THE TIMELINESS OF THE BOTSWANA PARASTATAL ANNUAL REPORTS: 1994-1998

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Abstract: The corporate annual report is commonly used by business entities to convey information to interested persons. An important component of the report are the financial statements and the auditors report. Since the report is a primary source of 'information for shareholders, it is desirable that this information is provided on a timely basis. The report should also be of a quality, desirable for meaningful decisions to be made.

This study investigated the time it took parastatals in Botswana to have the annual report available. It also embarked on establishing the quality of the accounts, as indicated by the auditor's opinion report. The results suggest that on average, the Botswana parastatal required 5.35 months to avail the report. This compares unfavourably to other developed countries. However, compared to some other developing countries, the results for Botswana parastatals are impressive,

Key words: Timeliness, Annual reports, Parastatals, Audit reports

INTRODUCTION

Financial reporting is an integral part of corporate governance. Failure in corporate governance is sometimes due to inadequate financial reporting (Sin and Watt, 1997). Information is usually provided for a purpose and, in most cases, to an end user or users. The corporate report is one such information, and contains the financial statements of enterprises. Such reports have different functions for different users. Generally, users of financial statement information include owners or shareholders of enterprises, management, employees, government, lenders, suppliers, customers, specialists, potential investors and the general public.

Among its many uses, the annual report, and especially the financial statements, facilitate investment and lending decision making. Timeliness in the provision of financial information is crucial. When information is not timely, it may be too late to take any meaningful action and the information loses value.

According to Upchurch (1998), published accounts of a limited company being published annually and biannually, and sometimes after the end of the relevant period will be of little interest to input in the enterprise's day to day activities, and for tactical and operational purposes. As regards strategic information, that could be duced at less frequent intervals since it relates to a longer time horizon. Thus the annual report and financial statements could be used for such strategic decisions.

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The objective of this paper is to investigate the time it takes to make the Botswana parastatal annual report available. It seeks to establish whether the report is released on time or not. It also considers the quality of accounting in relation to the timing of the annual report: whether the books of accounts of Botswana parastatals are properly drawn up.

The paper commences by reviewing some of the pertinent literature, specifically related to the principal-agent theory and on the use and relevance of financial information, which is an important part of the corporate report. The problem is introduced next, after which a description of the methodology adopted is given. The results are then presented and discussed, after which conclusions are drawn.

LITERATURE REVIEW

Agency Theory and the Problem of the Firm

The success of all economic activity depends on the interaction of various forces acting within the economic environment. Among the most important influences on economic activity is the relationship among individuals. Frequently, these interacting individuals lack a common goal in perpetuating their relationship, but their separate objectives result into mutual satisfaction.

An agency relationship arises whenever one individual depends on the action or actions of another (Pratt and Zeckhauser 1991; Sappington,1991). The agent is the independent person influencing the actions of the dependent, who is the principal. This principal-agent relationship is particularly relevant in business. In business the sole proprietor or the shareholder is the principal. All business enterprises, both big and small, rely on the actions of many individuals for their success. Due to this reliance of the principals on the agents, there is always a challenge to the principals to satisfy themselves that agents act in a way that maximises their welfare.

Agents tend to know more about the tasks that they are required to perform than their principals do. That is, agents possess knowledge of the task to be performed which is superior to that of their principals. The existence of agency costs (Pratt and Zechhauser, 1991) prevents enterprises from performing as well as they would if knowledge (or information) was equally available to both principal and agent at zero cost. Similarly, enterprises could be expected to exhibit better performance if the incentives of principals and agents could be aligned without costs.

The agent's actions are not directly observable by the principal, and business outcomes are affected, though not completely determined, by the agent's actions. The principal has thus a problem in observing the actions of the agent, other than some observation of, for example, the outcome of the agent's actions. Secondly, the principal may be able to observe the action itself, but cannot determine the basis of such action in order to judge whether it is the most appropriate one. Arrow (1991) refers to these problems respectively as hidden action and hidden information. Effort, which is a non-utility to the agent but a value to the principal, is the most typical hidden action. Agents typically prefer less effort to more, and the principal cannot conveniently determine the extent of effort exerted by an agent.

