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The Impact Of Reviewing Interim Financial Reports On The Investors Decisions In Kurdistan Region

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Abstract: The purpose of this study is to demonstrate how interim financial reporting affects the investors' decisions. The need of reviewing interim financial reports (IFR) emerged as a significant tool to their beneficiaries, particularly investors', appropriate and timely information. To achieve the objective of this study, the literature has identified a few research methodologies. In this research, the questionnaire is designed to ask investors', financial managers and academics in the field. Interviews were also designed to observe how investors' use interim financial report. The hypotheses of this research aim to investigate how the reviewing interim financial reports affect the investors' decisions positively. The results show that investors' should use interim financial reports to propose a strong decision. It is also considered that the interim financial reports should be reviewed by the external auditors in order to push the investors' to make efficient decisions for future earnings.

Index Terms: Reviewing, Interim financial reports, Investors' decisions.

1 Introduction

SIGNIFICANT and economic events can be captured by reliable and relevant financial reporting. According to (SEC 1999b cited in Krishnan and Zhang 2005; Manry et al. 2013 and Boritz et al. 2016) from March 15, 2000, the U.S. Securities and Exchange Commission (SEC) required that the registered companies should have interim financial statements, which is reviewed by their auditors on a timely basis. The idea of Securities and Exchange Commission (SEC) under Chairman Arthur Levitt commissioned a ''Blue Ribbon Committee'' (BRC) is to improve the reliability of corporate interim report (Krishnan and Zhang, 2005 and Manry et al. 2013). Previously, the SEC permitted that the corporations can delay the reviewing of their quarterly financial reports until the end of the year "a retrospective review", but now the SEC adopted the BRC's recommendation, "firms could decide whether to engage an auditor to review their interim financial reports before filing those reports with the SEC (a timely review)" (Manry et al. 2013). Even though, the SEC did not require a compulsory interim review report in the annual report, but BRC's recommendations may affect the quality of annual reports in terms of accuracy and reliability. In addition, According to (Blessing and Onoja 2015) investor's decisions can be made based on the several factors such as individual risk profiles, market characteristics and accounting information including previous reports and statements. Hence, improving the reporting quality could serve the investors' with accurate information and therefore reduce information asymmetry and increase.

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Consequently, firms can access to internal and external finance easily and ultimately investors' issue the correct decision regarding to the investment efficiency. Aside from reporting quality, today investors' use the information demonstrated in financial statements, which depends on the financial statements credibility. By having an independent auditor, firms create the acceptable financial statements accurate disclosures. (Shroff 2015; Biddle and Hilary 2006; McNichols and Stubben 2008; Biddle et al. 2009; Chen et al. 2011; Balakrishnan et al. 2014). However, the impact of auditing the acknowledgment financial statement relies on the degree of working auditors independently (Watts and Zimmerman 1983andDeFond and Zhang 2014). Thus, it is clear that the main goal of financial reports is to "provide financial information about the reporting entity that is useful to present and potential equity investors', lenders and other creditors in making decisions in their capacity capital providers" (IASB 2008). Furthermore, a study conducted by (Cuonget et al. 2013) illustrated that the interim financial reports (IFR) may play a significant role in the capital markets because it provides the accurate information in the timeliest manner. "IAS 34 applies to interim financial reports that are described as complying with International Financial Reporting Standards" (IASB 2008). Typically, interim reports can be issued by listing companies may differ as firms prepare the reports with differing rules and regulations. The purpose of this paper is to examine the relationship between reviewing interim financial reports and investor's decisions in order to propose an idea to improve and supported the interim financial reports in the Kurdistan Region.

