

Compliance of Financial Disclosure in Corporate Annual Reports of Banking Sector in Bangladesh

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Abstract

Our present study on “Compliance of Financial Disclosure in Corporate Annual Reports of Banking Sector in Bangladesh” has been directed towards analyzing and examining the quality and quantity of disclosure as well as evaluating the opinion of the experts’ i.e., Financial Analyst, Professional Accountants, Stock Brokers, Accounting Professors and Bank Loan Officers on the qualitative characteristics of corporate financial disclosure. In order to provide a short review of the main literature being relevant to the present study a review of related works has been made. This review has provided a framework for the present study as well as assistance in developing a research methodology.

We have also made an attempt to examine the extent of disclosure of the sampled bank under study. The study is an attempt to examine empirically the association between a number of corporate attributes and levels of disclosure in corporate annual reports of listed banking companies in Bangladesh.

The association between the extent of disclosure and various corporate characteristics was examined using multiple linear regression models. We have also probed into the causes of time lag for the publication of annual reports by the sample units. Finally, we have suggested ways and means to improve the quality of disclosure, the level of understanding of the financial statements. We have prepared a methodology accordingly for collecting the primary and

secondary data. A questionnaire has been developed to collect primary data. Secondary data have been collected mainly from the annual reports of the sample banks. A disclosure index comprising 144 items of information, which are expected to be disclosed in corporate annual reports in the sample companies, has been developed. Un-weighted disclosure index (UDI) was applied to the corporate annual reports for a sample of 12 Bangladeshi banking companies, for the year 2002-2006.

We have analyzed the data with certain statistical tools. In order to test whether there are significant differences between the opinion of the respondents, we conducted χ^2 test using SPSS software.

In order to see whether there is significant difference in disclosure score among the sample firms and among the sample years we conducted t tests choosing 2 samples at a time i.e., using SPSS Software we conducted Paired Sample t test.

The corporate attributes considered are size proxied by total assets (TA), gross revenue (GR) and number of branches (NOB), profitability proxied by EPS, ROA, ROI and net profit margin (NPM), credit deposit ratio (CDR), capital adequacy ratio (CAR), debt equity ratio (DER) and shareholder's risk ratio (SRR).

UDI has been arrived at by aggregating the number of disclosed items in each corporate annual report by using a dichotomous approach where a bank will be awarded '1' for disclosing an item and if not, has been awarded '0'. In order to identify the determinants of disclosure, regression analysis, multiple linear regression techniques have been used. We have analyzed empirically the relationship

between the Disclosure Score and the several company characteristics regarding timeliness of the sample banks.

We have found that there are significant differences in disclosure score among the sample banks. The results of t test reveals that t values are significant in 44 of the cases out of 66 cases i.e., in 66.67% of the cases. In case of the opinions of respondents regarding compliance of IASs by the banking companies, the study revealed that a significant difference among the opinions of respondent groups exists. So, the null hypothesis was rejected at 0.014 level of significance.

The study has reported the results of multiple linear regressions to test the association between a number of corporate attributes and the extent of disclosure in corporate annual reports of banking sector in Bangladesh. The results have shown that disclosure levels are associated with some company characteristics. Only two variables those were found to be significant in determining disclosure levels are return on assets and capital adequacy ratio. The return on investment showed significant but relatively weaker association. The other variables were found to be insignificant in explaining disclosure.

The result of regression timeliness has revealed significant influence of audit lag on disclosure at 0.008 level in 2003 and in that the multiple independent variables also have shown significant influence at 0.035 level.

From the results of this study the following conclusions can be drawn. There appears to be an unusual audit delay made by the Bangladeshi listed banking companies soon after the balance sheet date. With regard to timeliness as a qualitative characteristic of financial

statements, this evidence can be regarded as unsatisfactory. The findings of this study may be generalized after taking into consideration its limitation.

In view of the emerging importance of fair disclosure in financial reporting, we observe that the users are likely to procure decision-oriented information from such narrative disclosure. In the concluding word, it is hoped that this thesis has made a contribution to knowledge in the field of overall financial reporting and in particular in understanding of financial accounting issues of banking companies in developing countries.

The findings of this study may be generalized after taking into consideration certain limitations. This study considers the annual reports for only five years. This study does not consider non-listed, non-financial companies. This study concentrates on a particular industry type.

Further research can be undertaken to measure the extent of disclosure longitudinally to determine whether quality of disclosure has improved over time. Further research can be undertaken taking into consideration both groups of companies (listed and non-listed or financial and non-financial) and can be undertaken based on multi industry types.

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CERTIFICATE

This is to certify that the thesis entitled “**Compliance of Financial Disclosure in Corporate Annual Reports of Banking Sector in Bangladesh**” is a bona fide record of research work done by **Alim Al Ayub Ahmed**, Department of Accounting and Information Systems, University of Rajshahi, Rajshahi, under my supervision, submitted to the University of Rajshahi, for the award of **Doctor of Philosophy in Accounting and Information Systems** and the thesis has not previously formed the basis for the award to the candidate of any Degree, Diploma, or any other similar titles. I further certify that the thesis represents independent work on the part of the candidate.

M. Madan 25.06.2009

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Alim Al Ayub Ahmed
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Dedication

To
Kiraman & Katibin,

The accountants for every human

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Appendix 10	Acceptance Letter for Publication- <i>The Bangladesh Accountant</i> , ICAB, Dhaka, Bangladesh
Appendix 11	Acceptance Letter: <i>4th International Conference on Accounting and Management Information Systems (AMIS 2009)</i> , Academy of Economic Studies, Bucharest, Romania
Appendix 12	Acceptance Letter: <i>6th AFE Conference</i> , Samos Island, Greece
Appendix 13	Acceptance Letter: <i>International Symposium on Finance and Accounting (ISFA 2009)</i> , Kuala Lumpur, Malaysia
Appendix 14	Acceptance Letter: <i>International Management Accounting Conference</i> , UKM, Kuala Lumpur, Malaysia
Appendix 15	Published Paper: "Measurement and analysis of the Extent of Timeliness in Corporate Annual Reports of Banking Sector in Bangladesh"
Appendix 16	Acceptance Letter: <i>6th International Conference on Enterprise Systems, Accounting and Logistics (6th ICESAL '09)</i> , Thessaloniki, Greece

LIST OF ABBREVIATIONS

AAA	American Accounting Association
AB Bank	Arab Bangladesh Bank Limited
AGM	Annual General Meeting
AgmL	AGM Lag
ANOVA	Analysis of Variance
AP	Accounting Professors
APB	Accounting Principles Board
API	Accounting Policy Items
ASSC	Accounting Standards Steering Committee
AuL	Audit Lag
BAS	Bangladesh Accounting Standards
BB	Bangladesh bank
BCA	Bank Companies Act
BIBM	Bangladesh Institute of Bank Management
BLO	Bank Loan Officer
BRPD	Banking Rules Publicity Department
BSA	Bangladesh Standards of Auditing
BSIA	Balance Sheet Items -Assets
BSIL	Balance Sheet Items -Liabilities
CAR	Capital Adequacy Ratio
CAR	Company Annual Reports
CDR	Credit Deposit Ratio
CPE	Continuing Professional Education
CPI	Company Profile Items
CSE	Chittagong Stock Exchange
CSR	Corporate Social Responsibility
DER	Debt Equity Ratio
DSE	Dhaka Stock Exchange
EBL	Eastern Bank Limited
EPS	Earnings Per Share
FA	Financial Analyst
FASB	Financial Accounting Standard Board
FCB	Foreign Commercial Banks
FIFO	First In First Out
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Products
GNP	Gross National Products
GOB	Government of Bangladesh
GR	Gross Revenue
IAS	International Accounting Standards
IASC	International Accounting Standards Committee
ICAB	Institute of Chartered Accountants of Bangladesh
ICAEW	Institute of Chartered Accountants of England and Wales

ICB	Investment Corporation of Bangladesh
IFC	International Finance Corporation
IFIC Bank	International Finance Investment and Commerce Bank
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISIC	Income Statement Items-Cr.
ISID	Income Statement Items-Dr.
LIFO	Last In First Out
LPCB	Local Private Commercial Banks
MBL	Mercantile Bank Ltd.
MD&A	Management's Discussion and Analysis
MVM	Measurement and Valuation Method
NBL	National Bank Limited
NCB	Nationalized Commercial Banks
NCC Bank	National Credit and Commerce Bank
NOB	Number of Branches
NPM	Net Profit Margin
NYSE	New York Stock Exchange
OFI	Other Financial Institutions
P&L	Profit and Loss
PA	Professional Accountants
PBD	Projections and Budgetary Disclosure
ROA	Return on Assets
ROI	Return on Investment
RSD	Ratios, Statistics and Other Details
SAFA	South Asian Federation of Accountants
SB	Specialized Banks
SB	Stock Broker
SEC	Securities and Exchange Commission
SER	Securities and Exchange Rules
SFAC	Statements of Financial Accounting Concepts
SIBL	Social Investment Bank Limited
SPSS	Statistical Package for Social Sciences
SRR	Shareholder's Risk Ratio
TA	Total Assets
TD	Total Disclosure
TotL	Total Lag
UCBL	United Commercial Bank Limited
UDI	Un-weighted Disclosure Index
USAID	United States Agency for International Development
WTO	World Trade Organization

Chapter one

Introduction

1.1 Curtain Raiser

The topic of disclosure is broad enough to encompass almost the entire area of financial reporting. One of the major objectives of financial reporting is to supply information for decision-making. This requires a proper disclosure of financial data and other relevant information. Disclosure is vital for the optimum decisions of investors and for a stable capital market. Timely disclosure of relevant information tends to prevent surprises that may completely alter the outlook for the future of the firm. It also tends to give investors greater confidence in the financial information available to them.

Objectives and Nature of Disclosure: Proper disclosure of relevant information in the financial statements of a company is of great importance, since the members of the company as well as other parties; make most of their appraisals regarding the company on the basis of such statements. Annual financial statements should, therefore, disclose relevant financial information clearly and accurately.

Disclosure in financial reporting is the presentation of information necessary for the optimum operation of efficient capital markets. This implies that sufficient information should be presented to permit the prediction of future dividend trends and variability and the co variability of future returns with the market. Emphasis should be placed on the preferences of sophisticated investors and financial analysts. "The ultimate objective of disclosure is to communicate timely, reliable, and material information which is useful to the users of annual reports, in an intelligible form." (Agarwal, 1995)

How much information should be disclosed is dependent not only upon the expertise of the reader, but also upon the desirable standard. Three concepts of disclosure generally proposed are adequate, fair and full disclosure. The most commonly used of these expressions is adequate disclosure. But this implies a minimum amount of disclosure congruous with the negative objective of making the statements not misleading. Fair and full are more positive concepts. Fair disclosure implies an ethical objective of providing equal treatment for all potential reader. Full disclosure implies the presentation of all relevant information. To some, full disclosure means the presentation of superfluous information and is therefore inappropriate.

Full Disclosure: "Full disclosure means that published financial statements and related notes should include any economic information related to the accounting entity that is

significant enough to affect the decisions of an informed and prudent user or financial statements... . Full disclosure is aimed at improving the clarity, quality, and quantity of economic data disclosed by the accounting entity. It increases the relevance and reliability of accounting information.” (Porwal, 1996)

Full disclosure means the presentation of all relevant information. The principle of full disclosure suggests that every financial statement should fully disclose all pertinent information that has a bearing on the figures in the statements and that will make possible a reasonable interpretation of their meaning. The different aspects of Full Disclosure are as follows: -

Full Disclosure in Financial Reporting				
Full Disclosure Principle	Notes to Financial Statements	Disclosure Issues	Auditor's and Management's Reports	Current Reporting Issues
• Increase in reporting requirements • Differential disclosure	• Accounting policies • Common notes	• Special transactions or events • Post balance sheet events • Diversified companies • Interim reports	• Auditor's reports • Management's reports	• Reporting on forecasts and projections • Internet financial reporting • Fraudulent financial reporting • Criteria for accounting and reporting choices

Source: Intermediate Accounting, Kieso, Weygandt and Warfield, 2004

Adequate Disclosure: “Adequate disclosure means a minimum amount of disclosure so that the financial statements are not misleading”. (Porwal, 1996) Financial statements and their accompanying footnotes or other explanatory materials should contain all of the pertinent data believed essential to the reader's understanding.

The Problems of Disclosure: The problems of disclosure can be resolved in the light of the objectives of financial reporting. All countries do not have the same objectives. A study of FASB's SFAC No. 1, the Corporate Report, London, and the Stamp Report, Canada, reveals differences in objectives. Consequently, the solution to the problems of disclosure will not be the same for all countries.

Basically the following questions (Porwal, 1996) relating to disclosure need to be answered:

1. Who are the users of information, i.e., for whom is the information to be disclosed?
2. How much information should be disclosed?

3. How should it be disclosed?

4. When should be disclosed?

Costs and Benefits of Financial Disclosure: The characteristics of information that make it a desirable commodity can be viewed as a hierarchy of qualities, with usefulness for decision making of most importance. Without usefulness, there would be no benefits from information to set against its costs.

The costs of providing information are of several kinds, including cost of collecting and processing information, cost of audit if it is subject to audit, cost of disseminating it to those who must receive it, cost associated with the dangers of litigation, and in some instances cost of disclosure in the form of a loss of competitive advantages vis-à-vis trade competitors, labor unions or foreign enterprises. The costs to the users of information, over and above those costs that preparers pass on to them, are mainly the costs of analysis and interpretation and may include costs of rejecting information.

The burden of the costs and the incidence of benefits fall quite unevenly throughout the economy, and it has been rightly observed that “..... the matter of establishing disclosure requirements becomes not only a matter of judgement but also a complex balancing of many factors so that all costs and benefits receive the consideration they merit. For example, a simple rule that any information useful in making investment decisions should be disclosed fails as completely as a rule that says disclosure should not be required if competitive disadvantage results.” (Mautz and May, 1978)

1.2 Corporate Annual Reports as a Device of Information Disclosure

Disclosure means effective communication of meaningful information. Disclosure is concerned with providing information, which are useful in making business and economic decisions by the audience-of-interest and the parties who have right to receive it. Financial disclosure is the end output of the financial reporting process. The balance sheet, profit and loss account and cash flow statement along with the supporting notes are known as the basic financial disclosure. Accounting may be treated as an information system that needs financial statements as the end result. Financial statements are the summarized and classified reports of financial events.

In a greater sense, financial statements are the direct product of a large number of integrated accounting processes which provide periodic income, financial position and cash flow statements (Mueller and Kelly: 1991).

All financial statements is concerned in varying degrees with decision-making. The need for disclosure to audience-of-interest on which to base investment, credit and similar decisions underlie the objectives of financial reporting. The importance of disclosure must be evaluated in relation to the purposes to be served, and the objectives of disclosure are focused in the use of accounting disclosure in decision-making.

The International Accounting Standards Committee (IASC) describes financial statements in its Exposure Draft-28, Framework for the preparation and presentation of Financial Statements, as

“Financial statements normally include a balance sheet, a profit and loss statement, a statement of changes in financial position, notes and other statements and explanatory material that are integral parts of the financial statements”.
(IASC, 1988)

The financial statements give information about an enterprise's resources, obligation and earnings. The purpose of financial statements is to give information that are useful to users in making managerial and economic decisions.

According to the definition given by the Accounting Standard Steering Committee (ASSC) of the UK and Ireland, a corporate financial report means “the comprehensive package of information of all kinds which describes an organization's economic activity”(1975).

Financial statements give useful information and detailed information is given by corporate financial reports although the information relates directly or indirectly to the information provided by a business enterprise's accounting system. In addition to basic financial statements, it provides narrative and descriptive statements and often-illustrative materials. Financial reporting is a means of providing information to users of all kinds, which most completely describes an organization's economic activity. It has also been stated that “... .. *Financial reporting by the entities attempts to meet the needs of the external users of financial reports who lack authority to prescribe the financial information they want from entities*” (FASB, 1978).

Financial reporting in broader terms not only includes financial statements but also other means of communicating information relating directly or indirectly to the information provided by the accounting system. A comprehensive financial report may typically include corporate annual reports, various statutory annual information filing with regulatory commissions and registration statements for new securities to be sold publicly (Mueller and Kelly, 1991). Management may communicate information to those outside an enterprise by means other than the financial statement either because the information is required to be disclosed by authoritative pronouncement, regulatory rule or custom or because management considers it useful to those outside the enterprise and discloses it voluntarily.

1.3 Statement of the Problem

Financial reporting practices made by the firms changes with the passage of time. Bangladesh is a developing country whose financial reporting practice is based on the British Model. The financial reporting practice of a country depends on legal, economic, political, cultural reasons, and the financial reporting practices have been changed during the last few decades. In Bangladesh the financial reporting practice of the banking company is regulated by the Companies Act 1994, Bank Companies Act 1991 and the Listing Requirements of Stock Exchanges and the Securities and Exchange Commission Act 1993 and adopted Bangladesh Accounting Standards (BAS).

In a free market economy disclosure of information is essential for the user groups. In the absence of pertinent, adequate information, the decision makers cannot make sound decisions. Though there are many users of accounting information, investors and the creditors are the main users. These investors and creditors allocate their scarce resources on the basis of information obtained from the corporate annual reports. Statement of Financial Accounting Concepts No. 1 states that ‘financial reporting should provide information that is useful to present and potential investors and creditors and other users in assessing the amounts, timing and uncertainty of prospective cash receipts’ (SFAC No. 1, 1978). Thus we see that financial statements must be more useful to the user groups and decision-usefulness is the main criteria that make financial statements important to decision makers. The qualitative characteristics of accounting information contained in the annual reports make the information useful. Certificate of Certified Public Accountants plays a vital role in this regard.

Though adequate disclosure is a crying need of the present situation, we see from the works of the earlier researchers that the level of disclosure by the banking companies are not adequate for making pertinent decisions by users groups. A study by Malek (2005) shows that foreign banks working in Bangladesh outperformed the local private banks regarding disclosure. Belal (2000) has asserted that the disclosure practices in Bangladesh are very poor and inadequate in many respects and hence, need to be improved. Hossain’s (2004) study reveals that improving the published financial information of banking companies results in greater transparency and accountability and leads to better performance of the whole financial sector.

Disclosure means communicating relevant and reliable information to the interested users who use the disclosed information for their respective decision-making process. The level of disclosure can be examined by constructing a disclosure index which may be weighted or un-weighted. On the basis of the score obtained by a company we can examine its level of disclosure.

Our study has been designed to measure the extent of disclosure made by the listed banking companies of Bangladesh and we have also tried to identify whether corporate attributes affect the disclosure level of the sample banks. Our study also probes into the causes of delay in timeliness of financial reporting. Our study also has been planned to evaluate the opinion of the respondents regarding different dimensions of financial reporting.

The scope of the research was limited to financial disclosure in the corporate annual reports of the banking sector. Other company documents that provide information such as interim reports, segmental reports and prospectuses were considered to be outside the scope of this research.

1.4 Rationale of the Study

In Bangladesh, financial reporting of the companies is regulated by the Companies Act 1994, the Banking Companies Act 1991, Securities and Exchange Commission Act, 1997 and Securities and Exchange Rules 1993 and Accounting Standards as adopted by Bangladesh.

The Companies Act, 1994 requires the public limited companies to prepare the financial statements according to section 185, Schedule-11. Items to disclose in profit and loss account have been described in Part 2 of Schedule 11. The banking companies have to comply with the provisions of the Banking Companies Act, 1991 and existing BRPD circular and also the circulars that may be promulgated in future. In addition to these, the banking companies also have to comply with the Bangladesh Accounting Standard, especially IAS 30, i.e., BAS 30. Of course, compliance with BASs are not mandatory.

In our country, companies do not want to disclose relevant and adequate information to the users through the financial statements. But in advanced countries like USA, these financial statements are available in the company web-site or those financial statements can also be obtained from the Compu-stat file maintained by the University of Illinois, Chicago, USA. This reluctance for disclosure occurs for fear of leakage of information to the competitors. Another reason is the absence of mandatory disclosure. Fear of criticism by the authority and the shareholders, creditors, is also a reason that may be accounted for low level of disclosure.

Studies by Alam (1990, 21-28), Hye (1989, 38-46), Dutta (1995-96, 44-48) have also observed inadequacy of disclosure and non-compliance with BAS by the public companies. Mannan (1986, 153) have also commented that multinational companies operating in Bangladesh are conservative. Some scholars and researchers (Azizuddin, 2001; Khan and Kumar, 2001; Saha and Rahman, 2000; Ahmed, 2000; Chowdhury A., 1997; Akter and Hoque, 1993) have focused the deficiencies of our commercial bank financial reporting.

The present study has been planned to identify the level of disclosure score of the banking companies and the extent of compliance with regulatory requirements. An attempt will also be made to examine the timeliness of financial reporting. A host of research works has been conducted covering the different aspects of financial reporting

but no such study has focused on the level of disclosure by the commercial banks. Taking clues from the aforesaid discussion the study has been planned to fill in the vacuum.

The present study is a pioneering attempt in the field “Compliance of Financial Disclosure in Corporate Annual Reports of Banking Sector in Bangladesh” to enlighten the basic inherent problems of the financial reporting and disclosure which needs an in depth analysis at this moment for the survival of the new formats of financial statements in compliance with IAS-30, introduced by Bangladesh Bank (BRPD circular no. 3/2000, dated 18/04/2000).

No research has yet been made to study the compliance of financial disclosure in corporate annual reports of banking sector in Bangladesh. Thus, the present study is justified on the grounds that the subject matter is important and there is a lack of research work in this area. This is very important for Banking Companies. This will be helpful for the authorities of banks and others engaged in financial reporting practices and to the users of financial statements. Moreover, the study will produce an opportunity to consider about the current state of disclosure of information, quality of information and the nature of financial reporting practices and regulations in the banking sector of Bangladesh.

1.5 Objectives of the Study

The primary objective of the study is to examine the compliance of financial disclosure in corporate annual reports of Banking Sector in Bangladesh. The specific objectives of the study are as follows:

1. To examine the opinion of respondents regarding the qualitative characteristics of financial disclosure and the importance of various items of disclosure in decision-making.
2. To measure the extent of disclosure of information made by the listed banking companies in Bangladesh.
3. To examine the association between corporate disclosure levels and extracted corporate attributes in banking sector.
4. To examine the influence of timeliness on the level of disclosure of the sample banks.
5. To suggest for better financial reporting of the Banking Sector in view of the findings of the study.

1.6 Geographical and Economic Position of Bangladesh

For the attainment of higher levels of economic development, developing countries are trying to achieve and maintain high rates of economic growth. Bangladesh is no exception to this. It has been argued that there is a linkage between accounting and economic development (Enthoven, 1987). Equally it has been argued that the accounting systems of developing countries most conform to their historical, political, economic and social conditions (Belkaoui, 1985). As Bangladesh belonged to British India before 1947, the accounting practices in Bangladesh remain greatly influenced by the British Accounting and financial reporting system, which was imposed on Bangladesh initially. The following discussion will provide a brief review of the overall economic and geographical position in Bangladesh, which are the subject of this thesis.

Geographical Position

Bangladesh has made a significant economic progress over the past decade, although it is still one of the poorest countries in the world. She has a large population and a limited stock of known mineral resources, and the economy is heavily dependent on small-scale agriculture, mainly food grains. The environment of Bangladesh is being affected by global warmness. The review of the geographical situations of Bangladesh on population, resource and environment are as follows:

Population: The total population of Bangladesh was estimated at 41.8 million in 1950 and in 2001 it reached to 129.3 million. The annual rate of increase in 2001 is 1.8 percent, having declined from 1.86 percent in 1991 and in 1981 it was 2.17 percent. In the context of South Asia, Bangladesh has made 'major' headway in terms of contraceptive use and fertility regulation. The prevalence of contraceptive use has increased from a modest of 3.6 percent of currently married women using any method in 1969 to 31.4 percent in 1989. In 1991 it was 40 percent and in 2001 it was 54 percent (preliminary Reports, BBS 2001). The total fertility rate has declined from seven children per woman in 1970-75, 5.5 in 1985-90, and 4.6 in 1990-95 to an estimated 3.1 in 2000.

Resource: For Bangladesh, energy sector growth is more than a sine qua non for economic development. The country has an installed capacity of 3300 megawatts; however, only 2,600 megawatts are considered 'available' at any given time. She has

huge amount of natural gas resources, which, if utilized fully, could accelerate energy sector development and promote rapid economic growth.

Over the past 28 years Bangladesh has greatly increased its food grain production, from 11.81 million metric tons in 1974 to 26.0 million metric tons in 2002 (USAID, 2002). On a per capita basis, fish production declined by 35 percent between 1973 and 1985, a result of population growth outstripping fish production increases.

Environment: The floodplains of Bangladesh represent one of the world's most important wetlands home to hundred of species of fish, plants and wildlife and a critical habitat for thousands of migrating birds. The Sunderbans in southeast Bangladesh are the world's largest single mangrove forest and are recognized as World Heritage Site. Loss of bio-diversity is driven in large part by loss of critical habitat, caused by Bangladesh's expanding population. Most of Bangladesh's tropical forests and almost all of the freshwater floodplains have been affected by human activities that are particularly detrimental to the natural resource base. The environmental conditions in Bangladesh are as follows:

- ❑ True forest habitat is less than 6% of total land area and is declining rapidly.
- ❑ Rapid expansion of dry season irrigation for rice cultivation has resulted in the loss of over 50% of the dry season. It has resulted in perennial waterbed area in portions of the country. Seasonal draw-down of the water table is also a problem, causing some tube wells to run dry.
- ❑ There is a lack of effective protection for environmentally critical areas contributing to a reduction in bio-diversity.
- ❑ The aquatic and floodplain ecosystems continue to be severely degraded. The (perennial) wetland habitats and ecosystems have lost connections with larger waterbeds (river and canals) due to silt and land filling for agriculture and homestead use.
- ❑ Massive deforestation has also taken place, with negative consequences for both diversity and production of tropical forest resources.
- ❑ Reduction of forest bio-diversity and production has negatively affected food, fodder, and medicine.

- Prime agricultural land increasingly being converted to human settlements; forestland is being encroached upon for agricultural purposes and wetlands are being converted to agricultural and other uses. Contributing factors cited in the loss of biological diversity are deforestation, forest conversion, agricultural and industrial pollution, irrigation, flood control developments, and the over exploitation of biological resources.

Economic Position

Bangladesh has one of the poorest and slowest growing economies in the world. Like most underdeveloped economy, the population pressure is only one part of the story, some of the rest of its problems are political instability, a relatively high (low) proportion of output and labor force in agriculture (industry), inadequate technology and capital, low saving rates, volatile export earning from a high proportion of traditional exports, low literacy and an unskilled labor force (Choudhury and Miyan, 1990). In terms of GNP Bangladesh falls in the Low Income Category of countries according to the World Bank. During 1990-1995 GDP growth averaged 4.1% in Bangladesh (World Development Report, 1997). Over the last couple of decades, Bangladesh has been pursuing various development strategies to improve the living standard of its people. The per capita income of Bangladesh was \$240 in 1995 (World Development Report, 1997). Bangladesh has one of the highest densities of population, at around 800 people per square kilometer in 1990-1995. Bangladesh has a population of about 120 millions with an annual growth of 1.6% which showed down the growth of domestic national product. The economy is largely agricultural, with 31% of GDP coming from agriculture which involves 64% of the labor force in 1990 (World Development Report, 1997). Since independence, Bangladesh has been trying to achieve self-sufficiency in food grain production and she has nearly achieved success in this goal. Agriculture remains the mainstay of the economy of Bangladesh and this sector contributed 38% to GNP in 1993 (World Development Report, 1994). Lack of capital, reliance on jute and garments export and rapid population growth has been hampering economic development over the years. Pakistani rule (from 1947-1971), military rule and economic discrimination are generally considered to have hindered the development process.

The development plans of Bangladesh are mainly financed by external aid agencies, such as the World Bank, to the extent that during the Third Five Year Plan Period (1985-90) she borrowed up to 88% of her development budget from these sources (Nicholls and Ahmed, 1995). The government has been trying to open up the economy by emphasizing private enterprise, encouraging foreign investment and setting up Export Processing Zones. Since 1989, the garments industry has been growing rapidly due to government's economic liberalization policies, low wages and fiscal incentives.

1.7 Profile of the Sample Banks

Financial market of an economy is comprised of the banking sector, other financial institutions and capital market. The following box shows a category-wise brief list of the institutions in the financial market of Bangladesh.

Financial market in Bangladesh at a glance		
Bank and other Financial Institutions		Capital Market
<i>Nationalized Commercial Banks-</i>	<i>(4)</i>	<i>Dhaka Stock Exchange (DSE)</i>
<i>Nationalized Specialized Banks-</i>	<i>(5)</i>	<i>Chittagong Stock Exchange (CSE)</i>
<i>Private Commercial Banks-</i>	<i>(30)</i>	
<i>Foreign Commercial Banks-</i>	<i>(10)</i>	
<i>Non-bank Financial Institutions-</i>	<i>(28)</i>	

Source: Bangladesh Bank and Securities and Exchange Commission

Banks and other Financial Institutions

Banks and other financial institutions (OFIs) keep the economic activities on gear by infusing dynamism. In the market economy and in the face of globalization, banks and OFIs are facing immense competition and are compelled to provide their service as much efficiently and effectively as possible to the customers.

Banking Sector

The banking sector of Bangladesh comprises of four categories of scheduled banks. As of June 2004, 49 scheduled banks are operating in Bangladesh with a network of 6236 branches. 4 nationalized commercial banks (NCBs), 5 specialized banks (SBs), 30 local private commercial banks (LPCBs) and 12 foreign commercial banks (FCBs) are operating now in Bangladesh. The scheduled banks have 3699 branches in the suburban

or rural areas, which is 59.32 percent of the total number. NCBs, SBs, LPCBs and FCBs have 3390, 1318, 1488 and 34 branches, respectively, operating in different places. In addition, one national co-operative bank, one Ansar VDP bank, one Karmasangsthan Bank and one Grameen Bank are also in operation. (Bangladesh Bank Report)

S. #	Type	Name of the Banks
	Central Bank	Name of Central Bank Bangladesh Bank Motijheel C/A, Dhaka
1	NCBs	Sonali Bank
2	„	Janata Bank
3	„	Agrani Bank
4	„	Rupali Bank
1	SBs	Bangladesh Krishi Bank (BKB)
2	„	Bangladesh Shilpo Bank (BSB)
3	„	Rajshahi Krishi Unnayan Bank (RAKUB)
4	„	Bangladesh Shilpo Reen Songstha (BSRS)
5	„	Bank of Small Industries and Commerce Bangladesh Limited (BASIC)
1	PCBs	Pubali Bank Limited
2	„	Uttara Bank Limited
3	„	Arab Bangladesh Bank Limited (AB Bank)
4	„	International Finance Investment and Commerce Bank Limited (IFIC Bank)
5	„	The Trust Bank Limited
6	„	National Bank Limited (NBL)
7	„	The City Bank Limited
8	„	United Commercial Bank Limited (UCBL)
9	„	Oriental Bank
10	„	Eastern Bank Limited (EBL)
11	„	National Credit and Commerce Bank Limited (NCC Bank)
12	„	Prime Bank Limited
13	„	South East Bank Limited
14	„	Dhaka Bank Limited
15	„	Al-Arafah Islamic Bank Limited
16	„	Social Investment Bank Limited (SIBL Bank)
17	„	One Bank Limited
18	„	The Premier Bank Limited
19	„	First Security Bank Limited
20	„	Standard Bank Limited
21	„	Bangladesh Commerce Bank Limited (BCBL)

22	„	Bank Asia Limited
23	„	Sahjalal Bank Limited
24	„	Islamic Bank Bangladesh Limited
25	„	Mutual Trust Bank Limited
26	„	Export Import Bank of Bangladesh Limited (EXIM Bank)
27	„	Dutch-Bangla Bank Limited
28	„	Mercantile Bank Limited
29	„	Jamuna Bank Limited
30	„	BRAC Bank Limited
1	FCBs	Standard Chartered
2	„	Habib Bank Limited
3	„	State Bank of India
4	„	Credit Agricole Indo-Sewage (The Bank)
5	„	National Bank of Pakistan
6	„	Muslim Commercial Bank Limited
7	„	City Bank NA
8	„	Hanview Bank
9	„	The Hong-Kong and Shanghai Banking Corporation Limited
10	„	Shamil Bank of Bahrain EC (Islamic Bankers)
11	„	Commercial Bank of Ceylon Limited.
12	„	Woori Bank

In order to accomplish a meaningful representation the present study has taken the financial reports of some LPCBs as sample. This section provides the profile of the sample banks.

S.#	Type	Name of the Banks	Commencement of Business as a Banking Company	Corporate Head Office
1	PCBs	AB Bank	12 April, 1982	30-31, Dilkusha C/A, Dhaka
2	„	NCC Bank Limited	May 17, 1993	7-8, Motijheel C/A, Dhaka-1000.
3	„	NBL	23 March, 1983	18, Dilkusha C/A, Dhaka
3	„	Uttara Bank	Sep. 1983 (as non govt. banking Co.)	90, Motijheel C/A, Dhaka
5		Standard Bank		122-124, Motijheel C/A, Dhaka.
6	„	Al-Arafa Islami Bank	27 Sep., 1995	161, Motijheel C/A, Dhaka.
7	„	South East Bank	25 May, 1995	1, Dilkusha C/A, Dhaka.
8	„	Mercantile Bank Ltd.	2 June, 1999	61, Dilkusha C/A, Dhaka.
9	„	Pubali Bank	1984 (as non govt. banking Co.)	26, Dilkusha C/A, Dhaka

10	„	UCBL Bank	29 June, 1983	Federation Bulding, 60, Motijheel C/A, Dhaka
11	„	Islamic Bank	30 March, 1983	71, Dilkusha C/A, Dhaka-1000.
12	„	Prime Bank	17 April, 1995	119-120, Motijheel C/A, Dhaka.

1.8 Provisions of Act (Banks Financial Reporting Framework)

Registered as a limited company, all private sector banks are required to comply with the Companies Act 1994. Operating with the license from Bangladesh Bank, the prime regulatory agency, compliance with all Bangladesh Bank instructions is imperative for all private commercial banks. For banking companies with public shares, compliance is also required with the instructions of the Securities and Exchange Commission and the Stock Exchange. The Institute of Chartered Accountants of Bangladesh regulates the auditors. The Companies Act, 1994 and The Banking Company Act, 1991 have prescribed certain reporting requirements. The SEC has issued an audit report form for listed companies.

The banking sector is a Principal foundation of any economy. IAS# 30 (Now known as International Financial Reporting Standards-IFRS) - *Disclosures in the financial statements of banks and similar financial institutions*- was the result of the International Accounting Standards Committee's (IASC) discussion with the Basle Committee of banking Supervision and was approved in 1990 and became operative for financial statements covering periods on or later than 1st January 1991. Unlike other international accounting standards, IAS# 30 deals only with 'disclosure requirements' and does not refer to recognition and measurement of assets, liabilities, revenues and expenses. In July 1997, the World Bank Resident Mission in Dhaka and The Institute of Chartered Accountants of Bangladesh (ICAB) jointly sponsored the first public seminar on IAS# 30 titled "Disclosures in the financial statements of banks and similar financial institutions- A comparative evaluation and rationale for adoption of the standard in Bangladesh" (Chowdhury, 2002). The ICAB adopted IAS# 30 as BAS 30, which became operative for the financial statements of banks covering periods beginning on or after 1st January 1999. The Ministry of Finance, Government of Bangladesh constituted a 'Committee on External Audit of Nationalized Commercial Banks and Financial Institutions' for implementation of IAS-30 with the Deputy Governor of Bangladesh Bank as the

Chairman. The third meeting of the Committee held in March 1999 formed a six member Task Force with a representative from ICAB. The Task Force recommended amendments in July 1999 and after approval of the Government the amendments to The Bank Company Act, 1991 was communicated to all scheduled banks vide Bangladesh Bank (BB) BRPD Circular no. 03 dated 18 April, 2000 with an effective date of 30th March 2000.

ICAB held a seminar in December 2000 titled “Application of International Accounting Standard 30 in Banks and Financial Institutions” (Saha and Rahman) and a second one in June, 2001 titled “International Accounting Standard (IAS) 30 its adoption and implementation in Bangladesh” (Azizddin). The BB amendments were further revised vide BB BRPB Circular no. 14 dated 25 June, 2003 effective from the last working day of 2003.

In this study emphasis will be made on the total disclosure. When the items of disclosure will be selected the adequacy of the disclosure will be considered which are based on a check-list of desirable mandatory items based on (i) *Bangladesh bank BRPD Circular No. 3/2000 dated 18/04/2000*, (ii) *Bank Companies Act 1991*, (iii) *IAS-30*, (iv) *listing requirements of Dhaka Stock Exchange* and (v) *the Securities and Exchange Rule, 1987*.

1.9 The Review of Related Literature

1.9 (a) Introduction

This section reviews researches that have focused primarily on information in corporate annual reports of banking sector. Company financial reporting in the sub-continent has its origin in the Statutory Act of 1957. But a widespread research in this area is till now a matter of expectation in Bangladesh. Only some scholars have studied about financial reporting in the banking Sector in Bangladesh. A brief summary of these is delineated hereunder to prove the rationale of the present study.

The objective of this chapter is to provide a short review of the main literature relevant to the research problem of this thesis. A detailed review of the literature helps provide a framework for the study and serves the function of discovering findings from previous research on the general problem, helps establish what theories are relevant to the study

being undertaken and assists in establishing an appropriate research methodology and research procedure to study the problem.

During the last four decades the research literature on timeliness has become established in financial accounting. Different research studies have been done on the multidimensional aspects of financial reporting, disclosure policy, regulatory framework, harmonization of International Accounting Standards, application of local and International Accounting Standards in financial reporting practices of different multinational and local companies of different countries of the world. The relevant studies are reviewed here focusing their objectives, methodology followed, hypothesis tested, concluding remarks, and limitations thereon. This chapter reviews in detail selected studies that focus on financial disclosure in the corporate annual reports in both Bangladesh and abroad.

The literature survey is split as follows:

- ❑ Review of literature in Bangladesh Studies
- ❑ Review of Literature in Abroad Studies

1.9 (b) Review of Related Study in Bangladesh

Studies in Bangladesh consider the multidimensional aspects relating to the disclosure in financial reporting. The following studies have reviewed:

Rahman(1999) has written an article on “*The Extent of Mandatory and Voluntary Financial Disclosure by Listed Companies in Bangladesh: An Empirical Study*”. The major objectives of the study are to highlight the nature of mandatory and voluntary disclosure practices of the listed companies. This paper reports on mandatory and voluntary financial disclosure practices of 20 Stock Exchange-listed manufacturing companies and relates the extent of disclosure to industry type. This study is based on secondary data. A survey of accounts was undertaken which consists of an analysis of the annual reports of the sample companies - 375 items were included in a scoring sheet, which was completed for each company. The results show that disclosure (both mandatory and voluntary) varies widely within the sample companies, and the extent of disclosure is significantly related to industry types. Companies of the Textile Sector are found to disclose significantly less information than what disclosed by companies of

other sectors. The findings also indicate that the compliance with voluntary disclosure requirements is much lower compared to the compliance with mandatory disclosure requirements and that no company disclosed all mandatory information items in its annual report.

The paper has shown that disclosure is very changeable, and that, there is a significant association between the extent of disclosure and industry type. Disclosure by companies pertaining to Pharmaceuticals and Chemicals is higher than that of companies with other industry type. Furthermore, disclosure by companies belonging to the textile industry is much lower than that of any other company. The limitation of the study is that no hypothesis has been tested empirically.

Khan and Kumar (2001) has made a comprehensive study on *"IAS-30 and its Application in the Banking Sector in Bangladesh"*. The major objective of the study is to justify the IAS-30 and its application in the Banking sector in Bangladesh. It is a descriptive study based on secondary data (reports) such as IAS-30: Task Force Report (unpublished), 2000, Scheduled Banks Statistics, Bank Companies Act, 1991, Basle Committee Report, IAS-30 and 33. To ensure more transparency in accounting system and disclosure of important accounting policies of banks and financial institutions in Bangladesh, the Central Bank issued a circular (BRPD Circular No. 3/2000 dated 18/4/200) for adoption IAS -30 (International Accounting Standard-30). It brings some changes in the related sections of the Bank Companies Act, 1991. In this paper, The authors try to make focus on the extents of disclosure of financial information as per newly adopted form of financial statements for banks and financial institutions and the problems faced by the users of traditional form of financial statements. However, the suggestions of Basle Committee in this regard, important features of IAS-30 and new guidelines, problems in implementing IAS-30, etc. have also been covered here.

Legal bottlenecks and absence of proper guidelines and instructions no more exist with the circulation of BRPD Circular No. 3/2000. The paper has shown that the banks will be in a position to prepare their financial statements in accordance with the new standard so as to enable the users to have fair, transparent and reliable information. If we want to ensure discipline and accountability in the accounting system we have no other option but to go for implementation of IAS-30 guidelines. The limitation of the study is that it did

not attempt to explain the extent of disclosure in terms of any corporate attributes such as size, listing status, audit firm, profit margin and so on.

Saha and Rahman (2000) wrote an article on *"Financial Reporting Practices in Banks and Financial Institutions: Implementing The New Formats of Financial Statements in Compliance With IAS-30"*. The objective of the study is to introduce the new formats of the financial statements and its applicability in compliance with IAS 30. They mentioned that, in the context of providing financial information, all banks and financial institutions follow some legal stipulations. The statutes relating to accounting and audit of banks can be described from the public and private sector commercial banks' point of view. They introduces a circular issued by Bangladesh Bank entitled 'Amendment of First Schedule Forms of the Bank companies Act, 1991 (BRPD Circular No. 03 dated 18 April, 2000)'. Under this circular, newly amended forms have been made mandatory for all concerned banks and financial institutions since 30 March, 2000 in Bangladesh (Annexure-II). The new forms have been introduced with a view to ensuring the financial discipline in the banking sector, to minimize the unforeseeable risk, to provide true, relevant and reliable information to the depositors and shareholders and to make the financial disclosure in compliance with international standard. However, the financial statements should be easy to understand, informative and transparent. The new forms will reflect all these aspects in reporting financial information.

They attempted to extend that the banks can undertake continuous scrutiny of their performances on the basis of disclosure of their weaknesses and strengths in the financial statements and can thus remain competitive in improving the quality of financial services. The limitations of the study are: (i) They did not attempt to explain the extent of disclosure in terms of any corporate attributes such as size, listing status, audit firm, profit margin and so on. (ii) They did not find out any significant association between the extent of disclosure and the size of firms.