Agency problems have come to the fore with the growth and expansion of the enterprises. This has led to the increasing separation of the ownership function, represented by ownership of shares of the enterprise, and the control function, which increasingly passes on to the Board of Directors or management as the enterprise expands (Jensen and Meckling,1976; Fama and Jensen, 1983a, 1983b). Some scholars consider a firm as comprising a set of contracts (Jensen and Meckling, 1976; Scott, 1997). Within this set of contracts perspective, Fama (1980) argues that the separation of ownership and control can be explained as an efficient form of economic organisation. Kornai (1992) characterises ownership into three major groups of property rights.

The need for monitoring of the agents and their motivation is one the problems posed by the separation of ownership and control. Both entail costly transactions on the part of the owners. Monitoring is necessary to minimise consumption on the job, shirking and other acts satisfying the personal goals of managers at the expense of the owners. Motivation, on the other hand, is aimed at inducing the managers running the business on behalf of shareholders to refrain from excessive indulgence in acts which have negative effects on the welfare of the shareholders.

Agency Problems in Market and Planned Economies

In the pursuit of their objectives, enterprises face various constraints. An important and frequently encountered constraint for many enterprises is that imposed by the budget. The budget constraint concept is familiar from the microeconomics theory of the household- the amount available to a decision-maker places a constraint on the consumer's spending that he or she can choose to incur. An enterprise's yearn for profit maximisation through, for example, increased production and sale of goods is constrained by a shortage of funds to acquire inputs for the production process. Likewise, to fulfil the publicly-owned enterprise's economic, political and social objectives, inadequacy of funds is a constraint.

For state owned enterprises (parastatals) operating in a socialist environment (especially in the extreme form), financing is less of a constraint as the government will always intervene through a number of measures. Subsidies, tax-exemptions on certain categories of income, bank credits, and favourable prices are typical interventions a government can make. An important aspect to securing such support from the government is negotiation or bargaining. Managers of state owned enterprises with budget constraints spend a lot of their time hustling among the various branches of the state bureaucracy, searching for connections and supporters, an activity referred to as rent-seeking behaviour (Krueger (1974).

Often, state owned enterprises do not consider each other as competitors. Instead, a relation develops among the parastatal leadership and they rely on each other. A state owned bank may not hesitate too much when confronted by a sister enterprise for financial assistance, they may actually be directed by higher echelons of the bureaucracy). This makes state owned enterprises face a "soft budget constraint" Kornai (1992: 40).

It appears then that management of state owned enterprises does not have the incentive to exert effort and use their skills or knowledge in the performance of their duties. First they are not the owners of the enterprises, second, they lack the autonomy to act according to what their knowledge requires, and third there is the knowledge, albeit implicit, of the state's unwillingness to allow its enterprises to go bankrupt.

Ownership of enterprises in strictly planned economies is somehow queer. Being owned by the state, no individual can claim ownership; but here, despite "state" implying "people as a whole," ownership is not diverse.

The comparison between agency problems in market economies and those in planned, socialist economies has been made by referring to different types of enterprise ownership. One is the private form of ownership in the market economy and the other is the public (state) form of ownership in the planned economy. This is intended to emphasise the diversity in the ideological policies reigning in the two economies, as they are diagonally opposite. A comparison of the publicly-owned enterprises in the two economies would have been more meaningful. However, in the non-socialist market economies, while the wholly state owned enterprises can largely be analysed in the same manner as those in socialist countries, there exist also mixed-ownership enterprises with the state dominating, as well as a larger private sector which dominates the economy. These enterprises have their shares traded in a stock exchange, and therefore in this case, the market economy analysis is relevant.

