

Drivers of Erroneous Financial Reporting and Enforcement Delay – Evidence from Germany

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Since regulatory initiatives by the EU to ascertain a consistent and faithful application of IFRS, a two-tier enforcement system has been in operation since 2005 in Germany. The mechanism consists of the private FREP and the state-funded BaFin. Both institutions investigate compliance of published financial reports of listed firms and disclose error findings as “name and shame” announcements. In regards to this system, our study investigates the determinants for erroneous financial reporting and enforcement delay, the time between the reporting date and the error finding, on the basis of a sample of 125 error findings from 2005 to 2012. We examine the determinants for errors in financial reports on the basis of the censured errors, thus distinguishing the quality of accounting with respect to the firms’ size, financial situation and its auditor’s affiliation. The determinants for enforcement delay are derived from findings in literature, to identify indicators for time and resource consumption during the enforcement procedure. The results of a multivariate regression analyses show that both error count and enforcement delay decreased since the introduction of the two-tier enforcement system, which suggests its efficiency. We find enforcement delay is substantially determined by the enforcement institution. Contrary to the concerns raised, we find no evidence that the IFRS’s complexity exceeds the resources of small and medium-sized firms. There also seems to be no correlation between the auditor’s affiliation to one of the four major audit firms and an increased risk for errors.

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