Hossain (2005) has made a study on *"Disclosure Index Approach in Accounting Research: A Review of Related Issues"*. The main objective of this article is to provide a critical review of different forms of disclosure index approaches used in financial accounting research along with the nature of items of information to be included in a disclosure index. In his study, he has tried to determine disclosure of information is an

important variable i.e. any measurement of accounting quality, together with such characteristics as measurement method (accounting policies), presentation and timeliness of reporting and can take a number of different forms (Marston and Robson, 1997). Companies usually disclose information in a number of ways, such as annual report and accounts, interim and quarterly reports, prospectus, employee reports and announcements to the stock exchange. Recently, the question of disclosure of information in company reports has become an important issue for both developed and developing countries and a number of researchers are interested in measuring disclosure. There are many researchers who used disclosure indices as a device to measure the underlying variable 'corporate disclosure'. Consequently, there is an extensive accounting literature relating to the use of disclosure indices to measure the information contained in the annual reports of companies (Inchausti, 1997)

The author contends that, several researchers have used disclosure index approach to measure the extent of disclosure made by the firms. There are many researchers who have used disclosure indices as a device to measure the underlying variable, 'corporate disclosure'. Disclosure Indices are extensive lists of selected items that may be disclosed in corporate annual reports. The disclosure index has been considered as the best method to measure the extent of disclosure to which a disclosure is required. His study focuses that different studies sought to examine and identify various type of disclosure can be broadly categorized as financial or non-financial and quantitative and qualitative. Some of the researchers used weighted disclosure indices, while other researchers used un-weighted disclosure indices (either strictly dichotomous approach or modified dichotomous approach). The limitation of the study is that no hypothesis has been tested empirically.

Azizuddin (2001) had a study on *"IAS-30 'Disclosure in the Financial Statements of Banks and Similar Financial Institutions'- Its Adoption and Implementation"*. The main objective of the study is to recapitulate the principal disclosure requirements under IAS-30. The author's explanatory requirements relating to disclosure include -

- i. accounting policies
- ii. presentation of income statement
- iii. presentation of balance sheet

- iv. market values of dealing securities and marketable investment securities if the values are different from carrying amounts in the financial statements
- v. contingencies and commitments including off-balance sheet items
- vi. maturity groupings of assets and liabilities
- vii. losses on loans and advances
- viii. general banking risks
- ix. assets pledged as securities
- x. trust activities

The study indicates that the amendments made by BB should be reviewed to remove any weakness/bottlenecks or minor errors and omissions that have crept in the first version of the amendments. The author suggested that Bangladesh Bank might constitute a small committee with representation of ICAB to further develop/extend the disclosure requirement. The limitation of the study is that its findings did not provide any support for any significant influence on the disclosure index.

Chowdhury (1997) has written an article on "*A Comparative Evaluation and Rationale for Adoption of IAS 30 in Bangladesh*". The essential objective of the study is to provide evidence that the essential purpose for adoption of IAS 30 would be to set the basic foundations of sound financial reporting for banks. Accounts cannot be truly and fairly presented unless they meet the qualitative characteristics of Financial Statements of understandability, relevance, reliability, comparability and consistency. These qualitative characteristics cannot be properly reflected without selecting the minimum reporting requirements of IAS.

The study showed that, adoption of the standard would positively help achieve the qualitative characteristics that are necessary to reflect a true and fair view in Financial Statements of banks and harmonization of financial reporting practice in the banking sector in Bangladesh. Adoption of IAS-30 would confer relevant commensurate benefits, which result from application of IAS in general. The improvement in presentation of financial statements expected to result from application of IAS 30 have been highlighted specifically as relevant in Section 4 of this Paper. Additional benefits and 'usefulness' expected to result from adoption of IAS 30 are elucidated hereafter.

Chowdhury has found that banking business emphasizes on the principle of good client relationship through products and services and prudent stewardship of the banks monetary resources. Considerations of 'liquidity' 'solvency' and 'risk management' are most important for ensuring satisfactory performance and safeguarding the financial position - at the same time sustaining client (depositors/borrowers) confidence. Adoption of IAS 30 would facilitate management's achievement of these objectives. The users of Financial Statements of a bank need adequately understandable, relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. They also need information which gives them a better understanding of the special characteristics of the operational performance and financial position of the entity. Adoption of IAS 30 would permit Disclosures in Financial Statements of a bank which are sufficiently comprehensive to meet the overall needs of user groups.

The findings of the study indicates that adoption of IAS-30 would permit objective analysis and assessment of the financial strength of a bank's managerial and economic performance, future prospects and cash flows, banking risks, commitments and contingencies, etc. The limitation of the study is that no hypothesis has been tested empirically.

Akter and Hoque (1993) have written an article on *"Disclosure Practices in Bangladesh: A Case Study of the Banking Sector"*. The objective of the study is to examine various legal provisions affecting disclosure along with role of the accounting profession in this respect. Recent trends and practices of reporting in the banking sector have been examined which facilitated presentation of the findings of this study in a framework of comparison and contrast.

This study is basically based on secondary data. This article has been prepared on the basis of review of existing literature relating to financial disclosure of banks. Relevant provisions and sections of the Banking Companies Ordinance as amended in 1991, Companies. Act of 1913, Income Tax Ordinance of 1984 have been examined. To find out the present practice of the financial disclosure by banking companies in Bangladesh, annual reports of-

- i) one nationalised bank i.e., Sonali Bank,

- ii) one private bank City Bank, and
- iii) two multinational banks operating in Bangladesh i.e. American Express Bank and ANZ Grindlays Bank

have been analyzed for a period of five years (1987-91). To facilitate comparison, annual reports of three banks functioning in the developed countries like Citicorp Bank of the U.S.A. , National Westminster Bank of U.K. and Chase Manhattan Bank of the U.S.A. have also been examined. This helps to find the recent trends and patterns of financial disclosure in the developed countries. Data have been presented in the framework of comparison and contrast. Other literature examined includes recommendation of International Accounting Standards Committee (IASC), research based articles published in the local and foreign journals, opinion of Accounting Principles Board (APB), Research monograph, books, etc. Data have been collected mainly from the secondary sources.

Compared to developed world, disclosure regarding loan valuation is very inadequate in the banking sector of Bangladesh. Special attention should be given for inadequate disclosure of specific provision, general provision, adjustment for exchange rate fluctuations, bad debt written off, transfer between provisions, charge against profit, sovereign risk provision etc., which are very important for measuring the efficiency and profitability of the banking sector.

This study reveals that disclosure and reporting in banking sector of Bangladesh are not only inadequate but also biased and misfiling. In most of the cases, financial statements of the local banks are dressed up and cosmetised. Outdated legal framework and poor performance of the accounting profession significantly contributed to this undesirable situation.

Islam and Pramanik (1996) have made a study on "*Disclosure of Accounting Policies: A Study of the Commercial Banks in Bangladesh*". The main objective of the study is to evaluate disclosure practices relating to accounting policies of the commercial banks in Bangladesh. The present study covers a period of ten years based on published annual reports and relevant reports and relevant reporting requirements. The quality and adequacy of accounting policies have been analyzed from the viewpoint of the users of information. The observations give testimony that the banks under study tried to focus

emphases on the professional requirements especially on IAS-1 as adopted in Bangladesh as AS-1 in making disclosure of accounting policies. But promulgation as to compliance with the professional requirements was absent from the annual reports. Another important finding was that despite several shortcomings observed in case of accounting policies of all the banks, the nationalized banks comparatively provided better disclosure of accounting policies than the private banks.

In the absence of specific legal requirements, disclosure practices relating to accounting policies of the commercial banks under study were complied during the study period, to a great extent, with the professional requirements especially with IAS-1 and this standard is adopted in Bangladesh as AS-1. But the disappointing finding was that promulgation as to compliance with the professional requirements was absent from the statement of accounting policies shown in the annual reports. This means that the professional requirements might be followed unconsciously or as a matter of convention. Although same sorts of accounting policies followed over the years facilitated uniformity, consistency and comparability of accounting information in case of each bank, the nationalized banks comparatively provided an enriched disclosure of accounting policies than the private banks. As suggestion, for better disclosure of accounting policies, the authors have suggested the followings:

- (a) The statement of accounting policies of the banks should include promulgation as to compliance with the professional requirements. This will increase the quality of the financial statements to the users of information.
- (b) The general accounting policies of the banks should specially describe about the matching of revenue and expenses and consolidation of accounts along with other accounting policies of this type.
- (c) In the statement of major particular accounting policies, all the banks should disclose about the basis of determining the carrying amount of loans and advances on which interest is not being accrued, mode of valuation of non-banking assets and the basis of distinction between those transactions and other events that give rise to contingencies and commitments. As to valuation of investments, the banks should better follow the lower of cost or market value principle. An elaborate disclosure of Circulars relating to the basis of writing off un-collectible loans and advances is

also necessary. The banks that do not disclose the following as particular accounting policies should also make such disclosure.

The limitation of the study is that no hypothesis has been tested empirically.

Haque and Islam (2005) in their article entitled "*Compliance of IAS 30 by Bank Companies of Bangladesh*" have tried to provide the quality information through the financial statements, which is comparable by the global users. It is very crucial to bring uniformity in the accounting practices all over the world. The main objectives of the study are to examine the issue of compliance of IAS-30 by the bank companies of Bangladesh and to find out whether there are statistical differences in compliance of IAS-30 between Publicly Traded Banks and Nationalized Banks. This study reveals that the banks of our country follow the IAS 30 requirements as far as possible. This study also finds that there is no significant difference in terms of compliance of IAS-30 between the publicly traded and nationalized banks. That means all the sample banks try to follow similar items needed to comply with the international standard in order to provide accountability and transparency in financial reporting, which ensure maximum disclosure of the relevant, reliable and useful information to the interested user groups. The limitation of their study is that its findings did not provide any support for any significant influence on the disclosure index.

Bhuiyan and Kamal (2003) have carried out a study on "*Standardization of Accounting and Financial Reporting Practices in the Banking Sector in Bangladesh: An Evaluation of the implementation of IAS-30 by the Banks in the Private Sector*". The objective of the study is to evaluate whether the commercial banks of Bangladesh follow the underlying standards regarding the preparation of their financial statements. In their study, they will also make an evaluation of the implementation and impact of IAS-30 on accounting and reporting by the banking companies in the country. Their study was pursued to know details about how a bank present their financial statements, whether they comply with the existing rules and regulations as well as relevant IAS and Bangladesh Accounting Standards (BASs). Based on their little access with the examined banks, their evaluation of the financial statements of banks is not very extensive. Their little observation reveals that the accounting and reporting in our banking sector need up-gradation, which may be attained by the proper implementation of the relevant standards, IAS-30 would be a great

help in this respect. Proper accounting and reporting of the financial facts help to develop transparency and accountability, which are very essential for the good governance or efficient corporate governance in the banking sector also. They suggest that relevant authority should be more conscious in monitoring the implementation of IAS-30 in the banking sector for better accountability and transparency.

The gist of the recommendations of their study was that a monitoring authority or cell must be formed to monitor the implementation of the IAS-30 in the banking sector in Bangladesh. Workshops should be organized for the auditors to audit about the compliance of the IAS-30 by the banks. The accounting staff of the banking sector should be trained to account in accordance with the IAS and other relevant regulations and an appraisal and reward punishment should be ensured for the compliance and non-compliance of the IAS-30 and other relevant regulations for the banking sector. No hypothesis has been tested empirically in this present study.

Ahmed (2000) has a study on *"Financial Reporting Practices in Banks and Financial Institutions: Implementing the New formats of Financial Statements in Compliance with IAS-30"*. This is commentary study based on secondary data. The findings of the study demonstrate that the last 15 years, the banking crises in the developing countries have been unusually frequent and severe relative to their own record compared to the preceding last three decades (Capiro and Klingebiel 1996a; 1996b; Honoban 1996; kaminsky and Reinhart 1995; Lindgren, Garcia, and Saal 1996; Sheng 1996; Sundararajan Balino 1991).

According to Lindgren, Saal and Garcia (1996) 73% of the IMF member countries experienced at least one bout of significant banking sector problems during 1980-1996 period. In Africa, Asia and transition economies of former communist countries this figure rises to more than 90% As to the severity of banking crises and bank losses costs amounted to 10% or more of GDP in a dozen of developing countries episodes during the past 15 years. For example, Capiro and Klingebiel (1996) study reveal that there have been 67 bank crises since 1980 involving 52 developing countries. The study estimated loss as percentage of GDP, which relates to Argentina: 55%, Chile:41%, Venezuela:18%, 5 African countries:10-25%, and Israel 30%. Banking crises are costly because banks hold lion's share of financial assets of the developing economies. Gold stein and Turner

(1996) calculated banks share in financial intermediation in developing countries and found India: 80%, Indonesia: 91%, Thailand: 75%, Argentina: 98%, Venezuela: 92%.

The author attempted to extend that developing countries are now larger importers, debtors, and recipients of international capital flows than they used to be, there is also and increased risk that banking crises in developing countries will have unfavorable externalities on industrial countries. The developing countries now account for approximately 45% of global output, 36% of global foreign direct investment inflows. 30% of global portfolio capital flows, 11% of global market capitalization, 12% of global issuance of international bonds, and 11-13% of global banking assets (Barth, Nolle, and Rice 1996; IFC 1996; IMF 1995; Qureshi 1996; and World bank 1997). By each of these indicators, the weight of developing countries in the global economy is considerably larger than it was 5 or 10 years ago. Banking problems tend to hit developing countries hard because banks hold the lion's share of financial assets in these countries and are by far the dominant financial intermediaries. Banks usually operate payment system, are major purchaser of government bonds and provide liquidity to fledgling securities markets. So when a bank gets into difficulties, financial system as whole quickly suffers. Banking assets, moreover, have recently been growing much faster than the size of the economies in which they operate. Accounting standards for banks make it easier to interpret information about banks and compare it against information from other banks. They thus make it easier for investors identify worthy firms and evaluate their managers. Many types of contract also rely on accounting measures to trigger certain actions. For example, the loan and bond covenants commonly include the option of immediate repayment if income or cash flow falls below specified level. Such contracts can be enforced and will be written only if accounting measures are reasonably unambiguous and if auditors can verify them. Assessing the health of banks requires reliable information on loan classification and concentration, on the realistic valuation of collateral, on loan loss provisioning and on rules of accruing interest in the bank account when borrowers are in arrears. The accounting standards help in this regard as well. The study has also the limitation; no hypothesis has been tested empirically.

Kasem (2000) had an article on *"Financial Reporting Practices in Banks and Financial Institutions: Implementing the New Formats of Financial Statements in Compliance With*

IAS-30". The major objectives of the study are to focus that, implementing the new formats of financial statements in compliance with IAS-30 on financial reporting practices in banks and financial institutions. This is also a commentary study on an International Accounting Standard that ICAB has been trying to implement for quite sometime. The findings of the study indicate that under the Bank Companies Act, 1991, loans and advances (Balance sheet) and Income (P&L Account) were shown net of provisions. So, balance sheet and income statement, which basically did not give 'true and fair' picture of the operations of the Bank. IAS 30 on the other hand, requires the Bank to disclose the gross loans and advances and necessary provisions on the face of the balance sheet with supplementary information in the Notes to the financial statements. The author has developed the following Comparative Income Statement/Profit and Loss Account in his article.

Banking Company Act 1991	IAS 30
Income	Income
(less Provision made during the year for bad and Doubtful Debts and other Usual or Necessary Provision)	
1. Interest and Discount	Interest and similar Income
2. Commission Exchange and Brokerage	Dividend Income
3. Rents	Fees And Commission Income Gains Less Losses Arising From Dealing
Securities	Gains less losses arising from Securities
Investment	
4. Net Profit on Sale of Investment. Gold and Silver. Land Premises and Building and other Assets.	
5. Income from Non-Banking Assets and Profit from Sale of or Dealing with such Assets.	Gains less losses Arising from Dealing in Foreign Currencies
6. Other Receipts	Other Operating Income
7. Loss (if any)	
Expenditure	Expenditure
1. Interest paid and Deposits. Borrowings, etc.	Interest Expense and Similar Charges
2. Salaries, Allowances and P.F.	Fees and Commission Expense
3. Fees and Allowances for Directors and Local Committee Members	Losses on Loans and Advances
4. Rent, Taxes, Insurance, Lighting, etc.	General Administrative Expenses
5. Law Charges	Other Operating Expenses
6. Postage, Telegrams, Stamps	

7. Auditors Fees	
8. Repairs and Depreciation of Banking Company's Property	
9. Stationery, Printing and Advertisement	
10. Loss from Sale of Dealing on Non-Banking Assets	
11. Other Expenditure	

Here also no hypothesis has been tested empirically.

Haque (2002) has written an article on "*A study on Published Annual Accounting Report Corporate Governance and Oversight Functions in Bangladesh and some other countries 2000-2002 (Financial listed companies)*" under the World Bank Financial Project of "Development of Accounting and Auditing Standards in Bangladesh". The major objective of the study is to evaluate the degree of compliance with IAS adopted by ICAB and some other good governance practices in other countries. The study is based on both primary and secondary data. In the survey references were made to better quality annual reports from multinational companies in Bangladesh and some other countries, such as Sri Lanka, India and UK. Annual reports from these countries covered issues such as corporate strategies, human resource and environmental concerns more elaborately and understandable for readers of annual accounting reports.

The major findings of the study are that the high magnitude of the crisis faced in USA, UK and other countries corporate governance and accounting related matters have been receiving due attention from all concerned so that workable solutions are found out within the legal and administrative systems. IAS is practiced, albeit in different levels, in a handful of countries in the world. Compliance to IAS is not going to be the panacea for all the problems of corporate governance. However, under WTO there will be greater pressure on all member countries to adopt IAS and good corporate governance practices. Another important lesson was that whatever reform measures are planned and how large pay packages might be offered to attract qualified persons to oversee both accounting firms and industry, personal character and integrity of the candidates will ultimately determine effectiveness of oversight functions.

The survey found various inadequacies in annual accounting reports and there was lack of uniformity in several required disclosures. For example, IAS-1 requires statement of accounting policies in one place. While companies stated accounting policies in one

place, number of such policies varied between 5 to 17. Variation in accounting policies can make financial analysis difficult and meaningless for comparative purposes. The author found that most of the reports were poor in quality of presentation and production. The researcher finds out that corporate governance and accounting disclosure related topics received much more importance in those countries than got in Bangladesh.

Recommendations of this report are that GOB, SEC and ICAB should work closely to establish a high powered committee such as the public Accountability Board in the USA to oversee accounting and corporate governance related matters and establish Audit Committees to oversee auditing and revise audit fees as per guidelines of ICAB. Arrangement to appoint non-executive directors to boards as are being done for banks. Only professional in accounting, finance, management and economics are to be placed as non-executive directors. Like in the UK non-executives may be put as chairmen of boards and all of them should be due compensated for their services. The limitation of the study is that no hypothesis has been tested empirically.

Malek (2005) has studied on the “*A Comparative Analysis of Commercial Banking Performance in Bangladesh*”. The main objective of the study is to provide evidence that the banking sector in Bangladesh is different from the banking sector as seen in other developed countries. In this study simple statistical tool such as average, is used to judge how they are performing within themselves in the area of deposit collection, foreign business and over all financial result. According to the author’s view the banking sector is one of the major service sector in Bangladesh economy, which is divided into four categories - Nationalized Bank, Local Private Bank, Specialized Financial Institutions and Foreign Banks. Their objectives, ownership pattern, mode of operation and other also differ from each other based on the category of banking to which they belong. For this study only the performance of Nationalized commercial Bank, Local Private commercial Banks and Foreign Commercial Banks operating during 1999 to 2002, are taken into consideration. The result shows that though majority of total assets, total foreign business and total deposits are held by the local private and nationalized banks but foreign banks outperformed other in performance. In this study no hypothesis has been tested empirically.

Belel (2000) has written an article *"Disclosures in Corporate Reports-A Review with Special Reference to Bangladesh"*. The major objectives of this paper are to show the adequacy or inadequacy of disclosures in corporate reports, which is one of the current issues in accounting. In this paper, an attempt has been made to have an overview of the disclosure practices in Bangladesh as compared to the disclosure practices prevailing in the other countries of the world. The study reveals that disclosure practices in Bangladesh are very poor and inadequate in many respects and hence, need to be improved.

The Researcher contends that disclosure practices in Bangladesh are mostly guided by the Companies Act, 1994 Securities and Exchange Rules, 1987 and the Accounting Standards adopted by the Institute of Chartered Accountants of Bangladesh. Disclosure practices are also affected by a number of other statutes e.g. Bangladesh Industrial Enterprises Nationalization Order, 1972; Bank Companies Act, 1991; Insurance Act, 1938; Income Tax ordinance, 1984 etc. However, the following major disclosures are generally required in Bangladesh:

(a) Accounting Policies

- (i) Method of valuation of fixed assets, stock and investments;
- (ii) Reasons for writing off a portion of deferred revenue expenditure;
- (iii) Method of charging depreciation and rates thereon; (iv) Method of conversion of foreign currencies into taka; (v) Changes in accounting policies; (vi) Methods of contract accounting.

(b) Income Statement

- (i) Establishment expenses, salaries, directors' remuneration, depreciation etc.; (ii) Turnover net of commission, brokerage and discount; (iii) Income from investments; (iv) Unusual Incomes and expenses; (v) Opening and closing stock in trade, purchases, spares consumed; (vi) Fuel and power; (vii) Salaries and wages; (viii) Rent, rates, taxes and insurance; (ix) Repairs and maintenance; (x) Patents, trade Mark, copyrights etc. written off; (xi) Auditors' remuneration; (xii) Interest on borrowing; (xiii) Provision for bad or doubtful debts and bad debts written off; (xiv) Provision for diminution in the value of investments; (xv) Provision for taxation, proposed dividend, reserves etc.

(c) Balance Sheet

(i) Capital, reserves, debentures, sinking fund and any other funds; (ii) Secured and unsecured loans; (iii) Unclaimed dividends; (iv) Liabilities for acceptance, (v) Contingent liabilities; (vi) long-term loans and deferred liabilities; (vii) Loans from banking companies and other financial institutions and from subsidiary companies; (viii) loans from directors, managers and other managing agents; (ix) Current liabilities and provisions; (x) Fixed assets; (xi) Preliminary expenses; (xii) Commission, brokerage, discount etc. allowed on issue of shares; (xiii) Stores and spare parts, loose tools, livestock and vehicles, stock in trade etc.; (xiv) Book debts, bill of exchange, investments and interest accrued thereon, cash and bank balances; (xv) Long-term pre-payments and deferred costs; (xvi) Investments, Loans and advances to subsidiary companies, controlled firms and any other associated undertakings.

(d) Directors' Report

(i) State of the company's affairs; (ii) Amount recommended as dividend; (iii) Amount transferred to reserves;

(e) Other Disclosures

(i) Capacity of industrial unit, actual production and reasons for shortfall; (ii) Mode of disposal and particulars in the case of sale of fixed assets; (iii) Comparative corresponding figures of the previous period.

Ahmed and Nicholls (1994) have undertaken an empirical study to assess the extent of disclosure of statutory information in the corporate annual reports of non-financial companies and the impact of selected key company attributes on the degree of disclosure compliance with accounting regulatory statutes in a developing country, Bangladesh. They measured the association between the extent of disclosure and some corporate characteristics (size, total debt, multinational company effect, qualification of accountants and the size of the audit firm).

They collected 63 corporate annual reports available to them for the financial year 1987-1988. They developed an unweighted disclosure index. Their results indicated that like Nigeria and Hong Kong companies none of the companies in the sample from Bangladesh disclosed all mandatory items of information. Their results showed that the level of disclosure and both measures of company size, assets and sales, were positively associated. In addition, disclosure compliance was higher for a company which was a

subsidiary of a multinational company and whose accounts were audited by a large audit firm, and whose accounts were prepared and supervised by a professionally qualified accountant. They suggested that for improvement in the degree of compliance, the accounting profession should strengthen its monitoring and enforcement mechanisms and increase awareness about the existing mandatory provisions by conducting training programs for its members on a regular basis.

Hossain (2004) in his CPE Seminar paper entitled 'Disclosure by Banking Companies in Annual Financial Statements' has made an attempt to look at the progress made, discuss shortcomings in the published accounts and audit reports of some private commercial banks, and propose some recommendations for both ICAB, which regulates the independent auditors, and the Bangladesh Bank, which regulates the clients of the auditors. In his study, the survey findings are reported only as examples and should not be considered as a comprehensive summary of all the individual reports. In his study Hossain (2004) found that improving the published financial information of banking companies results in greater transparency and accountability and leads to better performance of the whole financial sector. The finding shows that, the Bangladesh Bank, as the prime regulatory agency, and the ICAB, representing the independent auditors, can play a leading role for this purpose. By successfully implementing a significant part of IAS-30 in year 2000 and 2003, Bangladesh Bank has proven that the financial sector is keen on improving its image. However, improvements are a continuous process. The amendments made by Bangladesh Bank need to be reviewed for the duplications and compared to IAS's for contradictions and omissions. In addition to new circulars a revised and updated Bank Companies Act, 2005 would be another milestone for the Government in general and the Bangladesh Bank is particular. The members of ICAB and the Institute itself also need to be more vigilant in discharging the highly responsible role society has imposed on them.

1.9 (c) Review of Related Study in Abroad

Most of these studies are country specific, although there are studies often consider the 'adequacy' of the disclosure of information based on a checklist of desirable mandatory and voluntary items.

Hossain (1998) has carried out a study in his Ph.D., dissertation entitled *"Disclosure of Financial Information in Developing Countries: A comparative study of non-financial companies in India, Pakistan and Bangladesh"*. The major objectives of his study was to examine empirically the association between a number of corporate attributes and levels of disclosure in corporate annual reports of listed non-financial companies in three developing countries, India, Pakistan and Bangladesh. The perceived importance of a selected list of information items to four categories of users (i.e. bank loan officers, financial analysts, stock exchange members and professional chartered accountants) is also examined and the determinants of audit delay and audit fees are also ascertained. A disclosure index comprising 94 items of information which are expected to be disclosed in corporate annual reports in the sample companies has been developed. Both weighted and unweighted disclosure indices were applied to the corporate annual reports for a sample of 78 Bangladeshi companies, 80 Indian companies and 103 Pakistani companies for the 1992-1993.

In his study, the association between the extent of disclosure and various corporate characteristics was examined using multiple linear regression models. It was hypothesised in the study that for the sample companies in these three developing countries, corporate variables reflecting size (assets and sales), profitability (rate of return on assets and net profit margin), debt equity ratio, presence of debenture in debt, international link of the audit firm, industry type, subsidiary of a multinational company would be positively associated with the extent of disclosure. In his study, it was found for the Bangladeshi companies that size (total assets) and subsidiary of a multinational company were significantly associated with the extent of disclosure. In the case of Pakistani companies, the results showed that assets in place, size (total assets) and presence of debentures in debt structure were significantly associated with the extent of disclosure. The results for Indian companies, showed that extent of disclosure was significantly related to presence of debentures in debt structure, industry type, size sales) and rate of return on total assets. No significant differences were found for the weighted disclosure index and unweighted disclosure index.

It was found in his study that the mean disclosure level of Pakistani companies was greater than that of Bangladeshi and Indian companies. The average disclosure level of

Indian companies found to be slightly lower than the Pakistani companies. However, there is a significant difference between Indian and Pakistani companies and Bangladeshi companies. The mean disclosure level of Bangladeshi companies was much lower than those of other two countries. Among 96 questionnaire items, the one-way ANOVA model for variance tests showed a high degree of consensus among Bangladeshi respondents (89.80%), Indian respondents (94.90%) and Pakistani respondents (90.82%). A majority of the respondents in India, Pakistan and Bangladesh perceived that the published annual reports in the sample country were not adequate and reliable.

The analysis of audit delay showed that for Indian, Bangladeshi and Pakistani sample companies, the variable of a subsidiary of a multinational company was significantly associated with audit delay. The results for Indian companies also showed that audit delay was significantly related to debt equity ratio and size (total assets). The results of audit fees determinants suggest that for Bangladesh and India only size (sales) were significantly positively associated with audit fees levels, while in the case of Pakistan size (sales) and a subsidiary of a multinational company variable were found to be positively associated with audit fees. The study suggests that the audit services market in India, Pakistan and Bangladesh may have some interesting characteristics but further study is needed. The study examined only one year's financial statement, is the limitation of the study.

Marston and Robson (1997) wrote an article on *"Financial Reporting in India: Changes in Disclosure over the Period 1982 to 1990"*. This study started with a brief examination of the main factors that may affect Indian financial reporting and disclosure: the legal environment, the Indian professional accounting environment and the international accounting standards. The research instrument used was a weighted or un-weighted disclosure index, which included both voluntary and mandatory items. The authors examined the disclosure requirements paying particular attention to the 17 items listed in Barrett's index of disclosure, which formed the focus of the empirical work. Disclosure was measured at the beginning (1982/83) and end (1989/90) of the selected period for a sample of 29 large Indian companies.

The authors have tried to determine that disclosure level increased over time and that in both periods disclosure was positively associated with company size. Reasons for

Improved disclosure included increased compliance with accounting standards (which were advisory at the time of the survey) and an increase in the disclosures required by accounting standards. It may be that over the period of the survey that more companies decided to exhibit best practice by complying with the Indian accounting standards given that they would soon be mandatory anyway.

This study has two main limitations. The first major problem is the small number of annual reports that were obtained for this study. It was not considered practical to attempt to enlarge the sample because of the difficulty in obtaining sets of accounts from such a long time ago (1982/83). The other limitation is the use of the rather dated Barrett index, it might have been preferable to use or adapt a disclosure index from a more recent study or to attempt to devise an index to suit the Indian context in the 1980s. However, given the small data set and the fact that the index produced the expected results in testing it was decided that this study should be deemed to be of an exploratory nature and that a future study should attempt to sample a wider population and develop a better disclosure index.

Kahl and Belkaoui (1981) have pioneered the research on *"Bank Annual Report Disclosure Adequacy Internationally"*. The major objectives of the study are to highlight the nature of disclosure adequacy of banks in an international setting. The study investigates the overall extent of disclosure by banks located in 18 countries. Disclosure adequacy is measured in this study by the extent to which 30-selected information items are presented in the annual reports. The 1975 annual reports of the 70 commercial banks were evaluated on the basis of the response score assigned to each of the informational items in the disclosure index.

In their study Kahl and Belkaoui have found that the differences in disclosure adequacy exist internationally, at least for the countries included in their sample, with considerable variability in extent, and with US banks definitely the leaders. In addition, the three accounting model hypothesis that has been empirically supported for non-financial firms is not supported by their data on banks. Further the evidence in their study supported the positive correlation between asset size and extent of disclosure, although less strongly than might have been expected. Finally, the information items used in their study to measure disclosure adequacy, when classified according to the consensus between

producers and users of bank financial statements, indicate ten items of low consensus, which are also subject to much current debate and controversy. These items obviously merit more research effort.

The authors have suggested that financial managers in banks should focus their attention on these controversial items when formulating and/or revising their disclosure policy and financial managers of non-financial firms might also consider these same points when taking disclosure policy decisions.

Firth (1978) in his research on the "*Consensus of the perceived importance of disclosure of individual items in corporate annual reports*", has tried to assess the information requirements from the point of UK users. The basic research instrument consisted of a questionnaire containing seventy-five items that were, or could be disclosed in a company annual report. The questionnaire was sent to a sample of 750 users of financial information. It included 250 financial directors; 250 qualified accountant working in audit firms; 120 financial analysts working for stockbrokers and investment organizations; and 130 loan officers of major banks and finance houses in London. Respondents were instructed to evaluate the importance of each item using a five point Likert scale. Six hypotheses were formulated suggesting no significant difference between any two-user groups (the possible combinations of four groups taking two at a time). The hypotheses were tested by *t* statistics to measure the significance of differences in-group means. Hypothesis one, dealing finance directors and auditors, was rejected for 23 of the 75 items indicating that the two groups of users are in significant disagreement about the perceived importance of 23 items. Similarly, results of hypothesis two, dealing with finance directors and financial analysts, showed that they disagreed about 42 items. In the same way, it is found that finance directors and loan officers disagreed on 49 items, auditors and financial analysts disagree on 46 items, and finally, financial analysts and loan officers significantly disagreed on 14 items.

Chow and Boren (1987) studied the extent of voluntary financial disclosure practices of Mexican corporations and sought to relate the extent of disclosure to three firm characteristics, viz. firm size, financial leverage, and proportion of assets in place. They selected 52 listed manufacturing companies for the year 1982 from the *Mexican Government's 1982 Official Gazette*. They developed a disclosure index consisting of 89

items of information. Using a seven-point scale, they judged the importance of the items considered to be significant from the viewpoint of 106 loan officers of 16 Mexican Banks. They found that the extent of voluntary disclosure increased with firm size being measured as the market value of equity plus book value of debt. However, they did not find any significant association between financial leverage and assets in place and the extent of voluntary disclosure.

Barrett (1977) has studied the extent of disclosure in the corporate annual reports of large companies in seven countries. The countries studied were the US, the UK, Japan, the Netherlands, Germany, Sweden and France. He has surveyed 103 companies as the total sample with 15 companies each from the USA, Sweden, Germany, France, Japan the Uk and 13 companies from the Netherlands. The market capitalization level of the companies on 28 September 1973 has been used as the primary criterion for selecting the sample companies. Seventeen items of financial disclosure were employed in the disclosure index. Weights were assigned to the first 12 items of the disclosure index on a range of '0' to '4' based on the weights employed in different studies. Barrett used his personal judgment and the first twelve weights to decide weights to be assigned to the remaining five items. Each annual report was then scored against the disclosure index both with the without weights. His study provided evidence that he extent of financial disclosure in the annual reports of large companies in the USA was greater, on an average, than he found in the annual reports of major companies in Japan, Sweden, the Netherlands, Germany and France during 1963 to 1972 period. His result was consistent with the belief that there is a relationship between the extent and quality of financial disclosure and the degree of efficiency of a national equity market.

1.9 (d) Conclusion

This section reviewed many empirical studies of the perceived importance of information of different groups of users as well as preparers of corporate annual reports in Bangladesh and abroad. The above-mentioned literature survey states that financial reporting in Bangladesh is very poor. Most of the organizations including banks follow mainly the legal requirements in preparing their financial statements. But the forms as prescribed by the relevant laws for the preparations of financial statements are outdated and inadequate

to ensure the desired disclosure. Scope of the present study is vast and so far we know, no one of the studies reviewed was able to include as large number of the different commercial banks as sampled by the present researchers. Not only, most of the existing studies criticized the legal requirements, but also they failed to suggest specific change or modifications to update the forms of preparing the financial statements of banks. Above all, time is a great factor, which along with other factors can distinguish the findings of the present researchers from those of the others.

From the above review of related literature it can be concluded that there is enough scope for understanding this sort of study of the banking sector of Bangladesh due to lack of broad based research study done earlier in this vital field. This study has considered the limitations of the aforesaid studies and has to try to have good lessons from their data analytical techniques, data collection tools, statistical variable used etc.

1. 10 Structure of the Thesis

This section provides the structure of the proposed study. This thesis is divided into eight chapters. The main focus of this thesis is compliance of financial disclosure by the private banks in Bangladesh. The *First Chapter* describes the introduction, corporate annual reports as a device of information disclosure, statement of the problem, rationale of the study, objectives of the study, economic and geographical position of Bangladesh, profile of the sample banks, provisions of BRPD circular and structure of the thesis.

In order to provide a short review of the main literature being relevant to the present study a review of related works has been made also in this *chapter*. This review has provided a framework for the present study as well as assistance in developing a research methodology. It reviews the literature on empirical studies, which examine the extent of corporate disclosure in annual reports and its association with corporate attributes in both developed and developing countries and which assess user perceptions in different countries.

Chapter two describes the conceptual framework of disclosure of financial reporting, the concept and role of disclosed accounts, the needs for financial accounting systems in developing countries. This chapter also describes the accounting and reporting systems in developing countries.

Chapter three considers the research methodology of the present study. The main aims of this chapter are to set up the foundation for the statistical analysis that follow in later chapters, to examine and compare the perceptions of users of financial information of Bangladesh regarding the importance of selected items of information to appear in banking company annual reports and to assess the extent of disclosure in corporate annual reports of banks of Bangladesh and to examine the association between a number of corporate attribute and levels of disclosure. This chapter describes the procedures of selecting items included in the disclosure index as well as construction of the disclosure index and depicts the scoring methodologies for the unweighted disclosure indices. In addition, it describes the design of the questionnaire used in the study, along with the pilot study and modification of the proposed questionnaire and refers to the description of the questionnaire survey along with the rates of response to the questionnaire survey.

This chapter deals with the sample of banks, including the nature and techniques used for selection and describe the annual report collection procedures.

Chapter four reports the output of the questionnaire survey in the sample banks among the users of accounting information. The main thrust of *chapter four* is to focus on the perceptions of various groups of users about the importance of selected items of information, reasons for using financial information, the perceived importance for various sources of information in making the decisions, the perceived importance regarding various parts of a bank's annual report, and opinions regarding the adequacy and reliability of annual reports. *Chapter four* examines the degree of consensus among various groups of respondents in relation to the relative importance of items of information included in the questionnaire.

Chapter five focuses on the measurement and analysis of the extent of disclosure made by the annual reports of various banks of Bangladesh. Un-weighted Disclosure Index (UDI) has been constructed for each of the banks. The chapter represents a brief review of disclosure by the banks, focusing on the comparative disclosure levels and highlighting the items of information both disclosed and not disclosed by banks. Finally, it compiles the disclosure pattern by different parts of the annual report.

Chapter six examines the association between a number of corporate attributes and the extent of disclosure in corporate annual reports of banking sector of Bangladesh. The association between the extent of disclosure and company characteristics was assessed using simple and multiple regression models. Lastly, comparison of the results of the study with other similar studies in Bangladesh will be made.

Chapter seven empirically tested the relationship between audit delay and several company characteristics of the sample banks. The objectives of this chapter are two-fold. First, to measure the extent of audit lag, AGM lag and total lag of the sample banks under study. Second, to establish the impact of disclosure score on timeliness. The analysis in this chapter involves developing a regression model to explain the level of delay of the sample banks under study.

Finally, **Chapter eight** summarizes the discussion of the rest of the thesis and outlines the conclusions that can be drawn from this research.

Chapter Two

Theoretical and Conceptual Framework

2.1. The Nature of Accounting

“Accounting is an information system that identifies, records, and communicates the economic events of an organization to interested users”. (Weygandt, Kieso and Kimmel, 2007)

“Accounting may be defined as the information system of economic activities. Its concern is with *the identification, selection and analysis, measurement, prediction, processing, evaluation, communication and control of information about costs and benefits; both of a direct and indirect nature, to facilitate economically justified decision regarding activities and resources in sectors of a economy*, both public and private. Under this broad view of accountancy, it can be envisaged as dealing with the entire administration, management and control of information for all socio-economic activities”. (Parry and Khan, 1984)

Thus accountancy may be seen as:

- (i) The management and reporting of economic facts based on real-world phenomena, in the form of costs and benefits, to enable efficient decisions to be made about allocation of resources and
- (ii) The communication of the results of past decisions, for their review and the making of present and future decisions as in (1) above.

“Accounting is an information system and its primary goal is to communicate reliable financial information to management, owner(s) and outsiders.”(Agarwal, 1995) Financial information that is used only within the company as a basis for decision-making is referred to as internal information and the financial information, which is used by outsiders, is called the external information. There is no standard type of reporting system for communicating internal financial information and the reports are prepared essentially to suit the requirements of each individual business entity. For reporting external information, however, specific reports commonly, referred to as Balance Sheet and Income Statement have been developed.

Financial statements are external reports, which communicate financial information to the outsiders although the need for external information to the users and the form of these statements may also vary among different business units; the standard format is generally the same. The financial statements are the end products of the accounting process starting

from the recording of business transactions expressed in money values. Accounting records, therefore, constitute the elements for such statements. It may be mentioned that the elements for financial statements may also be used for internal reports used by management as an important tool for decision-making. Four types of financial statements are prepared to communicate the financial information to the outsiders of which the two basic financial statements are: (i) The Balance Sheet.(ii) The Income Statement.

In addition, the following two more financial statements may be found in the annual reports of the business units:

- i. The Statement of Retained Earnings.
- ii. The Statement of Changes in Financial Position.

In view of the complex business activities, it is necessary that the financial information must be presented in an understandable, timely, uniform and consistent manner. The large mass of data should be properly condensed so as to provide the users a bird's eye view of the financial information, of course, without impairing its quality.

2.2. The Concept of Published Accounts

“Published accounts may be defined as the annual audited accounts, which various entities (i.e. companies and certain public enterprises) are required by law to produce. The term embraces the balance sheet, profit and loss account (or revenue statement), funds flow statement (or statement of changes in financial position) notes and any other audited financial data. For the purpose of the study, the auditors’ and directors’ reports are also included, although not strictly part of the accounts.” (Parry and Khan, 1984)

It should be noted that international Accounting Standards use the description ‘financial statements’ rather than ‘published accounts’. In all respects the two terms are synonymous. Such published accounts form an element in the accounting information system. They present data on the historical performance and activities of specific enterprises. They thus provide the historical basis for predictive accounts, and also the inputs into the national macro accounts.

Published accounts are prepared in a highly conventionalized form, according to generally accepted accounting principles, or assumptions. Our concern in this survey is

with the quality of such financial statements, and methods of improving their relevance to the economic needs of Bangladesh.

2.3. The Role of Published Accounts

The analysis of the relevance of accounting to economic development above, was general in nature. It is now necessary to move from the general to the particular- the role of published accounts in the process of economic development. In order to establish this role, three questions must be posed:

- (1) What entities publish their accounts?
- (2) Who are the users of those accounts?
- (3) What are the purposes for which they utilize the accounts?

The answers to these questions will emerge now, but at this stage we may postulate some answers.

2.4. Users of Published Accounts

Because it communicates financial information, accounting is often called “the language of business”. The information that a user of financial information needs depends upon the kinds of decisions the user makes. The differences in the decisions divide the users of financial information into two broad groups: internal users and external users.

Internal Users: Internal users of accounting information are managers who plan, organize, and run a business. These include marketing managers, production supervisors, finance directors and company officers.

External Users: There are several types of external users of accounting information. Investors (owners) use accounting information to make decisions to buy, hold, or sell stock. Creditors such as suppliers and bankers use accounting information to evaluate the risks of granting credit or lending money.