2 Literature Review

In this research, we examine the importance of reviewing the interim financial reports and therefore propose a possible model to enhance reviewing interim financial reports in the Kurdistan region. Unfortunately, a few studies demonstrated the interim financial reports in the less-developing countries (especially in the Middle East, for instance: Joshi and Bremser 2003; Omar and Simon 2011 cited in Alsharairi 2015). This clearly means that the subject of "interim financial reports" is not used well in Iraq, including Kurdistan and many other countries in the region. However, as a research, interim reports have achieved a considerable attention in the international literature. Many studies proposed that large companies in the less-developing countries are turned to adopt IAS 34 (Joshi and Bremser 2003 and Alsharairi 2015). This means that, “a variation in the IFR’s content has been observed, but the overall disclosure in interim reports is suggested to be directly related to the size of the reporting firms” (Rahman et al. 2007; Schadewitz 2010; Spasic and Dencic-Mihajlov 2014 cited in Alsharairi 2015). In addition, a study conducted by (Mangena 2008) illustrated that academic research on the development of interim report can be classified into two main streams. The first one is related to the usefulness of the report to the market participants (Opong 1995; Barker 1998; Manry et al. 2003 cited Mangena 2008). The last stream of the research is concerned with the motivations for managers in order to produce interim reports voluntarily. As a result, it is obvious that interim reports have relation with the company size, investors’ decisions, gearing ratio (Leftwich et al. 1981; Bradbury 1991; Schadewitz& Blevins 1998; Mangena& Pike 2005 cited Mangena 2008) and profitability as well (Schadewitz& Blevins 1998; Botosan& Harris 2000; Chen et al. 2002). Tiras and Wheatley (2003) observed a noted from (Regulation S-K; item (302a); SEC (1999b) demonstrated that, SEC rules on interim financial reports require companies to disclose clear sales, gross profit and margin, earning per share as well as net income. The SEC may not require audit this information by firms, but require the review of this information intensively. Previously, reviewing the firms quarterly reports in the timely basis are the requirement of the SEC, but this process could be done before writing a letter with their filling “review on a timely basis”. However, Ettrege (1994) claimed that only a few registered firms followed this requirement. It is only about 8 percent of registered companies. Since our study is aimed to examine whether reviewing interim financial reports have better reflection of the investors’ decisions, when the auditor conduct the review process on the timely basis. Thus we predict at least the Kurdish company starts to review quarterly reports in order to increase the quality of reports and improve the investors’ decisions. According to (AICPA, 1972 cited in Ettrege 1994) annual earnings may require less estimation that the quarterly earnings. This is because “deferrals and accruals at the end of each quarter result of judgments concerning anticipated results for the rest of the fiscal year. In another way, Watts and Zimmerman 1986 cited in Ettrege 1994 and mindenhall and nichis 1998) noted that management has more ability to manipulate quarterly earnings when the reports are unaudited with respect to them. If auditors review quarterly reports on a timely basis, the management has less opportunity to manipulate them. From this perspective, we argue that one of the important associations with the reviewing process is an increase in reporting quality. This can be achieved because of two mechanisms: The first unintentional error may be reduced as a result of reviewing interim reports. The second can help management to avoid from manipulation. Thus, interim results often depend on estimates. “The reliance on estimation introduces a higher probability of measurement errors and more managerial discretion” (Kajuteret al. 2013). From the above arguments, reviewing interim reports in the timely basis can affect investors’ decisions surprisingly and avoid management from manipulation and other kind of fraud with respect to them. However, prior and concurrent research might be demonstrated that no research has been conducted to show the importance of reviewing interim reports in Iraq generally and in Kurdistan region specifically. Hence, this paper has the opportunity to examine the factors that contribute investors’ to push the company in order to have reviewed quarterly reports. Furthermore, it proposes a reasonable idea based on the international standards to be used by firms as a good mechanism for making effective decisions by investors’.

