness is considered a face of appropriateness, thus the availability of the financial information does not achieve appropriateness if it is provided in the appropriate timeliness.

The international framework considers that the timeliness as a constraint not an attribute, since it was represented in convenience, credibility, acceptance of comparison, acceptance of understanding and the restrictions are the timeliness, the cost, the interest and the importance, then the common study between FASB and IASB have two opinions (IASB, 2007):-

The timeliness is a characteristic of the financial information quality.

The timeliness is a restriction on the characteristics.

According to the first opinion of FASB that shows that the timeliness is not restrict as in the case of the relative importance of the cost and the interest, as the relative importance, cost and interest determine the information that shall be included in the financial reporting. They have effect on the information quality which must be included in the reporting and in the end, the members agree on the suggestion that the timeliness is a consolidation and additional characteristics on the quality characteristics.

The second opinion of IASB, since the owner of the first opinion owners see that the timeliness and the importance affect the quality characteristics by several

means so we can say that they are 2 restricts not characteristic of the convenience or additional characteristic of the quality characteristics of the financial information.

Whether the timeliness is secondary character to relevance character for quality characters for financial information, this means the importance of timeliness when disclosure accounting information.

### ***3.5. Egyptian Accounting Standards***

According to the Capital Market Law 95/1992, all listed companies are required to follow the Egyptian Accounting Standards. At first, the Capital Market Law requires all listed companies to prepare financial statements in compliance with the Egyptian Accounting Standards Then, the Ministerial Decree 243/2006 .

The Egyptian standard no. 1 obtained the timeliness of financial reporting corporate, wherever the article no. (52) stipulated from the standard to that the financial report importance became weak if it isn't available front of its users through reasonable temporal timeliness be in a situation that allow corporate its financial statement through the timeliness that the rules determine it and the consecutive factors don't consider such the foundation processes complication an enough reason for failing in the financial statement presentation in the suitable timeliness.

### **4. Conclusions**

This study describes the legal framework of the financial reporting timeliness in Egypt. In the recent years, Egypt had made significant efforts (1) to align corporate financial reporting requirements with the IFRS and (2) to close the compliance gap in financial accounting practice.

The Egyptian government has attempted to modify the law to achieve compliance with international accounting standards. These modifications include drafting a new accounting standard, and modifying the company law and the capital market law.

Consequently, important improvements have been achieved in accounting and disclosure requirements for the publicly traded companies and financial institutions and in Egyptian Accounting Standards as benchmarked against IAS. Moreover, new Accounting standards decision has been drafted and agreed upon by all stakeholders. There is a gap between legislation and the practice of the profession regarding its organization and compliance with accounting standards.

The financial reporting of companies listed is the main resource of the accounting information about these companies for their users, so that the legislator interfered in the companies laws and the capital market on a minimum information which it must be disclosure about it in the speeded financial statements and determination of the financial statements which must be speeded, the spreading the statements.

The timeliness of corporate financial reporting in Egypt is related with the conditions and rules which may be available through the legal rules or the organizational guiding by the specialist associations such as the public association of capital market, the disclosure management in the stock exchange of Cairo and Alex, because the financial information is considered one of the most important resources which guarantee the affiance of the decisions which financial information users take it.

### 6. Recommendations

From the search results, the researcher recommends with the modification of the Egyptian companies law, to use in the companies listed on Egyptian stock exchange by disclosure about their financial reporting during 3 months from the end of financial year instead of 6 months in order to provide the suitable timeliness, and making many search in this filed depending on other methodology and by using other variables in addition to the study of the relation between timeliness of periodical financial reporting and Egyptian company Characteristics.

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