Taxing authorities such as the internal Revenue Service, want to know whether the company complies with the tax laws. Regulatory agencies, such as the Securities and Exchange Commission want to know whether the company is operating within prescribed rules. Customers are interested in whether a company will continue to honor product warranties and support its product lines. Labor unions want to know whether the owners

can pay increased wages and benefits, economic planners use accounting information to forecast economic activity.

A study in the UK established the following list ("The Corporate Report" a discussion paper by the UK Accounting Standards Committee, 1975) of potential users of published accounts:

- (a) THE EQUITY INVESTOR GROUP including existing and potential shareholders and holders of convertible securities, options or warrants.
- (b) THE LOAN CREDITOR GROUP including existing and potential holders of debentures and loan stock, and providers of short term secured and unsecured loans and finance.
- (c) THE EMPLOYEE GROUP including existing, potential and past employees.
- (d) THE ANALYST-ADVISER GROUP including financial analysis and journalists, economists, statisticians, researchers, trade unions, stockbrokers and other providers of advisory services such as credit rating agencies.
- (e) THE BUSINESS CONTACT GROUP including customers, trade creditors and suppliers and in a different sense competitors, business rivals, and those interested in mergers, amalgamations and takeovers.
- (f) THE GOVERNMENT including tax authorities, departments and agencies concerned with the supervision of commerce and industry and local authorities.
- (g) THE PUBLIC including taxpayers, ratepayers, consumers and other community and special interest groups such as political parties, consumer and environmental protection societies and regional pressure groups.

This list is unrealistically comprehensive for Bangladesh. An alternative, shorter list is postulated below:

- (i) Existing and potential investors- this includes both private investors, and the various guest government investors, e.g. Investment Corporation of Bangladesh, and so on.
- (ii) The government, in its various guises:
 - as the owner of public enterprises
 - as tax collector
 - in the preparation of macro accounts
 - in the national planning process

(iii) Enterprise managers- since the accounts represent one of the models against which their performance is assessed.

(iii)The public- though in Bangladesh this group is really restricted to a small socially elite group.

2.5. The Purposes for which the Users utilize Accounts

The disclosed accounting statements may be used for a variety of purposes:

- (1) to evaluate the results of the past period, and the efficiency or managers.
- (2) to calculate tax liabilities
- (3) to predict future results, and to allocate resources
- (4) to prepare plans at the national level.

2.6. Desirable Characteristics of Accounting Information

Financial information should possess some qualitative characteristics. Absence of those characteristics makes the information worthless. Because of its inherent quality, information is used by audience-of-interest.

“All financial reporting is concerned in varying degrees with decision-making (though decision makers also use information obtained from other sources). The need for information on which to base investment, credit, and similar decisions underlies the objectives of financial reporting. The usefulness of information must be evaluated in relation to the purposes to be served, and objectives of financial reporting are focused on the use of accounting information in decision making” (SFAC, 1986).

In order to be useful to users information disseminated through annual reports should possess certain desirable characteristics. These have been summarized as follows:

- (1) *Relevant*- should satisfy the information users needs
- (2) *Understandable*- by the information users
- (3) *Reliable*- the information they contain should be believed, (i) representation of faithfulness, (ii) verifiable, (iii) neutral
- (4) *Complete*- an overall financial picture of the organization and its activities
- (5) *Objective*- the information should be neutral and, as far as possible, free from bias

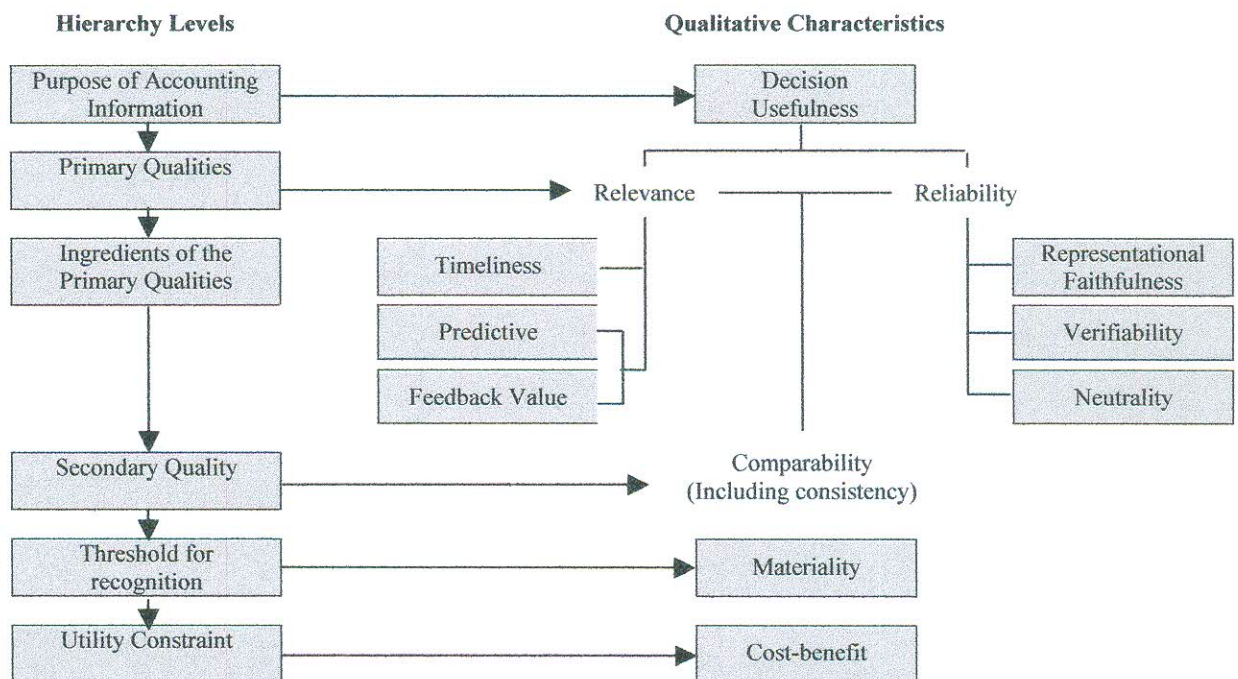
- (6) *Timely*- date of publication should be reasonably soon after the year end
- (7) *Comparable*- information should be comparable both over time and with that of other similar organizations.
- (8) *Appropriate*- the data is appropriate to the decision for which it is required.

These may be regarded as series of benchmarks against which published accounts may be evaluated.

(Source: IBID, "The Corporate Report" a discussion paper by the UK Accounting Standards Committee, 1975)

2.7. Hierarchy of Qualitative Characteristics of Accounting Information

Hierarchy of Qualitative Characteristics of Accounting Information are depicted below:



Source: SFAC # 2, 1980

The characteristics or qualities of information discussed in the following statement are the ingredients that make information useful and are the qualities to be sought when accounting choices are made.

- 1) **Bias:** Bias in measurement is the tendency of a measure to fall more often on one side than the other of what it represents instead of being equally likely to fall on either side. Bias in accounting measures means a tendency to be consistently too high or too low.

- 2) **Comparability:** The quality of information that enables users to identify similarities in and differences between two sets of economic phenomena.
- 3) **Completeness:** The inclusion in reported information of everything material that is necessary for faithful representation of the relevant phenomena.
- 4) **Conservatism:** A prudent reaction to uncertainty to try to ensure that uncertainty and risks inherent in business situations are adequately considered.
- 5) **Consistency:** Conformity from period to period with unchanging policies and procedures.
- 6) **Feedback Value:** The quality of information that enables users to confirm or correct prior expectations.
- 7) **Materiality:** The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.
- 8) **Neutrality:** Absence of reported information of bias intended to attain a predetermined result or to induce a particular mode of behavior.
- 9) **Predictive Value:** The quality of information that helps users to increase the likelihood of correctly forecasting the outcome of past or present events.
- 10) **Relevance:** The capacity of information to make a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations.
- 11) **Reliability:** The quality of information that assures that information is reasonably free from errors and bias and faithfully and represents what it purports to represent.
- 12) **Representational Faithfulness:** Correspondence or agreement between a measure or description and the phenomenon that it purports to represent (sometimes called validity).
- 13) **Timeliness:** Having information available to a decision maker before it loses its capacity to influence decisions.
- 14) **Understandability:** The quality of information that enables users to perceive its significance.

- 15) **Verifiability:** The ability through consensus among measures to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without errors or bias.

2.8. Meaning of Disclosure

Disclosure means communication of pertinent information to the user group through annual reports. The user groups use this information for their respective decisions.

“Disclosure means effective communication of meaningful information. It has been used almost interchangeably with the word ‘Reporting’. The word ‘Reporting’ is technically used when the person writing the same is offering his observations with regard to the matters on which he is asked to comment” (Agarwal, 1995).

The concept of disclosure has grown and expanded considerably in diverse ways in response to the evolution of corporate form of business organization, the statutory requirements to prevent fraud and manipulation and to protect the interest of innocent shareholders and/or would-be investors, and also on account of emergence of accountancy as recognized profession.

The topic of disclosure is broad enough to encompass almost the entire area of financial reporting. One of the major objectives of financial reporting is to supply information for decision-making. This requires a proper disclosure of financial data and other relevant information. Disclosure is vital for the optimum decisions of investors and for a stable capital market. Timely disclosure of relevant information tends to prevent surprises that may completely alter the outlook for the future of the firm. It also tends to give investors greater confidence in the financial information available to them.

2.9. Objectives and Nature of Disclosure

Proper disclosure of relevant information in the financial statements of a company is of great importance, since the members of the company as well as other parties, make most of their appraisals regarding the company on the basis of such statements. Annual financial statements should, therefore, disclose relevant information clearly and accurately.

Disclosure in financial reporting is the presentation of information necessary for the optimum operation of efficient capital markets. This implies that sufficient information should be presented to permit the prediction of future dividend trends and variability and the co variability of future returns with the market. Emphasis should be placed on the preferences of sophisticated investors and financial analysts. However, all investors need information to evaluate the relative risks of individual firms in order to obtain diversified portfolios and combinations of investments that meet individual risk preferences. Creditors and governmental agencies generally have the power to obtain additional information for their needs. "The ultimate objective of disclosure is to communicate timely, reliable, and material information which is useful to the users of annual reports, in an intelligible form." (Agarwal, 1995)

How much information should be disclosed is dependent not only upon the expertness of the reader, but also upon the desirable standard. Three concepts of disclosure generally proposed are adequate, fair and full disclosure. The most commonly used of these expressions is adequate disclosure. But this implies a minimum amount of disclosure congruous with the negative objective of making the statements not misleading. Fair and full are more positive concepts. Fair disclosure implies an ethical objective of providing equal treatment for all potential readers. Full disclosure implies the presentation of all relevant information. To some, full disclosure means the presentation of superfluous information and is therefore inappropriate.

2.10. Full Disclosure

"Full disclosure means that published financial statements and related notes should include all economic information related to the accounting entity that is significant enough to affect the decisions of an informed and prudent user of financial statements... . Full disclosure is aimed at improving the clarity, quality, and quantity of economic data disclosed by the accounting entity". (Porwal, 1996)

Full disclosure means the presentation of all relevant information. The convention of full disclosure suggests that every financial statement should fully disclose all pertinent information that has a bearing on the figures in the statements and that will make possible a reasonable interpretation of their meaning. In other words, all facts necessary to make

financial statements not misleading must be disclosed. The convention also implies that the accounting records and statements conform to the generally accepted accounting principles. It would be more appropriate if a summary of the accounting principle followed in the preparation of financial statements is appended. For example, if there is any change in the method of depreciation, it must be disclosed.

Full Disclosure in Financial Reporting				
Full Disclosure Principle	Notes to Financial Statements	Disclosure Issues	Auditor's and Management's Reports	Current Reporting Issues
• Increase in reporting requirements • Differential disclosure	• Accounting policies • Common notes	• Special transactions or events • Post balance sheet events • Diversified companies • Interim reports	• Auditor's reports • Management's reports	• Reporting on forecasts and projections • Internet financial reporting • Fraudulent financial reporting • Criteria for accounting and reporting choices

(Source: Donald E.Kieso, Jerry J.Weygandt and Terry D.Warfield, Intermediate Accounting, Eleventh Edition (2004-2005), Wiley John Wiley & Sons, Inc., p-1272.)

2.11. Adequate Disclosure

“Adequate disclosure means a minimum amount of disclosure so that the financial statements are not misleading” (Porwal, 1996). Financial statements and their accompanying footnotes or other explanatory materials should contain all of the pertinent data believed essential to the reader's understanding. Criteria for standards of disclosure are of necessity nebulous and indefinite. They are often based on value judgments rather than on objective facts. The usefulness of financial statements is enhanced by the use of headings and subheadings and by merging items in significant categories. For example, detailed information as to the amount of cash in various special and general funds, the amount on deposit in each of several banks, and the amount invested in a variety of marketable government securities is not needed by the reader of financial statements. Such information displayed on the balance sheet would impede rather than aid understanding.

On the other hand, if the terms of significant loan agreements provide for a secured claim through a mortgage on an asset, the details should be disclosed. Some of the less obvious

situations that accountants agree should be adequately disclosed on financial statements are briefly described in the following paragraphs.

Accounting methods employed: When there are several acceptable alternative methods that have a significant effect on amounts reported on the statements, the particular method adopted should be disclosed. Examples include inventory cost flow assumptions, inventory pricing methods, and criteria of revenue recognition.

Changes in accounting methods: When a significant change is made in accounting methods, that fact should be disclosed in the statements for the year in which the change is made. The usual practice is to disclose the quantitative effect on net income and on balance sheet items.

Contingent liabilities: Contingent liabilities arising from discounted notes receivable, litigation, guarantees of products, possible tax assessments, or other causes should be disclosed.

Events subsequent to date of statements: Events occurring or becoming known after the close of the period that may have a significant effect on the financial statements should be disclosed. For example, if an enterprise should suffer a crippling loss from a fire or other catastrophe between the end of the year and the issuance of the statements, the facts should be disclosed. Similarly, such occurrences as the settlement of pending litigation, or purchase of plant facilities after the close of the period should be made known if they materially affect the company.

2.12. The Problems of Disclosure

The problems of disclosure can be resolved in the light of the objectives of financial reporting. All countries do not have the same objectives. A study of FASB's SFAC No. 1, the Corporate Report, London, and the Stamp Report, Canada, reveals differences in objectives. Consequently, the solution to the problems of disclosure will not be the same for all countries.

Basically the following questions (Porwal, 1996) relating to disclosure need to be answered:

1. Who are the users of information, i.e., for whom is the information to be disclosed?

2. How much information should be disclosed?
3. What should be disclosed?
4. How should it be disclosed?

Persons or groups or institutions who use accounting information have been described in previous section in detail.

2.13. How much Information should be disclosed?

All possible information relating to an entity cannot be disclosed in financial statements. That would make financial statements large, costly, and perhaps more confusing. Equally, relevant information must not be concealed from investors, creditors, and others. The information that is material (i.e., which is capable of affecting judgment) to external decision makers must be disclosed. A balance between the two extremes (i. e. materiality and full disclosure) has to be struck while deciding about disclosure of financial information.

Notes to the Financial Statements

“Notes are the means of amplifying or explaining the items presented in the main body of the statements.”(Kieso, Weygandt and Warfield, 2004) Notes are an integral part of the financial statements of a business enterprise. However, they are often overlooked because they are highly technical and often appear in small print. Information pertinent to specific financial statement items can be explained in qualitative terms, and supplementary data of a quantitative nature can be provided to expand the information in the financial statements. Restrictions imposed by financial arrangements or basic contractual agreements also can be explained in notes. Although notes may be technical and difficult to understand, they provide meaningful information for the user of the financial statements.

Accounting Policies

Accounting policies of a given entity are the specific accounting principles and methods currently employed and considered most appropriate to present fairly the financial statements of the enterprise. APB Opinion No. 22, "Disclosure of Accounting Policies", concluded that information about the accounting policies adopted and followed by a reporting entity is essential for financial statement users in making economic decisions. It

recommended that a statement identifying the accounting policies adopted and followed by the reporting entity should also be presented as an integral part of the financial statements. The disclosure should be given as the initial note or in a separate Summary of Significant Accounting policies section preceding the notes to the financial statements. The summary of significant accounting policies answers such questions (Kieso, Weygandt and Warfield, 2004) as:

- i. What method of depreciation is used on plant assets?
- ii. What valuation method is employed on inventories?
- iii. What amortization policy is followed in regard to intangible assets?
- iv. How are marketing costs handled for financial reporting purposes?

Auditor's Report

An important source of information that is often overlooked is the auditor's report. "The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an independent opinion on the financial statements. (BSA, ICAB, 2004, p-382)" An auditor is an accounting professional who conducts an independent examination of the accounting data presented by a business enterprise. If the auditor is satisfied that the financial statements present the financial position, results of operations, and cash flows fairly in accordance with generally accepted accounting principles, a **unqualified opinion*** is offered.

The auditor's report should describe the audit as including:

- The scope of audit by stating that the audit was conducted in accordance with BSAs.
- A statement that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement.
- A statement by the auditor that the audit provides a reasonable basis for opinion.
- The report should be signed in the name of the audit firm.

Management's report

Another important source of information that is often overlooked is the management's report. It can be on the following two heads:

* "An **unqualified opinion** should be expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the identified financial reporting framework." BSA, ICAB, 2004, p-387

Management's Discussion and Analysis: Management's discussion and analysis (MD&A) section covers three financial aspects of an enterprise's business-liquidity, capital resources, and results of operations. It requires management to highlight favorable or unfavorable trends and to identify significant events and uncertainties that affect these three factors. This approach obviously involves a number of subjective estimates, opinions, and analysis of pertinent data. However, the SEC, which has mandated this disclosure, believes that relevance of this information exceeds the potential lack of reliability. The MD&A section also must provide information concerning the effects of inflation and changing prices if material to financial statement trends.

Management's Responsibilities for Financial Statements: Companies generally present a report on management's responsibilities, including its responsibilities for, and assessment of, the internal control system in this Section.

2.14. What should be disclosed?

What should be disclosed depends again, upon the basic objectives of financial accounting and reporting. This is also related to the class of users. All that information, which meets the needs of users in serving all the objectives, should be disclosed.

The following information (Porwal, 1996) will be useful to all categories of users in all countries:

- (a) The traditional financial statements, namely, balance sheet, income statement, the statement of retained earnings, statement of changes in financial position, chairman's speech, directors' report, auditor's report are usually included in the published annual reports of all the listed companies. This gives information on how the company has done in the past year, what its financial position was, and what the sources and uses of 'funds' (or cash) were. This is regarded, as the minimum information required to be supplied to external users.
- (b) Besides the above, the laws of the land and professional pronouncements also require the following information to be disclosed in many countries:
 - i. Disclosure of accounting policies, including those on valuation of assets (current and fixed).

- ii. Any changes in accounting policies on methods of valuation, methods of charging depreciation, determination of earnings, etc.
- iii. Events occurring after the balance sheet date.
- iv. If certain assets are pledged as security to specific creditors, contingent liabilities and unrealized gains.
- v. Disclosure of segment-wise accounting information (product-wise, and geographic division-wise). This has been further discussed in the next section of this chapter.
- vi. Interim (quarterly) reports of the company's performance and financial position.
- vii. Supplementary information on accounting adjustments for changes in prices.
- viii. Accounting for foreign transactions.
- ix. Future prospects of the company.

2.15. Major Disclosures

Actually the volume of disclosure is determined by the Laws of the land, BASs, BFRSs and the items suggested by the experts. The more common disclosures are as follows:

Inventory: The basis upon which inventory amounts are stated (lower of cost or market) and the method used in determining cost (LIFO, FIFO, average cost, etc.) should be reported. Manufacturers should report the inventory composition (finished goods, work in process, raw materials) either in the balance sheet or in a separate schedule in the notes. Unusual or significant financing arrangements relating to inventories that may require disclosure include transactions with related parties, product-financing arrangements, firm purchase commitments, involuntary liquidation of LIFO inventories and pledging of inventories as collateral.

Property, Plant, and Equipment: The basis of valuation for property, plant, and equipment should be stated. It is usually historical cost. Pledges, liens, and other commitments related to these assets should be disclosed. In the presentation of depreciation, the following disclosures should be made in the financial statements or in the notes: (1) depreciation expense for the period; (2) balances of major classes of depreciable assets, by nature and function, at the balance sheet date; (3) accumulated

depreciation, either by major classes of depreciable assets or in total, at the balance sheet date, and (4) a general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets. Any major impairment should be explained.

Credit Claims: An investor normally finds it extremely useful to determine the nature and cost of creditorship claims. However, the liabilities section in the balance sheet can provide the major types of liabilities outstanding only in the aggregate. Note schedules regarding such obligations; provide additional information about how the company is financing its operations, the costs that will have to be borne in future periods, and the timing of future cash outflows. Financial statements must disclose for each of the 5 years following the date of the financial statements the aggregate amount of maturities and sinking fund requirements for all long-term borrowings.

Equity Holders' Claims: Many companies present in the body of the balance sheet the number of shares authorized, issued, and outstanding and the par value for each type of equity security. Such data may also be presented in a note. Beyond that, the most common type of equity note disclosure relates to contracts and senior securities outstanding that might affect the various claims of the residual equity holders - for example, the existence of outstanding stock options, outstanding convertible debt, redeemable preferred stock, and convertible preferred stock. In addition, it is necessary to disclose to equity claimants certain types of restrictions currently in force. Generally, these types of restrictions involve the amount of earnings available for dividend destruction.

Contingencies and Commitments: An enterprise may have gain or loss contingencies that are not disclosed in the body of the financial statements. These contingencies include litigation, debt and other guarantees, possible tax assessments, renegotiation of government contracts, sales or receivables with recourse, and so on. In addition, commitments that relate to dividend restrictions, purchase agreements (throughput and take-or-pay hedge contracts, and employment contracts are also disclosed.

Deferred Taxes, Pensions, and Leases: Extensive disclosure is required in these three areas. It should be emphasized that notes to the financial statements should be given a

careful reading for information about of-balance-sheet commitments, future financing needs, and the quality of a company's earnings.

Changes in Accounting Principles: The profession defines various types of accounting changes and establishes guides for reporting each type. Either in the summary of significant accounting policies or in the other notes changes in accounting principles (as well as material changes in estimates and corrections of errors) is discussed.

Besides the disclosures listed above, four additional disclosures of significance (a) special transactions or events, (b) subsequent events, (c) segment reporting, and (d) interim reporting are depicted below.

(a) Disclosure of Special Transactions or Events

Related party transactions, errors and irregularities, and illegal acts pose especially sensitive and difficult problems. The accountant or auditor who has responsibility for reporting on these types of transactions has to be extremely careful that the rights of the reporting company and the needs of users of the financial statements are properly balanced.

Related party transactions arise when a business enterprise engages in transactions in which one of the transacting parties has the ability to influence significantly the policies of the other. Examples of related party transactions include transactions between (a) a parent company and its subsidiaries; (b) subsidiaries of a common parent, (c) an enterprise and trusts for the benefit of employees (controlled or managed by the enterprise); and (d) an enterprise and its principal owners, management, or members of immediate families, and affiliates. Two classic cases of related party transactions were Enron, with its misuse of special purpose entities, and Tyco International with its forgiving of loans to its management team.

The economic substance rather than the legal form of these transactions should be reported in order to make adequate disclosures. FASB Statement 57 requires the following disclosures of material related party transactions.

- a. The nature of the relationship(s) involved.
- b. A description of the transactions (including transactions to which no amounts or nominal amounts were ascribed) for each of the periods for which income statements are presented.

- c. The dollar amounts of transactions for each of the periods for which income statements are presented.
- d. Amounts due from or to related parties as of the date of each balance sheet presented.

(b) Post-Balance-Sheet Events (Subsequent Events)

Notes to the financial statements should explain any significant financial events that took place after the formal balance sheet date, but before it is finally issued. These events are referred to as post-balance-sheet events, events subsequent to the balance sheet date, or just plain subsequent events. The subsequent events period is time diagrammed as shown below:

Time periods for Subsequent Events

Balance Sheet Date		Financial Statements Issue Date
Financial Statement Period	Subsequent Events period	
Jan. 1, 2006	Dec. 31, 2006	March 3, 2007

Two types of events or transactions after the balance sheet date may have a material effect on the financial statements or may need to be considered to interpret these statements accurately:

- a. Events that provide additional evidence about conditions that existed at the balance sheet date, affect the estimates used in preparing financial statements, and therefore result in needed adjustments.
- b. Events that provide evidence about conditions that did not exist at the balance sheet date but arise subsequent to that date and do not require adjustment of the financial statements.

Many subsequent events or developments are not likely to require either adjustment or disclosure in the financial statements. Typically, these are non-accounting events or conditions that managements normally communicate by other means. These events include legislation, product changes, management changes, strikes, unionization, marketing agreements and loss of important customers.

(c) Reporting for Diversified (Conglomerate) Companies

In the last several decades' business enterprises at times have had a tendency to diversify their operations. As a result of such diversification efforts, investors and investment analysts have sought more information concerning the details behind conglomerate financial statements. Particularly, they want income statement, balance sheet, and cash flow information on the individual segments that compose the total business income figure. Companies have always been somewhat hesitant to disclose segmented data for various reasons:

- a. Without a thorough knowledge of the business and an understanding of such important factors as the competitive environment and capital investment requirements, the investor may find the segmented information meaningless or may even draw improper conclusions about the reported earnings of the segments.
- b. Additional disclosure may harm reporting firms because it may be helpful to competitors, labor unions, suppliers, and certain government regulatory agencies.
- c. Additional disclosure may discourage management from taking intelligent business risks because segments reporting losses or unsatisfactory earnings may cause stockholder dissatisfaction with management.
- d. The wide variation among firms in the choice of segments, cost allocation, and other accounting problems limits the usefulness of segmented information.
- e. The investor is investing in the company as a whole and not in the particular segments, and it should not matter how any single segment is performing if the over all performance is satisfactory.
- f. Certain technical problems, such as classification of segments and allocation of segment revenues and costs (especially "common cost"), are formidable.

(d) Interim Reports

One further source of information for the investor is interim reports. Interim reports are those reports that cover periods of less than one year. At one time, interim reports were referred to as the "forgotten reports"; this is no longer the case. Generally, the same accounting principles used for annual reports should be employed for interim reports.

2.16. How should the information be disclosed?

The discussion of 'how the information should be disclosed' leads to the discussion of methods of presentation or disclosure. The broad answer to 'how' is that it should take care of 'whom', 'how much', and 'what'. The information should be presented in such a manner that a person of average knowledge and prudence could easily understand it. He should derive the same meaning from the information, as it is purported to convey, i.e., there should be representational faithfulness. The methods of disclosure of information have evolved as a result of the changing environment (s) and consequential improvement in the ways of presentation effected by accountants on their own, the recommendations of professional institutes, and as a result of government measures. Still, there are no hard and fast methods of presentation. They differ from country to country, even from a company to company in the same country. The following financial statements are prepared and reported by all the listed companies:

- 1) Balance Sheet
- 2) Income Statement
- 3) Statement of Retained Earnings
- 4) The Statement of Changes in Financial Position.

2.17. Methods of Disclosure

Disclosure involves the entire process of financial reporting. However, several different methods of making disclosure are available. The selection of the best method of disclosure in each case depends on the nature of the information and its relative importance. The common methods of disclosure can be classified as follows: (a) in formal statement, (b) terminology and detailed presentations, (c) parenthetical information, (d) footnotes, (e) supplementary statements and schedules, (f) comments in the auditors certificate, and (g) the letter of the president or chairman of the board.

(a) Form and Arrangement of Formal Statements

The most relevant and significant information should always appear in the main body of one or more of the financial statements if it is possible to include it there. Assets and liabilities and the resulting effect on net income, and stockholders equity should be disclosed in the statement as soon as transactions and other changes can be measured

reliably and with a fair degree of accuracy. But the form and arrangement of the statement can be altered effectively to bring out certain types of information not readily disclosed by traditional statements.

Position statement: In the position statement or balance sheet, relevant relationships can be disclosed by rearranging the basic classifications. For example, current liabilities are frequently subtracted directly from current assets to show working capital, although this procedure has some deficiencies.

Income statement: In the income statement, different forms of presentation can emphasize different concepts of income or different interpretations of the data.

Cash flow and funds statements: Considerable relevant information can be presented in cash flow and funds statements, particular care is taken to provide relevant classifications.

(b) Terminology and Detailed Presentations

Just as important as the form of the statements in disclosure are the descriptions used in the statements and the amount of details shown. Appropriate captions and descriptions of the items in the statements can be enlightening to the reader, but obscure terms can lead only to confusion or misunderstanding. Technical terms may be useful if they have precise meanings they are generally well known, but many technical terms in accounting lack this preciseness. In these cases, accountants should apply descriptive terms generally used by financial analysts and other informed readers. Uniformity of terms throughout all accounting reports would be helpful if the meanings are clear and if the items are similar in all cases where the term is applied.

(c) Parenthetical Information

The most significant information should be presented in the body of a financial statement, rather than in footnotes or supplementary schedules. If the titles of items in the statements cannot be made fully descriptive without being too long, additional explanations or definitions can be presented as parenthetical notes following the titles in the statements. These notes, however, must not be long or they will detract from the main data summarized in the statement.

(d) Footnotes

Current financial reports have been said to give rise to what is called the footnote era. On the one hand, this is an improvement in reporting because it has resulted in a fuller disclosure of financial events and relevant financial data. On the other hand, the extensive use of footnotes has hindered the proper development of the statement themselves because it has resulted in the substitution of footnotes for better information in the body of the statement. Footnotes have an appropriate place in financial reporting, but there is danger in placing too much reliance on footnotes as a method of disclosure or in using footnotes as an apology for inadequate formal statements.

Nature and purpose of footnotes: The objective of footnotes to financial statements should be to disclose information that cannot be presented adequately in the body of a statement without detracting from the clarity of the statement. Footnotes should not be used as a substitute for proper classification or valuation and description in the statements, nor should they contradict or repeat the information in the statements.

The main advantages of footnotes are their uses (1) to present non-quantitative information as an integral part of the financial report, (2) to disclose qualifications and restrictions to items in the statements, (3) to disclose a greater amount of detail that can be presented in the statements, and (4) to present either quantitative or descriptive material of secondary importance.

The most common types of footnotes can be classified as follows: (1) explanations of techniques or changes in methods, (2) explanations of rights of creditors to specific assets or priorities of rights, (3) disclosure of contingent assets or contingent liabilities, (4) disclosure of restrictions to dividend payments, (5) descriptions of transactions affecting capital stock and rights of equity holders, and (6) descriptions of executory contracts. Footnotes are also used to present detailed quantitative data that are not significant enough to include in the body of a statement, but these are in the form of supplementary schedules and therefore are discussed at greater length below as a separate form of disclosure.

(e) Supplementary statements and schedules

In order that financial data may be summarized and presented in a statement brief enough to be understandable by reasonably informed readers, some of the significant detailed

information must be taken out of the statements and presented in supplementary schedules. These schedules are sometimes included among the footnotes and sometimes in a section following the statements and footnotes. In many current annual reports, the supplementary schedules are included in a separate section of the report called financial highlights or some similar section preceding the formal statements. By using a separate section in the report, the information presented there is placed in a position secondary to the statements and footnotes and, therefore, it is assumed to be of less importance than the information in the statements and footnotes. But this separation of information by its relative importance is necessary to make the statements readable and understandable.

Supplementary statements perform a different function than supplementary schedules. Generally they present additional information or information arranged in a different fashion, rather than just more detailed information.

(f) The auditor's certificate

The audit certificate is not the place to disclose significant financial information regarding the firm. But it does serve as a method of disclosure for the following types of information: (1) a material effect from using accounting methods different from those generally accepted, (2) a material effect from changing from one generally accepted accounting method to another, and (3) a difference of opinion between the auditor and the client regarding the acceptability of one or more accounting methods used in the reports. The first two types of information should also be disclosed in the reports themselves. The duplication of disclosure is required to be sure that the reader is not misled regarding the comparability of the reports with those of other firms or the consistency with other periods.

(g) The president's letter

The formal financial statements with the footnotes and supplementary schedules and statements and the auditor's certificate complete the accountant's financial report. All relevant and significant financial data should appear in this report. However, certain types of information can be presented directly by management in the form of the letter of the president or chairman of the board or in other sections of the annual report. This additional information should include (1) non-financial events and changes during the year that affect the operations of the firm, (2) expectations regarding the future of the

organization as well as the economy and the role of the firm in these expectations, (3) plans for growth and changes in operations in the following period or periods, and (4) the amount and expected effect of current and anticipated capital expenditures and research effort.

Summary of disclosure methods

Disclosure is a relative term, but it should be the basic objective of financial statements after determining for whom and for what purpose financial information is to be presented. In accordance with the basic postulates of accounting, the most relevant financial data should be summarized in quantitative terms and be presented in the formal statements to the extent possible and desirable and then in footnotes, supplementary schedules, and supplementary statements. Descriptive information should appear in the body of statements only in brief form. More detailed descriptions should appear in footnotes or elsewhere in the financial reports.

2.18. Segment Reporting

“Segmental reporting refers to the procedure by which entities report their results not only in total, but also divided into important industry or geographic segments. In the context of Bangladesh, this would be particularly important where a company or corporation carries on several quite different activities. (Parry and Khan, 1984)” In recent years, many business enterprises have broadened the scope of their activities to encompass different industries, foreign countries and markets. Due to the growth of diversified business and expansion of firms into foreign markets, consolidated information becomes non-homogeneous information. Consolidated statements enable the management to hide information from external reporting. Some segments may be running at a loss, but the consolidated statements will merely show the average profit figure (and other information) of all the segments taken together. It is, therefore, necessary that along with consolidated information, segment information is also provided to the users.

Objectives of Segment Reporting: The various industry segments or geographic areas of operation of the company can have different rates of profitability, different levels and types of risk and different opportunities for growth. Such differences may be difficult to identify when only consolidated financial data is available for analysis. As a result,

financial statement users believe that consolidated data is more useful when supplemented by disaggregated information to help them analyze the amounts, timing, and uncertainties of expected cash flows and risks associated with an investment or loan to a company that operates in different industries or different geographic areas. Segment reporting aims at providing this disaggregated information.

Advantages and Problems of Segmentation: The main advantages of segmentation are that it enables prediction of future cash flows and risk in decision models, and makes comparability useful. Some problems in the reporting of income for different segments of a business, of course, are related to the allocation of joint costs and the treatment of interdivisional transfer pricing. To be able to measure profitability of segments separately, it is necessary that their net assets are reported segment-wise. There are, however, difficulties in the measurement of assets.

Segment Information to be reported: A company, which publishes annual financial statements in conformity with GAAP, must provide information about operations in reportable industry segments, foreign operations and export sales, and major customers.

- 1) Revenue Information: Sales to unaffiliated customers and sales or transfers to other industry segments of the enterprise. These should be disclosed separately.
- 2) Profitability Information: Operating profit or loss of each reportable segment.
- 3) Identifiable asset information: The aggregate carrying amount of identifiable tangible and intangible segment assets plus an allocated portion of any assets used jointly with other industry segments should be disclosed.
- 4) Other related disclosures: The segment's aggregate amount of depreciation etc., capital expenditures, and other information is to be reported.
- 5) Information about foreign operations and export sales, namely, revenue, operating profit or loss, and identifiable assets are to be reported separately for each geographic area, whose sales to unaffiliated customers are 10 per cent or more of consolidated sales revenue.
- 6) Information about major customers: A company is required to disclose information about the extent of reliance on major customers. If 10 per cent or more of the revenue of a company is derived from sales to any single customer, including a government

body, that fact and the amount of revenue from each customer must be disclosed. In addition, the industry segment or segments that make the sales must be disclosed.

Methods of Presenting Segment Information: Information about the reportable segments shall be included in the company's financial statements in any one of the following three ways:

- 1) Within the body of the financial statements with appropriate explanatory footnotes to the financial statements.
- 2) Entirely in the footnotes to the financial statements.
- 3) In a separate schedule that is included as an integral part of the financial statements.

2.19. Disclosure in Interim Financial Reports

The following minimum data is required by the APB Opinion No. 28 to be reported to security holders at interim dates of a publicly traded company:

- 1) Sales or gross revenues, provision for income taxes, extraordinary items (including related income tax effects), cumulative effect of a change in accounting principles and practices, and net income.
- 2) Primary and fully diluted earnings per share data for each period.
- 3) Seasonal revenues, costs and expenses.
- 4) Significant changes in estimates or provisions for income taxes.
- 5) Disposal of a segment of business and extraordinary, unusual, infrequently occurring items.
- 6) Contingent items.
- 7) Changes in accounting principles or estimates.
- 8) Significant changes in financial position.

The foregoing information with respect to the current quarter and the current year-to-date or the last 12 months-to-date shall be furnished together with comparable data for the preceding year. Interim financial reports should indicate any change in accounting principles or accounting estimates from those used in (1) the comparable interim period of the prior annual period, (2) the preceding interim periods in the current annual period or (3) the prior annual report.

2.20. Basis of Financial Statements

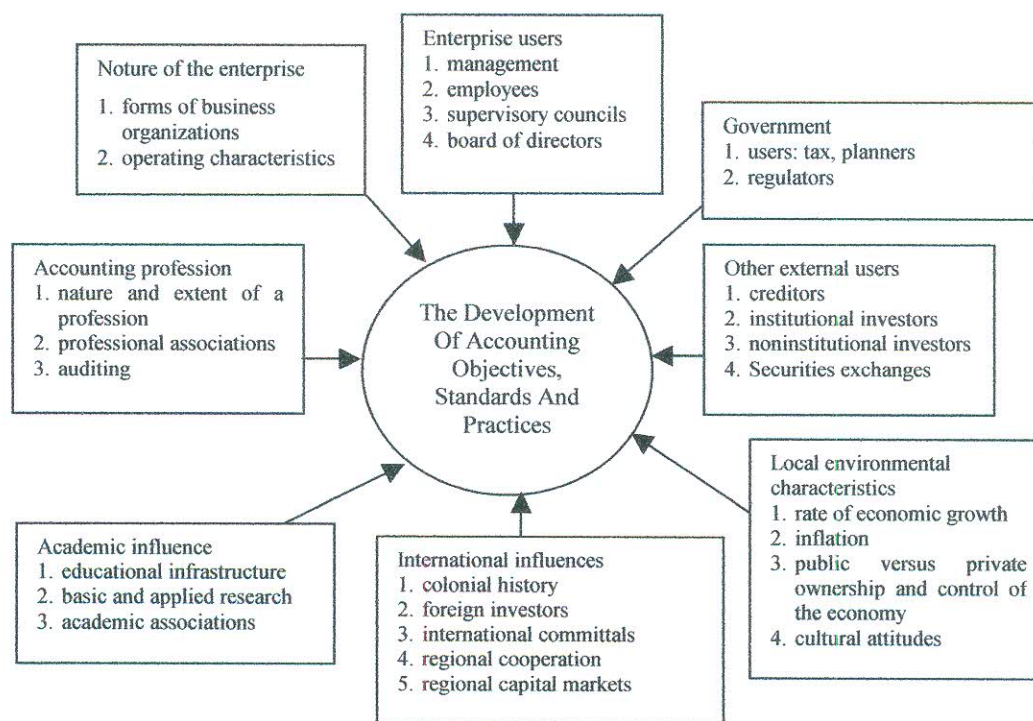
While dealing with the issue of disclosure in company accounts, it is essential to discuss at least the basic postulates, accounting policies, and assumption, underlying the preparation of financial statements. Accounting policies and assumptions vary from company to company and sometimes, even in the same company these may vary from year to year. Accounting policies adopted for preparation and presentation of the annual accounts contribute, to a considerable extent, to the shaping of financial state of affairs exhibited by the annual accounts, right from the profit measurement to the disclosure and presentation of the assets and liabilities.

The companies should disclose details of their accounting methods and policies in the annual accounts presented to the shareholders. The reasons for a change in an accounting policy should be disclosed and the effect of the change should, if material, be also disclosed and quantified.

Accounting concepts and conventions defined: “A concept finds its place in a belief about the desirability of a method or procedure. A convention, on the other hand, is defined as a practice based on general consent or general agreement between parties. Accounting conventions are methods of procedure, which have been recognized as conventional or common for accounting (Agarwal, 1995)”. It would be found that the distinction between these two terms is more of an academic interest than practice. Concepts and conventions when combined become accounting principles. They are, therefore, interdependent and the demarcation line is very thin. The basic accounting concepts underlying the theory of financial accounting are summarized as under: (1) Business Entity Concept, (2) Going Concern Concept, (3) Money Measurement Concept, (4) Cost Concept, (5) Realization Concept, and (6) Accrual Concept.

2.21. The Evolution of Accounting and Reporting Practices

The Evolution of Accounting and Reporting Practices are shown in the following chart (Radebaugh, 1975):



2.22. Internet Financial Reporting

How can companies improve the usefulness of their financial reporting practices? Many companies are using the power and reach of the Internet to provide more useful information to financial statement reader. Recent surveys indicate that most large companies have Internet sites, and a large proportion of these companies' Web sites contain links to their financial statements and other disclosure.* The increased popularity of such reporting is not surprising, since the costs of printing and disseminating paper reports could be reduced with the use of Internet reporting.

Internet financial reporting improve the overall usefulness of a company's financial reports in many ways: First, dissemination of reports via the Web can allow firms to communicate with more users than is possible with traditional paper reports. In addition,

* The FASB has issued a report on electric dissemination of financial reports. This report summarizes current practice and research conducted on Internet Financial Reporting. (Business Reporting Research Project, Electronic Distribution of Business Reporting Information, Norwalk, Conn.:FASB, 2000)

Internet reporting allows users to take advantage of tools such as search engines and hyperlinks to quickly find information about the firm and, sometimes to download the information for analysis, perhaps in computer spreadsheets. Finally, Internet reporting can help make financial reports more relevant by allowing companies to report expanded disaggregated data and more timely data than is possible through paper-based reporting. For example, some companies voluntarily report weekly sales data and segment operating data on their Web sites.