3 The benefits and costs of disclosing Review Interim Report

3.1 Costs of Disclosing the Review Interim financial Report

In this particular section we recognize three important costs that associated with the disclosing the review report. Many financial decision can be created by investors depended on the auditing financial statements. Thus, the auditor's report including the consolidated financial statements can be considered as a trusted informational for many decisions(Gyau et al. 2016). Study conducted by (Krishnan and Zhang 2005) argued that the auditor to a lawsuit is the main cost of disclosing a review report. If the investors’ could not understand the nature of a review, they may rely on it and the legal action for the auditor or client in that failure can be seen it as a result of poor stock performance. Therefore, “Ernst and Young wrote a comment to the SEC’s Proposed Rule (SEC 1999) and they proposed this expression: “We also note that the Commission is not proposing to require the independent auditor to issue a review report or include such reports. Since most investors’ do not understand the limited nature of the procedures performed and may place too much reliance on such reports, we believe the current requirements are appropriate” (Krishnan and Zhang 2005). The similar concerns have also suggested by “Arthur Andersen” to the “SEC’s Proposed Rule”. “Arthur Andersen” concerned the proposal by proposing the presentation of the interim review report in every case, while “Ernst & Young” demonstrated that the present rules were adequate (Krishnan and Zhang 2005). Both “Ernst & Young and Arthur Andersen” claimed that investors’ can place too much dependence on the interim review reports.

3.2 Benefits of disclosing Review Interim financial Report

Even though reviewing interim reports are costly and it takes a lot of time, but most of the firms decided to have this review because it has incremental benefits than costs associated with the review. According to (Goei 2013, Krishnan and Zhang 2005 and Kajuter et al. 2013) a major benefit is to improve the creditability of interim financial information, which can help the investors’ to have a significant decision. These benefits are related to the timely reviews as “opposed to retrospective reviews” (Krishnan and Zhang 2005). Today all companies are required to have timely reviews, but in Iraq, particularly and in Kurdistan no one follows that. Thus, we argue a formal review report that may inform the investors’ to have a clean report. Also, we expect to change the auditors every year at least as it helps to increase the reliability of reports and then followed by the intensive decisions. Therefore, we assume the following hypothesis:

H1: Reviewing of interim financial reports positively affects the investors’ decisions.

4 RESEARCH METHODOLOGY, METHODS AND DATA COLLECTION

The purpose of this study is to demonstrate how interim financial reports affect the investors' decisions. To achieve the objective of this study, the literature has identified a few research methodologies which were used (interview, questionnaire, survey). In this research, interview and questionnaire were often used to collect data. The questions were designed to ask investors', financial managers and academics in order to show that the importance of using interim financial reports as a basis for making the investors' decisions. Investors' were also asked to recognize themselves either as trackers, scanners, or complications as argued by (Edwards et al. 1972 cited in Majumder et al. 2012). Interviews were also designed to observe how investors' use interim financial reports to analyse written reports and make decisions. The sample of the study is classified between three groups which are Investors', financial managers and Academics in the same field.

5.1 Descriptive Statistics:

In this paper, we distributed 60 questionnaires randomly and 57of them were returned completed. Both male and female participated in answering our questions (57% of the response collected from male and the rest of the answer collected from the female). The education level of the respondents varied: 21.1% were diploma, 57.8% possess bachelor degree, and 21.1% hold a postgraduate degree. The results of career title were as follows: 68.4% were investors', 7.1% financial managers and 24.5% were academics in the field. The respondents' average years of work experience were as follows: 25.1% were less than 5 years, 24.6% were 10 years.

5.2 Mean, Standard Deviation

TABLE 1

THE IMPORTANCE OF ANNUAL FINANCIAL REPORTS

Annually financial report		1	2	3	4	5	Mean	S.D	T-test	P-value
Financial reports are the main source of information in which investors' and other stakeholders used it to make strong decisions	Fre.	0	2	8	30	17	4.08	0.76	26.2	0.00
	%	0.0	3.5	14.0	52.6	29.8				
Financial reports should be announced in appropriate time.	Fre.	0	1	8	29	19	4.15	0.72	27.3	0.00
	%	0.0	1.8	14.0	50.9	33.3				
Verifying financial reports in a timely manner is important for the investors'.	Fre.	0	11	13	23	10	3.54	1.01	32.5	0.00
	%	0.0	19.2	22.9	40.4	17.5				
The financial reports provide good information for investors'.	Fre.	1	5	6	31	14	3.98	0.97	18.2	0.00
	%	1.8	8.8	10.5	47.4	31.6				
Total	Fre.	**1**	**19**	**35**	**113**	**60**	**3.93**	**0.86**		
	%	**0.4**	**8.5**	**15.6**	**50.6**	**24.9**				