Property Rights in Parastatals

There are certain characteristics peculiar to state owned enterprises. An important characteristic pertains to the question of ownership. According to Kornai (1992), state owned enterprises are nominally owned by the state represented by the nominal government. Since governments represent the people, state-owned enterprises are therefore owned, at least in theory, by the people. In this case, as opposed to privately-owned companies, ownership of state-owned enterprises cannot be traced to any particular individual. In reference to property rights, it is evident then that no individual person has any right to the residual income from state-owned enterprises since this belongs to the state, and therefore to the people in general. In other words, none of the profits from state owned enterprises flows into the pockets of any individual, and likewise no individual is individually directly affected in any way by losses incurred by the state-owned enterprises. This means that the primary interest of the owner (here the people as a whole) in seeing that the enterprise is profitable and has good business expectations either ceases to exist, and does not apply anymore, or becomes secondary.

The property rights of alienation, or transferability, do not apply to state-owned enterprises, and under the extreme form of socialism, these cannot be exercised by anyone, not even the state. In many cases, however, through reformation of policy objectives, including political reforms in the more socialist countries, it is possible to invoke these rights of alienation, leading to transferability of ownership through, for example, privatisation of the state-owned enterprises.

Usefulness of Accounting Information

The ability to inform is an important aspect of accounting information usefulness. Scholarly interest has focused on the usefulness of annual and interim accounting reports, considered separately, with respect to whether more use could be derived from one than from the other. An earlier study showed that investors do not have any preference between the two types of reports (May, 1971).

An important use to which financial accounting information is put is in predicting results of events occurring in the future. Accounting information must help the users to predict future cash flows in order to take sound economic decisions (Turmel, Bastil and Elloumi, 1995). Predictive ability is one of the basic properties of accounting numbers. Predictive value is a quality expected of financial statements and is a key component of information relevance. Generally accounting numbers which are regarded as good predictors of the future and thereby facilitating better decision-making are preferable to those which do not predict equally well (Beaver, Kennelly, and Voss, 1968).

It has long been argued that interim reports help predict the final results in the annual report, and published interim financial statements were found to be useful to, among others, the financial community and financial analysts. Subsequent studies have generally supported the argument for usefulness of interim reports for predictive purposes.

Similar studies have taken place during the past three decades with the focus being on earnings, although some have considered other aspects of financial reporting, Interest has been on information content (Beaver,1968), and predictive value (Swaminathan and Weintrop, 1 991; and Paoloni and Demartini, I 997).

The usefulness of accounting information has also been examined in relation to the prediction of corporate failure. Bankruptcy is an indication of the improper allocation of resources, which adversely affects society, and which causes personal loss to investors. Generally it was concluded that accounting data, in the form of financial ratios, could be used to-forecast business failure (Beaver, 1968; Libby, 1975) and measure market risk (Pippan, 1997). Interpretation of the findings of these studies is however subject to the realisation of the self-fulfilling prophecy inherent in the reliance on ratio analysis. Preventive action by, for example, providers of loan capital in an attempt to pre-empt loss from insolvency may itself be an ingredient for failure of the business, which would not have occurred if loan capital was provided.

Relevance of Financial Information

The Statement of Financial Accounting Concepts (SFAC) No. 2 considers timeliness and predictive value as parts of relevance. Relevance and reliability in turn are accounting qualities that make financial statements useful. The usefulness of financial statements cannot be questioned, but their quality can. The usefulness, of financial statement information is a function of the user's needs. It is unlikely and very difficult to produce information that will match the user objectives and the general objectives of financial reporting. Nevertheless, provision of information of a general nature is expected to benefit users of financial statements in various ways. These include assessing the financial performance and position of the enterprise, assessing the performance of management, and making decisions on investment, credit, trade and employment (Solomons, 1989). Specifying issues common to all users of financial statements is still a problem making financial statements useful. Financial information disclosure is of high quality if it is complete, accurate and reliable. Alternatively, it must be relevant and timely (ICAEW, 1975; FASB, 1980; and Solomons, 1989).