2.23. Key Financial Disclosure in Corporate Governance Reporting

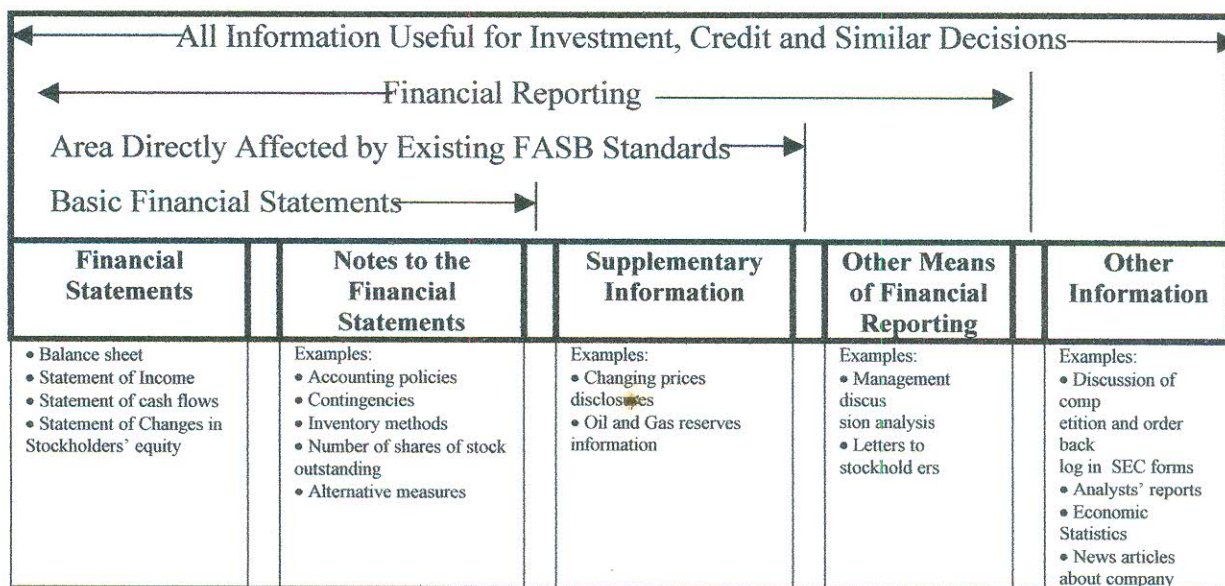
“An enterprise should include certain key financial disclosures and accounting policies (that are disclosed in the financial statements) as an integral part of its corporate governance reporting in order to draw attention of shareholders and other stakeholders to these key financial disclosures and critical accounting policies to enable them to comprehend the true nature of the risks and uncertainties in the reported financial results and to gauge the quality of the reported earnings (Mirza, 2002)”.

The inclusion of certain key financial disclosures (explained later) within the corporate governed report (either as part of Management Discussion and Analysis or as part of the directors' report) would be a vital step towards robust corporate governance reporting since high quality financial disclosures have always been held in high esteem by most corporate governance pronouncements and by drawing shareholders' and other stockholders' attention to important financial disclosures it would be a further step towards transparency. This becomes all the more important since current financial disclosure requirements under most accounting standards have become very complex and detailed thus it is possible that due to the magnitude of disclosures many critical disclosures may not draw the attention of the financial statement user (who may not necessarily possess the financial knowledge or expertise to go through such lengthy disclosures and comprehend the true significance of the critical accounting disclosures and policies). Thus it is in the best interests of the shareholders and the stakeholders that the corporate governance report draws their attention (and focuses it) to such important accounting policies and disclosures.

Footnote disclosures have undoubtedly become very detailed and complex and are thus no more comprehensible from a layman's perspective. This difficulty is further compounded in cases where the enterprise enters into sophisticated financial engineering deals like, allegedly, some of the U.S companies that were involved in the recent accounting scandals. It is, therefore, advisable that key financial statement disclosures and critical accounting policies be encapsulated in a section of the corporate governance report this way, stockholders or stakeholders who do not understand where to look for them in the complete set of financial statements or do not understand their true significance get a birds eye view of most critical and important policies and disclosures specially selected from out of the voluminous footnotes.

2.24. Types of Financial Information

Types of financial disclosure are shown in the following chart:



Source: *Intermediate Accounting, Kieso, Weygandt and Warfield, 2004*

2.25. Banks Financial Reporting Framework

The banking sector of Bangladesh comprises of nationalized commercial banks (NCB) and private sector banks. Registered as a limited company, private sector banks are required to comply with the Companies Act, 1994. Operating with the license from Bangladesh Bank, the prime regulatory agency, compliance with all Bangladesh Bank instructions are imperative for all private commercial banks. For banking companies with

public shares, compliance is also required with the instructions of the Securities and Exchange Commission and the Stock Exchange. The Institute of Chartered Accountants of Bangladesh regulates the auditors. The Companies Act, 1994 and The Banking Company Act, 1991 have prescribed certain reporting requirements. The SEC has issued an audit report form for listed companies.

The banking sector is a Principal foundation of any economy. IAS 30-Disclosures in the financial statements of banks and similar financial institutions was the result of the International Accounting Standards Committee's (IASC) discussion with the Basle Committee of banking Supervision and was approved in 1990 and became operative for financial statements covering periods on or later than 1st January 1991. Unlike other international accounting standards, IAS 30 deals only with 'disclosure requirements' and does not refer to recognition and measurement of assets, liabilities, revenues and expenses. In July 1997, the World Bank Resident Mission in Dhaka and The Institute of Chartered Accountants of Bangladesh (ICAB) jointly sponsored the first public seminar on IAS 30 titled "Disclosures in the financial statements of banks and similar financial institutions- A comparative evaluation and rationale for adoption of the standard in Bangladesh" (Chowdhury, 2004). The ICAB adopted IAS 30 as BAS 30, which became operative for the financial statements of banks covering periods beginning on or after 1st January 1999.

The Ministry of Finance, Government of Bangladesh constituted a 'Committee on External Audit of Nationalized Commercial Banks and Financial Institutions' for implementation of IAS-30 with the Deputy Governor of Bangladesh Bank as the Chairman. The third meeting of the Committee held in March 1999 formed a six member Task Force with a representative from ICAB. The Task Force recommended amendments in July, 1999 and after approval of the Government the amendments to The Bank Company Act, 1991 was communicated to all scheduled banks vide BB BRPD Circular no. 03 dated 18 April, 2000 with an effective date of 30th March 2000.

ICAB held a seminar in December 2000 titled "Application of International Accounting Standard 30 in Banks and Financial Institutions" (Saha and Rahman, 2002) and a second one in June 2001 titled "International Accounting Standard (IAS) 30 its adoption and implementation in Bangladesh" (Azizddin, 2002). The BB amendments were further

revised vide BB BRPB Circular no. 14 dated 25 June 2003 effective from the last working day of 2003.

2.26. Costs and Benefits of Financial Disclosure

The characteristics of information that make it a desirable commodity can be viewed as a hierarchy of qualities, with usefulness for decision making of most importance. Without usefulness, there would be no benefits from information to set against its costs.

The costs of providing information are of several kinds, including cost of collecting and processing information, cost of audit if it is subject to audit, cost of disseminating it to those who must receive it, cost associated with the dangers of litigation, and in some instances cost of disclosure in the form of a loss of competitive advantages vis-à-vis trade competitors, labor unions or foreign enterprises. The costs to the users of information, over and above those costs that preparers pass on to them, are mainly the costs of analysis and interpretation and may include costs of rejecting information that is redundant, for the diagnosis of redundancy is not without its cost.

“Accounting information must attain some minimum level of relevance and also some minimum level of reliability if it is to be useful. Beyond those minimum levels, sometimes users may gain by sacrificing relevance for added reliability or by sacrificing reliability for added relevance; and some accounting policy changes will bring gains in both. Each user will uniquely perceive the relative value to be attached to each quality. Ultimately, a standard setting body has to do its best to meet the needs of society as a whole when it promulgates a standard that sacrifices one of those qualities for the other; and it must also be aware constantly of the calculus of costs and benefits (Statements of Financial Accounting Concepts 1-6, 1986)”.

The burden of the costs and the incidence of benefits fall quite unevenly throughout the economy, and it has been rightly observed that “..... the matter of establishing disclosure requirements becomes not only a matter of judgement but also a complex balancing of many factors so that all costs and benefits receive the consideration they merit. For example, a simple rule that any information useful in making investment decisions should be disclosed fails as completely as a rule that says disclosure should not

be required if competitive disadvantage results(Mautz and May, 1978)". The problem is to know how to accomplish that 'complex balancing'.

Though it is unlikely that significantly improved means of measuring benefits will become available in the foreseeable future, it seems possible that better ways of qualifying the incremental costs of regulations of all kinds may gradually be developed, and the Board (FASB) will watch any such developments carefully to see whether they can be applied to financial accounting standards. Even if that hope proves to be a vain one, however, the Board cannot cease to be concerned about the cost-effectiveness of its standards. To do so would be a dereliction of its duty and a disservice to its constituents.

Chapter Three

Research Methodology

3.1 Introduction

This chapter considers the research methodology of the present study. The aims of this chapter are to set up the foundation of the statistical analysis. Banking company annual reports encompass most of the data of the present research. The survey of the present study will cover the annual reports of the scheduled banking companies for the years 2002-2006. The size of the sample will represent the greater area of banking companies in Bangladesh (including nationalized banks).

The present research decides to adopt the disclosure index method of measurement. Using the disclosure index method the level of disclosure is measured by selecting items that might be disclosed in annual reports and giving banks a score based on the number of disclosures actually made.

The structure of this chapter is as follows: Section 3.2 summarizes the types of data. Section 3.3 summarizes the method of data collection. Section 3.4 deals with the selection of sample. Section 3.5 describes the choice of the period. Section 3.6 describes the preparation of Questionnaire used in the study. Section 3.7 shows the respondent group. Section 3.8 discusses the selection of index- weighted vs. un-weighted. Section 3.9 describes the tools of analysis. Section 3.10 discusses the method of construction of the disclosure index. Section 3.11 discusses the procedure of selection of items included in the disclosure index. Section 3.12 refers to the description of the scoring of the index. Section 3.13 depicts the hypothesis of the study. Lastly, section 3.14 is concerned with the summary and conclusion of the chapter.

3.2 Types of Data

The present study is based on both the secondary and primary information. The secondary information have been collected from the corporate annual reports of the selected banking companies and primary information constitutes the responses of the respondent group of the questionnaire. In the present study the comprehensive corporate annual reports of the selected banking companies of the selected years will be used to compute the disclosure scores. Banks' annual reports encompass most of the secondary information of this research. We have also conducted intensive library work to collect other secondary data.

3.3 Method of Data Collection

We have used direct interview method to collect primary data. In this context, we have prepared a questionnaire to collect the necessary data. We shall use this method to avoid non-response bias by the respondents.

3.4 Selection of Sample Bank

The banking sector of Bangladesh comprises of four categories of scheduled banks. As of June 2004, 49 scheduled banks are operating in Bangladesh with a network of 6236 branches. 4 nationalized* commercial banks (NCBs), 5 specialized banks (SBs), 30 local private commercial banks (LPCBs) and 12 foreign commercial banks (FCBs) are operating now in Bangladesh. The scheduled banks have 3699 branches in the suburban or rural areas, which is 59.32 percent of the total number. NCBs, SBs, LPCBs and FCBs have 3390, 1318, 1488 and 34 branches, respectively, operating in different places (*Source: Bangladesh Bank and Securities and Exchange Commission*).

Before the fieldwork, it was decided that the sample would cover the annual reports of the banking companies in Bangladesh for the year 2002 - 2006. The planned size of the sample represented 12 banks. The sample banks are listed on DSE in Bangladesh. No unlisted or public sector enterprises or manufacturing companies were included in the sample.

* Because of Privatization Policy of Government now no Nationalized Commercial Banks (NCBs), all are PCB

In order to accomplish a meaningful representation the present study has examined the financial reports of some PCBs of Bangladesh as sample. This section provides the profile of the 12 sample banks. Since there are 49 Scheduled Banks operating in Bangladesh, we consider our sample size as representative of the population. The sample banks were selected by using of judgmental sampling approach which is based on advance commencement of business as banking companies in Bangladesh, (viz., the banks are old according to the year of incorporation) and the availability of Annual reports.

Sample Banks

1. AB Bank
2. NCC Bank
3. NBL
4. Uttara
5. Standard Bank
6. Al-Arafah Bank
7. South East Bank
8. Mercantile Bank
9. Pubali Bank
10. UCBL
11. Islamic Bank
12. Prime Bank

3.5 Choice of the Period

Bangladesh Bank issued a circular entitled ‘Amendment of First Schedule Forms of the Bank Companies Act, 1991 (BRPD Circular No. 03 dated 18 April, 2000)’. Under this circular, newly amended forms have been made mandatory for all concerned Banks and financial institutions since 30 March 2000 in Bangladesh. The forms have been introduced with a view to ensuring the financial discipline in the banking sector, to minimize the unforeseeable risk, to provide true, relevant and reliable information to the depositors and shareholders and to make the financial disclosure in compliance with the international standard. However, the financial statements should be easy to understand, informative and transparent. The new forms will reflect all these aspects in reporting financial information. In the present study, the succeeding period of the adoption of BRPD Circular No. 03 has been considered. The succeeding years (2002-2006) of the year of 2000 have been selected to justify the standard ability and acceptability of BRPD

Circular No. 03 dated 18 April, 2000 in the banking sector. Before the fieldwork, it was decided that the sample would cover the annual reports of the banking companies in Bangladesh for the year 2002-2006 (the planned size of the sample represented 12 banks of 5 years).

3.6 Preparation of Questionnaire

We have prepared a questionnaire to collect opinion of the respondents about the quality of information disclosed in financial statements, level of disclosure, compliance of standards etc. The questionnaire used was divided into two parts, PART-1 and PART-2. The PART-1 was divided into two groups, Group-A and Group-B. Group-A of the PART-1 included questions representing the name, occupation, age, educational and professional qualifications, accountancy training of the respondent and Group-B consisted of questions concerning quality of accounting information. The number of questions included in PART-2 only asked to bankers, which dealt with their perception of disclosed items in the financial statements. The total number of questions included in PART-1 was 30 in which Group-A contained 1 to 10, Group-B 11 to 30 and PART-2, 31 to 47.

3.7 Respondent Group

Our survey will cover a sample of 20 bank loan officers, 20 professional accountants, 20 financial analysts, 20 stockbrokers and 20 accounting professors. The total number of respondent group was 100. Among the total of 100 questionnaire issued, 61 respondents gave valuable feedback regarding the questionnaire while others were reluctant to give any information regarding this.

3.8 Selection of Index- Weighted vs. Un-weighted

During the last four decades or so, several researchers while measuring extent of disclosure made by the firms have used disclosure index approach. Many researchers used disclosure index to test hypothesis of their research. Despite its inherent problems (e.g., subjective judgement), disclosure index approach has become an important vehicle for the measurement of the company information disclosure. Some of the researchers used weighted disclosure indices while other researchers used unweighted disclosure indices. However, both weighted and unweighted indexes should be considered separately, and weighted and unweighted indices could be analyzed to see whether the weighted disclosure index could provide any significant deviation from the unweighted disclosure index in examining the extent of disclosure or to test hypotheses.

An unweighted index is the ratio of the value of the number of items a company discloses divided by total value that it could disclose (Hossain, 1998). Under an unweighted disclosure index, all items of information in the index are considered equally important to the average user. The unique advantage of using an unweighted index is that it permits an independent analysis of the perception of a particular user group (Chow and Wong-Boren, 1987; p.537). If various users of accounting information are asked to weigh the importance of different items of information in the disclosure index, they may attach different weights to the same items of information. Despite the attractions of reflecting users' perceptions, the perceptions of different groups of users vary due to subjective judgment and interests; subjective judgments may average each other out (Cooke, 1992; p.233) or neutralize the relative importance of each disclosure item to all members of a user group (Wallace, 1987; p.355). The choice of an unweighted index over a weighted one does not produce substantially different results (e.g. Chow and Wong-Boren, 1987; p.537) and there are researchers who favored the use of unweighted indices (e.g. Spero, 1979; p.57 and Rubbins and Austin, 1986). The present researcher has decided to follow the unweighted disclosure index approach in his study because there are merits in using both the methods and the results obtained have been the same for the use of either methods.

3.9 Tools of Analysis

Statistical tools like average, standard deviation, simple and multiple regression, t tests will be used to analyze the data. In the unweighted disclosure index disclosure of individual items has been treated as a dichotomous variable. Here, the only consideration is whether or not a bank discloses an item of information in its corporate annual report. If a bank discloses an item of information in its annual report it will be awarded '1' and if not it will be awarded '0'. The disclosure model for the unweighted disclosure thus measures the total disclosure (TD) score for a bank as additive as follows-

$$TD = \sum_{i=1}^n di$$

Where,

- d = 1 if the item di is disclosed
- 0 if the item di is not disclosed
- n = number of items

3.10 Construction of Index

In the present study, the disclosure index was ultimately used to collect information regarding the perceptions of banks about the importance of the items of information in their annual reports. The draft disclosure index was subject to extensive scrutiny and pretest. It was decided that the disclosure index was to be pre-tested by asking a sample of 15 experts to seek their advice for any omission, exclusion, addition, ambiguity or vagueness in the items. The information and feedback from the pilot study was used to refine, modify and adjust the final form of the disclosure index. As part of the pre-testing, it was originally planned that some of the teachers of Rajshahi University and some other outside experts of related field would be consulted. Moreover, the researcher has consulted some academic experts having knowledge of related area of the present research at Dhaka University, BIBM, ICAB and Securities and Exchange Commission. The researcher got helpful suggestions from some teachers and some experts regarding further refinement, improvement and addition/deduction in his disclosure index. Some of the teachers and some experts stated that they were not familiar with the research area addressed by the disclosure index and would require help in clarifying most of the item of the disclosure index. Among the total of 15 sheets of disclosure index issued at the pretest stage the researcher was able to collect eight responses, which took one-month duration.

The feedback obtained from respondents was useful in modifying the disclosure index. Finally, based on their feedback, the draft disclosure index was modified and was approved by supervisor of the researcher.

3.11 Selection of Items to be Included in Index

The quality of financial reporting in a country depends on the legal requirements governing disclosure together with professional recommendations, which may have a varying degree of effectiveness depending on the influence of the professional bodies concerned (Marston, 1986). In addition, Bangladesh Accounting Standards, International Accounting Standards and Stock Exchange Requirements may have an impact on the disclosure of information in corporate annual reports. Banking companies usually disclose information in a number of ways, such as through annual report and accounts, interim and quarterly reports, prospectus, employee reports and announcements to the stock exchange. It may be strongly argued that the most important medium of external financial disclosure is the corporate annual report.

The major task of the present research is to develop a suitable disclosure index comprising items of information that are expected to be disclosed in corporate annual report from the viewpoint of developing countries. Marston and Shrieves (1991) are of the opinion that the usefulness of the disclosure index as a measure of disclosure is dependent on the selection of items to be included in the index. The selection of items included in the disclosure index is a major task in the construction of any disclosure index (Marston and Shrieves, 1991). There is no generally accepted theory to predict users' information needs and there is an absence of an appropriate generally accepted model for the selection of the items of information to be included in a disclosure index to judge the quality of information of a corporate annual report. An item of information may be of great importance to a particular interested user group while it may have little importance to other user groups (Hossain, 1998).

Most of the previous studies have included items of information of interest to a particular group. In the present study, items of information have been included keeping in mind their relevance to a broad range of users. In most previous studies, the numbers of items selected were relatively small. In this study the disclosure index has been developed by

extensively following Hossain's (1998) disclosure index, which included a wide range of major disclosure items that might be found in the corporate annual report¹. However, Parry and Groves (1990)² dropped 10 items of information from because those were not realistic information expectations in Bangladesh and added other six items of information in their disclosure index. Thus, the items of information included in the disclosure index have been considered from the viewpoint of a general-purpose context rather than a specific user group context. At the same time attention has been given to both mandatory and voluntary items of information in the sample banks.

In addition, the disclosure requirements relating to accounting standards adopted by Bangladesh have been considered and taken into account in selecting items of information that ought to be disclosed by the banks and as such, where relevant, have been included in the disclosure index. The disclosure index considered both quantitative and qualitative items in the corporate annual reports of the sample banks.

To summarize, the items of information included in the disclosure index have been developed based on the following criteria:

- 1) Items of information commonly required by the statutes of Bangladesh studied.
- 2) Disclosure items identified in other studies examining disclosure which used the disclosure index methodology (e.g., the study of Singvi, 1967; Marston, 1986; Parry and Groves, 1990; Ahmed and Nicholls, 1994 and Hossain, 1998).
- 3) Disclosure requirements suggested by the (international) accounting standards adopted in Bangladesh (BASs).

The disclosure index constructed for this study included 144 items that were used in unweighted index formulation.

¹ Hossain (1998) included 94 items of information in his disclosure index for the Companies in his sample. Similarly, Spero (1979) developed this type of wide ranging disclosure index consisting of 289 items of information.

² The disclosure index used by one researcher and consequently adopted by other researchers is not uncommon. Parry and Groves (1990) argued that their model was originally developed by Singvi index (applied in the Indian context) and they applied the same in the context of Bangladesh (a very similar in terms of both industrial framework and level of development in India).

3.12 Scoring the Index

There are various approaches available to develop a scoring scheme to determine the disclosure level of corporate annual reports from works of other researchers. Wallace (1988), Cooke (1991 and 1992), Rbbin and Austin (1986), Hossain et al. (1994) and Ahmed and Nicholls (1994) adopted a dichotomous procedure in which an item scores one if disclosed and zero if not disclosed. The approach used by Courtis (1979), Barrett (1976 and 1977) and Marston (1986) was for a weighted disclosure index to be employed. In some cases the weights were predetermined by the researchers subjectively. Alternatively, Buzby (1974), Spero (1979) and Firth (1979) have used average weights derived from questionnaire surveys of users' perceptions of the importance of disclosure items. In the present study, analysis has been based upon unweighted indices.

In the present study, the annual reports of the Banking companies have been examined against unweighted indices. In case of unweighted disclosure index, while measuring the level and extent of disclosure, the disclosure will be treated as a dichotomous variable. Here, the only consideration is that if a company discloses an item of information in its corporate annual report it has been awarded '1' and if not, it has been awarded '0'. In the disclosure model which we have used and followed in this study, the total disclosure score for a banking company taken to be additive. In our study, unweighted disclosure index have been considered. Among the total of **144 items** in the disclosure index we had **44 items**, which consisted of sub-items. For scoring the sub-items the total score '1' has been distributed equally because we have thought that all the sub-items are equally important.

Finally, the selected banking company attributes such as size (sales and total assets), profitability (rate of return on total assets and net profit margin), debt-equity ratio, size of the audit firm and a subsidiary of a multinational banking company will be extracted from corporate annual reports. Then, multiple regression models have been used to examine the association between extent of disclosure and these company characteristics.

3.13 Hypothesis of the Study

On the basis of the literature review and applicability in the context of Bangladesh, the following hypothesis have been tested:

- H_o : There are no significant difference among the opinions of the respondents of the questionnaire survey.
- H_o : There is no significant variation in disclosure score among the sample banks and disclosure score of the sample banks over the years.
- H_o : There is no significant association between a number of corporate attributes and the extent of disclosure.
- H_o : There is no significant association between the measures of timeliness and the extent of disclosure.

3.14 Conclusion

This chapter represents the sources of data that were collected for this study. The questionnaire survey five groups of respondents play a very important role in the study. To conduct a questionnaire survey is a difficult task on the part of any researcher. In any questionnaire survey the response rate may be very low if the questionnaires are mailed to the respondents. This chapter describes the construction of disclosure index and the scoring methodologies for the un-weighted disclosure index. The information regarding various corporate attributes were extracted from the annual reports in order to measure the relationship between the extent of the relationships between disclosure and corporate attributes are considered in next chapter. This chapter discusses the methodology used for the study. We have shown our arguments why we followed a particular method for conducting our study. The selection of sample, choice of the period, techniques of analysis, and construction of index- all has been discussed. The next chapter has been devoted to the delineation of the results of questionnaire survey.

Chapter Four

Description of the Results of Questionnaire Survey

4.1 Introduction

There is a paucity of research regarding users' information needs in developing countries. There are studies of Wallace (1988a; 1988b) in Nigeria and Nicholls and Ahmed (1995) in Bangladesh, which measured the quality of disclosure taking into consideration the perception of users in a developing country perspective. This chapter analyzes the results of the questionnaire survey among a sample of professional accountants, bank loan officers, stockbrokers, financial analyst, and accounting professors.

The main thrust of this chapter is to focus the perception of the various groups of users about their perceived importance for various sources of information in making their decisions, reasons for using financial information, their perceived importance regarding various parts of a Bank's annual report, and their opinions regarding the adequacy and reliability of information of annual reports.

Different user groups have different objectives in using financial reports and it has been pointed out that they may have diverse informational needs (Benjamin and Stanga, 1977). The aim of the present research is to enhance our understanding of the corporate financial reporting disclosure environment in Bangladesh by seeking the opinions of the above five respondent groups that are expected to be affected by such an environment. Our objective, therefore, is to discover the major corporate information sources to the major interested parties in the banking sector in Bangladesh. Such a study will also shed light on how corporate financial disclosure preparers and regulators can improve the current corporate reporting practices as well as provide adequate description of some aspects of financial accounting and its environment in Bangladesh.

4.2 Objectives of the Chapter

The destination of this study is to focus the perception of **Financial Analyst, Professional Accountant, Stock Brokers, Accounting Professors, Bank Loan Officers** as users about their perceived importance for various sources of information in making their decisions, and their opinions regarding the qualitative characteristics of accounting information of the corporate annual reports in the banking sector of Bangladesh. This study attempts to focus on the present scenario of corporate financial disclosure by the banks of Bangladesh in their annual reports. Objectives of this study cover the followings:

- a) Evaluation of guidelines for standard corporate financial disclosure.
- b) Analyzing the corporate financial disclosure practice in Bangladesh by the banking companies through the empirical analysis.
- a) To have an idea about the perception of different respondent groups regarding the importance of various items of disclosure in decision-making.
- c) To know selected respondents' attitude towards qualitative characteristics of financial disclosure.
- e) Recommending some measures to take a sound corporate financial report by the banking companies.

4.3 Test of Hypothesis

In order to test whether there are significant differences between the opinions of the respondents, we conducted χ^2 (Chi-square) test using SPSS software. Accordingly, we develop a null hypothesis as follows:

H₀ 1: There are no significant differences between the opinions of the respondents.

4.4 Questions Solicited

The aim of this phase is to set up the foundation of the statistical analysis. The researchers have used direct interview method to collect response from the respondents at Rajshahi. In this context, we have prepared a questionnaire to collect the necessary data. We have use this method to avoid non-response bias by the respondents. In case of some respondents from Dhaka and Bogra the questionnaire were sent through mail. The questionnaire for the current study was pre-tested with teachers of accounting department, prominent academicians, and researchers. The respondents were supplied with the final questionnaire two weeks after they had filled up the draft questionnaire. The final questionnaire for the study contained a covering letter and a brief background of the study. In the covering letter, it was mentioned that the researcher was conducting the study as part of PhD thesis, so that the respondents would understand the importance of the study, which might result in better responses. The questionnaire used in the survey is presented in Appendix # 5. To make this chapter more informative different published textbooks, related journals, reports, seminar papers and research works have been analyzed. The questionnaire survey method, regardless of its inherent drawbacks seemed

appropriate for this type of study. Survey method is most appropriate and effective for drawing conclusion regarding peoples' inference and attitudes. The response rate of the survey among the respondents is discussed in the empirical part of the chapter.

4.5 Questionnaire Survey

The questionnaire survey consists of a sample of 20 professional accountants, 20 bank loan officers, 20 stock brokers, 20 financial analyst and 20 professors and the total number of users sampled came to 100 as indicated in Table 4.1.

Table 4.1
Response Rate of the Questionnaire Survey

User Group	Sample Size	No. of Responses	Rate of Response (%)	% of the sample
1. Financial Analyst	20	9	45	14.75
2. Professional Accountant	20	12	60	19.67
3. Stock Brokers	20	10	50	16.39
4. Professors	20	13	65	21.31
5. Bank Loan Officers	20	17	85	27.88
Total	100	61	61	100.00

Table 4.1 showed the various groups of the respondents and the size of the sample of the respondents. It also describes the response rate of the questionnaire survey from different groups. The response rate of bank loan officer's category shows that it was higher (85%) compared with the other four category groups. In the professors category, the response rate was 65%, in the professional accountants category, the response rate was 60% and in the stock brokers category the response rate was 50% and the response rate of the financial analysts group was significantly lower (45%) than in the other four groups. The overall response rate was 61% and this is good when compared with that of other similar studies. The percentage (%) of the sample shows that bank loan officer's category percentage was the highest (27.88%) compared with the other four categories. In the professor's category, the percentage of the sample was 21.31%. In the professional accountant's category, the percentage of the sample was 19.67% and in the stockbrokers category the percentage was 16.39% and the percentage of the sample of the financial analysts group was lowest (14.75%) among all the groups. The response rate is above the rate mentioned by Moser and Kalton (1971) and Ali, Khan Fatima and Masud (2008) as being sufficient for a study leading to policymaking.

4.6 Prior Research

It is widely accepted that corporate annual reports are prepared primarily for external users. Therefore, such reports should be designed, in form and content, according to the needs of the external users (Radebough, and Gray, 1993). These users should be contacted frequently to assess their perceptions about various aspects of the reporting practices of public companies since their views will provide the main feedback to improve the communication function of corporate reports (Epstein, 1993).

One of the pioneering studies that has attempted to discover the information needs and sources of such information was undertaken in the United States by Baker and Haslem in 1973. The authors found that the majority of the individual investors rely heavily on stockbroker's advice as their main source of information about companies. Financial statements, however, were found to be a source of information by only a minority (i.e., 8 per cent) of individual investors. Regarding other information items that are expected to be disclosed by companies, Baker and Haslem (1973) highlight that individual investors attach a great deal of importance to the information about the future expectations of the company. At the same time, individual investors attached a much lower degree of importance to information regarding dividends.

Anderson (1981) also recognized the need for research in this area and focused on institutional investors in Australia. He sought, primarily, to discover their perceptions about the importance of annual corporate reports to their decision making process by analyzing the responses of 188 institutional investors. Anderson (1981) found that Australian investors relied mostly on the annual report when making their investment decisions followed by visits to the companies. Regarding the annual corporate report itself, the most readable sections of the annual report were the balance sheet, profit and loss account, notes to the accounts, and the chairman's statement respectively. The profit and loss account, however, was perceived to be more important than the balance sheet. However, the author failed to perform any statistical test to determine whether there is a significant difference between the users' usage of the annual report sections on the one hand and the perceived importance of such sections on the other hand. Anderson (1981) also documents the external users' desire (i.e., 72 per cent) for additional information to

be provided in the annual corporate report such as information about the company's product, current value of long-term assets, and remuneration of directors.

Anderson and Epstein (1995) further extended their research by providing a useful investigation on Australia. Unlike the Anderson (1981) study, which specifically focused on Australian institutional investors, the Anderson and Epstein (1995) study was more concerned with individual investors' usage of annual corporate reports. Their findings revealed that the annual corporate reports came third, after stockbrokers' advice and financial newspapers and magazines, as a basis for investment decision of Australian individual investors. Nevertheless, the vast majority of their respondents (i.e., 72 per cent) perceived annual corporate reports to be of only moderate use. Regarding the use of the annual report, the authors highlight the directors' report to be the most thoroughly read followed by the income statement. Nevertheless, their respondents did perceive the income statement to be more useful than the directors' report in making an investment decision. Arguably, Anderson and Epstein (1995) did not statistically determine whether the difference between the pattern of readership of the annual reports' sections and the perceived usefulness of such sections of any significance in the Australian environment. Respondents had also expressed a desire for the simplification and more explanation of the balance sheet, statement of cash flow, and the income statement. Finally, the authors highlight the Australian investors' demand for additional disclosure in the annual reports; such as pending litigation, unasserted claims, management audit, and information on change of auditor.

In another Middle Eastern environment, Jordan, Abu-Nassar and Rutherford (1996) undertook a study to discover the view of external users of annual corporate reports. The authors targeted different groups of external users, namely individual shareholders, institutional shareholders, bank loan officers, stockbrokers, and academics. Their sample comprised of 224 respondents and all of their analyses are of a univariate type. In terms of the usage of the annual report, Abu-Nassar and Rutherford (1996) found bank loan officers to be the heaviest users of the annual reports in Jordan while individual shareholders and academics were found to be the least. They also found the income statement and balance sheet to be the most widely read parts of the annual corporate report by all the users. The authors documented the low degree of users' satisfaction

about many qualitative characteristics of corporate reports in Jordan. In terms of the importance of the various sources of corporate information, Abu-Nassar and Rutherford (1996) argue the annual corporate report to be the most important source of information for all user groups. The only exception being the bank loan officers who indicated that the most important source of information to them was to personally visit companies followed by an independent examination of the annual report itself.

Ali, Khan, Fatima and Masud (2008) provide a useful survey of the attitudes of individual respondents on the various aspects of Bangladeshi annual corporate reports. They analyzed the responses of 25 individual investors and found firstly, that British American Tobacco (BAT) Bangladesh Co. Ltd makes very few disclosures on corporate governance on a voluntary basis and secondly, the user groups of the annual reports are in favor of such disclosure. The researchers further found that the current disclosures are not ample in evaluating the goal of corporate governance.

4.7 Academic Achievement of Respondents

Table 4.2 shows the overall respondent' academic achievements. Table 4.2 shows that 14.8% of the respondents have graduate education and 75.4% of the respondents have a Masters degree and 9.8% of the respondents have Ph.D. degree.

Table 4.2
Academic achievement of respondents

Educational Qualification	Respondent group						Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
Bachelor	Count	1	4	1	0	3	9
	% within respondent group	11.1%	33.3%	10.0%	0.0%	17.6%	14.8%
Masters	Count	8	7	8	9	14	46
	% within respondent group	88.9%	58.3%	80.0%	69.2%	82.4%	75.4%
Ph. D.	Count	0	1	1	4	0	6
	% within respondent group	0.0%	8.3%	10.0%	30.8%	0.00%	9.8%
Total	Count	9	12	10	13	17	61
	% within respondent group	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

4.3 Age Group of the Respondents

Table 4.3 shows that most of the respondents were in the age range between 46 to 50, having 36.1% respondents in the range of 46-50 years and 31.1% of the respondents in the age of 50 and above. There was no Financial Analyst and Stockbroker under 35 years in the sample and also no Professional Accountants under 40 years in the sample.

Table 4.3
Age group of the respondents

Educational Qualification		Respondent group					Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
26-30	Count	0	0	0	0	1	1
	% within res.gr.	0.0%	0.0%	0.0%	0.0%	5.9%	1.6%
31-35	Count	0	0	0	1	2	3
	% within res.gr.	0.0%	0.0%	0.0%	7.7%	11.8%	4.9%
36-40	Count	2	0	2	2	1	7
	% within res.gr.	22.2%	0.0%	20.0%	15.4%	5.9%	11.5%
41-45	Count	1	3	0	1	4	9
	% within res.gr.	11.1%	25.0%	0.0%	7.7%	23.5%	14.8%
46-50	Count	4	5	6	4	3	22
	% within res.gr.	44.4%	41.7%	60.0%	30.8%	17.6%	36.1%
50 and above	Count	2	4	2	5	6	19
	% within res.gr.	22.2%	33.3%	20.0%	38.5%	35.3%	31.1%
Total	Count	9	12	10	13	17	61
	% within res.gr.	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

N.B: F.A. = Financial Analyst, P.A. = Professional Accountant, S.B. = Stock Broker, A.P. = Accounting Professor and B.L.O. = Bank Loan Officer.

4.9 Working Experience of the Respondents

The working experience of the respondents in the study varied from less than five years to over 28 years. Table 4.4 shows the working experience of respondents in individual user groups as well as their composite classification. The working experience of the majority of the respondents in the study having 34.4% respondents in the range of 17-22 years experience.

Table 4.4
Working experience of the respondents

Working experience (in year)		Respondent group					Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
< 5	Count	0	0	0	0	2	2
	% within res.gr.	0.0%	0.0%	0.0%	0.0%	11.8%	3.3%
5-10	Count	2	0	1	3	2	8
	% within res.gr.	22.2%	0.0%	10.0%	23.1%	11.8%	13.1%
11-16	Count	0	4	4	1	4	13
	% within res.gr.	0.0%	33.3%	40.0%	7.7%	23.5%	21.3%
17-22	Count	5	4	3	5	4	21
	% within res.gr.	55.6%	33.3%	30.0%	38.5%	23.5%	34.4%
23-28	Count	1	1	1	1	3	7
	% within res.gr.	11.1%	8.3%	10.0%	7.7%	17.6%	11.5%
28 +	Count	1	3	1	3	2	10
	% within res.gr.	11.1%	25.0%	10.0%	23.1%	11.8%	16.4%
Total	Count	9	12	10	13	17	61
	% within res.gr.	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

4.10 Accounting Qualification of the Respondents

Table 4.5 shows that 83.3% of the Professional Accountants group has professional qualifications in accountancy. Further the Table shows that 31.1% of the respondents have no training in accounting and 27.9% of the respondents hold accounting qualifications. The Table also shows, 100% of the accounting professors group holds accounting teaching profession.

Table 4.5

Accounting Qualification of the Respondents

Accounting Qualifications		Respondent group					Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
None	Count	5	0	3	0	11	19
	% within res.gr.	55.6%	0.0%	30.0%	0.0%	64.7%	31.1%
Worked/working as a bookkeeper	Count	0	0	0	0	1	1
	% within res.gr.	0.0%	0.0%	0.0%	0.0%	5.9%	1.6%
Attended appropriate course(s) in accounting	Count	1	0	0	0	0	1
	% within res.gr.	11.1%	0.0%	0.0%	0.0%	0.0%	1.6%
Hold accounting qualifications	Count	2	10	3	0	2	17
	% within res.gr.	22.2%	83.3%	30.0%	0.0%	11.8%	27.9%
Served/serving as an accountant executive	Count	1	1	1	0	2	5
	% within res.gr.	11.1%	8.3%	10.0%	0.0	11.8%	8.2%
Served as accounting teaching profession	Count	0	1	3	13	1	18
	% within res.gr.	0.0%	8.3%	30.0%	100.0%	5.9%	29.5%
Total	Count	9	12	10	13	17	61
	% within res.gr.	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

N.B: F.A.= Financial Analyst, P.A.= Professional Accountant, S.B.= Stock Broker, A.P.= Accounting Professor and B.L.O.= Bank Loan Officer.

4.11 Opinion of the Respondents regarding purposes of using Financial Reports

Financial reports are used for a variety of purposes. In the questionnaire, the respondents were asked to identify their purposes in using annual reports and ten possible reasons were presented on this. The results obtained from the respondents are presented in the Table 4.6.

Table 4.6

Opinion of the respondents regarding purposes of using financial reports

			Respondent group					Total
			F.A	P.A.	S.B.	A.P.	B.L.O.	
For reading and academic interest	No	Count	0	0	0	1	0	1
		% within	0%	0%	0%	7.7%	0%	1.6%
	Yes	Count	9	12	10	12	17	60
		% within	100.0%	100.0%	100.0%	92.3%	100.0%	98.4%
	Total	Count	9	12	10	13	17	61
For deciding about holding or selling shares in your private capacity	No	Count	1	1	0	4	5	11
		% within	11.1%	8.3%	0%	30.8%	29.4%	18.0%
	Yes	Count	8	11	10	9	12	50
		% within	88.9%	91.7%	100.0%	69.2%	70.6%	82.0%
	Total	Count	9	12	10	13	17	61
To decide buying, holding or selling shares in your professional capacity	No	Count	3	2	3	8	5	21
		% within	33.3%	16.7%	30.0%	61.5%	29.4%	34.4%
	Yes	Count	6	10	7	5	12	40
		% within	66.7%	83.3%	70.0%	38.5%	70.6%	65.6%
	Total	Count	9	12	10	13	17	61
To grant loan (both short term & long term)	No	Count	2	5	4	9	5	25
		% within	22.2%	41.7%	40.0%	69.2%	29.4%	41.0%
	Yes	Count	7	7	6	4	12	36
		% within	77.8%	58.3%	60.0%	30.8%	70.6%	59.0%
	Total	Count	9	12	10	13	17	61
To negotiate labor/trade	No	Count	1	5	4	9	10	29
		% within	11.1%	41.7%	40.0%	69.2%	58.8%	47.5%
	Yes	Count	8	7	6	4	7	32
		% within	88.9%	58.3%	60.0%	30.8%	41.2%	52.5%
	Total	Count	9	12	10	13	17	61
To grant trade credit	No	Count	2	5	4	9	7	27
		% within	22.2%	41.7%	40.0%	69.2%	41.2%	44.3%
	Yes	Count	7	7	6	4	10	34
		% within	77.8%	58.3%	60.0%	30.8%	58.8%	55.7%
	Total	Count	9	12	10	13	17	61
To make decisions on behalf of clients or employer	No	Count	3	8	5	11	7	34
		% within	33.3%	66.7%	50.0%	84.6%	41.2%	55.7%
	Yes	Count	6	4	5	2	10	27
		% within	66.7%	33.3%	50.0%	15.4%	58.8%	44.3%
	Total	Count	9	12	10	13	17	61
To exercise discretion as a government official	No	Count	4	7	6	11	10	38
		% within	44.4%	58.3%	60.0%	84.6%	58.8%	62.3%
	Yes	Count	5	5	4	2	7	23
		% within	55.6%	41.7%	40.0%	15.4%	41.2%	37.7%
	Total	Count	9	12	10	13	17	61
To advice clients	No	Count	7	10	7	11	9	44
		% within	77.8%	83.3%	70.0%	84.6%	52.9%	72.1%
	Yes	Count	2	2	3	2	8	17
		% within	22.2%	16.7%	30.0%	15.4%	47.1%	27.9%
	Total	Count	9	12	10	13	17	61
Other (please specify)	No	Count	9	12	10	13	17	61
		% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Total	Count	9	12	10	13	17	61
		% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

table 4.6 shows that users differ in terms of their purposes for using annual reports. The majority of the respondents cited “for reading and academic interest” as their purposes of using annual reports while “to advice clients” and the “to exercise discretion as a government official” were least used by the respondents. The Table shows that “For reading and academic interest” (98.4%) and “For deciding about holding or selling shares in your private capacity” (82.0%) rank first and second respectively followed by “To decide buying, holding or selling shares in your professional capacity” (65.6%), “To grant loan (both short term & long term)” (59.0%), “To grant trade credit” (55.7%), “To negotiate labor/trade” (52.5%), “To make decisions on behalf of clients or employer” (44.3%), “To exercise discretion as a government official” (37.7%) and “To advice clients” (27.9%)

4.12 Opinion of the Respondents regarding Adequacy of Disclosure in Annual Reports

The information disclosed by companies in their annual reports should be adequate for the economic decision-making. Without adequate information the present and prospective shareholders or investors must find it difficult to make their investment decisions. Keeping this point in mind, in the questionnaire, the respondents were asked if they thought that annual reports contain adequate information necessary to serve their purposes in using them. The responses are summarized in Table 4.7.