The table (1) illustrates the importance of annual financial report for investors' and other stakeholders. It appears from the table (1) that the higher frequency of annual financial report is "Financial reports should be announced in appropriate time" and least frequent annually financial report is "verifying financial reports in a timely manner is important for the investors'" of the total participation, 50.6% were agreed; 24.9% were strongly agreed and 8.9% of them did not agree with the importance of annual financial report. In regard to severity, the highest severe items are Financial reports should be announced in appropriate time" (M= 4.15, SD= ±0. 72, p < 0.001) and the least sever annual financial report is "verifying financial reports in a timely manner is important for the company" (M= 3.54, SD= ±1. 01, p < 0.001). Moreover, the total mean and standard deviation of the importance of annual financial report were (3.93, ±0.86). In more detail, the mean of it is greater than the general mean (3) means participation has agreed with the importance of annual financial report. Therefore, the important of timely manner for verifying financial reports for the investors': means that investors' need the interim financial reports more than the annual financial report.

TABLE 2

THE IMPORTANCE OF THE INTERIM FINANCIAL REPORTS

Interim financial reports		1	2	3	4	5	Mean	S.D	T-test	P-value
Interim financial reports contain the in formative ratio and financial indicators, which may be used by the investors' to find earnings per share, book values and trade rate.	Fre.	1	10	20	19	7	3.36	0.97	22.3	0.00
	%	1.8	17.5	35.1	33.3	12.3				
Interim financial reports are useful for stakeholders as a whole in joint-stock companies.	Fre.	3	15	15	18	6	3.15	1.09	16.87	0.00
	%	5.3	26.3	26.3	31.6	10.5				
Forecasting annual profits via interim financial reports are significant for investors' decisions.	Fre.	3	5	12	26	11	3.57	1.03	24.5	0.00
	%	5.3	8.8	21.1	45.6	19.2				
Total	Fre.	**7**	**30**	**47**	**63**	**24**	**3.36**	**1.03**		
	%	**4.1**	**17.5**	**27.4**	**36.8**	**14.2**				

The table (2) explains the importance of the interim financial reports. It appears from the table (2) that the higher frequency of annually financial report is "Forecasting annual profits via interim financial reports are significant for investors' decisions and least frequent annual financial report is "Interim financial reports are useful for stakeholders as a whole in joint-stock companies" of the total participation, 36.8% were agree; 14.2% were strongly agree and 21.6% of them were not agree with the importance of the interim financial reports. In regard to severity, the highest severe items are Forecasting annual profits via interim financial reports are significant for investors' decisions (M= 3.57, SD= ±1.03, p < 0.001) and the least sever annual financial report is "Interim financial reports are useful for stakeholders as a whole in joint-stock companies" (M= 3.15, SD= ±1.09, p < 0.001). Moreover, the total mean and standard deviation of the importance of interim financial reports were (3.36, ±0.1.03). In more detail, the mean of it is greater than the general mean (3) means participation has agreed with the importance of interim financial reports.