Relevance pertains to the extent to which financial information is useful for decision-making. It is the capability of influencing a decision-maker by changing his or her assessment of the likelihood of occurrence of some event relating to the attainment of a goal. Relevant information is particularly useful for investment, credit and other decisions. Such information must have the ability to impact on a decision by facilitating the formulation of predictions about the results of events occurring in the future. Relevant information must help the decision-maker to confirm or adjust expectations. Usually, information facilitates both functions simultaneously because the knowledge of the results of past actions will normally improve the decision-maker's ability to forecast the outcome of similar future actions. It is not easy to make a forecast without a sound historical background.

Timeliness of Information

Financial information will only be useful, or relevant, to business decision-makers if it is available when required, i.e. at the time a decision is to be made and it has the capacity to influence decisions. Information that comes after the reported events have taken place is superseded by events and has no value for a decision, and is therefore irrelevant.

Ideally, financial accounting information should be available soon after the end of the period to which it relates. The significance of timeliness depends a great deal on the nature of the information to be communicated to influence decision-making. For example, the measure of timeliness for release of routine information on annual results of an enterprise will not be the same as that for reporting such crucial information as a take over bid or the results of an internal investigation. Whereas in the former situation the usefulness may be retained for a relatively delayed period, in the latter cases, any delay may be extremely detrimental to enterprise survival.

Information providers, however, need to. strike a balance between accurate information and timely information. The value of financial statements is, apparently, inversely related to the time taken to prepare it. Promptness, though of paramount importance, may compromise on the usefulness of the information reported. Occasionally, economic events may reasonably be presented as estimates without compromising on usefulness, and the information made available quickly. Gains in both cases will again depend on the nature of the information and its materiality. In this regard, timeliness alone does not make information relevant, but relevance may be diminished if information is not timely, leading to information decay (Givoly and Palmon, 1982).

Both timeliness of information disclosure and predictive ability of financial statement numbers affect relevance. To avoid time lag between the annual report, enterprises produce interim reports, which provide information for shorter periods, e.g. quarterly and/or semi-annually. This has important implications for monitoring and control. If accounting information is not made available early enough or at shorter intervals, it is not possible to monitor the performance of management and to detect other financial misconduct by employees of the enterprise. Indeed, information can be delayed deliberately for that very purpose (Patell and Wolfson, 1982; Givoly and Palmon, 1982; Whittred and Zimmer 1984). It is thus imperative that delayed information should be analysed more carefully.

The Problem

The literature on agency suggests that it is difficult for state owned enterprises, or parastatals, to record satisfactory performance to meet the interests of the stakeholders. The argument is that there is no single individual with a direct personal interest in the performance of the parastatals. The study sought to test whether this argument is valid in a developing economy like Botswana.

The size of the parastatal sector in Botswana is not large. Though the country does not pursue a socialist ideology, much of the country's development is planned and coordinated centrally at government level. This study considers parastatals as falling in the same category as the state-owned enterprises discussed in the literature. Parastatals are expected to foster the government's development programs, although they are also expected to provide economic services in an economic and efficient manner.

To ensure that government objectives are met, a feedback mechanism must be established. It is from such a mechanism that the government can establish whether or not objectives have been met. An available mechanism employed by enterprises worldwide is the annual report. Annual reports contain, among other information, financial statements for the period to which the report refers. As has been suggested, financial statements can also be used as a basis for assessing the performance of the management in place.

Going by the literature, the timing of the annual report will vary depending on the results achieved. When results are satisfactory, management of parastatals in Botswana are expected to have the incentive to avail their annual report within as short a period of time as possible. On the other hand, when the results are not satisfactory, there is an incentive to delay the report. This study investigates the time it takes to make the Botswana parastatal annual report available. It also considers the quality of accounting in relation to the timing of the annual report and whether the books of accounts of Botswana parastatals are properly drawn up.