Table 4.7

Opinion of the respondents regarding adequacy of disclosure in annual reports

		Respondent group					Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
Fully adequate	Count	3	3	5	1	7	19
	% within	33.3%	25.0%	50.0%	7.7%	41.2%	31.1%
Partially adequate	Count	5	9	5	10	9	38
	% within	55.6%	75.0%	50.0%	76.9%	52.9%	62.3%
Not adequate	Count	1	0	0	2	1	4
	% within	11.1%	0.0%	0.0%	15.4%	5.9%	6.6%
Total	Count	9	12	10	13	17	61
	% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.7 shows that 6.6% of the respondents thought that the annual reports were 'not adequate', while majority of them thought that they were either partially adequate (62.3%) or fully adequate (31.1%).

In order to test whether there are significant differences between the opinion of the respondents, we conducted χ^2 test using SPSS software. Accordingly we develop a null hypothesis as follows:

H₀1: There is no significant difference between the opinions of the respondents regarding adequacy of disclosure.

The χ^2 value obtained from using SPSS software is 8.734 at .365 significance level. Thus we observe that our null hypothesis is accepted which means that there is no significant difference among the opinion of experts regarding the adequacy of disclosure.

4.13 Opinion of the Respondents regarding Reliability of Information in Annual Reports

Adequacy and reliability are two important qualitative characteristics that should be followed by the banks in their corporate annual reports. The information disclosed by banks in their annual reports should be reliable for the economic decision-making. Without the reliability of information the present and prospective shareholders or investors must find it difficult to make their investment decisions. Keeping this point in mind, in the questionnaire, the respondents were asked if they thought that annual reports contain reliability of information necessary to serve their purposes in using them. The responses are summarized in Table 4.8.

Table 4.8

Opinion of the respondents regarding reliability of information in annual reports

		Respondent group					Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
Fully reliable	Count	2	2	4	0	5	13
	% within	22.2%	16.7%	40.0%	0.0%	29.4%	21.3%
Partially reliable	Count	6	8	6	13	8	41
	% within	66.7%	66.7%	60.0%	100.0%	47.1%	67.2%
Not reliable	Count	1	2	0	0	4	7
	% within	11.1%	16.7%	0.0%	0.0%	23.5%	11.5%
Total	Count	9	12	10	13	17	61
	% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.8 shows that 11.5% of the respondents thought that the annual reports were 'not reliable', while majority of them thought that they were either partially reliable (67.2%) or fully reliable (21.3%).

In order to test whether there are significant differences between the opinions of the respondents, we conducted χ^2 test using SPSS software. Accordingly we develop a null hypothesis as follows:

H₀2: There is no significant difference between the opinions of the respondents regarding reliability of information in annual reports.

The χ^2 value obtained from using SPSS software is 13.317 at .101 significance level. Thus we observe that our null hypothesis is accepted. Which means that there is no significant difference among the opinion of respondents regarding the reliability of information in annual reports.

4.14 Opinion of the Respondents regarding the Comparative Reliability of Accounting Information of Multinational vs. Private Banks

The respondents were asked to respond regarding the comparative reliability of accounting information of Multinational vs. Private banks. The responses are summarized in table 4.9.

Table 4.9

Opinion of the respondents regarding the comparative reliability of accounting information of Multinational vs. Private banks

		Respondent group					Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
No	Count	4	6	5	6	9	30
	% within	44.4%	50.0%	50.0%	46.2%	52.9%	49.2%
Yes	Count	5	6	5	7	8	31
	% within	55.6%	50.0%	50.0%	53.8%	47.1%	50.8%
Total	Count	9	12	10	13	17	61
	% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.9 shows that 50.8% of the respondents thought that the annual reports of multinational banking companies are more reliable than those of domestic banks while 49.2% of them thought that the annual reports of multinational banking companies are not more reliable than those of local private banks.

In order to test whether there are significant differences between the opinions of the respondents, we conducted χ^2 test using SPSS software. Accordingly we develop a null hypothesis as follows:

H₀₃: There is no significant difference between the opinions of the respondents regarding the comparative reliability of accounting information of Multinational vs. Private banks.

By using SPSS software the obtained χ^2 value is .231 at .994 significance level. Thus we observe that our null hypothesis is accepted which means that there is no significant difference among the opinion of respondents regarding the comparative reliability of accounting information of Multinational vs. Private banks.

4.15 Opinion of the Respondents regarding the Consistency of Annual Reports

The respondents were asked to respond regarding the consistency of annual reports. The responses are summarized in Table 4.10.

Table 4.10

Opinion of the respondents regarding the consistency of Annual Reports

		Respondent group					Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
No	Count	4	1	3	2	3	13
	% within	44.4%	8.3%	30.0%	15.4%	17.6%	21.3%
Yes	Count	5	11	7	11	14	48
	% within	55.6%	91.7%	70.0%	84.6%	82.4%	78.7%
Total	Count	9	12	10	13	17	61
	% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.10 shows that 78.7% of the respondents thought that the annual reports are consistent while 21.3% of them thought that the annual reports are not consistent.

In order to test whether there are significant differences between the opinions of the respondents, we conducted χ^2 test. Accordingly we develop a null hypothesis as follows:

H₀ 4: There is no significant difference between the opinions of the respondents regarding the consistency of Annual Reports.

The χ^2 value obtained from using SPSS software is 4.936 at the level of significance .294.

Thus we observe that our null hypothesis is accepted which means that there is no significant difference among the opinion of respondents regarding the consistency of Annual Reports.

4.16 Opinion of the Respondents regarding Comparability of Annual Reports of Sample Banks

The respondents were asked to respond regarding the comparability of annual reports of the sample banks. The responses are summarized in Table 4.11.

Table 4.11

Opinion of the respondents regarding comparability of annual reports of sample banks

		Respondent group					Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
No	Count	1	1	2	1	2	7
	% within	11.1%	8.3%	20.0%	7.7%	11.8%	11.5%
Yes	Count	8	11	8	12	15	54
	% within	88.9%	91.7%	80.0%	92.3%	88.2%	88.5%
Total	Count	9	12	10	13	17	61
	% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.11 shows that 88.5% of the respondents thought that the annual reports are comparable while 11.5% of them thought that the annual reports are not comparable.

In order to test whether there are significant differences between the opinions of the respondents, we conducted χ^2 test. Accordingly we develop a null hypothesis as follows:

H₀₅: There is no significant difference between the opinions of the respondents regarding comparability of annual reports of sample banks.

The χ^2 value obtained from using SPSS software is 1.018 at .907 significance level. Thus we observe that our null hypothesis is accepted which means that there is no significant difference among the opinion of experts regarding comparability of annual reports of sample banks.

4.17 Opinion of the Respondents regarding Readability of Annual Reports

The respondents were asked to respond regarding the readability of annual reports. The responses are summarized in Table 4.12.

Table 4.12

Opinion of the respondents regarding readability of annual reports

		Respondent group					Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
No	Count	3	1	2	3	1	10
	% within	33.3%	8.3%	20.0%	23.1%	5.9%	16.4%
Yes	Count	6	11	8	10	16	51
	% within	66.7%	91.7%	80.0%	76.9%	94.1%	83.6%
Total	Count	9	12	10	13	17	61
	% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.12 shows that 83.6% of the respondents thought that the annual reports are readable while 16.4% of them thought that the annual reports are not readable.

In order to test whether there are significant differences between the opinions of the respondents, we conducted χ^2 test using SPSS software. Accordingly we develop a null hypothesis as follows:

H₀6: There is no significant difference between the opinions of the respondents regarding readability of annual reports.

The χ^2 value obtained is 4.342 at .362 significance level. Thus we observe that our null hypothesis is accepted which means that there is no significant difference among the opinion of experts regarding readability of annual reports.

4.18 Opinion of the Respondents regarding Relevance of Annual Reports

The respondents were asked to respond regarding the relevance of information of annual reports by banking companies. The responses are summarized in Table 4.13.

Table 4.13

Opinion of the respondents regarding relevance of annual reports

		Respondent group					Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
No	Count	3	2	4	6	5	20
	% within	33.3%	16.7%	40.0%	46.2%	29.4%	32.8%
Yes	Count	6	10	6	7	12	41
	% within	66.7%	83.3%	60.0%	53.8%	70.6%	67.2%
Total	Count	9	12	10	13	17	61
	% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.13 shows that 67.2% of the respondents thought that the annual reports of banking companies are relevant and 32.8% of them thought that the annual reports of banks are not relevant.

In order to test whether there are significant differences between the opinions of the respondents, we conducted χ^2 test using SPSS software. Accordingly we develop a null hypothesis as follows:

H₀7: There is no significant difference between the opinions of the respondents regarding relevance of annual reports.

The χ^2 value obtained from using SPSS software is 2.794 at .593 significance level. Thus we observe that our null hypothesis is accepted which means that there is no significant difference among the opinion of experts regarding relevance of annual reports.

4.19 Opinion of the Respondents regarding Compliance of IASs by the Banking Companies

The respondents were asked to respond regarding the compliance of IASs to preparing financial statements by banking companies. The responses are summarized in Table 4.14.

Table 4.14

Opinion of the respondents regarding compliance of IASs by the banking companies							
		Respondent group					Total
		F.A.	P.A.	S.B.	A.P.	B.L.O.	
No	Count	1	0	3	6	1	11
	% within	11.1%	0.00%	30.0%	46.2%	5.9%	18.0%
Yes	Count	8	12	7	7	16	50
	% within	88.9%	100.0%	70.0%	53.8%	94.1%	82.0%
Total	Count	9	12	10	13	17	61
	% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.14 shows that 82.0% of the respondents thought that banking companies follow the IASs in preparing financial statements and 18.0% of them thought that the banking companies do not follow the IASs.

In order to test whether there are significant differences between the opinions of the experts, we conducted χ^2 test using SPSS software. Accordingly, we develop a null hypothesis as follows:

H₀8: There is no significant difference between the opinions of the respondents regarding compliance of IASs by the banking companies.

The χ^2 value obtained from using SPSS software is 12.554 at .014 significance level. Thus we observe that our null hypothesis is rejected which means that there is a significant difference among the opinions of respondent groups regarding compliance of IASs by the banking companies.

4.20 Opinion of the Respondents regarding Valuation of Investments by Sample Banks

The respondents were asked to respond regarding their perceptions about the valuation of investments. The responses are summarized in Table 4.15.

Table 4.15

Opinion of the respondents regarding valuation of investments by sample banks

			Respondent group					Total
			F.A.	P.A.	S.B.	A.P.	B.L.O.	
At cost	No	Count	1	1	0	1	0	3
		% within	20.0%	25.0%	0%	14.3%	0%	9.4%
	Yes	Count	4	3	8	6	8	29
		% within	80.0%	75.0%	100.0%	85.7%	100.0%	90.6%
At market value	Total	Count	5	4	8	7	8	32
		% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	No	Count	2	0	1	1	1	5
		% within	28.6%	0%	25.0%	14.3%	9.1%	13.2%
At the lower of cost or market value	Yes	Count	5	9	3	6	10	33
		% within	71.4%	100.0%	75.0%	85.7%	90.9%	86.8%
	Total	Count	7	9	4	7	11	38
		% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
At the lower of cost or market value	No	Count	3	0	1	0	1	5
		% within	100.0%	0%	33.3%	0%	50.0%	45.5%
	Yes	Count	0	0	2	3	1	6
		% within	0%	0%	66.7%	100.0%	50.0%	54.5%
At the lower of cost or market value	Total	Count	3	0	3	3	2	11
		% within	100.0%	0%	100.0%	100.0%	100.0%	100.0%

Table 4.15 shows that 90.6% of the respondents thought that bank investment should be valued at cost and 9.4% of the respondents thought that the bank investment should not be valued at cost. Further, 86.8% of the respondents thought that bank investment should be valued at market value and 13.2% of the respondents thought that bank investment should not be valued at market value. In addition, 54.5% of the respondents thought that bank investment should be valued at the lower of cost or market value and 45.5% of the respondents thought that bank investment should not be valued at the lower of cost or market value.

4.21 Opinion of the Respondents regarding Separate Disclosure of Deposits

The respondents were asked to respond regarding their perceptions about separate disclosure of deposits. The responses are summarized in Table 4.16.

Table 4.16

Opinion of the respondents regarding separate disclosure of deposits

			Respondent group					Total
			F.A.	P.A.	S.B.	A.P.	B.L.O.	
Deposits from other banks	Yes	Count	9	11	9	11	17	57
		% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total	Count	9	11	9	11	17	57	57
	% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other money market deposits	Yes	Count	7	11	7	11	13	49
		% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total	Count	7	11	7	11	13	49	49
	% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other deposits	No	Count	1	0	0	0	1	2
		% within	20.0%	0%	0%	0%	20.0%	6.7%
	Yes	Count	4	6	7	7	4	28
	% within	80.0%	100.0%	100.0%	100.0%	100.0%	80.0%	93.3%
Total	Count	5	6	7	7	5	30	30
	% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 4.16 shows that 100.0% of the respondents thought that deposits from other banks and other money market deposits should be disclosed separately and in case of other deposits only 6.7% of the respondents thought that it should not be disclosed separately. Here 93.3% of the respondents thought that it should be disclosed separately.

4.22 Opinion of the Respondents regarding Disclosure of Rate of Interest

The respondents were asked to respond regarding their perceptions about the disclosure of rate of interest. The responses are summarized in Table 4.17.

Table 4.17

Opinion of the respondents regarding disclosure of rate of interest

			Respondent group					Total
			F.A.	P.A.	S.B.	A.P.	B.L.O.	
Various Deposits	No	Count	0	0	0	0	1	1
		% within	0%	0%	0%	0%	6.7%	1.9%
	Yes	Count	9	10	9	11	14	53
		% within	100.0%	100.0%	100.0%	100.0%	93.3%	98.1%
	Total	Count	9	10	9	11	15	54
		% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Various loans and advances	No	Count	0	0	0	0	1	1
		% within	0%	0%	0%	0%	7.7%	2.4%
	Yes	Count	7	7	8	7	12	41
		% within	100.0%	100.0%	100.0%	100.0%	92.3%	97.6%
	Total	Count	7	7	8	7	13	42
		% within	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Table 4.17 shows that 98.1% of the respondents thought that it is necessary to disclose the rate of interest on various deposits. Further 97.6% of the respondents thought that it is necessary to disclose the rate of interest on various loans and advances. A very few of respondents expressed their opinion that it is not necessary to disclose the rate of interest on various deposits and various loans and advances.

4.23 Opinion of the Respondents regarding Preparation of Aging Schedule

The bank loan officers were asked to respond regarding the preparation of aging schedule. The responses are summarized in table 4.18.

Table 4.18

		B L O
No	Count	4
	% within BLO	28.6%
Yes	Count	10
	% within BLO	71.4%
Total	Count	14
	% within BLO	100.0%

The Table 4.18 shows that 71.4% of the banker responded positively and 28.6% of the bankers are not in favor of preparing aging schedule of loans and advances.

4.24 Opinion of the Respondents regarding Fixation of Rate of Provisions for Bad Debts

The bank loan officers were asked to respond regarding fixation of the rate of provisions for bad debts. The responses are summarized in Table 4.19.

Table 4.19

		B L O
No	Count % within BLO	1 9.1%
Yes	Count % within BLO	10 90.9%
Total	Count % within BLO	11 100.0%

Table 4.19 shows that 90.9% of the banker opined that they fix the rate of provisions for bad debts.

4.25 Opinion of the Respondents regarding Receiving Qualified Opinion

The bank loan officers were asked to respond regarding receiving qualified opinion or disclaimer. The responses are summarized in Table 4.20.

Table 4.20

		B L O
No	Count % within BLO	8 72.7%
Yes	Count % within BLO	3 27.3%
Total	Count % within BLO	11 100.0%

Table 4.20 shows that 72.7% of the banker responded that they have received qualified opinion.

4.26 Opinion of the Respondents regarding Creating Secret Reserves in Balance-Sheet

The bank loan officers were asked to respond regarding creating secret reserves in balance sheet. The responses are summarized in Table 4.21.

Table 4.21

		B L O
No	Count % within BLO	1 6.7%
Yes	Count % within BLO	14 93.3%
Total	Count % within BLO	15 100.0%

Table 4.21 shows that 93.3% of the banker responded that they create secret reserves in their balance sheet.

4.27 Opinion of the Respondents regarding use of Cost Principle in valuing their Assets

The bank loan officers were asked to respond regarding the use of cost principle in valuing their assets. The responses are summarized in Table 4.22.

Table 4.22

		B L O
No	Count	2
	% within BLO	13.3%
Yes	Count	13
	% within BLO	86.7%
Total	Count	15
	% within BLO	100.0%

Table 4.22 shows that 86.7% of the banker responded that they cost principle in valuing their assets.

4.28 Opinion of the Respondents regarding Disclosure of Information in Annual Reports if Cost Principle is not followed

The bank loan officers were asked to respond regarding disclose of information in annual reports if cost principle is not followed. The responses are summarized in Table 4.23.

Table 4.23

		B L O
No	Count	1
	% within BLO	11.1%
Yes	Count	8
	% within BLO	88.9%
Total	Count	9
	% within BLO	100.0%

Table 4.23 shows that 88.9% of the banker replied that if cost principle is not followed, they disclose that information in the annual reports.

4.29 Opinion of the Respondents regarding Modification of Forms of Balance Sheet and Profit and Loss Account

The information disclosed by banks in their annual reports should be adequate for business decision-making. Without adequate information the present and prospective shareholders or the audience-of-interest must find it difficult to make their investment/financial decisions. Keeping this point in mind, in the questionnaire, the respondents (BLO) were asked to answer whether the personal prescribed forms of balance sheet and profit and loss account of banks should be withdrawn or modified for better reporting or not.

Table 4.24

		Balance Sheet Form should be withdrawn	Balance Sheet Form should be modified	Profit and Loss Account Form should be withdrawn	Profit and Loss Account Form should be modified
No	Count	13	11	10	12
	% within BLO	81.3%	68.8%	71.4%	85.7%
Yes	Count	3	5	4	2
	% within BLO	18.8%	31.3%	28.6%	14.3%
Total	Count	16	16	14	14
	% within BLO	100.0%	100.0%	100.0%	100.0%

Table 4.24 shows that 81.3% of the respondents thought that the B/S form should not be withdrawn. Further, 71.4% of the respondents thought that the P&L account form should not be withdrawn and only 31.3% and 14.3% of the respondents express their opinion for modification of the form of B/S and P&L account respectively.

4.30 Opinion of the Respondents regarding Disclosure of the Name of Default Directors with Amount Due in Notes to Financial Statements

Table 4.25

		BLO
No	Count	7
	% within BLO	77.8%
Yes	Count	2
	% within BLO	22.2%
Total	Count	9
	% within BLO	100.0%

Table 4.25 shows that only 22.2% of the respondents disclose the name of default directors with amount due in notes to financial statements. Most of the respondents (77.8%) don't disclose the name of default directors. In this case the response was 52.9%.

4.31 Opinion of the Respondents regarding Disclosure the Name of Borrower Directors in Notes to Financial Statements

Table 4.26

		BLO
No	Count	7
	% within BLO	87.5%
Yes	Count	1
	% within BLO	12.5%
Total	Count	8
	% within BLO	100.0%

Table 4.26 shows that only 12.5% of the respondents disclose the name of borrower directors in notes to financial statements. Most of the respondents (87.5%) don't disclose the name of borrower directors. In this case the response was 47.1%.

4.32 Opinion of the Respondents regarding Disclosure of the Name of Business Enterprises of the Borrower Directors

Table 4.27

		BLO
No	Count	10
	% within BLO	100.0%
Yes	Count	0
	% within BLO	0.0%
Total	Count	10
	% within BLO	100.0%

Table 4.27 shows that no respondents disclose the name of business enterprises of the borrower directors. 100.0% respondents don't disclose the name of business enterprises of borrower directors. In this case the response was 58.8%.

4.33 Opinion of the Respondents regarding Disclosure of the Name of Relatives of Borrower Directors

Table 4.28

		BLO
No	Count	9
	% within BLO	100.0%
Yes	Count	0
	% within BLO	0.0%
Total	Count	9
	% within BLO	100.0%

Table 4.28 shows that no respondents disclose the name of relatives of the borrower directors. 100.0% respondents don't disclose the name of relatives of borrower directors. In this case the response was 52.9%.

4.34 Opinion of the Respondents regarding Disclosure of the Labor Management Relationship in the Chairman's Statement

Table 4.29

		BLO
No	Count	7
	% within BLO	87.5%
Yes	Count	1
	% within BLO	12.5%
Total	Count	8
	% within BLO	100.0%

Table 4.29 shows that only 12.5% of the respondents disclose the labor management relationship in their Chairman's statement. Most of the respondents (87.5%) don't disclose the matter. In this case the response was 47.1%.

4.35 Major Findings

Though corporate financial disclosure is an on-going concept in the banking sector, some weaknesses of the reports may be identified. The paper revealed the following key findings:

- ❑ Among the ten possible reasons, a majority of the respondents cited reading and academic interest and deciding about holding or selling shares in their private capacity as their purpose of using annual report, while advising clients and exercise discretion as a government official were least used by the respondents..
- ❑ Annual reports contain adequacy and reliability of information necessary to serve their purposes in using them.
- ❑ The scenario of the empirical evidence tells that annual reports of banking companies in Bangladesh are consistent, comparable, readable as well as relevant.
- ❑ It was hypothesized that there are no significant difference among the opinions of the respondents. Opinion survey regarding the qualitative characteristics of financial disclosure (i.e. adequacy, reliability, consistency, readability, relevance) shows that those null hypotheses were substantiated by χ^2 (Chi-square) test. In case of the opinions of respondents regarding compliance of IASs by the banking companies, the study observed that a significant difference among the opinions of respondent groups exists and the null hypothesis was rejected at 0.014 level.
- ❑ No BLO discloses the name of business enterprises of borrower directors. With regard to disclosing the name of borrower directors in notes to financial

statements a significant number of respondents held the opinion that they don't disclose the name of borrower directors. Again most of the BLO take the view that they don't disclose the name of default directors.

- The BLOs were asked to respond regarding their satisfaction with the present reporting requirements and present reporting practices. A majority of the BLO expressed their satisfaction on present reporting requirements and present reporting practices.
- The findings also reported that most of the respondents use cost principle in valuing their assets. Further they reported that if cost principle is not followed, they disclose that information in the annual reports. Majority of respondent thought that annual reports are partially reliable and partially adequate.
- As the whistleblower most of the BLO state that they create secret reserves in their balance sheet.
- The findings cover also the soundness of the corporate financial disclosure of the banks that greater portion of the banker prepare aging schedule of loans and advances, they fix the rate of provisions for bad debts and they have not received qualified opinion or disclaimer.

4.36 Conclusion

The results from the respondents of the questionnaire did not provide similar views. Annual reports, to a large extent, form the basis for action by investors, creditors and potential creditors of the banks. Because of this, shareholders, in particular, must understand in general way the contents of annual report. However, if the contents of annual reports turn out to be very difficult, shortages of readers demand, if not possible, for the readers to understand the performance of the specific organization. The study reveals that the corporate annual report of banking company was the most important source of corporate information to the entire participating user groups. This chapter provides an overview of the results pertinent to the questionnaire survey regarding disclosure policy of the commercial banks. The report offers a summary of the perception of key senior experts of five different fields, pertaining to the disclosure policy of banks' level of compliance with best practice in corporate governance. Banks have already given

much effort in the field of corporate financial disclosure in their annual reports. Corporate financial disclosure should be presented in classified form such as name of default directors with amount due, the name of borrower directors, Aging Schedule, fixation the rate of provisions for bad debts, qualified opinion or disclaimer, creating secret reserves in the balance-sheet, using cost principle in valuing assets, labor management relationship, environmental contribution in separate headings. As it is voluntary requirement, all banks do not disclose corporate social responsibility in monetary terms. So, the transparency of the corporate social responsibility report sometimes makes question mark to the user groups. Accounting should develop a standard to guide the practice of corporate financial disclosure and reporting with which the company can make a compliance report with the corporate governance disclosure. The study of this chapter is based on empirical evidences and several areas of asymmetry have been eliminated which is the limitation of this chapter.

4.37 Contribution on this Chapter: Abstract of the Published Paper

Paper Title:

Bank Loan Officers' perception towards corporate financial disclosure in the Banking Sector of Bangladesh: an empirical analysis

ABSTRACT

Entire financial disclosure i. e., mandatory disclosure and voluntary disclosure are both included in an effective information disclosure system. Mandatory disclosure is the basic demand of the market, and voluntary disclosure is the extended demand of the market, because of its informative complement to the timing, content and depth of disclosure. Some specific disclosure includes the laws governing the formations of banks; the by-laws established by the bank itself, and the structure of the bank. The issue of the corporate financial disclosure is receiving greater attention both the developed and developing countries in the corporate sectors particularly. Nevertheless, this issue still remains largely unfamiliar in the corporate arena of the banking sector of Bangladesh. This study focuses on the practices of some selected disclosure practicing through annual reports by banks operating in Bangladesh. For this paper, an empirical study as well as a questionnaire survey has been conducted. The principal findings include, firstly, most of the banks discloses the name of default directors with amount due, the name of borrower directors, prepares aging schedule, fixes the rate of provisions for bad debts, do not take qualified opinion or disclaimer, creates secret reserves in the balance-sheet and uses cost principle in valuing assets and secondly the respondents are in favor of such disclosures. As it is requirement, the current disclosures are not ample in evaluating the goals of corporate financial disclosure in the banking sector.

Keywords:

Financial Disclosure, Bank Loan Officer (BLO), Bangladesh

Paper published at- *The Research paper, CHRID Bangladesh, Dhaka. June 2009.*

Appendix 6 has provided the copy of the paper

Chapter Five

Survey of Annual Reports and Accounts

5.1 Introduction

This chapter focuses on the measurement and analysis of the extent of disclosure made in the annual reports of the sample banks. Sixty annual reports of twelve sample banks were collected, all for the year 2002-2006. Unweighted disclosure index (UDI) was constructed which had a common base containing 144 items of information, which included under 9 captions. These 144 items included both mandatory and voluntary items of information. The annual reports of the sample banks were analyzed to determine the extent to which they contained the items of information included in the disclosure index. In constructing the UDI, dichotomous scoring for each of the 144 score items was used (disclosure =1, non-disclosure =0). Hence, the maximum possible score attainable by a bank was 144 with a minimum theoretical score of 0. Non-disclosure was scored zero as in the UDI and the values of UDI obtained as a result provide the basic data reported in this chapter. As noted earlier the 60 annual reports were collected from banks, which were listed on the DSE. No unlisted or public sector enterprises or manufacturing companies were included in the sample.

5.2 Sample-wise Disclosure Score

5.2(a) Sample-wise disclosure score and its statistical explanation;

Table 5.1

Table showing the Disclosure Score of the Sample Banks (Sample wise)

Sample Year	1	2	3	4	5	6	7	8	9	10	11	12
2002	58.40	51.41	46.78	48.51	38.59	47.23	57.00	47.64	47.11	48.96	49.24	47.40
2003	61.77	51.31	46.43	48.32	40.84	49.38	55.19	47.50	48.44	50.52	51.08	46.53
2004	61.14	52.52	48.16	49.57	40.39	50.00	55.00	49.48	45.73	51.08	51.60	50.38
2005	60.03	50.44	49.16	49.69	39.25	50.59	59.41	51.63	46.12	51.43	53.33	50.80
2006	60.95	52.43	46.21	50.18	41.05	51.08	55.38	52.92	52.99	50.77	55.45	52.08
Mean	60.46	51.62	47.35	49.25	40.02	49.66	56.40	49.83	48.08	50.55	52.14	49.44
Minimum	58.4001	50.44	46.21	46.21	38.5864	38.5864	47.23	47.5	45.73	45.73	48.96	46.53
Maximum	61.77	52.52	49.16	50.18	41.05	51.08	59.41	52.92	52.99	51.43	55.45	52.08
Std.Dev.	1.307786	0.865835	1.265215	0.802079	1.064052	1.498342	1.863097	2.40497	2.938651	0.95298	2.355706	2.362863
Co.Var.	2.163113	1.677259	2.672162	1.628454	2.658602	3.017445	3.303598	4.825962	6.112257	1.885147	4.51804	4.779446

The data in Table 5.1 offers some insights into differences in overall patterns of disclosure in the sample banks. The Table shows the sample wise disclosure score of the banks during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the 12 sample banks, disclosure is the highest in case of sample # 1 and least in case of sample # 5. Overall disclosure might be judged relatively low in all sample banks as the highest score (sample # 1) represents only 61.77% of the maximum attainable of 144 under the mandatory and voluntary elements of the index. Highest variation in disclosure is revealed by sample # 9 and lowest variation is observed in sample # 4. Sample # 4, 6, 8, 11 shows an increasing trend but others show mixed trend. Highest co-efficient of variation has been observed in case of sample # 9 and the lowest co-efficient of variation has been observed in case of sample # 4.

In order to test our null hypothesis # 1 to see whether there is significant variation in disclosure score among sample banks, we conducted *t* test. Accordingly our null hypothesis is-

H_{01} # = *There is no significant variation in disclosure score among sample banks.*

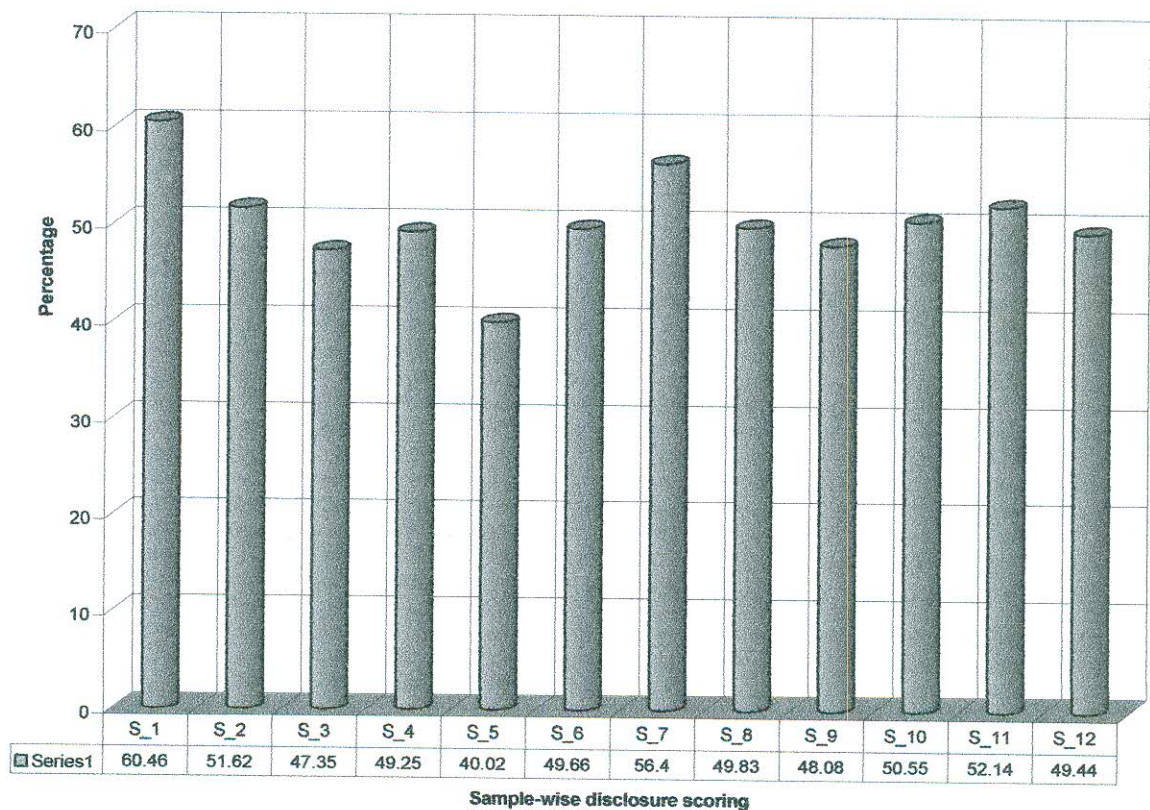
In order to see whether there is significant difference in disclosure score among the sample firms we conducted *t* tests choosing 2 samples at a time i.e., using SPSS Software we conducted Paired Sample *t* test. We have found that there are significant differences

in disclosure score among the sample banks. The results of t test reveals that t values are significant in 44 of the cases out of 66 cases i.e., in 66.67% of the cases. Appendix Table 1 has provided the sample wise individual t values and significance level received by t tests. So, we can comment that our null hypothesis is rejected which means that there is significant difference in disclosure score among sample banks.

5.2(b) Graphical Presentation of Sample-wise Disclosure Score

Graph: 5.1

Graph showing the sample-wise average disclosure score of the sample banks under study



5.3 Year-wise Disclosure Score of the Sample Banks

Table 5.2

Table showing the year wise disclosure score of the sample banks

Year	2002	2003	2004	2005	2006
Sample					
Sample # 1	58.40	61.77	61.14	60.03	60.95
Sample # 2	51.41	51.31	52.52	50.44	52.43
Sample # 3	46.78	46.43	48.16	49.16	46.21
Sample # 4	48.51	48.32	49.57	49.69	50.18
Sample # 5	38.59	40.84	40.39	39.25	41.05
Sample # 6	47.23	49.38	50.00	50.59	51.08
Sample # 7	57.00	55.19	55.00	59.41	55.38
Sample # 8	47.64	47.50	49.48	51.63	52.92
Sample # 9	47.11	48.44	45.73	46.12	52.99
Sample # 10	48.96	50.52	51.08	51.43	50.77
Sample # 11	49.24	51.08	51.60	53.33	55.45
Sample # 12	47.40	46.53	50.38	50.80	52.08
Minimum	38.59	40.84	40.39	39.25	41.05
Maximum	58.40	61.77	61.14	60.03	60.95
Mean	49.02	49.78	50.42	50.99	51.79
Std.Dev.	5.071753	5.120998	4.969319	5.443076	4.899833
Co.Var.	10.34583	10.28816	9.85565	10.67485	9.460749

The Table 5.2 shows the year-wise disclosure score of the sample banks during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the years 2002-2006, highest disclosure score has been observed in the year 2006 and the lowest by 2002.

Overall disclosure might be said relatively low in all years as the highest score (year 2003) represents only 61.77% of the maximum attainable of 144 under the mandatory and voluntary elements of the index. Highest variation in yearly disclosure is revealed by the year 2005 and lowest variation is observed in year 2006. Highest co-efficient of variation has been observed in case of year 2005 and the lowest co-efficient of variation has been observed in case of year 2006.

In order to examine whether there is significant variation in disclosure score over the years, we conducted *t* tests. Accordingly our null hypothesis is-

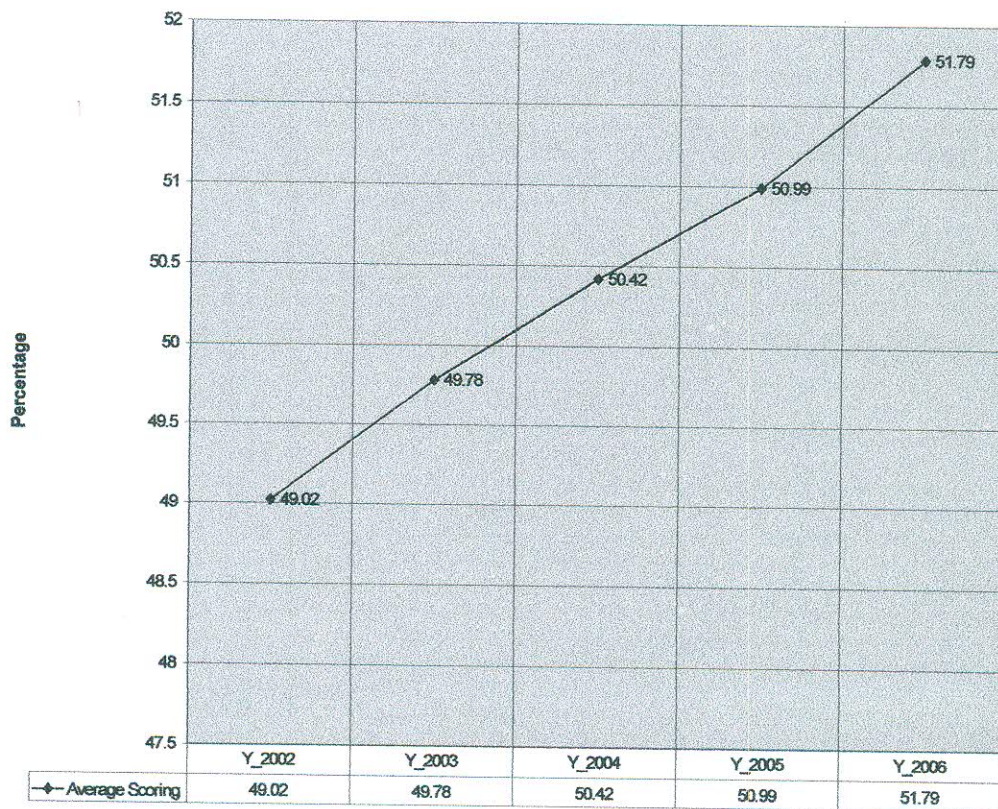
$H_{02} \# =$ There is no significant variation in disclosure score of the sample banks over the years.

Appendix # 2 has provided the year wise individual t values obtained through by t tests. In case of examining year-to-year variations in disclosure score we conducted 10 t tests and found that t values were significant in 40% of the cases. So, we can comment that our null hypothesis is accepted and there is a little variation in year-to-year disclosure score among sample banks.

5.4 Increasing Trend of Year-wise Disclosure Score

Graph: 5.2

Graph showing the increasing trend of year-wise disclosure score of the sample banks



The Graph 5.2 shows the increasing trend of year wise disclosure score of the sample banks during the period under study. If we take the average figure of the UDI as indicator of the years 2002-2006, top average score has been observed in the year 2006 and the least by 2002. Though it is showing the increasing trend, the percentage is very low. Only 2.77% (51.79-49.02) of overall disclosure has increased over the 5 years.

5.5 Comparative Disclosure Levels by the Sample Banks

Table 5.3

Score Range	Average of the sample years	
% of the total number of items in Disclosure index	No. of Banks	% in the sample
Less than 40%	0	0.0%
40%-45%	1	8.33%
45%-50%	6	50%
50%-55%	3	25%
55%-60%	1	8.33%
60%- Over	1	8.33%
Total	12	100.00

Graph: 5.3

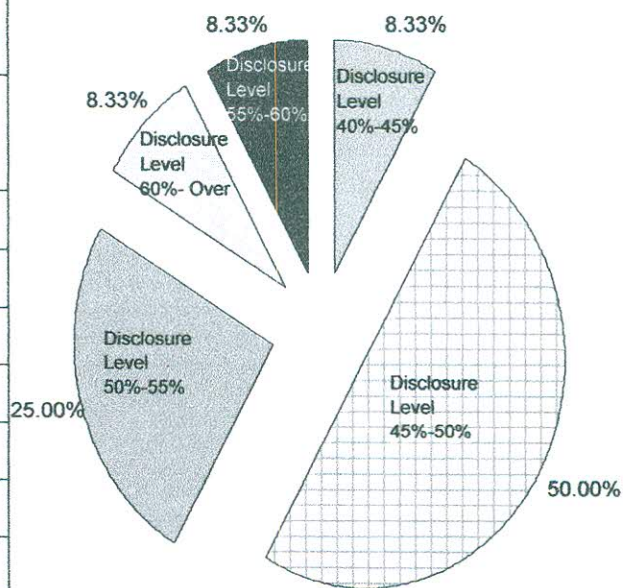


Table 5.3 shows that distribution of disclosure performance by expressing the number of items disclosed as percentages of the total 144 comprising the disclosure score. Column one of the Table distinguishes ranges of disclosure performances in these terms. The Table shows that 50% of the sample i.e., disclosure performance of 6 banks are in between the range of 45%-50% and 25% of the samples (3 banks) are in the range of 50%-55%. Only one bank of the sample reflects disclosure performance above 60%. And there is no bank, below 40% of disclosure performance.

5.6 Distribution of the Index Items into Different Parts of Annual Reports

In the present study, the disclosure index of 144 items of information showing overall disclosure has been segregated into nine major groupings/representations parts of bank annual report. Appendix – 5.3 shows the segregation of the overall disclosure items into these nine parts. Table 5.4 shows the standard distribution of the index items into different parts of annual report.

Table 5.4

Distribution of the Index Items into Different Parts of the Annual Report

Major Parts of Annual Reports	Total	% of the total items of information
Company Profile Items	7	4.86%
Accounting Policy Items	12	8.33%
Balance Sheet Items (Assets)	18	12.50%
Balance Sheet Items (Liabilities)	15	10.42%
Income Statement Items (Cr.)	9	6.25%
Income Statement Items (Dr.)	11	7.64%
Projections and Budgetary Disclosure	18	12.50%
Ratios, Statistics and Other Details	27	18.75%
Measurement and Valuation Method	27	18.75%
Total	144	100.00%

Appendix # 5.4 has provided the overall individual score received by each of the banks in the sample as a percentage of the UDI. Again, the overall disclosure score of each sample has been splitted into nine sub-disclosure indices that measure the extent of disclosure of each section.

5.7 Ranking of Banks in the Sample

The banks are ranked in order of overall disclosure to show their relative positions in terms of the UD score. The highest ranked Banking Company is Arab Bangladesh Bank Limited (AB Bank). The sample banks here ranked on the basis of the value of UDI for each of the banks. Table 5.5 shows the top and least ranked banks by the size of the UDI. This Table has given the insights which banks are disclosing more information under study.

Table 5.5

Ranking on average disclosure score of sample years of the sample banks

Name of the Sample Bank	Average of 2002-2006	Ranks under UDI
AB Bank	60.46	1
South East Bank	56.40	2
Islamic Bank	52.14	3
NCC Bank	51.62	4
UCBL	50.55	5
Mercantile Bank	49.83	6
Al-Arafah Bank	49.66	7
Prime Bank	49.44	8
Uttara Bank	49.25	9
Pubali Bank	48.08	10
NBL	47.35	11
Standard Bank	40.02	12

Table 5.5 presents the highest ranked bank by (1) among twelve sample banks under UDI. The maximum score is obtained by AB Bank followed by South East Bank, Islamic Bank, NCC Bank UCBL and so on. The Table shows that the minimum score is obtained by Standard Bank and ranked Twelfth.