TABLE 3

THE IMPACT OF REVIEWING INTERIM FINANCIAL REPORTS ON THE INVESTORS' DECISIONS

Reviewing Interim financial reports		r	2	3	4	5	Mean	S.D	T-test	P-value
Reviewing interim financial reports by independent auditors have an impact on reliability of reporting and accounting practices.	Fre.	9	11	16	17	4	2.92	1.19	25.4	0.00
	%	15.8	19.3	28.1	29.8	7.0				
Progressing of interim financial reports is important to detect abnormalities and also to reduce the ability of management to manipulate accounting results.	Fre.	2	4	15	20	16	3.37	1.05	26.3	0.00
	%	3.5	7.0	26.3	35.1	28.1				
Reviewing of quarterly reports is also significant to improve accounting information, which can help the inventors to invest their shares and decide the reliable decision.	Fre.	10	10	15	16	6	2.96	1.26	24.5	0.00
	%	17.5	17.5	26.3	28.1	10.5				
Total	Fre.	**21**	**25**	**46**	**53**	**26**	**3.08**	**1.16**		
	%	**12.2**	**14.6**	**26.9**	**30.9**	**15.4**				

The table (3) shows the importance of the interim financial reports on the investors' decisions. It appears from the table (3) that the higher frequency of The impact of reviewing interim financial reports on investors' decisions is "Progressing of interim financial reports are important to detect abnormalities and also to reduce the ability of management to manipulate accounting results " and least frequent annually financial report is "Reviewing interim financial reports by independent auditors have an impact on reliability of reporting and accounting practices" of the total participation, 30.9% were agree; 15.4% were strongly agree and 26.8% of them were not agree with The impact of reviewing interim financial reports on investors' decisions. In regard to severity, the highest severe items are Progressing of interim financial reports are important to detect abnormalities and also to reduce the ability of management to manipulate accounting results" ($M= 3.37$, $SD= \pm1.05$, $p < 0.001$) and the least sever annually financial report is "Reviewing interim financial reports by independent auditors have an impact on reliability of reporting and accounting practices" ($M= 2.92$, $SD= \pm1.19$, $p < 0.001$). Moreover, the total mean and standard deviation of the importance of interim financial reports were (3.08, ±1.16). In more detail, the mean of it is greater than the general mean (3) means participation agree with the impact of reviewing interim financial reports on investors' decisions. This is consistent with the expectation (hypotheses) of this paper.

TABLE 4

MODEL SUMMARY

Model 1	Result of Model 1
R Square	0.813
Adjusted R	0.782
Std. error	101.79
F change	102.97
P-value	0.000

It can be seen in the table (4) that the result of determination of variation is (0.813) which means that 81.3% of the total response variable were explained by the explanatory variables. In addition, the model is fit of the data because the p-value of F- test is less than the common alpha 0.05.

TABLE 5

COEFFICIENTS OF VARIABLES

Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
Constant	1.032	38.86	-	11.23	0.03
interim financial reports	0.423	0.175	0.134	20.66	0.00

It is clear in the table (5) that the parameter for α (1.032) indicates the predicted consumption when explanatory variable is equal to zero. It should be noted that although the parameter α is required to make predictions of investors' decisions at other independent variable. The parameter β indicates that for each unit increase in interim financial reports, investors' decisions increases by (0.423) units. The significance of the relationship between interim financial reports and investors' decisions can be estimated by comparing t-test statistics and p-value, it is statistically significance relationship between interim financial reports and therefore, the regression model investors' decisions = 1.032 + 0.423 (reviewing interim financial reports).

6 DISCUSSIONS AND CONCLUSION

This paper examines how interim financial reports affect the investors' decisions in Kurdistan region. It aims to push the investors' to have a timely review reports to make significant decisions for future return. This paper classifies the aim in to three categories which are the importance related to the annual financial reports and importance related to the interim financial reports, and the impact of reviewing interim financial reports on the investors' decisions. The study reveals that verifying interim financial reports are important in a timely manner. This means that investors' may need certify interim financial report rather than annual report. This is exactly consistent with some studies that have been carried out in elsewhere and in different time. Moreover, our research found another result that could influence interim financial reports in Kurdistan region. This result related to the earning return, stopping managers from manipulation, following the rules of national accounting standards.

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