METHODOLOGY

Sample Selection and Response Rates

The sample comprised sixteen parastatals. Of these, four are public utilities, four are financial institutions, four are from the commercial sector, one is a manufacturing concern, two are training institutions, and one is from the agricultural sector. These were purposively sampled, and annual reports ending in the five-year period 1994 to 1998 were requested from each one of them. The response was as follows:

Reports	1994	1995	1996	1997	1998
Requested	16	16	16	16	16
Received	15	15	16	15	10
Audited & Signed	14	15	15	15	9
Auditor's Opinin	15	15	16	15	9
Used in Analysis(%)					
Timeliness	93.3	100	93,7	100	90
Quality	100	100	100	100	90

Analysis of Data

Analysis was made as follows:

Timing of the report
The time at which the report was available was taken to be either the date of approval of the report by the board of directors, or the signing thereof by the statutory auditors. The assumption was that once the report was signed it was ready for distribution.[1] The time for each year was determined for each parastatal, and a yearly average computed. Finally, a five-year average was computed.

Quality of accounts
Quality of the accounts was determined on the basis of the audit opinion report granted by the statutory auditor. A clean audit report was considered as an indication of the accounts being of the desired quality. A qualified audit report suggested that the accounts were not to the desired quality.

EMPIRICAL RESULTS

The results of the analysis are summarised in Table I.

Timeliness of the Report
The table indicates that the mean time for the release of the parastatal annual report ranges from just over four months in 1998 to almost seven months in 1995. The respective standard deviations are 1.2 months and 3.12 months. A cursory glance at the results gives the impression that the average time to make the annual report available has declined in 1998.

Table 1: *Summary Results on the Time it takes for the Parastatal Annual Report to be Available*

Period	1998	1997	1996	1995	1994
MT (m)*	4.38	5.13	5.07	6.45	5.71
SD**	1.20	2.44	1.79	3.12	3.16
M(m)***	4.00	4.75	5.00	5.25	4.25
Mode(m.)	5.50	4.75	6.30	4.00	4.00
Range	3.25	9.75	5.50	9.25	10.5
5-Year mean(months)			5.35		
No. Parastatals receiving clean opinion report	9	13	13	12	10
% of Parastatals receiving clean opinion report	100	87	81	80	67

KEY

*Mean Time
**Standard Deviation
***Median

Source: Authors' analysis of parastatal financial statements

However, as will be evidenced by the number of annual reports received for that year (9), not ·ll parastatals included in the original sample ad that year's annual report ready at the time of data collection.[2] The actual average time will therefore be longer than the 4.38 months. As evidenced by the results, the modal time is relatively high in 1998, at 5.5 months. The year 1997 has two modes, 4.75 months and 6 months. If these are averaged, the resultant average modal time for 1997 (5.38) is lower than that of 1998. For the lower average time in 1998, a correspondingly lower mode time would have been expected.

The standard deviation is a measure of deviations from the mean. The results indicate that there was great deviation in earlier years (1994 and 1995), but this tended to converge over time. As evidenced by the range, the reporting time frame difference between the earliest report and the latest report is being reduced (1997 appears to have been an exceptional year).

A chi-square test was undertaken to test the equality of the means over the five years. This resulted in a chi-square statistic of 0. 573 with four degrees of freedom. At the 10 percent significance level, the result could not enable us to assume a difference in the mean reporting times. We therefore consider the grand average time of 5.35 months as being equally applicable for all the five years.

Quality of the Accounts

We were also interested in the quality of the accounts as indicated by the audit opinion report provided by auditors. These are indicated in the last two rows of Table I above. The trend indicates a general increase in quality, as suggested by the percentage of parastatals receiving a clean report, between 1994 and 1998. These increased from 67 percent in 1994 to 100% in 1998. Only nine annual reports for the year ending 1998 had been received. A definitive conclusion with respect to the 1998 results is thus not possible. However, it is apparent that Botswana parastatals are increasingly being prepared in accordance to stipulated regulations and applicable standards.