5.8 Average of the Scoring (2002-2006)

Table 5.6

Table showing the average disclosure score of the various sections of UDI for the period under study

Sample No.	CPI	API	BSIA	BSIL	ISIC	ISID	PBD	RSD	MVM
1	7	8	13.7	8.47	5.5	8.45	9	13.6	13.4
2	5	5	12.5	7.59	6.5	7.79	7.2	13.8	9
3	4	5.8	10.78	7.05	5.1	6.9	6	12.4	10.2
4	4	6	10.48	7.46	4.58	8.45	7.2	11.8	11
5	4	4.2	7.28	6.5	4.86	6.83	5	8	11
6	4	6	12.28	8.3	5.34	7.83	8	7.2	12.6
7	7	9	13.46	7.67	4.9	7.83	7.2	13.8	10.4
8	6	5.8	10.18	7.2	4.74	6.69	7	11.4	12.8
9	4	4.6	11.81	7.19	5.34	7.14	8	9.2	12
10	4	5	12.5	7.4	4.89	7.25	8.4	12	11.4
11	6	6	11.14	7.4	5.4	7.39	7	12.2	12.6
12	6	6.2	10.2	7.25	5.5	7.09	7	10	12

Keys of Disclosure		
A	Company Profile Items	CPI = 7
B	Accounting Policy Items	API = 12
C	Balance Sheet Items (Assets)	BSIA = 18
D	Balance Sheet Items (Liabilities)	BSIL = 15
E	Income Statement Items (Cr.)	ISIC = 9
F	Income Statement Items (Dr.)	ISID = 11
G	Projections and Budgetary Disclosure	PBD = 18
H	Ratios, Statistics and Other Details	RSD = 27
I	Measurement and Valuation Method	MVM = 27

Percentage of the score has been shown in appendix no. 5.4.

5.9 Descriptive Statistics of various Sections of Disclosures under UDI

Table 5.7

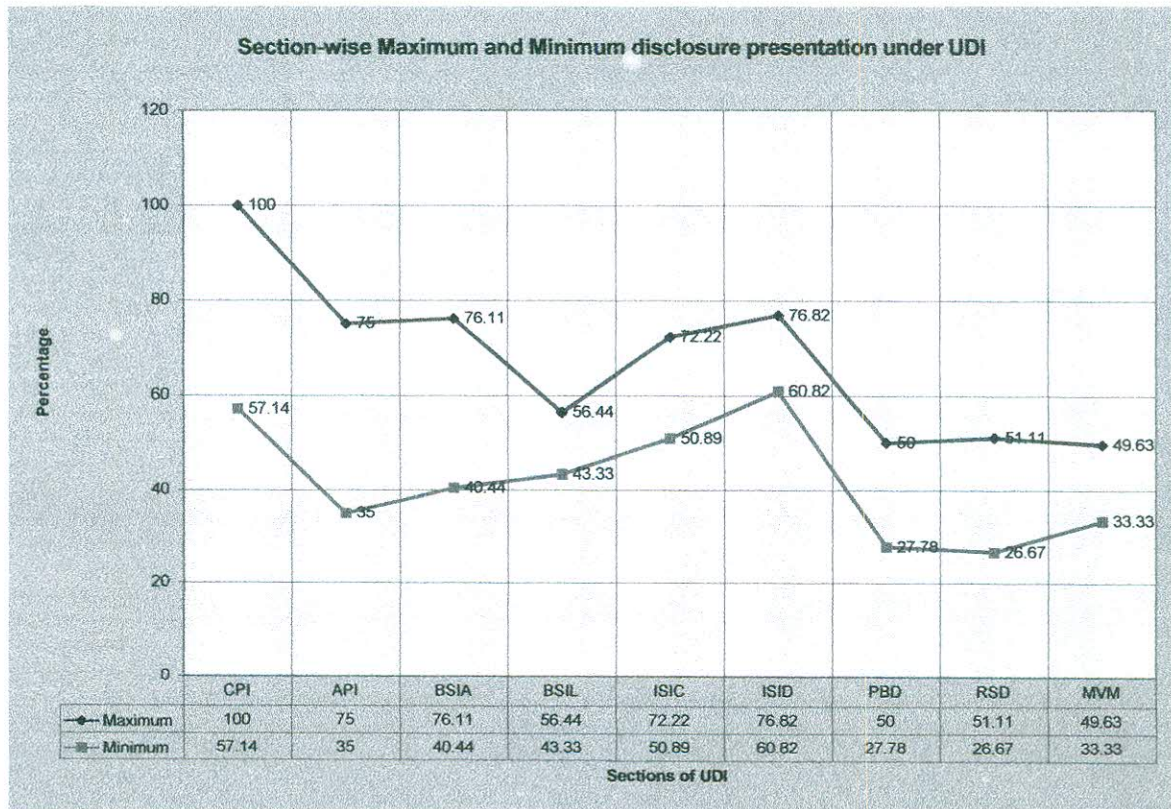
Table showing the descriptive statistics of various sections of disclosures under UDI

Sample No.	CPI	API	BSIA	BSIL	ISIC	ISID	PBD	RSD	MVM
1	100.00	66.67	76.11	56.44	61.11	76.82	50.00	50.37	49.63
2	71.43	41.67	69.44	50.63	72.22	70.82	40.00	51.11	33.33
3	57.14	48.33	59.87	47.00	56.67	62.73	33.33	45.93	37.78
4	57.14	50.00	58.23	49.73	50.89	76.82	40.00	43.70	40.74
5	57.14	35.00	40.44	43.33	54.00	62.09	27.78	29.63	40.74
6	57.14	50.00	68.22	55.33	59.33	71.18	44.44	26.67	46.67
7	100.00	75.00	74.78	51.15	54.44	71.18	40.00	51.11	38.52
8	85.71	48.33	56.56	48.00	52.67	60.82	38.89	42.22	47.41
9	57.14	38.33	65.61	47.91	59.33	64.91	44.44	34.07	44.44
10	57.14	41.67	69.44	49.33	54.33	65.91	46.67	44.44	42.22
11	85.71	50.00	61.89	49.33	60.00	67.18	38.89	45.19	46.67
12	85.71	51.67	56.67	48.33	61.11	64.45	38.89	37.04	44.44
Minimum	57.14	35.00	40.44	43.33	50.89	60.82	27.78	26.67	33.33
Maximum	100.00	75.00	76.11	56.44	72.22	76.82	50.00	51.11	49.63
Average	72.62	49.72	63.11	49.71	58.01	67.91	40.28	41.79	42.72
Std.Dev.	17.716	11.323	9.778	3.519	5.657	5.436	5.881	8.233	4.721
Co. Var.	24.397	22.772	15.495	7.079	9.751	8.006	14.602	19.700	11.052

The Table 5.7 shows the average figure of section-wise disclosure score of the sample banks during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the years 2002-2006, highest disclosure score has been observed in the section 'Company Profile Items (CPI)' and the lowest by 'Projections and Budgetary Disclosure (PBD)'. Further, if we observe the maximum level of the UDI, the highest disclosure score has been shown in the section 'Company Profile Items (CPI)' and the lowest by 'Measurement and Valuation Method (MVM)'. And in case of minimum level of the UDI, the highest disclosure score has been shown in the section 'Income Statement Items-Dr. (ISID)' and the lowest by 'Ratios, Statistics and Other Details (RSD)'. Overall disclosure of API, BSIL, PBD, RSD and MVM sections of UDI might be said relatively low in case of most of the sample under study as the lowest score (RSD) represents 26.67% of the mandatory and voluntary elements of this section of UDI. The CPI reveals highest variation in section-wise disclosure and lowest variation is observed in case of BSIL. Highest co-efficient of variation has been observed in case of CPI and the lowest co-efficient of variation has been observed in case of BSIL.

5.10 Maximum and Minimum Disclosure Presentation

Graph 5.4



The graph 5.3 is showing the section-wise maximum and minimum disclosure score of various sections of UDI for the sample under study. If we take the maximum and minimum disclosure score of the sample banks during the period under study, we observe that the highest maximum disclosure score was shown by the 'Company Profile Items (CPI)' and the lowest maximum disclosure score was shown by the 'Measurement and Valuation Method (MVM)' section. Further, we observe that the Highest minimum disclosure score was shown by the 'Income Statement Items- Debt (ISID)' and the lowest minimum disclosure score was shown by the 'Ratios Statistics and Other Details (RSD)' section.

5.11 Year-wise Disclosure Score Regarding CPI

Table 5.8
Table showing the year-wise disclosure score of sample banks regarding company profile items (CPI).

Years Sample	2002	2003	2004	2005	2006
S_1	100.00	100.00	100.00	100.00	100.00
S_2	71.43	71.43	71.43	71.43	71.43
S_3	57.14	57.14	57.14	57.14	57.14
S_4	57.14	57.14	57.14	57.14	57.14
S_5	57.14	57.14	57.14	57.14	57.14
S_6	57.14	57.14	57.14	57.14	57.14
S_7	100.00	100.00	100.00	100.00	100.00
S_8	85.71	85.71	85.71	85.71	85.71
S_9	57.14	57.14	57.14	57.14	57.14
S_10	57.14	57.14	57.14	57.14	57.14
S_11	85.71	85.71	85.71	85.71	85.71
S_12	85.71	85.71	85.71	85.71	85.71
Mean	72.62	72.62	72.62	72.62	72.62
S.D.	17.72	17.72	17.72	17.72	17.72
COV.	24.40	24.40	24.40	24.40	24.40

The Table 5.8 shows the year-wise disclosure score regarding company profile items (CPI) of the sample banks during the period under study. If we take the means of the UDI as indicator of disclosure levels of the years 2002-2006, the unique disclosure score (72.62%) has been observed in the sample years.

Overall disclosure might be said relatively low in all years as the highest score represents only 100.00% of the maximum attainable of 7 elements under the UDI. The unique variation revealed by the sample years is 17.72 and the same co-efficient of variation has been observed in case of all years.

5.12 Sample-wise Disclosure Score Regarding CPI

Table 5.9

Table 5.9 showing the sample wise disclosure score of sample banks regarding company profile items (CPI).

Sample⇒	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
2002	100	71.43	57.14	57.14	57.14	57.14	100	85.71	57.14	57.14	85.71	85.71
2003	100	71.43	57.14	57.14	57.14	57.14	100	85.71	57.14	57.14	85.71	85.71
2004	100	71.43	57.14	57.14	57.14	57.14	100	85.71	57.14	57.14	85.71	85.71
2005	100	71.43	57.14	57.14	57.14	57.14	100	85.71	57.14	57.14	85.71	85.71
2006	100	71.43	57.14	57.14	57.14	57.14	100	85.71	57.14	57.14	85.71	85.71
Mean	100.0	71.43	57.14	57.14	57.14	57.14	100.0	85.71	57.14	57.14	85.71	85.71
S.D.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
COV.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

The Table 5.9 shows the sample wise disclosure score of the banks regarding CPIs during the period under study. The data in the Table offers some insights into differences in disclosure regarding CPIs in the sample banks. If we take the means of the UDI as indicator of disclosure levels of the 12 sample banks, disclosure is highest in case of sample # 1 and 7 and least in case of sample # 3,4,5,6,9 and 10. Overall disclosure might be judged relatively high in all sample banks as the highest score (sample # 1 and 7) represents 100.00% of the maximum attainable of 7 elements of the index. There are no variation in disclosure of the sample banks since α is zero.

5.13 Year-wise Disclosure Score Regarding API

Table 5.10

Table 5.10 showing the year-wise disclosure score of sample banks regarding accounting policy items (API).

Sample	y_2002	y_2003	y_2004	y_2005	y_2006
S_1	66.67	66.67	66.67	58.33	75.00
S_2	41.67	41.67	41.67	41.67	41.67
S_3	50.00	50.00	50.00	50.00	41.67
S_4	50.00	50.00	50.00	50.00	50.00
S_5	33.33	33.33	33.33	33.33	41.67
S_6	41.67	50.00	50.00	50.00	58.33
S_7	75.00	75.00	75.00	75.00	75.00
S_8	41.67	41.67	50.00	50.00	58.33
S_9	33.33	41.67	33.33	41.67	41.67
S_10	41.67	41.67	41.67	41.67	41.67
S_11	50.00	50.00	50.00	50.00	50.00
S_12	50.00	50.00	50.00	50.00	58.33
Mean	47.92	49.31	49.31	49.31	52.78
S.D.	12.37	11.49	12.03	10.33	12.48
Cov.	25.82	23.31	24.40	20.96	23.64

The Table 5.10 shows the year-wise disclosure score of the sample banks regarding accounting policy items (API) during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the years 2002-2006, highest disclosure score has been observed in the year 2006 and the lowest by 2002.

The disclosure of APIs might be said relatively low in all years as the highest score represents 75.00% of the maximum attainable score. Highest variation in yearly disclosure is revealed by the year 2006 and lowest variation is observed in year 2005. Highest co-efficient of variation has been observed in case of year 2002 and the lowest co-efficient of variation has been observed in case of year 2005.

5.14 Sample-wise Disclosure Score Regarding API

Table 5.11

Table 5.11 showing the sample-wise disclosure score of sample banks regarding accounting policy items (API).

Sample⇒	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
y_2002	66.67	41.67	50.00	50.00	33.33	41.67	75.00	41.67	33.33	41.67	50.00	50.00
y_2003	66.67	41.67	50.00	50.00	33.33	50.00	75.00	41.67	41.67	41.67	50.00	50.00
y_2004	66.67	41.67	50.00	50.00	33.33	50.00	75.00	50.00	33.33	41.67	50.00	50.00
y_2005	58.33	41.67	50.00	50.00	33.33	50.00	75.00	50.00	41.67	41.67	50.00	50.00
y_2006	75.00	41.67	41.67	50.00	41.67	58.33	75.00	58.33	41.67	41.67	50.00	58.33
Mean	66.67	41.67	48.33	50.00	35.00	50.00	75.00	48.33	38.33	41.67	50.00	51.67
S.D.	5.89	0.00	3.73	0.00	3.73	5.89	0.00	6.97	4.57	0.00	0.00	3.73
COV.	8.84	0.00	7.71	0.00	10.66	11.78	0.00	14.42	11.92	0.00	0.00	7.21

The data in Table 5.11 offers some insights into differences in the disclosure regarding API in the sample banks. The Table shows the sample-wise disclosure score of the banks during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the 12 sample banks, disclosure is highest in case of sample # 7 and least in case of sample # 5. Overall disclosure regarding API might be judged relatively low in most of the sample banks as the highest score (sample # 7) represents 75.00% of the maximum attainable score. Sample # 4,6 and 11 are showing 50% disclosure score and sample # 2,3,5,8,9 and 10 showing their disclosure performance as below 50%. Highest variation in disclosure is revealed by sample # 8 and no variation is observed in case of sample # 2,4,7,10 and 11. Sample # 6,8 shows an increasing trend, sample # 2,4,7,10,11 shows same disclosure. Highest co-efficient of variation has been observed in case of sample # 8.

5.15 Year-wise Disclosure Score Regarding BSIA**Table 5.12**

Table 5.12 showing the year wise disclosure score of sample banks regarding
Balance Sheet Items -Assets (BSIA).

Sample	y_2002	y_2003	y_2004	y_2005	y_2006
S_1	68.89	83.33	78.33	75.00	75.00
S_2	69.44	69.44	69.44	69.44	69.44
S_3	57.78	57.78	57.78	63.00	63.00
S_4	57.22	59.06	59.61	58.33	56.94
S_5	36.11	36.11	43.33	43.33	43.33
S_6	69.44	71.11	69.72	69.72	61.11
S_7	78.33	75.00	75.00	76.11	69.44
S_8	43.33	43.33	55.55	69.44	71.11
S_9	69.72	61.11	55.00	67.22	75.00
S_10	63.33	72.22	72.78	69.44	69.44
S_11	50.00	56.11	56.11	72.78	74.44
S_12	43.33	43.33	56.11	69.44	71.11
Mean	58.91	60.66	62.40	66.94	66.61
S.D.	13.22	14.38	10.43	8.86	9.27
COV.	22.45	23.71	16.72	13.23	13.92

The Table 5.12 shows the year-wise disclosure score of the sample banks regarding balance sheet items- assets (BSIA) during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the years 2002-2006, highest disclosure score has been observed in the year 2005 and the lowest by 2002. The disclosure of BSIA's might be said relatively low in all years where the scenario is showing the score below 70.00%. Highest variation in yearly disclosure is revealed by the year 2003 and lowest variation is observed in year 2005. Highest co-efficient of variation has been observed in case of year 2003 and the lowest co-efficient of variation has been observed in case of year 2005.

5.16 Sample-wise Disclosure Score Regarding BSIA

Table 5.13

Table 5.13 showing the sample-wise disclosure score of sample banks regarding Balance Sheet Items -Assets (BSIA).

Sample⇒	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
y_2002	68.89	69.44	57.78	57.22	36.11	69.44	78.33	43.33	69.72	63.33	50.00	43.33
y_2003	83.33	69.44	57.78	59.06	36.11	71.11	75.00	43.33	61.11	72.22	56.11	43.33
y_2004	78.33	69.44	57.78	59.61	43.33	69.72	75.00	55.55	55.00	72.78	56.11	56.11
y_2005	75.00	69.44	63.00	58.33	43.33	69.72	76.11	69.44	67.22	69.44	72.78	69.44
y_2006	75.00	69.44	63.00	56.94	43.33	61.11	69.44	71.11	75.00	69.44	74.44	71.11
Mean	76.11	69.44	59.87	58.23	40.44	68.22	74.78	56.55	65.61	69.44	61.89	56.66
S.D.	5.28	0.00	2.86	1.15	3.95	4.03	3.28	13.50	7.75	3.75	11.00	13.49
COV.	6.94	0.00	4.78	1.97	9.78	5.90	4.38	23.87	11.82	5.40	17.78	23.81

The data in Table 5.13 offers some insights into differences in the disclosure regarding BSIA in the sample banks. The Table shows the sample-wise disclosure score of the banks during the period under study. From the Table, we observe the highest disclosure score in case of sample no. 1 and lowest in case of sample no 5. Overall disclosure regarding BSIA might be judged relatively low in most of the sample banks as the highest score (sample # 1 and 7) represents 78.33% of the maximum attainable of 18 under the elements of the UDI. Highest variation in disclosure is revealed by sample # 8 and no variation is observed in case of sample # 2. Sample # 8,11,12 show a heavy increasing trend, sample # 3,5 show a slight-increasing trend, and sample # 1,4,6,7,9,10 show mixed trend. Highest co-efficient of variation has been observed in case of sample # 8.

5.17 Year-wise Disclosure Score Regarding BSIL**Table 5.14**

Table 5.14 showing the year-wise disclosure score of sample banks regarding
Balance Sheet Items -Liabilities (BSIL).

Sample	y_2002	y_2003	y_2004	y_2005	y_2006
S_1	60.00	55.00	55.00	55.00	57.20
S_2	51.20	51.20	51.20	51.20	48.33
S_3	46.67	43.33	53.33	50.00	41.67
S_4	48.33	48.33	49.00	49.00	54.00
S_5	43.33	43.33	43.33	43.33	43.33
S_6	53.33	53.33	53.33	53.33	63.33
S_7	51.20	51.20	48.33	58.33	46.67
S_8	48.33	48.33	46.67	43.33	53.33
S_9	51.20	48.33	50.00	46.67	43.33
S_10	53.33	50.00	41.67	53.33	48.33
S_11	50.00	50.00	50.00	48.33	48.33
S_12	50.00	41.67	53.33	48.33	48.33
Mean	50.58	48.67	49.60	50.02	49.68
S.D.	4.09	4.10	4.12	4.52	6.30
COV.	8.08	8.41	8.30	9.04	12.67

The Table 5.14 shows the year-wise disclosure score of the sample banks regarding balance sheet items- liabilities (BSIL) during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the years 2002-2006, highest disclosure score has been observed in the year 2002 and the lowest by 2003. The disclosure of BSILs might be said relatively low in all years where the scenario is showing the score below 51.00%. Highest variation in yearly disclosure is revealed by the year 2006 and lowest variation is observed in year 2002. Highest co-efficient of variation has been observed in case of year 2006 and the lowest co-efficient of variation has been observed in case of year 2002.

5.18 Sample-wise Disclosure Score Regarding BSIL

Table 5.15

Table 5.15 showing the sample-wise disclosure score of sample banks regarding Balance Sheet Items -Liabilities (BSIL).

Sample⇒	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
y_2002	60.00	51.20	46.67	48.33	43.33	53.33	51.20	48.33	51.20	53.33	50.00	50.00
y_2003	55.00	51.20	43.33	48.33	43.33	53.33	51.20	48.33	48.33	50.00	50.00	41.67
y_2004	55.00	51.20	53.33	49.00	43.33	53.33	48.33	46.67	50.00	41.67	50.00	53.33
y_2005	55.00	51.20	50.00	49.00	43.33	53.33	58.33	43.33	46.67	53.33	48.33	48.33
y_2006	57.20	48.33	41.67	54.00	43.33	63.33	46.67	53.33	43.33	48.33	48.33	48.33
Mean	56.44	50.63	47.00	49.73	43.33	55.33	51.15	48.00	47.91	49.33	49.33	48.33
S.D.	2.21	1.28	4.77	2.41	0.00	4.47	4.46	3.61	3.08	4.80	0.91	4.25
COV.	3.91	2.54	10.15	4.84	0.00	8.08	8.72	7.53	6.42	9.73	1.85	8.79

The data in Table 5.15 offers some insights into differences in the disclosure regarding BSIL in the sample banks. The Table shows the sample-wise disclosure score of the banks during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the 12 sample banks, disclosure is highest in case of sample # 1 and least in case of sample # 5. Overall disclosure regarding BSIL might be judged relatively low in most of the sample banks as the highest score (sample # 6) represents 63.33% of the maximum attainable of 15 under the elements of the UDI. Highest variation in disclosure is revealed by sample # 10 and no variation is observed in case of sample # 5. Sample # 4 and 6 shows a slightly increasing trend. Highest co-efficient of variation has been observed in case of sample # 3.

5.19 Year-wise Disclosure Score Regarding ISIC**Table 5.16**

Table 5.16 showing the year-wise disclosure score of sample banks regarding
Income Statement Items –Cr. (ISIC).

Year Sample	y_2002	y_2003	y_2004	y_2005	y_2006
S_1	61.11	61.11	61.11	61.11	61.11
S_2	72.22	72.22	72.22	72.22	72.22
S_3	56.67	56.67	56.67	56.67	56.67
S_4	54.44	47.78	54.44	47.78	50.00
S_5	56.67	56.67	54.44	47.78	54.44
S_6	70.00	56.67	56.67	56.67	56.67
S_7	56.67	56.67	56.67	54.44	47.78
S_8	56.67	54.44	47.78	54.44	50.00
S_9	54.44	62.22	66.67	56.67	56.67
S_10	54.44	47.78	58.33	56.67	54.44
S_11	61.11	61.11	61.11	58.33	58.33
S_12	61.11	61.11	61.11	61.11	61.11
Mean	59.63	57.87	58.94	56.99	56.62
S.D.	5.94	6.59	6.26	6.40	6.48
COV.	9.97	11.38	10.62	11.23	11.44

The Table 5.16 highlights the year-wise disclosure score of the sample banks regarding income statement items- Cr. (ISIC) during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the years 2002-2006, highest disclosure score has been observed in the year 2002 and the lowest by 2006. Highest variation in yearly disclosure is revealed by the year 2003 and lowest variation is observed in year 2002. Highest co-efficient of variation has been observed in case of year 2006 and the lowest co-efficient of variation has been observed in case of year 2002.

5.20 Sample-wise Disclosure Score Regarding ISIC

Table 5.17

Table 5.17 showing the sample-wise disclosure score of sample banks regarding
Income Statement Items –Cr. (ISIC).

Sample⇒	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
y_2002	61.11	72.22	56.67	54.44	56.67	70.00	56.67	56.67	54.44	54.44	61.11	61.11
y_2003	61.11	72.22	56.67	47.78	56.67	56.67	56.67	54.44	62.22	47.78	61.11	61.11
y_2004	61.11	72.22	56.67	54.44	54.44	56.67	56.67	47.78	66.67	58.33	61.11	61.11
y_2005	61.11	72.22	56.67	47.78	47.78	56.67	54.44	54.44	56.67	56.67	58.33	61.11
y_2006	61.11	72.22	56.67	50.00	54.44	56.67	47.78	50.00	56.67	54.44	58.33	61.11
Mean	61.11	72.22	56.67	50.89	54.00	59.34	54.45	52.67	59.33	54.33	60.00	61.11
S.D.	0.00	0.00	0.00	3.37	3.65	5.96	3.85	3.65	5.01	4.01	1.52	0.00
COV.	0.00	0.00	0.00	6.62	6.76	10.05	7.07	6.93	8.44	7.39	2.54	0.00

The Table 5.17 shows the sample-wise disclosure score of the banks during the period under study. The data in the present Table offers some insights into differences in the disclosure regarding ISIC in the sample banks. If we take the means of the UDI as indicator of overall disclosure levels of the 12 sample banks, disclosure is highest in case of sample # 2 and least in case of sample # 4. Overall disclosure regarding ISIC might be judged relatively low in most of the sample banks as the highest score (sample # 2) represents 72.22%. Highest variation in disclosure is revealed by sample # 6 and no variation is observed in case of sample # 1,2,3 and 12. No sample shows an increasing trend during the period under study. Highest co-efficient of variation has been observed in case of sample # 6.

5.21 Year-wise Disclosure Score Regarding ISID

Table 5.18

Table 5.18 showing the year-wise disclosure score of sample banks regarding
Income Statement Items –Dr. (ISID).

Year Sample	y_2002	y_2003	y_2004	y_2005	y_2006
S_1	75.00	75.00	75.00	75.00	84.09
S_2	67.27	65.91	72.73	72.73	75.45
S_3	62.72	62.72	62.72	62.72	62.72
S_4	76.82	76.82	76.82	76.82	76.82
S_5	59.09	61.36	63.63	63.18	63.18
S_6	75.00	75.00	67.27	65.91	72.72
S_7	75.00	75.00	67.27	65.91	72.72
S_8	59.09	59.09	63.63	59.09	63.18
S_9	61.36	63.18	68.18	65.91	65.91
S_10	65.91	72.73	72.73	59.09	59.09
S_11	63.18	68.18	65.91	65.91	72.73
S_12	59.09	59.09	72.73	63.18	68.18
Mean	66.63	67.84	69.05	66.29	69.73
S.D.	7.01	6.78	4.79	5.76	7.27
COV.	10.52	9.99	6.93	8.68	10.42

The Table 5.18 shows the year-wise disclosure score regarding Income Statement Items–Dr. (ISID) of the sample banks during the period under study. If we take the means of the UDI as indicator of disclosure levels of the sample years, highest disclosure score has been observed in the year 2006 and the lowest by 2005. Highest variation in yearly disclosure is revealed by the year 2006 and lowest variation is observed in year 2004. Highest co-efficient of variation has been observed in case of year 2002 and the lowest co-efficient of variation has been observed in case of year 2004.

5.22 Sample-wise Disclosure Score Regarding ISID

Table 5.19

Table 5.19 showing the sample-wise disclosure score of sample banks regarding Income Statement Items –Dr. (ISID).

Sample→	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
y_2002	75.00	67.27	62.72	76.82	59.09	75.00	75.00	59.09	61.36	65.91	63.18	59.09
y_2003	75.00	65.91	62.72	76.82	61.36	75.00	75.00	59.09	63.18	72.73	68.18	59.09
y_2004	75.00	72.73	62.72	76.82	63.63	67.27	67.27	63.63	68.18	72.73	65.91	72.73
y_2005	75.00	72.73	62.72	76.82	63.18	65.91	65.91	59.09	65.91	59.09	65.91	63.18
y_2006	84.09	75.45	62.72	76.82	63.18	72.72	72.72	63.18	65.91	59.09	72.73	68.18
Mean	76.82	70.82	62.72	76.82	62.09	71.18	71.18	60.82	64.91	65.91	67.18	64.45
S.D.	4.07	4.04	0.00	0.00	1.89	4.32	4.32	2.37	2.66	6.82	3.57	5.95
COV.	5.29	5.71	0.00	0.00	3.04	6.07	6.07	3.89	4.10	10.35	5.32	9.23

The Table 5.19 delineates the sample-wise disclosure score of the banks during the period under study. The data in the present Table offers some insights into differences in the disclosure regarding ISID in the sample banks. If we take the means of the UDI as indicator of overall disclosure levels of the 12 sample banks, disclosure is highest in case of sample # 1 & 4 (76.82%) and least in case of sample # 8 (60.82). Overall disclosure regarding ISID may be considered satisfactory in most of the sample banks as the highest score (sample # 1) represents 84.09% of the maximum attainable of 11 under the elements of the UDI. Highest variation in disclosure is revealed by sample # 10 and no variation is observed in case of sample # 3 and 4. Most of the sample shows the mix trend. Highest co-efficient of variation has been observed in case of sample # 10.

5.23 Year-wise Disclosure Score Regarding RSD**Table 5.20**

Table 5.20 showing the year-wise disclosure score of sample banks regarding Ratios, Statistics and other Details (RSD).

Year Sample	y_2002	y_2003	y_2004	y_2005	y_2006
S_1	48.19	51.85	51.85	51.85	48.19
S_2	48.19	51.85	55.56	48.19	51.85
S_3	44.44	44.44	48.19	48.19	44.44
S_4	40.74	40.74	44.44	48.19	44.44
S_5	29.63	33.33	25.93	25.93	33.33
S_6	22.22	25.93	25.93	29.63	29.63
S_7	55.56	48.19	51.85	55.56	4.44
S_8	40.74	40.74	40.74	44.44	44.44
S_9	25.93	29.63	29.63	33.33	51.85
S_10	44.44	44.44	44.44	44.44	44.44
S_11	40.74	40.74	40.74	51.85	51.85
S_12	37.04	37.04	37.04	37.04	37.04
Mean	39.82	40.74	41.36	43.22	40.50
S.D.	9.76	8.21	10.09	9.52	13.45
COV.	24.50	20.15	24.40	22.04	33.21

The Table 5.20 shows the year-wise disclosure score of the sample banks regarding Ratios, Statistics and other Details (RSD) during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the years 2002-2006, highest disclosure score has been observed in the year 2005 and the lowest by 2002. Overall disclosure might be said relatively low in all years. Highest variation in yearly disclosure is revealed by the year 2006 and lowest variation is observed in year 2003. Highest co-efficient of variation has been observed in case of year 2006 and the lowest co-efficient of variation has been observed in case of year 2003.

5.24 Sample-wise Disclosure Score Regarding RSD

Table 5.21

Table 5.21 showing the sample-wise disclosure score of sample banks regarding Ratios, Statistics and other Details (RSD).

Sample⇒	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
y_2002	48.19	48.19	44.44	40.74	29.63	22.22	55.56	40.74	25.93	44.44	40.74	37.04
y_2003	51.85	51.85	44.44	40.74	33.33	25.93	48.19	40.74	29.63	44.44	40.74	37.04
y_2004	51.85	55.56	48.19	44.44	25.93	25.93	51.85	40.74	29.63	44.44	40.74	37.04
y_2005	51.85	48.19	48.19	48.19	25.93	29.63	55.56	44.44	33.33	44.44	51.85	37.04
y_2006	48.19	51.85	44.44	44.44	33.33	29.63	44.44	44.44	51.85	44.44	51.85	37.04
Mean	50.39	51.13	45.94	43.71	29.63	26.67	51.12	42.22	34.07	44.44	45.18	37.04
S.D.	2.00	3.08	2.05	3.11	3.70	3.10	4.83	2.03	10.28	0.00	6.09	0.00
COV.	3.98	6.02	4.47	7.12	12.49	11.62	9.44	4.80	30.16	0.00	13.47	0.00

The Table 5.21 shows the sample-wise disclosure score of the banks during the period under study. The data in the present Table offers some insights into differences in the disclosure regarding RSD in the sample banks. If we take the means of the UDI as indicator of overall disclosure levels of the 12 sample banks, disclosure is highest in case of sample # 2 (51.13%) and least in case of sample # 6 (26.67). Overall disclosure regarding RSD might be judged relatively. Highest variation in disclosure is revealed by sample # 9 and no variation is observed in case of sample # 10 and 12. Sample # 1,2,3,4,5,7 are showing mixed trend and sample # 6,8,9,11 shows an increasing trend. Highest co-efficient of variation has been observed in case of sample # 9.

5.25 Year-wise Disclosure Score Regarding PBD**Table 5.22**

Table 5.22 showing the year-wise disclosure score of sample banks regarding Projections and Budgetary Disclosure (PBD).

Sample	y_2002	y_2003	y_2004	y_2005	y_2006
S_1	50.00	50.00	50.00	50.00	50.00
S_2	44.44	38.89	38.89	33.33	44.44
S_3	33.33	33.33	33.33	33.33	33.33
S_4	38.89	38.89	38.89	38.89	44.44
S_5	27.78	27.78	27.78	27.78	27.78
S_6	33.33	38.89	50.00	50.00	50.00
S_7	27.78	33.33	38.89	50.00	50.00
S_8	38.89	38.89	38.89	38.89	38.89
S_9	50.00	50.00	44.44	38.89	38.89
S_10	38.89	44.44	50.00	50.00	50.00
S_11	38.89	38.89	38.89	38.89	38.89
S_12	38.89	38.89	38.89	38.89	38.89
Mean	38.43	39.35	40.74	40.74	42.13
S.D.	7.28	6.47	6.84	7.62	7.28
COV.	18.96	16.44	16.78	18.69	17.29

The Table 5.22 shows the year-wise disclosure score of the sample banks regarding Projections and Budgetary Disclosure (PBD) during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the years 2002-2006, highest disclosure score has been observed in the year 2004 and 2005 and the lowest by 2002. Overall disclosure might be said too low in all years as the highest score represents only 50.00% of the maximum attainable of 18 elements of the index. Highest variation in yearly disclosure is revealed by the year 2005 and lowest variation is observed in year 2003. Highest co-efficient of variation has been observed in case of year 2002 and the lowest co-efficient of variation has been observed in case of year 2003.

5.26 Sample-wise Disclosure Score Regarding PBD**Table 5.23**

Table 5.23 showing the sample-wise disclosure score of sample banks regarding Projections and Budgetary Disclosure (PBD).

Sample→	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
y_2002	50.00	44.44	33.33	38.89	27.78	33.33	27.78	38.89	50.00	38.89	38.89	38.89
y_2003	50.00	38.89	33.33	38.89	27.78	38.89	33.33	38.89	50.00	44.44	38.89	38.89
y_2004	50.00	38.89	33.33	38.89	27.78	50.00	38.89	38.89	44.44	50.00	38.89	38.89
y_2005	50.00	33.33	33.33	38.89	27.78	50.00	50.00	38.89	38.89	50.00	38.89	38.89
y_2006	50.00	44.44	33.33	44.44	27.78	50.00	50.00	38.89	38.89	50.00	38.89	38.89
Mean	50.00	40.00	33.33	40.00	27.78	44.44	40.00	38.89	44.44	46.67	38.89	38.89
S.D.	0.00	4.65	0.00	2.48	0.00	7.86	9.94	0.00	5.56	4.97	0.00	0.00
COV.	0.00	11.62	0.00	6.21	0.00	17.68	24.84	0.00	12.50	10.65	0.00	0.00

The Table 5.23 projects the sample-wise disclosure score of the banks during the period under study. The data in the present Table offers some insights into differences in the disclosure regarding PBD in the sample banks. If we take the means of the UDI as indicator of overall disclosure levels of the 12 sample banks, disclosure is highest in case of sample # 1 and least in case of sample # 5. Overall disclosure might be judged very low in all sample banks as the highest score represents only 50.00% of the maximum attainable score. Highest variation in disclosure is revealed by sample # 7 and no variation is observed in case of sample # 1,3,5,8,11 and 12. Highest co-efficient of variation has been observed in case of sample # 7. Sample # 6 and 10 are showing an increasing trend.

5.27 Year-wise Disclosure Score Regarding MVM

Table 5.24

Table 5.25 showing the year-wise disclosure score of sample banks regarding Measurement and Valuation Method (MVM).

Sample	y_2002	y_2003	y_2004	y_2005	y_2006
S_1	44.44	51.85	51.85	51.85	48.15
S_2	33.33	33.33	33.33	33.33	33.33
S_3	37.04	37.04	37.04	40.74	37.04
S_4	40.74	40.74	40.74	40.74	40.74
S_5	37.04	44.44	44.44	40.74	37.04
S_6	44.44	48.15	48.15	48.15	44.44
S_7	40.74	37.04	33.33	40.74	40.74
S_8	48.15	48.15	48.15	48.15	44.44
S_9	44.44	48.15	40.74	37.04	51.85
S_10	40.74	40.74	40.74	44.44	44.44
S_11	44.44	48.15	51.85	40.74	48.15
S_12	44.44	44.44	44.44	44.44	44.44
Mean	41.67	43.52	42.90	42.59	42.90
S.D.	4.21	5.72	6.41	5.12	5.35
COV.	10.12	13.15	14.94	12.02	12.46

The Table 5.24 shows the year-wise disclosure score of the sample banks regarding Measurement and Valuation Method (MVM) during the period under study. If we take the means of the UDI as indicator of overall disclosure levels of the years 2002-2006, highest disclosure score has been observed in the year 2003 and the lowest by 2002.

Overall disclosure might be said relatively low in all years as the highest score represents only 51.85%. Highest variation in yearly disclosure is revealed by the year 2004 and lowest variation is observed in year 2002. Highest co-efficient of variation has been observed in case of year 2004 and the lowest co-efficient of variation has been observed in case of year 2002.

5.28 Sample-wise Disclosure Score Regarding MVM

Table 5.25

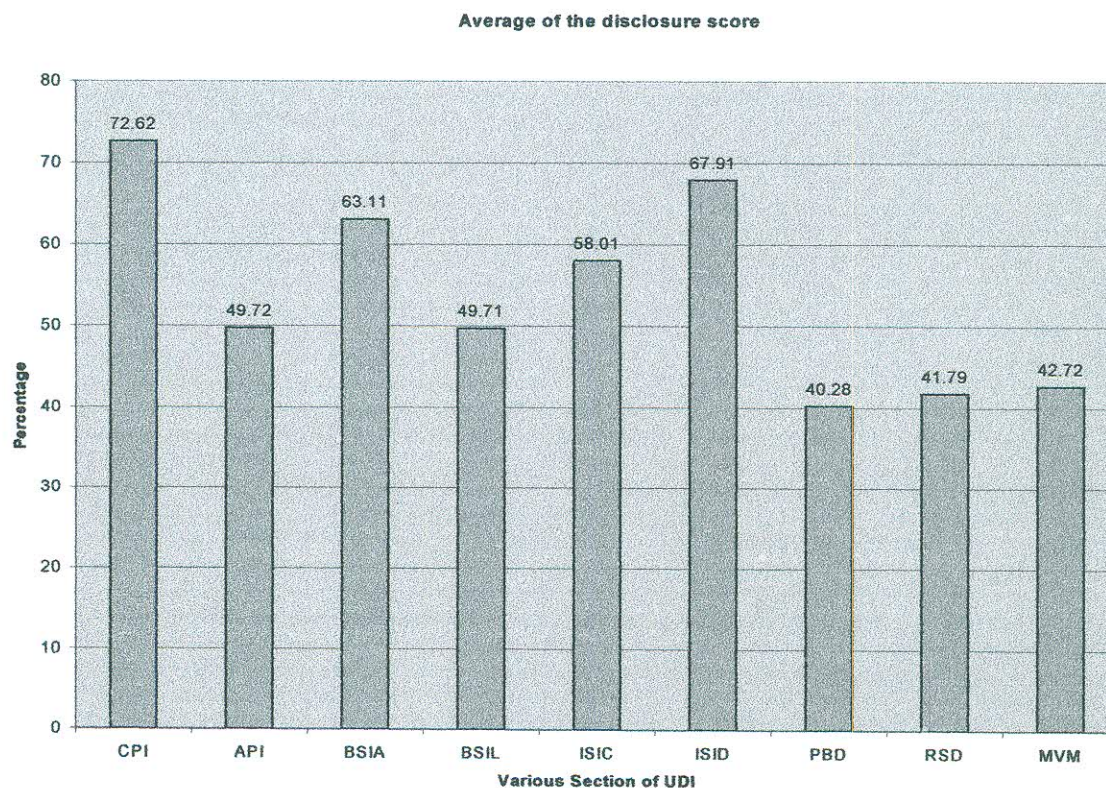
Table 5.25 showing the sample-wise disclosure score of sample banks regarding Measurement and Valuation Method (MVM).

Sample⇒	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
y_2002	44.44	33.33	37.04	40.74	37.04	44.44	40.74	48.15	44.44	40.74	44.44	44.44
y_2003	51.85	33.33	37.04	40.74	44.44	48.15	37.04	48.15	48.15	40.74	48.15	44.44
y_2004	51.85	33.33	37.04	40.74	44.44	48.15	33.33	48.15	40.74	40.74	51.85	44.44
y_2005	51.85	33.33	40.74	40.74	40.74	48.15	40.74	48.15	37.04	44.44	40.74	44.44
y_2006	48.15	33.33	37.04	40.74	37.04	44.44	40.74	44.44	51.85	44.44	48.15	44.44
Mean	49.63	33.33	37.78	40.74	40.74	46.67	38.52	47.41	44.44	42.22	46.67	44.44
S.D.	3.31	0.00	1.65	0.00	3.70	2.03	3.31	1.66	5.85	2.03	4.22	0.00
COV.	6.68	0.00	4.38	0.00	9.08	4.35	8.60	3.50	13.17	4.80	9.05	0.00

The Table 5.25 depicts the sample-wise disclosure score of the banks during the period under study. The data in the present Table offers some insights into differences in the disclosure regarding MVM in the sample banks. If we take the means of the UDI as indicator of overall disclosure levels of the 12 sample banks, disclosure is highest in case of sample # 1 and least in case of sample # 2. Overall disclosure might be judged very low in the contest of measurement and valuation method in all sample banks as the highest score represents only 51.85% of the maximum attainable score. Highest variation in disclosure is revealed by sample # 9 and no variation is observed in case of sample # 2,4 and 12. Highest co-efficient of variation has been observed in case of sample # 9.

