

What Price Credibility: Is the Release of Quarterly Financial Reports Delayed by Timely Reviews?

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The Securities and Exchange Commission (SEC) recently required registrants to have the interim financial information contained in their quarterly filings reviewed contemporaneously. Prior to this requirement the review could be done on either a quarterly basis (a timely review) or as part of the year-end audit (a retrospective review). The mandate for earlier auditor involvement in the reporting process – recommended by both the Treadway Commission (1987) and the Whitehead-Millstein (Blue-Ribbon) Committee (1999) - was made in the belief that timely reviews impart greater credibility to interim financial information. Retrospectively-reviewed interim earnings were believed to be less credible because the lack of interim-period auditor involvement permitted opportunistic reporting by management, and delayed the detection of fraud. Objections to this new review requirement have, however, generally protested that the added auditor involvement is unnecessary and indeed, counter productive in that it would delay the communication of quarterly results. This research provides a multi-year comparison of the timing of quarterly performance releases. We compare firms that have voluntarily had their quarterly filings reviewed by an auditor on a timely basis to those that have not. We find, consistent with Ettredge, et al. (2000), that the timely review of quarterly financial data is on average, associated with slightly longer reporting lags. We also find that this phenomenon is not universal. Instead, it is apparently confined to the clients of five of the Big Six audit firms. Finally, we find that timely reviews are not associated with shorter fourth quarter reporting lags.

INTRODUCTION

The Securities and Exchange Commission (SEC) recently mandated that registrants have their interim financial information (Form 10-Qs) reviewed by independent auditors contemporaneous to their filing – a timely review. Under prior rules, it was permissible to delay the review of quarterly data until the year-end audit – a retrospective review. This new mandate – effective March 15, 2000 – was part of an SEC plan “to address abuses in financial reporting” (SEC 1999a, 1), to inhibit “the practice of distorting the true financial performance of