DISCUSSION OF THE FINDINGS

The results of this study indicate that Botswana parastatals take an average of 5.29 months to avail their annual report. This is the time lag between the end of the financial year and the signing of the report in readiness for distribution. While it has not been possible to identify specific reporting period required for each parastatal, the results appear to be good if the reporting requirement for companies is applied. The Laws of Botswana (Companies: Chapter 42:01 Section III) requires companies to table their accounts to the annual general meeting (AGM) within 9 months, and submit copies to the Registrar within 42 days after the AGM. If this is used as a basis for assessing the reporting period for parastatals, then the results suggest that parastatals in Botswana produce their annual reports within the stipulated time frame.

The results, however, are not sufficient to justify a conclusion that the Botswana parastatal annual report is available on time. Timeliness is relative, and it will ultimately depend on the use to which the report is put. Nevertheless, compared to other countries, the results above may not appear that favourable. Table 2 below shows the average delay in the availability of audited financial statements in some other countries.

Table 2: *Average delay between year-end date and date of auditor's report*

Average delay (days)	*Country*
31-60	Brazil, Canada, and the USA
61-90	Australia, Denmark, Finland, Netherlands, Norway, and Sweden
91-120	Belgium, France, Germany, India, Malaysia, South Africa, Switzerland, and UK
121+	Austria and Italy

Source: Choi, F.D.S. and Muller, G. *International Accounting*, Prentice Hall Inc, Eanglewood

It shows that countries taking the longest time to make available their annual report and accounts are Austria and Italy. These require an average of more than 120 days (4 months) to produce their reports. Botswana parastatals require an average of 5.29 months (over 150 days). This does not compare favourably. That may be expected, perhaps, as the countries above are all, with the exception of Brazil, which however has a good record, relatively more developed than Botswana. It is also likely that most companies included in that study are not owned by the respective states.

Compared to some other developing countries, however, the results for Botswana parastatals may actually be quite impressive. A study showed that parastatals in Tanzania took an average of 12.04 months to have the financial statements ready (Kitindi, 1996). This clearly makes the Botswana results look quite good.

The results in Botswana can partly be attributed to the following. First, the parastatal sector in Botswana is quite small, which makes it relatively easy to monitor its performance even at the bureaucratic level. Second, the economy in Botswana allows for the widespread use of relatively advanced technology in making up the accounts of enterprises, including parastatals. Third, although there is some element of planning in the economy, it is not similar to that applicable in countries following a socialist ideology. Indeed, Botswana has never had any experience with socialism as an ideology, and is relatively open to free enterprise. Thus, the incidence of agency problems is somewhat mitigated by the factors mentioned above, although, as evidenced by the results in Table 1, these partly could be used to explain the unfavourable performance when compared with the results in Table 2.

CONCLUSIONS

This study sought to establish the time it takes to make the Botswana parastatal annual report available. It also considered the quality of accounting in relation to the timing of the annual report: whether the books of accounts of Botswana parastatals are property drawn up. The results indicate that parastatals took relatively less time to have their financial statements available to the various users than that indicated in the Laws (Companies - Chapter 42: 01).

It can be concluded therefore that annual reports from parastatals are, in the context of the Botswana environment, released within the prescribed time. Most of the financial statements were granted a clean audit opinion report, which implies that on the average, the parastatal accounts are of a quality desirable for meaningful decisions to be made, and the statements do provide a basis for the control of organisational operations. The conclusions are, however, dependent on the user of the reports. Timing is relative, and is differently perceived by individuals. With regard to agency problems, it is our opinion that these do have some impact, though minimum, given the size of the sector itself.

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