5.29 Graphical Presentation of the Extent of Different Sections of Disclosure

Graph 5.5



The graph 5.4 is showing the average disclosure score of various sections of UDI for the sample under study. If we take the average of the disclosure score of the sample banks during the period under study, we observe that highest disclosure score was shown by the 'Company Profile Items (CPI)' and the lowest disclosure score was shown by the 'Projections and Budgetary Disclosure (PBD)' section. If we take 60% of disclosure as indicator of standard level, only 3 sections of UDI have the standard score. So, we can comment that overall disclosure might be judged relatively low.

5.30 Items of Information Universally Disclosed by all the Sample Banks

There are some items of information, which are disclosed by all the banking companies in the sample. The number of such items of information disclosed by the sample companies are represented in Table 5.26 as follows:

Table 5.26

Items disclosed by all sample banks

Company Profile Items (CPI) 1. Name of the Bank 2. Corporate headquarters 3. Bank's audit firm(s) 4. Corresponding figure of preceding period	Income Statements Items-Cr. (ISIC) 18. Details as to interest and similar Income 19. Income from balances with other banks/ financial institutions 20. Information as to- (i) Fees earned as services are provided (iii) Fees charged for servicing a Loan 21. Information as to profit from ordinary activities
Accounting Policy Items (API) 5. Reporting currency	
Balance Sheet Item-Assets (BSIA) 6. Details about quick assets (i) Cash in hand (ii) Balance with Bangladesh Bank (iv) Balance with other banks and financial institutions- In Bangladesh 7. Money at call and short notice 8. Classification of Fixed assets 9. Branch adjustments 10. Non-banking assets 11. Details about loans and cash credit (i) Loans and cash credits (iii) Loans and Advances to Customers (iii) Bad amount	Income Statements Items-Dr. (ISID) 22. Information as to- (i) Salaries, allowances and fees (ii) Stationary, Postage, Stamp etc. and General administrative exp. (iii) Printing and Advertisement expenses (iv) Internet, Telegram, Telephone and Communication expenses 23. Information as to- (i) Legal expenses (ii) Taxes on Income 24. Information as to auditors fees 25. Information as to dividend paid for the period 26. Details as to depreciation of fixed assets 27. Information about amount spent on human resource
Balance Sheet Item-Liabilities (BSIL) 12. Details about shareholders' interest- (i) Issued Capital (ii) Shareholder's equity or paid up capital 13. Information as to Provisions 14. Information as to principal deposits- (i) Current deposits and other accounts (ii) Fixed deposits or Customers' deposits (iii) Savings bank deposits 15. Information about- (i) Balances with the Central Bank (ii) Placements with other Banks 16. Information as to- (i) Bill payable (ii) Trade and other payable (iii) Income tax payable 17. Details as to proposed dividend	Ratios, Statistics and Other Details (RSD) 30. Information about ratios indicating profitability 31. EPS 32. Return On Investment 33. Comparative income statement (at least one year) 34. Comparative balance sheet (at least one year) 36. Information on number of employees
	Measurement and Valuation Method (MVM) 37. Amount of depreciation 38. Disclosure of significant inter-banking transactions 39. Disclosure about related party transactions 40. Disclosure of maturity date of liabilities 41. Disclosure of significant net foreign currency exposure 42. Disclosure about appropriation of retained earnings
	Projections and Budgetary Disclosure (PBD) 28. Information about cash flow statement 29. Information relating property and other assets

5.31 Items not Disclosed by any Sample Banks

There are some items of information, which were not disclosed by any of the banks in the sample. These items of information belong to the category of voluntary disclosure. However the number of such items of information disclosed by the sample banks varied from one bank than another. The items not disclosed by any sample bank are presented in the Table 5.27.

Table 5.27
Items not disclosed by any sample banks

Accounting Policy Items 1. Disclosure of monetary impact of any change in accounting policy 2. Changes in accounting principles 3. Information about compliance with IAS 4. Information about- (i) Nature and amount of Security given (ii) Non-current interest-bearing liabilities (iii) Conversion Feature	Balance Sheet Item (Assets) 15. Market value of Fixed assets 16. Revaluation amount of Fixed Assets 17. Information about security of loan on behalf of Loan taken by directors and officers of the banking company 18. Information as to intangible assets- (i) Goodwill (ii) Other intangible assets (iii) Amortization policy
Income Statements Items (Dr.) 5. Disclosure as to- (i) Extraordinary Items- Loss on expropriation of car engine (ii) Extraordinary Items-Insurance Proceeds from earthquake disaster settlement 6. Information about- (i) Loss from sale of or dealing with non-banking assets (ii) Charitable donations	H. Ratios, Statistics and Other Details Information about ratios indicating solvency- 19. Debt-equity Ratio 20. Debt to Total Capital Ratio 21. Debt to Total Assets Ratio 22. Proprietary Ratio 23. Capital Gearing Ratio 24. Interest Coverage Ratio 25. Dividend Coverage Ratios 26. Total Coverage Ratio 27. Cash Flow Coverage Ratio Information relating to statistics and other details- 28. Extent of dependence on a few customers 29. Forecast of next years earnings
Projections and Budgetary Disclosure 7. Disclosure as to loss on unuseful Items 8. Disclosure as to provision for diminution in the value of investment 9. Information as to proposed capital expenditure in near future 10. Information about labour management relationship 11. Information about number of days in strike by the employers (yearly) 12. Information about pension and retirement plans 13. Information about employees social welfare scheme 14. Information about number of cases filed for recovery of loan	Measurement and Valuation Method 30. Estimated useful life of depreciation and change in estimate (if any) 31. The reason for change in method and rate of depreciation 32. The tax effect for the change 33. The nature and amount of commitments to extent credit that are irrevocable 34. Disclosure of significant concentration of assets and liabilities and off balance sheet items in terms of geographical areas, customer or industry groups or other concentration risks

5.32 Summary and Conclusion

This chapter has reported the results of the bank annual report of the twelve sample banks. Despite their common regulatory roots difference in disclosure patterns can be observed between the sample banking companies. Standard bank appeared to have the lowest levels (40.02%) of disclosure and Arab Bangladesh Bank (AB Bank) appeared to have the highest levels (60.46%) of disclosure. The sample banks here ranked on the basis of the value of unweighted disclosure index (UDI). Table 5.5 shows the top and bottom ranked banks by the size of the UDI. The main reason behind preparing this Table is to verify that this Table has given the insights which banks are disclosing more information in the sample under study. When the whole samples were analyzed, different patterns of the determinants of disclosure were observed among the samples. This chapter also reports the number of items universally disclosed or entirely excluded from disclosures by banks. The above tables, discussion and graphs are sufficient to achieve the objective no. 2 of our study, *“to measure the extent of disclosure of information made by the listed banking companies in Bangladesh”*.

5.33 Contribution on this Chapter: Abstract of the Paper Accepted for Presentation

Paper Title:

Measurement and Analysis of the Extent of Corporate Disclosure: A Study of Banking Sector in Bangladesh

ABSTRACT

Disclosure of annual reports is an important attribute of their usefulness. This paper empirically Measured and analysed the volume of disclosure items in a developing country like Bangladesh. The main objective of this study is to measure the extent of corporate financial reporting made by the listed banking companies in Bangladesh. The objective that is to find out the current state of disclosure of the banking companies in Bangladesh. Using 25% of the population (12 banks) observations over a period of 5 years (2002-2006), the extent of disclosure has been measured using the unweighted disclosure index. In order to see whether there is significant difference in disclosure score among the sample banks we conducted t tests choosing 2 samples at a time i.e., using SPSS Software we conducted Paired Sample t test. The results showed that Arab Bangladesh Bank (AB Bank) appeared to have the highest levels of disclosure and Standard bank appeared to have the lowest levels of disclosure. The study shows the top and bottom ranked banks by the size of the UDI. The main reason behind preparing this part is to verify that this part has given the insights which banks are disclosing more information in the sample under study. This paper also reports the number of items universally disclosed or entirely excluded from disclosures by banks.

Key words:

Disclosure, Bangladesh, Bank, Unweighted Disclosure Index (UDI)

Paper Accepted for Presentation at- *Eurasia Business and Economics Society (EBES 2009) Conference, Kadir Has University, Istanbul, Turkey. Appendix 7* has provided the Acceptance Letter.

Paper Accepted for Presentation at- *16th Annual South Dakota International Business Conference, Northern State University, South Dakota, USA. Appendix 8* has provided the Acceptance Letter.

Paper Accepted for Presentation at- *International Society Management Conference (ISM2010), Indore, INDIA. Appendix 9* has provided the Acceptance Letter.

Chapter Six

Corporate Attributes and the Extent of Disclosure

6.1 Introduction

The destination of this chapter is to examine the association between a number of corporate attributes and the extent of disclosure in corporate annual reports of banking sector of Bangladesh. The corporate attributes considered are size proxied by total assets (TA), gross revenue (GR) and number of branches (NOB), profitability proxied by EPS, ROA, ROI and net profit margin (NPM), credit deposit ratio (CDR), capital adequacy ratio (CAR), debt equity ratio (DER) and shareholder's risk ratio (SRR). The Unweighted Disclosure Index (UDI) has been calculated for each of the banks studied and these have been used as the dependent variables. UDI has been arrived at by aggregating the number of disclosed items in each corporate annual report by using a dichotomous approach where a bank will be awarded '1' for disclosing an item and if not, has been awarded '0', so that the total number of items disclosed in the annual report becomes equal to the total score to be obtained by the bank.

The main aim of this chapter is to examine empirically the likely association between the extent of disclosure and various corporate attributes. In order to identify the determinants of disclosure, regression analysis, multiple linear regression techniques have been used. The analysis and discussion of the previous chapter have already established the fact that the extent of disclosure varies across banks and across various sections of bank annual reports. This chapter has been prepared having in mind the significant corporate attributes that are significantly associated with the level of disclosure.

6.2 Disclosure Studies of some Researchers and Their Results about Relationship

There are researchers who have tried to establish the relationship between a number of corporate attributes and the extent of disclosure in corporate annual report. However, some of the corporate attributes have shown significant relationship with the level of disclosure while other researchers did not find any relationship between them. The following Table 6.1 identifies the corporate attributes used by these researchers and indicates whether relationships have been proved with respect to disclosure in a particular country or countries: -

Table 6.1

Disclosure Studies, independent variables and their results

Research ers	Cou ntry	Independent Variables	Significant Relationship	No Significant Relationship
Hossain (1998)	Bangladesh	1) International link of auditing firms, 2) Total of assets, 3) Net profit margin, 4) ROA, 5) Multi-nationality of companies, 6) Total assets, 7) Assets-in-place, 8) Presence of Debentures in the companies debt, 9) Industry type, 10) Debt to equity ratio	Significant relationship between international link of auditing firms, total of assets, net profit margin, ROA, multi-nationality of companies, total assets, presence of debentures in the companies debt and debt to equity ratio and the extent of disclosure.	No significant association between assets-in-place and industry type and the extent of disclosure.
Inchausti (1997)	Spain	1) Size (as measured by assets), 2) Multiple stock exchange listing, 3) Profitability (ROA and ROE), 4) Leverage (total liability /equity), 5) Audit firm size, 6) Industry, and 7) Dividend pay out	Significant relationship between assets size, multiple stock exchange listing, ROA, Audit firm size and the extent of disclosure	No significant association between ROE, leverage (total liability /equity), industry dividend pay out and the extent of disclosure
Raffournier (1995)	Switzerland	1) Company size (as measured by assets), 2) Leverage, 3) Profitability, 4) Ownership structure, 5) Internationality of the companies, 6) Auditor's size, 7) Percentage of assets (assets-in-place), and 8) Industry type	Significant relationship between assets size, auditor's size, ROA and the extent of disclosure	No significant association between ownership structure, assets-in-place, industry type, leverage and the extent of disclosure

Researc hers	Cou ntry	Independent Variables	Significant Relationship	No Significant Relationship
Wallace and Naser (1995)	Hong Kong	1) Profit margin, 2) Earnings return, 3) Liquidity ratios, 4) Debt-equity ratios (leverage), 5) Firm size (total assets, sales and capitalized market value), 6) Market capitalization, 7) Scope of business operations, and 8) Audit size influence	Significant relationship between profit margin, total assets, scope of business operations size, audit size influence and the extent of disclosure	No significant association between market capitalization, liquidity ratios, ROE and the extent of disclosure
Ahmed and Nicholls (1994)	Bangladesh	1) Total debt, 2) Size (as measured by annual sales and total assets), 3) Multinational company influence, 4) Qualification of the principal accounts officer of the company	Significant relationship between audit firm size and multi-nationality and the extent of disclosure	No significant association between annual sales, asstes size, total debt and the qualification of the principal accounts officer and the extent of disclosure
Cooke (1992)	Japan	1) Size, 2) Stock market listing and 3) Industry type	Significant relationship between size, listing status and industry type and the extent of disclosure	No insignificant variable
Wallace (1987)	Nigeria	1) Firm size measured by sales, 2) Firm size measured by assets, 3) Number of shareholders, 4) Profitability, 5) Liquidity, 6) Industry type, 7) Multi-nationality of the firm and 8) Country of origin of multinationals	Significant relationship between total assets, and multi-nationality and the extent of disclosure	No significant association between liquidity, profitability (rate of return and earnings margin), annual sales, number of shareholders, industry type and origin of multi-nationals and the extent of disclosure
Chow and Wong- Boren (1987)	Mexico	1) Firm size as measured by assets, 2) Financial leverage and 3) Proportion assets-in-place	Significant relationship between firm size and the extent of disclosure	No significant association between leverage and proportion of assets-in-place and the extent of disclosure
Firth (1979)	UK	1) Size of the firm (as measured by sales), 2) Stock market listing and 3) Auditors	Significant relationship between listing status and size of the firm and the extent of disclosure	No significant association between auditors and the extent of disclosure
Belkaoui and Kahl (1978)	Canada	1) Size of the firm (as measured by sales), 2) Profitability, 3) Liquidity, 4) Capitalization ratio and 5) Industry type	Significant relationship between size of the firm, industry type, profitability and capitalization ratio and the extent of disclosure	No significant association between liquidity and the extent of disclosure
Stanga (1976)	USA	1) Industry type and 2) Firm size (as measured by sales)	Significant relationship between industry type and the extent of disclosure	No significant association between sales as measure of size and the extent of disclosure
Buzby (1974)	USA	1) Size (assets) and 2) Listing status	Significant relationship between size of the firm and the extent of disclosure	No significant association between listing status and the extent of disclosure

6.3 Hypotheses for the Study

The goal of this chapter is to examine the association between the extent of information disclosure in published annual reports of and a number of corporate attributes. The anticipated association is examined by the following null hypothesis:

H₀: There is no significant association between a number of corporate attributes [viz., size of the bank {total assets, gross revenue and number of branches}, profitability {EPS, ROA, ROI and net profit margin (NPM)}, credit deposit ratio (CDR), Capital Adequacy Ratio (CAR), Debt Equity Ratio (DER) and Shareholder's Risk ratio] and the extent of disclosure.

The multiple linear regression technique has been used to test the two alternative hypotheses.

6.4 The Dependent Variables, Independent Variables and Hypotheses

The dependent variable used in this study is UDI and the disclosure index has been calculated for each of the banks studied. The independent variables used in this study have taken into the account previous studies undertaken by other researchers. (See Table 6.1). These researchers have tested these variables in respect of both developed and developing countries. The corporate attributes considered are size (proxied TA, GR and NOB), profitability (proxied by EPS, ROA, ROI and NPM), CDR, CAR, DER and SRR.

6.4.(a) Size of the bank

Larger banks may be hypothesized to disclose more information in their annual reports than smaller banks for a variety of reasons. Firstly, large banks have the resources and expertise to produce more information in their annual reports. Secondly, the cost of disseminating and accumulating detailed information may be relatively low for the larger banks than the smaller banks. Thirdly, banks holding a big volume of branches may collect more information to be used for their internal management system than those holding less volume of branches. Fourthly, smaller banks may feel that their information disclosure could endanger their competitive position with respect to other larger banks. As a result, smaller banks may tend to disclose less information than larger banks. Fifthly, larger (big volume of branches) banks tend to go to the stock market for

financing more often than do smaller banks and as a result may disclose more information in their annual reports for their own interest. Finally, Firth (1979) has argued that large firms tend to be in the 'public eye' and attract more interest from government bodies, and thus may disclose more information to enhance their reputation and public image on one hand and to allay public criticism and government intervention in their affairs on the other hand.

There are several studies which have been found a significant association between the size of the company and the extent of disclosure in the corporate annual report in both developed and developing countries (Singhvi and Deai, 1971; Buzby, 1974; Chow and Wong-Boren, 1987; Cooke, 1989; Wallace, 1987; Ahmed and Nicholls, 1994; Wallace and Naser, 1995; Raffournier, 1995; and Inchausti, 1997). However, other researchers like Stanga (1976) and Spero (1979) found that the size of the company did not significantly explain an association with the level of disclosure and its variability.

There are several measures of size available. In this study, assets size and gross revenue will be used as the measures of bank size. The following specific hypotheses have been tested regarding size of the firm.

H_{1(a)}: Banks with greater total assets disclose financial information to a greater extent than do those firms with fewer total assets.

H_{1(b)}: Banks with greater gross revenue disclose financial information to a greater extent than do those banks with average gross revenue.

H_{1(c)}: Banks with large volume of branches disclose financial information to a greater extent than do those banks with less volume.

6.4.(b) Profitability

Banking companies having higher profitability may disclose more information in their corporate annual reports than the banks with lower profitability (or losses) for a number of reasons. If the profitability of a bank is low, management may disclose less information in order to cover up the reasons for losses or lower profits. On the other hand, if profitability is high, management may disclose more detailed information in the corporate annual report in order to experience the comfort of communicating it as it is good news. For profitable banks if the EPS, ROA, ROI or net profit margin (NPM) is

more than the bank average, the management of a bank has an incentive to communicate more information which is favorable to it as the basis of explanations of good news and is likely to disclose more information in their corporate annual reports as a result.

Profitability was used by a number of researchers as an independent variable for fluctuations in disclosure level. Among these researchers Hossain (1998); Inchausti (1997); Raffournier (1995); Wallace and Naser (1995); Wallace (1987) and Singhvi and Desai (1971) found a positive association between profitability and the extent of disclosure whereas Belkaoui and Kahl (1978) found a negative association between the variables.

In the present study, EPS, ROA, ROI and NPM have been used as the measures of profitability. The following specific hypotheses have been tested regarding profitability:

H_{2(a)}: Profitability as measured by EPS does not affect the disclosure score of the sample banks.

H_{2(b)}: Banks with greater ROA disclose financial information to a greater extent than do those banks with lower ROA.

H_{2(c)}: Profitability as measured by ROI does not affect the disclosure score of the sample banks.

H_{2(d)}: Banks with higher net profit margin disclose financial information to a greater extent than do those banks with lower net profit margin ratios.

6.4.(c) Credit Deposit Ratio (CDR)

The disclosure of information made by the banking companies having complex preparing process may be more than that of other companies. Banking company might disclose certain items of information while others may not. Furthermore, it is sometimes customary to expect financial companies to communicate more with the environment than in the case with other manufacturing or business companies. High ratio of credit deposit ensures to bounding involve promises to supply accounting information which is used by the lender to monitor the borrower. Banking companies may raise debt finance in public markets or privately from other financial institutions. Borrowings require bounding and monitoring activity on the part of the corporate borrowing. Bounding may

involve the pledging of security by the borrower or the giving of covenants in debt contracts to offer protection to the lender.

Banking companies having high ratio of credit deposit may disclose more information in their corporate annual reports than the banks with poor ratio of credit deposit. If the credit deposit ratio of a bank is poor, management may disclose less information in order to cover up the reasons for losses or lower profits. On the other hand, if credit deposit ratio is high, management may disclose more detailed information in the corporate annual report in order to experience the comfort of communicating it as it is good news.

Our study is related with financial companies i.e., banking companies. The credit deposit ratio may be taken as a variable for the studies in case of financial companies because all banks disclose credit deposit ratio in their annual reports. As a mandatory ratio item, it is a vital factor for banking companies.

In the present study, the credit deposit ratio has been used as an independent variable to judge the positive or negative association between the credit deposit ratio and the extent of disclosure. The following specific hypothesis has been tested regarding number of shareholders:

H₃: Banks with high credit deposit ratio disclose financial information to a greater extent than do those banks with poor credit deposit ratio.

Or,

H₃: Credit deposit ratio does not affect the disclosure score of the sample banks.

6.4.(d) Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is a measure of a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposures. This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. Risk is the possibility that both expected and unexpected events may have an adverse impact on the bank's capital and earnings. While the expected losses are taken care of through suitable pricing mechanism, the unexpected losses are to be borne by the bank itself with the help of requisite capital, which is reflected in **Capital Adequacy Ratio**.

Capital adequacy ratio evaluates the overall financial strength of an institution based on an integrated framework. The framework evaluates exposure to credit, market and

operational risk, translates that exposure into a tangible measure of loss and then compares this measure of loss to capital at hand. The last step – comparing expected loss to capital at hand – determines the capital adequacy ratio. If we get hit by a market shock or major default will we have sufficient capital to survive? capital adequacy ratio frameworks found a ready audience within the financial services sector mainly because aggressive risk taking behavior in this sector, if not hidden, takes only a few quarters to translate into bottom line and balance sheet impact. In addition financial and credit risk could be measured objectively and can be priced based on trading and market information.

Higher capital adequacy ratios and better risk management systems theoretically speaking should lead to a more stable and balanced banking systems reducing the overall financial institution failure rate. When such failures do occur, the monitoring system would allow regulators to move in and limit impact of capital loss. Lower failure rates and lower claims on the central bank should lead to lower burden of indirect taxes on the financial system, risk management, profitability and tax factors savers and borrowers.

The Capital Adequacy Ratio is the percentage of bank's Capital Funds in relation to the Risk Weighted Assets of the bank. Maintenance of CAR is like aiming at a moving target as the composition of risk-weighted assets gets changed every minute on account of fluctuation in the risk profile of a bank as the business mix across the branches is a dynamic scenario.

The following hypothesis has been tested regarding capital adequacy ratio:

H₅: Capital adequacy ratio does not affect the disclosure score of the sample banks.

Or,

H₅: Banks with higher capital adequacy ratio disclose financial information to a greater extent than do banks with lower capital adequacy ratio.

6.4.(e) Debt Equity Ratio (DER)

Companies with relatively large borrowings can expect to be monitored more closely by financial institutions and may be required to furnish information more frequently than companies having smaller amounts of debts. (Ahmed and Nicholls, 1994). The nature of

the relationship between the level of disclosure and gearing is ambiguous. Companies having more debt in their financial structure, can be argued to disclose more as well as less information in their annual reports. Relatively highly geared companies may disclose more information to suit the needs of lenders and thus bear increased monitoring costs in the form of more public disclosure. In addition, such companies may disclose more information to reassure equity holders in order that they might reduce risk premiums in required rates of return on equity. On the other hand, there is a possibility that the companies with higher debt equity ratios may want to disguise the level of risk and may disclose less information in their corporate annual reports.

The debt equity ratio has been studied empirically by several researchers to assess whether it bears any relationship to disclosure level. Researchers such as Chow and Wong-Boren (1987), Ahmed and Nicholls (1994), Wallace and Naser (1995) and Inchausti (1997) have found no significant association between the debt equity ratio and the extent of disclosure. Belkaoui and Kahl (1978) observed a significant negative relationship between the extent of disclosure and the debt equity ratio.

The following specific hypothesis has been tested regarding the debt-equity ratio:

H₄: Banks with higher debt-equity ratios disclose financial information to a greater extent than do banks with lower debt-equity ratio.

Or,

H₄: Debt equity ratio does not affect the disclosure score of the sample banks.

6.4.(f) Shareholders' Risk Ratio (SRR)

The concept of shareholders' risk ratio is introduced and presented as an integral part of financial statement analysis. Shareholders' risk ratio is useful to understand the relation between the expected return and risk of shareholders' investment alternatives, and the role of analysis in providing risk and return information and to understand the strengths and weaknesses of earnings per common share as a measure of profitability.

Shareholder in a bank cannot disregard and ignore the collective risk appetite of large depositors as bank is a highly leveraged entity. Substitution of equity by debt viz. deposits, visualize low margin of error when it comes to lending and investments

activities, which are the primary avenues to deploy bank funds. Thus, from the point of view of shareholder, shareholders' risk ratio is a debt equity balancing exercise and the regulator views it as a risk minimization effort. Requirement of capital is not just to meet the regulatory stipulations but also to increase the financial robustness. Small amount of capital acts as a limiting factor for enlarging business. The need for ideal capital may increase in the years to come owing to pick up in credit resulting in re-alignment in risk-weighted assets.

Management of financial institutions and their shareholders seek to see real picture of financial results because it is important what risks bearing certain financial results were or will be achieved. Shareholders' risk ratio is also helpful to understand the distinction between short-term liquidity risk and long-term liquidity (solvency) risk.

The topic of shareholders' risk ratio has not been extensively analyzed by researches in the context of banking sector. Treynor (Treynor, 1965), Sharpe (Sharpe, 1966) and Jensen (Jensen, 1968) were among the pioneers of this research field. Shareholders' risk adjustment rules were reviewed and summarized by Reilly and Brown (Reilly et al., 1999), Dowd (Dowd, 1999; Dowd, 2000) and these contributed to the field considerably.

The following hypothesis has been tested regarding shareholder's risk ratio:

H₆: Shareholder's risk ratio does not affect the disclosure score of the sample banks.

Or,

H₆: Banks with higher shareholders' risk ratio disclose financial information to a greater extent than do banks with shareholders' risk ratio.

6.5 Regression Studies of Disclosure Score vs. Bank Size

To test whether disclosure level of sample banks is affected by the size of the bank, we have taken different measures of bank size such as TA, GR and NOB to regress them with disclosure score. Accordingly we have formulated different null hypotheses.

6.5.(a) Regression Studies between Disclosure Score vs. Total Assets (TA)

Table showing the Regression Studies between Disclosure Score vs. Total Assets (TA)

Table 6.2

Year	R ²	F ratios	Significance Level
y 2002	.054	.572	.467
y 2003	.065	.690	.425
y 2004	.031	.323	.582
y 2005	.063	.674	.431
y 2006	.127	1.460	.255

From the regression result we observe that values of R² are small and the significance levels of the regression co-efficient are above .05. So, our null hypothesis is accepted which means that bank size as measured by total assets does not affect the disclosure score.

6.5.(b) Regression Studies between Disclosure Score vs. Gross Revenue (GR)

Table showing the Regression Studies between Disclosure Score vs. Gross Revenue (GR)

Table 6.3

Year	R ²	F ratios	Significance Level
y 2002	.000	.005	.947
y 2003	.001	.013	.911
y 2004	.001	.005	.943
y 2005	.039	.402	.540
y 2006	.055	.579	.464

From the regression result we observe that values of R² are small and the significance levels of the regression co-efficient are above .05. So, our null hypothesis is accepted which means that bank size as measured by gross revenues does not affect the disclosure score.

6.5.(c) Regression Studies between Disclosure Score vs. No. of Branches (NOB)

Table showing the Regression Studies between Disclosure Score vs. No. of Branches

Table 6.4

Year	R ²	F ratios	Significance Level
y_2002	.003	.033	.859
y_2003	.000	.001	.974
y_2004	.037	.381	.551
y_2005	.034	.357	.563
y_2006	.015	.150	.707

From the regression result we observe that values of R² are small and the significance levels of the regression co-efficient are above .05. So, our null hypothesis is accepted which means that bank size as measured by number of branches does not affect the disclosure score.

6.6 Regression Studies of Disclosure Score vs. Profitability

To test whether disclosure level of sample banks is affected by profitability, we have taken different measures of profitability such as EPS, ROA, ROI and NPM to regress them with disclosure score. Accordingly we have formulated different null hypotheses.

6.6.(a) Regression Studies between Disclosure Score vs. Earning per Share (EPS)

Table showing the Regression Studies between Disclosure Score vs. EPS

Table 6.5

Year	R ²	F ratios	Significance Level
y_2002	.003	.030	.866
y_2003	.007	.066	.803
y_2004	.001	.008	.930
y_2005	.001	.009	.928
y_2006	.027	.274	.612

From the regression result we observe that values of R² are small and the significance levels of the regression co-efficient are above .05. So, our null hypothesis is accepted which means that profitability as measured by EPS does not affect the disclosure score.

6.6.(b) Regression Studies between Disclosure Score vs. Return on Assets (ROA)

Table showing the Regression Studies between Disclosure Score vs. ROA

Table 6.6

Year	R ²	F ratios	Significance Level
y 2002	.204	2.561	.141
y 2003	.438	7.798	.019
y 2004	.338	5.096	.048
y 2005	.356	5.533	.040
y 2006	.515	10.600	.011

From the regression result we observe that values of R² are small in case of year 2002, and the significance levels of the regression co-efficient are above .05 for the said year. Further, we observe that values of R² are high in case of year 2003, 2004, 2005 and 2006 and the significance levels of the regression co-efficients are below .05 for those years. So, our null hypothesis is rejected which means that profitability as measured by ROA affects the disclosure score.

6.6.(c) Regression Studies between Disclosure Score vs. ROI

Table showing the Regression Studies between Disclosure Score vs. Return on Investment

Table 6.7

Year	R ²	F ratios	Significance Level
y 2002	.291	4.095	.071
y 2003	.081	.883	.370
y 2004	.050	.529	.484
y 2005	.278	3.854	.078
y 2006	.303	4.351	.064

From the Table 6.7 we observe that values of R² are small and the significance levels of the regression co-efficients are above .05. So, our null hypothesis is accepted which means that profitability as measured by ROI does not affect the disclosure score.

6.6.(d) Regression Studies between Disclosure Score vs. Net Profit Margin (NPM)

Table showing the Regression Studies between Disclosure Score vs. Net Profit Margin (NPM)

Table 6.8

Year	R ²	F ratios	Significance Level
y 2002	.129	1.483	.251
y 2003	.277	3.833	.079
y 2004	.043	.449	.518
y 2005	.130	1.495	.249
y 2006	.077	.832	.383

From the regression result we observe that values of R² are small and the significance levels of the regression co-efficient are above .05. So, our null hypothesis is accepted which means that profitability as measured by NPM does not affect the disclosure score.

6.7 Regression Studies of Disclosure Score vs. Credit Deposit Ratio (CDR)

To test whether disclosure level of sample banks is affected by credit deposit ratio, we have taken the measure such as CDR to regress them with disclosure score. Accordingly we have formulated null hypotheses. Table showing the Regression Studies between Disclosure Score vs. Credit Deposit Ratio (CDR):-

Table 6.9

Year	R ²	F ratios	Significance Level
y 2002	.210	2.654	.134
y 2003	.157	1.867	.202
y 2004	.149	1.745	.216
y 2005	.007	.069	.798
y 2006	.000	.003	.958

From the regression result we observe that values of R² are small and the significance levels of the regression co-efficient are above .05. So, our null hypothesis is accepted which means that credit deposit ratio (CDR) does not affect the disclosure score.

6.8 Regression Studies of Disclosure Score vs. Debt-equity Ratio (DER)

To test whether disclosure level of sample banks is affected by debt equity ratio, we have taken the measure such as DER to regress them with disclosure score. Accordingly we have formulated null hypotheses. Table showing the Regression Studies between Disclosure Score vs. Debt Equity Ratio (DER):-

Table 6.10

Year	R ²	F ratios	Significance Level
y 2002	.017	.174	.686
y 2003	.132	1.514	.247
y 2004	.119	1.345	.273
y 2005	.027	.282	.607
y 2006	.004	.038	.849

From the regression result we observe that values of R² are small and the significance levels of the regression co-efficient are above .05. So, our null hypothesis is accepted which means that debt equity ratio (DER) does not affect the disclosure score.

6.9 Regression Studies of Disclosure Score vs. Capital Adequacy Ratio (CAR)

To test whether disclosure level of sample banks is affected by capital adequacy ratio, we have taken the measure such as CAR to regress them with disclosure score. Accordingly we have formulated null hypotheses. Table 6.11 showing the Regression Studies between Disclosure Score vs. Capital Adequacy Ratio (CAR):-

Table 6.11

Year	R ²	F ratios	Significance Level
y_2002	.013	.129	.727
y_2003	.419	7.204	.023
y_2004	.341	5.169	.046
y_2005	.410	6.947	.025
y_2006	.162	1.939	.194

From the regression result we observe that values of R² are small in case of year 2002 and 2006 and the significance levels of the regression co-efficients are above .05 for the said years. Further, we observe that values of R² are high in case of year 2003, 2004 and 2005 and the significance levels of the regression co-efficients are below .05 for those years. So, our null hypothesis is rejected which means that capital adequacy ratio affects the disclosure score.

6.10 Regression Studies of Disclosure Score vs. Shareholders' Risk Ratio (SRR)

To test whether disclosure level of sample banks is affected by shareholders' risk ratio, we have taken the measure such as SRR to regress them with disclosure score. Accordingly we have formulated null hypotheses. Table showing the Regression Studies between Disclosure Score vs. Shareholders' Risk Ratio (SRR):-

Table 6.12

Year	R ²	F ratios	Significance Level
y_2002	.021	.216	.652
y_2003	.019	.189	.673
y_2004	.006	.056	.817
y_2005	.000	.000	.999
y_2006	.001	.013	.911

From the regression result we observe that values of R² are small and the significance levels of the regression co-efficients are above .05. So, our null hypothesis is accepted which means that shareholder's risk ratio (SRR) does not affect the disclosure score.

6.11 Multiple Regression Models

Multiple linear regression techniques are used to test two alternative versions of each hypothesis. The model is created using UDI as the dependent variable.

$$UDI = \alpha + \beta_1 TA + \beta_2 GR + \beta_3 NOB + \beta_4 EPS + \beta_5 ROA + \beta_6 ROI + \beta_7 NPM + \beta_8 CDR + \beta_9 CAR + \beta_{10} DER + \beta_{11} SRR + \varepsilon$$

Where UDI = total score received by each sample bank under un-weighted disclosure index;

α = the constant, and

ε = the error term.

6.12 Regression Studies of Disclosure Score vs. Multiple Variables

To test whether disclosure level of sample banks is affected by multiple variables, we have taken the measures such as *size of the bank {total assets, gross revenue and number of branches}*, *profitability {EPS, ROA, ROI and NPM}*, *credit deposit ratio (CDR)*, *Capital Adequacy Ratio (CAR)*, *Debt Equity Ratio (DER)* and *Shareholder's Risk Ratio (SRR)* to regress them with disclosure score. Accordingly we have formulated null hypothesis. Table 6.13 showing the Regression Studies between Disclosure Score vs. Multiple Variables:-

Table 6.13

Year	R ²	F ratios	Significance Level
y 2002	1.000	-	-
y 2003	1.000	-	-
y 2004	1.000	-	-
y 2005	1.000	-	-
y 2006	1.000	-	-

From the multiple regression result we observe that values of R² are high and complete 1. And the significance levels of the regression co-efficient are 0. So, our null hypothesis is rejected which means that multiple variables together affect the disclosure score.

6.13 Independent Variables with their Labels and Association in the Regression

The description of the eleven independent variables, their labels and significance levels are presented in the following Table.

Table 6.14

List of independent variables, their labels and significance levels in the regression

Variable Labels	Variables	Significance Levels
TA	Total assets	Significance levels are above .05.
GR	Gross revenue	Significance levels are above .05.
NOB	Number of branch	Significance levels are above .05.
EPS	Earning per share	Significance levels are above .05.
ROA	Return on assets	Significance levels are below .05.
ROI	Return on investment	Significance levels are above .05.
NPM	Net profit margin	Significance levels are above .05.
CDR	Credit deposit ratio	Significance levels are above .05.
CAR	Capital adequacy ratio	Significance levels are below .05.
DER	Debt equity ratio	Significance levels are above .05.
SRR	Shareholder's risk ratio	Significance levels are above .05.

6.14 Correlation Analyses

To examine the correlation between the dependent and independent variables and with the dependent variable, Pearson product moment correlation coefficients (r) were computed. A correlation matrix of all the values of r for the independent variables along with the dependent variable was constructed and is shown in Table 6.15, Table 6.16, Table 6.17, Table 6.18 and Table 6.19 for the years 2002, 2003, 2004, 2005 and 2006 respectively.

6.14.a Correlation Matrix for the year 2002

Table 6.15

		DS	TA	GR	NOB	EPS	ROA	ROI	NPM	CDR	CAR	DER	SRR
DS	Pearson Correlation	1.000											
	Sig. (2-tailed)												
	N	12											
TA	Pearson Correlation	.233	1.000										
	Sig. (2-tailed)	.467											
	N	12	12										
GR	Pearson Correlation	.022	.853**	1.000									
	Sig. (2-tailed)	.947	.000										
	N	12	12	12									
NOB	Pearson Correlation	-.058	.396	.457	1.000								
	Sig. (2-tailed)	.859	.202	.136									
	N	12	12	12	12								
EPS	Pearson Correlation	-.055	.626*	.625*	.297	1.000							
	Sig. (2-tailed)	.866	.029	.030	.349								
	N	12	12	12	12	12							
ROA	Pearson Correlation	-.452	-.317	-.125	-.576	-.145	1.000						
	Sig. (2-tailed)	.141	.315	.700	.050	.653							
	N	12	12	12	12	12	12						
ROI	Pearson Correlation	.539	.324	.382	-.220	.277	-.120	1.000					
	Sig. (2-tailed)	.071	.304	.221	.492	.384	.711						
	N	12	12	12	12	12	12	12					
NPM	Pearson Correlation	-.359	-.276	-.465	-.430	-.297	.492	-.199	1.000				
	Sig. (2-tailed)	.251	.386	.128	.163	.349	.104	.536					
	N	12	12	12	12	12	12	12	12				
CDR	Pearson Correlation	-.458	-.249	.099	-.318	.224	.519	.146	.002	1.000			
	Sig. (2-tailed)	.134	.435	.759	.314	.483	.084	.652	.995				
	N	12	12	12	12	12	12	12	12	12			
CAR	Pearson Correlation	-.113	.097	-.042	-.243	-.182	.464	-.059	.564	-.313	1.000		
	Sig. (2-tailed)	.727	.765	.898	.446	.572	.129	.856	.056	.322			
	N	12	12	12	12	12	12	12	12	12	12		
DER	Pearson Correlation	-.131	-.429	-.404	-.002	-.410	.002	-.507	-.030	.128	-.577*	1.000	
	Sig. (2-tailed)	.686	.164	.192	.996	.186	.995	.092	.926	.691	.049		
	N	12	12	12	12	12	12	12	12	12	12	12	
SRR	Pearson Correlation	-.145	-.176	-.304	-.265	-.144	.278	-.191	.557	.360	-.092	.420	1.000
	Sig. (2-tailed)	.652	.583	.337	.405	.655	.381	.553	.060	.251	.777	.174	
	N	12	12	12	12	12	12	12	12	12	12	12	12

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Table 6.15 suggests that for the year 2002, correlation between the variables of total assets, gross revenue, earning per share, debt equity ratio and capital adequacy ratio may be an issue while collinearity across the other variable is not. Table 6.15 shows a reasonable amount of significant collinearity ($P \leq 0.01$) between the total assets and gross revenue .853. Other significant but relatively weaker coefficients are reported for the correlation between earning per share and total assets .626, and earning per share and gross revenue .625, and debt equity ratio and capital adequacy ratio -.577.

6.14.b Correlation Matrix for the year 2003

Table 6.16

		DS	TA	GR	NOB	EPS	ROA	ROI	NPM	CDR	CAR	DER	SRR
DS	Pearson Correlation	1.000											
	Sig. (2-tailed)												
	N	12											
TA	Pearson Correlation	.254	1.000										
	Sig. (2-tailed)	.425											
	N	12	12										
GR	Pearson Correlation	.036	.876**	1.000									
	Sig. (2-tailed)	.911	.000										
	N	12	12	12									
NOB	Pearson Correlation	-.010	.362	.350	1.000								
	Sig. (2-tailed)	.974	.248	.265									
	N	12	12	12	12								
EPS	Pearson Correlation	-.081	.106	.202	.332	1.000							
	Sig. (2-tailed)	.803	.744	.529	.291								
	N	12	12	12	12	12							
ROA	Pearson Correlation	-.662*	-.342	-.133	-.489	-.120	1.000						
	Sig. (2-tailed)	.019	.276	.679	.107	.710							
	N	12	12	12	12	12	12						
ROI	Pearson Correlation	.285	.124	.248	-.428	-.308	-.069	1.000					
	Sig. (2-tailed)	.370	.700	.437	.165	.330	.831						
	N	12	12	12	12	12	12	12					
NPM	Pearson Correlation	-.526	-.353	-.454	-.462	-.312	.414	-.026	1.000				
	Sig. (2-tailed)	.079	.261	.138	.131	.324	.181	.935					
	N	12	12	12	12	12	12	12	12				
CDR	Pearson Correlation	-.397	.071	.308	-.490	.008	.603*	.194	.263	1.000			
	Sig. (2-tailed)	.202	.826	.331	.106	.981	.038	.546	.408				
	N	12	12	12	12	12	12	12	12	12			
CAR	Pearson Correlation	-.647*	-.233	-.248	-.400	-.360	.597*	.062	.860**	.378	1.000		
	Sig. (2-tailed)	.023	.465	.436	.197	.251	.041	.848	.000	.226			
	N	12	12	12	12	12	12	12	12	12	12		
DER	Pearson Correlation	.363	-.260	-.314	.074	-.196	-.206	-.336	-.286	-.267	-.504	1.000	
	Sig. (2-tailed)	.247	.414	.321	.820	.541	.520	.286	.367	.402	.095		
	N	12	12	12	12	12	12	12	12	12	12	12	
SRR	Pearson Correlation	-.136	-.160	-.295	-.252	-.147	.007	-.069	.385	-.119	.008	.129	1.000
	Sig. (2-tailed)	.673	.620	.351	.430	.649	.982	.832	.217	.713	.980	.688	
	N	12	12	12	12	12	12	12	12	12	12	12	12

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Table 6.16 suggests that for the year 2003, correlation between variables of gross revenue and total assets, disclosure score, credit deposit ratio, return on assets, capital adequacy ratio and net profit margin may be an issue while collinearity across the other variables is not. Table 6.16 shows a large amount of significant collinearity ($P \leq 0.01$) between the total assets and gross revenue .876 and capital adequacy ratio and net profit margin .860. Other significant but relatively weaker coefficients are reported for the correlation between disclosure score and return on assets -.662, disclosure score and capital adequacy ratio -.647, return on assets and credit deposit ratio .603, and return on assets and capital adequacy ratio .597.

6.14.c Correlation Matrix for the year 2004

Table 6.17

		DS	TA	GR	NOB	EPS	ROA	ROI	NPM	CDR	CAR	DER	SRR
DS	Pearson Correlation	1.000											
	Sig. (2-tailed)												
	N	12											
TA	Pearson Correlation	.177	1.000										
	Sig. (2-tailed)	.582											
	N	12	12										
GR	Pearson Correlation	.023	.922**	1.000									
	Sig. (2-tailed)	.943	.000										
	N	12	12	12									
NOB	Pearson Correlation	-.191	.313	.306	1.000								
	Sig. (2-tailed)	.551	.321	.334									
	N	12	12	12	12								
EPS	Pearson Correlation	.028	.699*	.708**	.189	1.000							
	Sig. (2-tailed)	.930	.011	.010	.556								
	N	12	12	12	12	12							
ROA	Pearson Correlation	-.581*	-.363	-.291	-.598*	-.207	1.000						
	Sig. (2-tailed)	.048	.246	.358	.040	.519							
	N	12	12	12	12	12	12						
ROI	Pearson Correlation	.306	.226	.279	-.417	.001	.069	1.000					
	Sig. (2-tailed)	.333	.479	.379	.178	.997	.832						
	N	12	12	12	12	12	12	12					
NPM	Pearson Correlation	-.207	-.190	-.357	-.538	-.240	.572	-.004	1.000				
	Sig. (2-tailed)	.518	.554	.254	.071	.452	.052	.990					
	N	12	12	12	12	12	12	12	12				
CDR	Pearson Correlation	-.385	.223	.307	-.383	.140	.651*	.175	.338	1.000			
	Sig. (2-tailed)	.216	.487	.332	.219	.665	.022	.586	.283				
	N	12	12	12	12	12	12	12	12	12			
CAR	Pearson Correlation	-.584*	-.243	-.283	-.468	-.109	.845**	-.095	.701*	.420	1.000		
	Sig. (2-tailed)	.046	.447	.372	.125	.737	.001	.769	.011	.174			
	N	12	12	12	12	12	12	12	12	12	12		
DER	Pearson Correlation	.344	-.405	-.445	.025	-.564	-.307	-.298	-.080	-.378	-.391	1.000	
	Sig. (2-tailed)	.273	.192	.147	.937	.056	.332	.348	.806	.225	.209		
	N	12	12	12	12	12	12	12	12	12	12	12	
SRR	Pearson Correlation	-.075	-.121	-.253	-.241	-.186	.168	-.065	.341	.282	.106	.179	1.000
	Sig. (2-tailed)	.817	.708	.427	.451	.564	.601	.841	.278	.374	.739	.579	
	N	12	12	12	12	12	12	12	12	12	12	12	12

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Table 6.17 suggests that for the year 2004, correlation between variables of gross revenue, earning per share and total assets, gross revenue and earning per share, disclosure score, number of branch, credit deposit ratio, return on assets, capital adequacy ratio and net profit margin variables may be an issue while collinearity across the other variables are not. Table 6.17 shows a large amount of significant collinearity ($P \leq 0.01$) among some variables (between gross revenue and earning per share .708, between total assets and gross revenue .922, and between capital adequacy ratio and return on assets .845). Other significant but relatively weaker coefficients are reported for the correlation between total assets and earning per share .699, and between disclosure score and return on assets -.581, and between number of branches and return on assets -.598, and between return on assets and credit deposit ratio .651, and between capital adequacy ratio and disclosure score and net profit margin -.584 and .701 respectively.

6.14.d Correlation Matrix for the year 2005

Table 6.18

		DS	TA	GR	NOB	EPS	ROA	ROI	NPM	CDR	CAR	DER	SRR
DS	Pearson Correlation	1.000											
	Sig. (2-tailed)												
	N	12											
TA	Pearson Correlation	.251	1.000										
	Sig. (2-tailed)	.431											
	N	12	12										
GR	Pearson Correlation	.197	.941**	1.000									
	Sig. (2-tailed)	.540	.000										
	N	12	12	12									
NOB	Pearson Correlation	-.186	.338	.342	1.000								
	Sig. (2-tailed)	.563	.282	.276									
	N	12	12	12	12								
EPS	Pearson Correlation	.029	.563	.582*	.302	1.000							
	Sig. (2-tailed)	.928	.056	.047	.340								
	N	12	12	12	12	12							
ROA	Pearson Correlation	-.597*	-.177	-.112	-.391	.196	1.000						
	Sig. (2-tailed)	.040	.581	.730	.209	.542							
	N	12	12	12	12	12	12						
ROI	Pearson Correlation	.450	.274	.351	-.394	-.190	-.162	1.000					
	Sig. (2-tailed)	.142	.389	.263	.205	.554	.615						
	N	12	12	12	12	12	12	12					
NPM	Pearson Correlation	-.361	-.244	-.411	-.448	-.284	.483	-.124	1.000				
	Sig. (2-tailed)	.249	.445	.184	.144	.371	.112	.701					
	N	12	12	12	12	12	12	12	12				
CDR	Pearson Correlation	.083	.104	.117	-.662*	.173	.580*	.169	.248	1.000			
	Sig. (2-tailed)	.798	.748	.717	.019	.591	.048	.600	.437				
	N	12	12	12	12	12	12	12	12	12			
CAR	Pearson Correlation	-.640*	-.300	-.355	-.449	-.095	.656*	-.193	.695*	.173	1.000		
	Sig. (2-tailed)	.025	.343	.258	.143	.770	.021	.547	.012	.591			
	N	12	12	12	12	12	12	12	12	12	12		
DER	Pearson Correlation	.166	-.453	-.420	.105	-.335	-.187	-.288	-.030	-.290	-.135	1.000	
	Sig. (2-tailed)	.607	.139	.174	.744	.288	.561	.364	.927	.360	.676		
	N	12	12	12	12	12	12	12	12	12	12	12	
SRR	Pearson Correlation	.000	-.104	-.254	-.234	-.233	-.019	-.064	.362	.257	.137	.116	1.000
	Sig. (2-tailed)	.999	.748	.426	.463	.466	.953	.844	.248	.421	.672	.721	
	N	12	12	12	12	12	12	12	12	12	12	12	12

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Table 6.18 suggests that for the year 2005, correlation between variables of total assets, earning per share and gross revenue, disclosure score, credit deposit ratio, return on assets, number of branch, net profit margin and capital adequacy ratio may be an issue while collinearity across the other variables are not. Table 6.18 shows a large amount of significant collinearity ($P \leq 0.01$) between the variables of total assets and gross revenue .941. Other significant but relatively weaker coefficients are reported for the correlation between gross revenue and earning per share .582, and between disclosure score and return on assets -.597, between credit deposit ratio and return on assets .580, and between credit deposit ratio and number of branch -.662, and between capital adequacy ratio and disclosure score -.640, between capital adequacy ratio and return on assets .656, between capital adequacy ratio and net profit margin .695.

6.14.e Correlation Matrix for the year 2006

Table 6.19

		DS	TA	GR	NOB	EPS	ROA	ROI	NPM	CDR	CAR	DER	SRR
DS	Pearson Correlation	1.000											
	Sig. (2-tailed)												
	N	12											
TA	Pearson Correlation	.357	1.000										
	Sig. (2-tailed)	.255											
	N	12	12										
GR	Pearson Correlation	.234	.937**	1.000									
	Sig. (2-tailed)	.464	.000										
	N	12	12	12									
NOB	Pearson Correlation	.122	.315	.343	1.000								
	Sig. (2-tailed)	.707	.318	.275									
	N	12	12	12	12								
EPS	Pearson Correlation	.163	.441	.459	.091	1.000							
	Sig. (2-tailed)	.612	.151	.133	.779								
	N	12	12	12	12	12							
ROA	Pearson Correlation	-.717**	-.158	-.028	-.448	.031	1.000						
	Sig. (2-tailed)	.009	.625	.931	.144	.923							
	N	12	12	12	12	12	12						
ROI	Pearson Correlation	.551	.770**	.730**	.141	.116	-.376	1.000					
	Sig. (2-tailed)	.064	.003	.007	.662	.720	.228						
	N	12	12	12	12	12	12	12					
NPM	Pearson Correlation	-.277	-.295	-.511	-.480	-.272	.299	-.238	1.000				
	Sig. (2-tailed)	.383	.352	.090	.114	.392	.346	.457					
	N	12	12	12	12	12	12	12	12				
CDR	Pearson Correlation	-.017	.074	.082	-.614*	.425	.558	-.012	.232	1.000			
	Sig. (2-tailed)	.958	.818	.800	.034	.168	.060	.970	.467				
	N	12	12	12	12	12	12	12	12	12			
CAR	Pearson Correlation	-.403	.053	-.017	-.467	-.471	.440	.167	.609*	.196	1.000		
	Sig. (2-tailed)	.194	.871	.957	.126	.122	.152	.604	.036	.541			
	N	12	12	12	12	12	12	12	12	12	12		
DER	Pearson Correlation	.062	-.483	-.480	.038	-.225	-.196	-.476	.107	-.412	-.323	1.000	
	Sig. (2-tailed)	.849	.111	.114	.907	.482	.541	.118	.741	.184	.306		
	N	12	12	12	12	12	12	12	12	12	12	12	
SRR	Pearson Correlation	-.036	-.094	-.254	-.242	-.228	.076	-.048	.515	.073	.242	.110	1.000
	Sig. (2-tailed)	.911	.771	.426	.449	.476	.814	.883	.087	.823	.448	.733	
	N	12	12	12	12	12	12	12	12	12	12	12	12

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Table 6.19 suggests that for the year 2006, correlation between variables of gross revenue, return on investment and total assets, return on investment and gross revenue, disclosure score and return on assets, and credit deposit ratio, number of branch, capital adequacy ratio and net profit margin variables may be an issue while collinearity across the other variables are not. Table 6.19 shows a large amount of significant collinearity ($P \leq 0.01$) among some variables (between total assets and gross revenue .937, between total asset and return on investment .770, between gross revenue and return on investment .730, and between disclosure score and return on assets -.717). Other significant but relatively weaker coefficients are reported for the correlation between number of branch and credit deposit ratio -.614 and capital adequacy ratio and net profit margin .609.

6.15 Discussion of the Results

The regressions carried out in this paper have some interesting aspects. First, the sample of banks provides a fair representation of the corporate structure of banking sector of Bangladesh. The banks covered by the sample are financial in nature and listed on the Dhaka Stock Exchange. In this study, unweighted disclosure index is found to be significantly positively influenced by return on assets (ROA) and capital adequacy ratio (CAR) at minimum 5% level of significance. The return on investment (ROI) variable is also significant at approximately 8% level in the unweighted index model. In the unweighted index model net profit margin (NPM) variable's significance falls to also 8% at the year 2003. Other variables were insignificant for unweighted model at conventionally acceptable levels. As already mentioned in the previous section the NPM, EPS, ROI and ROA have been used as the measures of profitability. It is found that profitability is a statistically significant determinant of disclosure across the whole sample banks. Bank size is not a statistically significant determinant of disclosure across the whole sample banks. Profitability as measured by ROA, CAR, ROI and NPM affects the UDI, whereas ROA and CAR show 5% level of significance. But profitability as measured by EPS variable does not affect the UDI. CDR, the determinant of disclosure, affects the UDI but it is relatively weaker. Debt equity ratio and shareholder's risk ratio variables do not affect the disclosure score. Table 13 summarizes the results of multiple regression analyses and the influence of a range of corporate attributes on disclosure by the sample banks. The multiple regression results (values of R^2) are the absolute figure suggested a general relationship for the whole sample banks between different independent variables and disclosure score. Table 6.15, Table 6.16, Table 6.17, Table 6.18 and Table 6.19 suggested a general relationship for the whole sample banks between different independent variables and disclosure score.

6.16 Comparison with Other Studies

Wallace (1987) have analyzed the association between the extent of disclosure and several corporate attributes such as size, profitability, liquidity, type of management, parent country, and type of business. He constructed a disclosure index by including the statutory and voluntary disclosure items. He developed two disclosure index models: one being a 'statutory disclosure index' and the other using an 'overall disclosure index'. Wallace (1987) have found that among these variables, only transnational enterprises and assets were two variables, which were positively significant with the extent of disclosure at the 5% level. The rest of the variables were insignificant at a 5% level. The R^2 was very small; only 0.087, showing that only 9% of the variability in the overall disclosure index can be explained by the impact of transnational enterprises and assets variables. In the present study, R^2 for the sample banks were approximately similar like Wallace's study for the Nigerian sample companies. Among the independent variables we have found that only return on assets (ROA) and capital adequacy ratio (CAR) were positively significant with the extent of disclosure at the 5% level and the rest of the variables are insignificant at 5% level.

Ahmed and Nicholls (1994) have examined a sample of Bangladeshi companies and have analyzed the relationship between the extent of disclosure and a number of corporate attributes such as total debt, size (as measured by annual sales and total assets), multinational company influence, qualification of principal accounts officer of the company and the size of the audit firm. They used an unweighted disclosure index and the items of information were mandatory by Companies Act, 1994 and SEC Ordinance, 1987. They have found that there is significant relationship between extent of disclosure and the multinational company influence and audit firm size variables. The disclosure index of the present study indicates consistency with Ahmed and Nicholls regarding two variables at a significant level of 5% for the sample banks.

The core basis of comparison between the present study and the study of Ahmed and Nicholls could be the extent of disclosure but the studies do not use the same disclosure index. In preparing their disclosure index, Ahmed and Nicholls included only those items of information, which were mandatory in nature. Whereas this study included not only the mandatory items of information but also many voluntary and social responsibility

items of information including some information required by International Accounting Standards adopted in Bangladesh (BAS). So, it is not a surprise that under the disclosure index constructed by Ahmed and Nicholls, companies receive higher scores than the scores obtained by the sample banks in this study.

Hossain (1998) examined the association between a number of corporate attributes and levels of disclosure in corporate annual reports of listed non-financial companies in three developing countries, Bangladesh, India and Pakistan. The major contrast between the present study and the study of Hossain is that the present study considers financial companies (banking companies) while Hossain restricted his study within non-financial companies. The underlying variables tested were international link of auditing firms, total of sales, net profit margin, rate of return on total assets, multinationality of companies, total assets, assets-in-place, presence of debenture in the companies debt, industry type and debt to equity ratio. His evidence indicates that international link of auditing firms, total of sales, net profit margin, rate of return of total assets, multinationality of companies, total assets, presence of debenture in the companies debt and debt to equity ratio significantly affected the level of disclosure while other two corporate attributes were not influencing factor at 5% level. The profitability as measured by ROA variable and capital adequacy ratio variable has shown significant influence on the disclosure levels while other variables showed no significant positive influence with the levels of disclosure.

6.17 Summary and Conclusion

This chapter has reported the results of multiple linear regressions to test the association between a number of corporate attributes and the extent of disclosure in corporate annual reports of banking sector in Bangladesh. The extent of disclosure was measured using the un-weighted disclosure index. The results have showed that disclosure levels are associated with some company characteristics. Only two variables, which were found to be significant in determining disclosure levels, are return on assets and capital adequacy ratio. The return on investment showed significant influence but relatively weaker. The other variables were found to be insignificant in explaining disclosure. Number of branch (NOB) is a new variable in relation to banking company disclosure index studies. In addition, this is the first study on disclosure data of banking companies to examine a credit deposit ratio (CDR) variable.

This study considers the annual reports for five years. Further research can be undertaken to measure the extent of disclosure more longitudinally to determine whether quality of disclosure has improved over time. This study does not consider non-listed or manufacturing companies. Further research can be undertaken taking into consideration both groups of companies (financial and non-financial/manufacturing). This study concentrates on a particular industry type. Further research can be undertaken based on multi industry type. (e.g., the banking company, the insurance company and the specialized financial institutions). The number of disclosure items was limited to 144 items. The results may be different if the numbers of items were increased or another set of disclosure items were examined, for example, distinctions made between mandatory items and other bases of disclosure. The sample includes 12 banks out of 49 banks operating in Bangladesh. The size of the sample (25% of the population) is reasonable. However, further research can be undertaken with a larger sample (50% of the population). This might be useful with respect to the stability of the regression equation. This study did not cover social responsibility disclosures directly, since it is not a developed area of financial reporting practices in the context of developing countries. The information regarding ownership structure of the banks was not available for all the samples under study. This variable could be a potentially important explanatory variable in relation to developing countries where majority of the ownership of many banks is closely held often by families.

6.18 Contribution on this Chapter: Abstract of the Paper Accepted for Publication

Paper Title:

Corporate Attributes and Extent of Disclosure: A Study of Banking Companies of Bangladesh

ABSTRACT

Disclosure of annual reports is an important attribute of their usefulness. This paper empirically examined the relationship between the disclosure score and selected corporate attributes in a developing country like Bangladesh. The main aim of this study is to examine empirically the likely association between the extent of disclosure and various corporate attributes. In order to identify the determinants of disclosure, regression analysis, multiple linear regression techniques have been used. Using 25% of the population (12 banks) observations over a period of 5 years (2002-2006), the extent of disclosure has been measured using the unweighted disclosure index. The results showed that disclosure levels are associated with some company characteristics. Only two variables that were found to be significant in determining disclosure levels are return on assets and capital adequacy ratio.

Key words:

Disclosure, Bangladesh, Bank, Corporate Attributes

Paper Accepted for Publication at- *The Bangladesh Accountant*, ICAB, Dhaka, Bangladesh. **Appendix 10** has provided the Acceptance Letter.

6.19 Contribution on this Chapter: Abstract of the Paper Accepted for Presentation

Paper Title:

Corporate Attributes and Extent of Disclosure: A Study of Banking Companies of Bangladesh

ABSTRACT

Disclosure of annual reports is an important attribute of their usefulness. This paper empirically examined the relationship between the disclosure score and selected corporate attributes in a developing country like Bangladesh. The main aim of this study is to examine empirically the likely association between the extent of disclosure and various corporate attributes. In order to identify the determinants of disclosure, regression analysis, multiple linear regression techniques have been used. Using 25% of the population (12 banks) observations over a period of 5 years (2002-2006), the extent of disclosure has been measured using the unweighted disclosure index. The results showed that disclosure levels are associated with some company characteristics. Only two variables that were found to be significant in determining disclosure levels are return on assets and capital adequacy ratio.

Key words:

Disclosure, Bangladesh, Bank, Corporate Attributes

Paper Accepted for Presentation at- *4th International Conference on Accounting and Management Information Systems (AMIS 2009), Academy of Economic Studies, Bucharest, Romania. **Appendix 11** has provided the Acceptance Letter.*

Paper Accepted for Presentation at- *6th AFE Conference, Samos Island, Greece. **Appendix 12** has provided the Acceptance Letter.*

Paper Accepted for Presentation at- *International Symposium on Finance and Accounting (ISFA 2009), Kuala Lumpur, Malaysia. **Appendix 13** has provided the Acceptance Letter.*

Paper Accepted for Presentation at- *International Management Accounting Conference, UKM, Kuala Lumpur, Malaysia. **Appendix 14** has provided the Acceptance Letter.*

Chapter Seven

Timeliness in Corporate Reporting and the Extent of Disclosure

7.1 Introduction

Stock Exchanges in different countries have certain requirements for listed companies to publish their annual audited accounts within a specified period after the end of their accounting period. In developed countries, the filing requirements for listed companies vary from 90 days (in the USA and New Zealand), four months in the case of Australian listed companies and six months (in the UK) after the balance sheet date (Davis and Whittred, 1980; and Dayer and McHugh, 1975). In developing countries, Bahraini listed companies for example, are required to publish their annual reports within 165 days from the financial year-end (Abdullah, 1996), while in the case of India and Bangladesh the maximum time limit to prepare corporate annual reports or financial statements for presentation at the annual general meeting in six months and nine months respectively from the accounting year end (Hossain, 1998).

The objectives of this chapter are two-fold. First, to measure the extent of audit lag, AGM lag and total lag of the sample banks under study. Second, to establish the impact of disclosure score on timeliness. There is a paucity of research about the timeliness of published audited accounts of companies in developing countries in general and a particular shortage of developing country studies of audit delay (Hossain, 1998). There is no study, which specifically examined the relationship between the extent of disclosure and the timeliness in corporate reporting in the banking sector in Bangladesh. The analysis in this chapter involves developing a regression model to explain the level of delay of the sample banks under study.

7.2 The Nature of Timeliness

The usefulness of published corporate reports depends on their accuracy and their timeliness. Timeliness was first identified by the American Accounting Association (AAA, 1954 and 1957) as one of the qualitative attributes of usefulness in accounting information. Subsequently, the Accounting Principle Board (APB) in the USA, the Institute of Chartered Accountants of England and Wales (ICAEW) followed the AAA path recognizing timeliness as one of the most important characteristics of financial statements. Timeliness requires that information should be made available to financial statement users as rapidly as possible (Carslaw and Kaplan, 1991) and it is a necessary

condition to be satisfied if financial statements are to be useful (Davies and Whittred, 1980; p. 48-49).

There is evidence that there is a relationship between security prices and the timeliness disclosure (Givoy and Palmon, 1982 and Chambers and Penman, 1984).

It has been argued that the shorter the time between the end of the accounting year and publication date of accounting reports (Abdulla, 1996).

Legal or other accounting regulations may not permit publication of financial reports unless they have been certified by an external auditor. Even in the absence of such restrictions, managers of reporting firms may be unwilling to publish financial reports without audit certification due to agency cost considerations. Thus, publication of annual reports by companies may be delayed by the need that accounts be audited. Time lag in financial report publication and audit delay are intertwined and frequently used interchangeably in the financial reporting literature. As a result, in many cases timeliness have actually dealt with audit delays. The length of the audit lag has been regarded as the *'single most important determinant of the timeliness of the earning announcements'* (Givoy and Palmon; 1982, p.419). Audit delay is generally defined in these studies as the length of time from a company's financial year-end to the date of the auditor's report.

Timeliness has long been recognized as one of the qualitative attributes of general purpose financial reports (AICPA, 1973; APB, 1970; FASB, 1979). Empirical research on timeliness of financial reporting provides evidence that the degree of timeliness of information release has information content and affects firm value (Chambers & Penman, 1984; Givoly & Palmon, 1982; Schwartz & Soo, 1996). Recognizing the theoretical and practical importance of timely release of financial information, regulatory agencies around the world have set statutory maximum time limits within which public companies are required to issue audited financial statements to shareholders and other external users and file them with concerned regulatory bodies (for a summary of maximum allowable reporting lags in different countries, see Alford et al. 1993, pp 188-190). Most organized stock exchanges have similar or more stringent reporting and filing requirements. In emerging economies, the provision of timely information in corporate report assumes more importance since other non-financial statement sources such as media releases,

news conferences and financial analysts forecasts are not well developed and the regulatory bodies are not as effective as in Western developed countries (Wallace, 1993).

7.3 Timely Financial Reporting- Bangladesh Perspective

Time lag in financial report publication and audit delay are intertwined and used interchangeably in financial reporting literature. As a result, in most cases timeliness have actually dealt with audit delays. The long audit delay normally leads to an even longer publication delay as companies in Bangladesh are reluctant in calling the annual general meetings (AGM) of shareholders in years with poor financial performance and/or low or no dividend announcement prospects. Although the Companies Act, 1994 requires all companies, listed and unlisted, to furnish their annual accounts before the AGM within nine months of expiry of their respective financial years, a significant portion of these companies do not comply with this requirement. Many companies do not submit their annual accounts with the Registrar of Joint Stock Companies for several years. Some companies are found to take up to seven years to present audited financial statements before the AGM of shareholders (Karim, Ahmed & Islam, 2006). The usefulness of the information disclosed in company annual reports (CARs) will decline as the time lag increases, and it has been argued by Abdulla (1996) that the longer the period between year end and publication of the annual report, the higher the chances that the information will be leaked to some interested investors.

Five major developments, directly or indirectly relevant to corporate financial reporting, took place in Bangladesh between 1993 and 1997 (Karim, Ahmed & Islam, 2006). First, a Securities and Exchange Commission (SEC) was established with effect from 3 May 1993 under the SEC Act of 1993. The SEC Act, in its preamble, states that the SEC was established 'for the purpose of protection of interest of investors in securities, for the development of (securities) markets and for matters connected therewith or incidental thereto' (GOB 1993). One of the functions of the Commission, as specified by the SEC Act, 1993 is to call for information from issuers of securities. Although the SEC Act, 1993 does not directly deal with the issue of timeliness of financial reporting, it empowers the Commission to issue new rules or amend existing rules, as it considers appropriate to improve the capital market and to ensure its smooth functioning.

Second, a new Companies Act was enacted in 1994 that came into force on 1 October 1995, replacing the Companies Act of 1913. The Companies Act, 1994 preserved the provisions of the 1913 Act with regard to the 9-month time limit within which companies were required to furnish their financial statements before an AGM of shareholders. However, the new Act increases the penalty for non-compliance with this provision by ten times the penalty imposed by the old Act. The new Act provides for a penalty of up to Tk 5,000 (USA \$200) on each director of the company for failure to comply with relevant provision.

A third development took place in October 1997 when the SEC amended the Securities and Exchange Rules (SER) of 1987 that required a listed company to prepare half-yearly financial statements within one month of the close of the first half-year of its accounting year and issue those statements to the stock exchange(s) in which its securities are listed, to holders of its securities, and to the Commission.

Fourth, the country's capital market saw an unprecedented boom and a subsequent collapse in stock prices during 1996-97. One of the reasons contributing to the unusual rise and fall in securities prices was due to artificial manipulation of securities prices by a number of securities dealers and issuers in the absence of timely provision of reliable financial information in the market.

Finally, after the stock market crash in 1996, the SEC has been insisting listed companies on holding regular AGMs and publishing up to date annual reports. The fact that some companies were found to hold up to 5 AGMs and publish financial statements of up to 5 consecutive years on the same day is most likely to be in response to the SEC pressure. In the context of the above developments taking place in Bangladesh over the period 1993 – 1997, it is considered to be an ideal setting to study the impact of regulatory changes on timeliness of corporate financial reporting. In view of the above developments, it is expected that companies would provide more timely information for the following reasons:

- I. The creation of the SEC in 1993 would mean listed companies would come under the SEC oversight leading to improvement in all aspects of corporate financial reporting including timeliness;

- II. The increase in penalty for non-compliance to the time limit for holding the AGMs under the Companies Act, 1994 could be expected to improve the overall timeliness in corporate financial reporting following enactment of the Act;
- III. The amendment of the SER in 1997 requiring publication of half-yearly financial statements within one month of the first half of the year should make it easy for companies to prepare annual financial statements sooner as they would already have prepared half-yearly financial statements;
- IV. In the aftermath of the biggest stock market crash in 1996-97, listed companies could be expected to be extra careful in maintaining and increasing shareholder confidence in the company and its management. They could also be expected to install internal audit and/or improve existing internal audits to improve accountability within the organization. Timely provision of financial information and regular holding of AGMs could be two of the ways management might want to signal their commitment to the shareholders.

In addition to the above, the steady increases in foreign investment into the country and greater degree of financial liberalization are expected to improve the timeliness of financial reporting in the country over time. This study focuses on one aspect of corporate financial reporting in banking companies – timeliness. The study aims at exploring whether the above-mentioned developments in the financial reporting regulatory environment have been successful in significantly reducing the time lag in publishing financial statements by banking sector in Bangladesh.

7.4 Prior Research

During the last four decades the research literature on timeliness has become established in financial accounting. This literature has been reviewed to provide the background for formulation of the hypotheses which have been used in this study. As already noted, the first formal recognition of the importance of timeliness came in 1954 AAA (1954) and (1957). They observed that, '*Timeliness of reporting is an essential element of adequate disclosure*' (AAA, 1954; p.46). Subsequently, many researchers and professional bodies followed the AAA in acknowledging the role of timeliness in corporate financial

reporting theory and practice (Carlow and Kaplan, 1991; Givoly and Palmon, 1982; Courtis, 1976; Hendriksen, 1970; Accounting Principles Board, 1970;).

A number of empirical studies have been undertaken which seek to explain audit delay using variables representing selected corporate attributes. Typically most of these studies have used multivariate regression analysis and a brief review of some of the key studies follows.

Ahmed (2003) reports long delays in reporting to shareholders in three South Asian countries namely India, Pakistan and Bangladesh. Using a large sample of 558 company annual reports for the year 1997-1998 comprising 115 reports from Bangladesh, 226 reports from India and 217 reports from Pakistan, Ahmed finds that the total lag between the financial year end and holding the annual general meeting is, on average, 220 days, 164 days and 179 days in Bangladesh, India and Pakistan, respectively. In Bangladesh, Ahmed did not find any association between corporate characteristics and timely reporting.

Abdullah (1996) reported empirical evidence on timeliness for sample of annual reports of 26 Bahraini companies. He examines association between the time lag and a set of five determinants. His results show a significant negative relationship between timeliness of publication and the firm's profitability, size, and distributed dividend. However, the relationship between timeliness and industry membership was insignificant and the coefficient of the debt-equity ratio with timeliness had the arithmetic sign.

Ng and Tai (1994) empirically examined the association between audit delay and ten company characteristics for listed companies in Hong Kong for the years 1990 and 1991. They obtain data from 393 firms listed on the Hong Kong Stock Exchange and their results showed that lag of sales and degrees of diversification were significantly related to audit delay in both years. However, change in EPS was found to be significant only in 1990 and reporting of extraordinary items proved to be significant only in 1991.

Carslaw and Kaplan (1991) extended prior research of audit delays in New Zealand by seeking to capture both auditor and corporate attributes in their regression model. The results suggested that only two of nine explanatory variables were statistically significant. These were corporate size, which was found to be inversely related and existence of loss which was found to be directly related. Other variables studied but which proved

statistically insignificant were industry, existence of extraordinary items, audit opinion, audit firm size, year-end, ownership (owner controlled vs. manager controlled), and debt proportion.

Ashton, Willingham and Elliott (1987) examined the relationship between audit delay and 14 corporate attributes in the USA. Their sample included 488 US annual reports (both public and non public) belonging to six companies in six different industries. The explanatory variables used in their model were total revenues, firm complexity (proxied by four variables), industry classification, public/non-public status, month of financial year end, quality of internal control, the relative mix of audit work performed at interim and final dates, the length of time the company had been a client of the auditor, profitability (proxied by two variables), and the type of audit opinion issued. The results tend to indicate that five variables were significantly related to the audit delay, and these were total revenues, one of the complexity measures, the mix of interim and final dates and the quality of internal control irrespective of the fact that they were publicly or non-publicly traded. Their regression model showed an overall R^2 of 0.265 with R^2 for the financial and non-financial sub-samples as .310 and .388 respectively.

Whittred and Zimmer (1984) examined the association between time lag and a set of corporate attributes in Australia. Their study showed that the firms not facing financial distress take less time to publish annual reports than firms that are facing financial distress. Further, their findings tend to support their hypothesis that company management will strive to delay releasing bad news or to suppress information that might damage the company.

Givoly and Palmon (1982) found an improvement in the timeliness of annual reports of 210 companies listed on the New York Stock Exchange (NYSE) over a period of 15 years from 1960 to 1974. They focused on the abbreviated audited annual reports published in the earnings digest of *The Wall Street Journal* ahead of the full annual report. Corporate size and complexity of operations were used to explain timeliness. Reporting delays appeared to be more closely associated with industry patterns and traditions rather than with the company attributes studied. It was, however, found that bad news tended to be delayed and that the degree of market reaction to early and late announcements was differential. Late announcements appeared to convey less new

information than earlier reports. They reported that time lags decreased over time. Sales as a proxy of size were found to be negatively related to the timeliness of annual report.

Gilling (1977) argued that Courtis's (1976) investigation failed to establish any statistically significant association between corporate attributes and reporting delays, because the lag, in his view, was essentially an auditing lag. So, Gilling asserted that auditor attributes should be examined instead of company attributes in order to find a meaningful explanation of reporting lag. Gilling studied 1976 annual reports of 187 New Zealand listed companies, and found that these companies are audited by 50 audit firms and approximately 69% were audited by the seven largest auditing firms. The average interval between balance day and the date of the auditors' report was 80 days in 1976 and 77 days in 1974. The mean reporting delay of companies audited by the leading audit firms was significantly less than that the companies audited by the other 43 firms. More importantly, the mean time lag for the 20 overseas companies in the sample were relatively short at 53 days and for 24 public companies with assets over 50 millions dollars the mean delay was 70 days. He suggested that this is because of conscious scheduling of audit work by large public companies.

Courtis (1976) reported the results of the findings on 204 listed New Zealand companies for the year 1974. He examined the association of four corporate attributes including three measures of corporate size (proxied by book value of total assets, the dollar value of sales revenue and number of employees), age of the company, number of shareholders, and the pagination length of the annual report, with time lag in corporate report preparation and publication. The influence of business sector was also examined. He found that the average interval of time between balance date and date of annual general meeting was 18 weeks, twelve of which purport to be absorbed by audit process. He found that slow reporters tended to be less profitable as a group than fast reporters; and fuel and energy and finance companies tend to be fast reporters as specific groups while service industries and mining and exploration companies tended to be slow reporters as specific group. Mann-Whitney Z and U tests were used which revealed that none of the four corporate variables were statistically significant in explaining reporting lags across the whole sample. However, profitability and industry sector were found to be

statistically significantly different between 'slow reporters' and 'fast reporters' sub samples.

Dayer and McHugh (1975) attempted to discover reasons for the delay in the publication of annual financial reports of Australian companies. Their model sought to establish the impact of selected corporate attributes on reporting delays of a sample of 120 companies randomly selected from companies listed on the Sydney Stock Exchange. Apart from taking time lag data from the annual reports, they distributed questionnaires to the controllers and auditors of the sample firms. The study revealed that sixty six percent of the mean total lag was consumed in pre-audit delays and year-end audit examination. Of the three corporate attributes investigated, only corporate size appeared to account for some of the variations in total lags, but the relationship did not appear to be very strong. The relationship was, however, inverse as expected. Their results tend to support the hypothesis that there is a significant relationship between the time lag and the company's profitability.

7.5 Measuring Timeliness: Audit Lag, AGM Lag, and Total Lag

Three measures of timeliness are defined: (1) audit lag, (2) AGM lag, and (3) total lag:

Audit lag: Audit lag means the interval of days between balance date and the date of the auditor's report. [The interval of the number of days from the year-end to the date recorded as the opinion signature date on the auditor's report. Or the open interval of the number of days from the year-end to the date recorded as the opinion signature date in the auditor's report.] Audit delay represents the number of days elapsed between the balance sheet date and the date auditor(s) sign(s) the financial statements.

AGM lag: AGM lag means the interval of days between the date of the auditor's report and the date of the annual general meeting. The open interval of the number of days from the opinion signature date on the auditor's report to the date of settlement of annual general meeting (AGM). AGM lag represents the number of days elapsed between the date of signing auditor's report and the day on which the AGM is actually held.

Total lag: Total lag refers the interval of days between balance date and the date of the annual general meeting. The open interval of the number of days from the year end to the date of settlement of annual general meeting. Total lag represents the total interval time

after balance date before the directors formally present financial results to the owner of the entity.

Audit lag and AGM lag subdivide total lag into two components: the interval of days it takes before audited accounting information becomes available for release (through the press), and the time management takes to organize all necessary activities to bring on the company's annual general meeting.

7.6 Measure the Extent of Lag Profile of the Sample Banks under Study

7.6(a) The extent of audit lag of the sample banks (year wise)

Table 7.1

Table showing the year wise audit lag for the sample under study

	Y_2002	Y_2003	Y_2004	Y_2005	Y_2006
S_1	111	171	119	116	88
S_2	102	175	165	106	80
S_3	51	149	120	124	51
S_4	202	112	202	106	79
S_5	65	69	88	75	84
S_6	70	81	59	57	69
S_7	127	179	119	120	87
S_8	68	89	84	88	79
S_9	169	89	73	58	43
S_10	77	145	139	137	119
S_11	123	116	116	96	95
S_12	62	79	58	53	65
Maximum	202	179	202	137	119
Minimum	51	69	58	53	43
Average	102.25	121.17	111.83	94.67	78.25
Std. Dev.	46.72	40.86	43.09	28.51	19.99

The Table 7.1 shows the year wise audit lag of the sample banks during the period under study. If we take the means as indicator of overall audit lag levels of the years 2002-2006, highest audit lag has been observed in the year 2003 and the lowest by 2006. Highest variation in yearly audit lag is revealed by the year 2002 and lowest variation is observed in year 2006.

7.6(b) The extent of audit lag of the sample banks (sample wise)

Table 7.2

Table showing the sample wise audit lag for the sample under study

S.No	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
2002	111	102	51	202	65	70	127	68	169	77	123	62
2003	171	175	149	112	69	81	179	89	89	145	116	79
2004	119	165	120	202	88	59	119	84	73	139	116	58
2005	116	106	124	106	75	57	120	88	58	137	96	53
2006	88	80	51	79	84	69	87	79	43	119	95	65
Max	171	175	149	202	88	81	179	89	169	145	123	79
Mini	88	80	51	79	65	57	87	68	43	77	95	53
Ave	121.0	125.6	99.0	140.2	76.2	67.2	126.4	81.6	86.4	123.4	109.2	63.4
St.D	30.5	41.9	45.2	57.8	9.7	9.7	33.2	8.6	49.2	27.7	12.8	9.8

The Table 7.2 shows the sample-wise audit lag of the sample banks during the period under study. If we take the means as indicator of overall audit lag levels of the ‘sample 1’ to ‘sample 12’, highest audit lag has been observed in the sample 4 and the lowest by sample 12. Highest variation in sample wise audit lag is revealed by the sample 4 and lowest variation is observed in sample 8.

7.6(c) The extent of AGM lag of the sample banks (year wise)

Table 7.3

Table showing the year wise AGM lag for the sample under study

	Y 2	Y 3	Y 4	Y 5	Y 6
S 1	110	122	30	17	99
S 2	20	4	16	10	17
S 3	20	78	89	19	23
S 4	35	240	57	68	66
S 5	12	57	12	25	11
S 6	5	7	2	21	1
S 7	77	77	36	23	8
S 8	35	47	12	32	35
S 9	135	0	0	0	0
S 10	37	0	58	3	35
S 11	97	99	97	92	118
S 12	13	0	0	0	0
Maximum	135	240	97	92	118
Minimum	5	0	0	0	0
Average	49.67	60.92	34.08	25.83	34.42
Std. Dev.	43.71	70.90	34.04	27.73	39.68

The Table 7.3 shows the year wise AGM lag of the sample banks during the period under study. If we take the means as indicator of overall AGM lag levels of the years 2002-2006, highest AGM lag has been observed in the year 2003 and the lowest by 2005. Highest variation in yearly AGM lag is revealed by the year 2003 and lowest variation is observed in year 2005.

7.6(e) The extent of total lag of the sample banks (year wise)

Table 7.5

Table showing the year wise total lag for the sample under study

	Y 2002	Y 2003	Y 2004	Y 2005	Y 2006
S 1	221	293	149	133	187
S 2	122	179	181	116	97
S 3	71	227	209	143	74
S 4	237	352	259	174	145
S 5	77	126	100	100	95
S 6	75	88	61	78	70
S 7	204	256	155	143	95
S 8	103	136	96	120	114
S 9	304	89	73	58	43
S 10	114	145	197	140	154
S 11	220	215	213	188	213
S 12	75	79	58	53	65
Maximum	304	352	259	188	213
Minimum	71	79	58	53	43
Average	151.9	182.1	145.9	120.5	112.7
Std. Dev.	80.46	87.66	67.46	42.29	51.93

The Table 7.5 shows the year-wise total lag of the sample banks during the period under study. If we take the means as indicator of overall total lag levels of the years 2002-2006, highest total lag has been observed in the year 2003 and the lowest by 2006. Highest variation in yearly total lag is revealed by the year 2003 and lowest variation is observed in year 2005.

7.6(f) The extent of total lag of the sample banks (sample wise)

Table 7.6
Table showing the sample wise total lag for the sample under study

S.No	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
2002	221	122	71	237	77	75	204	103	304	114	220	75
2003	293	179	227	352	126	88	256	136	89	145	215	79
2004	149	181	209	259	100	61	155	96	73	197	213	58
2005	133	116	143	174	100	78	143	120	58	140	188	53
2006	187	97	74	145	95	70	95	114	43	154	213	65
Max	293	181	227	352	126	88	256	136	304	197	220	79
Mini	133	97	71	145	77	61	95	96	43	114	188	53
Ave	196.6	139.0	144.8	233.4	99.6	74.4	170.6	113.8	113.4	150.0	209.8	66.0
St.D	63.8	38.6	73.0	80.7	17.5	10.0	61.5	15.5	107.9	30.2	12.5	11.0

The Table 7.6 shows the sample wise total lag of the sample banks during the period under study. If we take the means as indicator of overall total lag levels of the 'sample 1' to 'sample 12', highest total lag has been observed in the sample 4 and the lowest by sample 12. Highest variation in sample wise total lag is revealed by the sample 9 and lowest variation is observed in sample 6.

7.6(g) Ranking of sample banks on behalf of total lag

Table 7.7

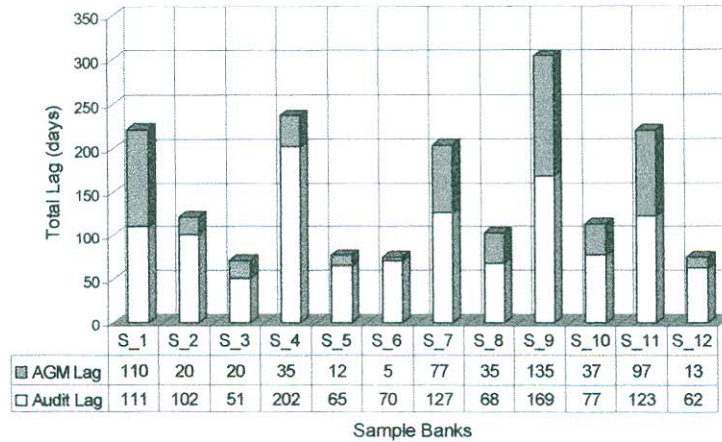
Ranking on maximum figure, minimum figure and average figure of total lag of the sample years under study (2002-2006)

Maximum Figure of Total Lag of the sample years under study			Minimum Figure of Total Lag of the sample years under study			Average Figure of Total Lag of the sample years under study		
Sample No.	Lag (days)	Descending Ranking	Sample No.	Lag (days)	Descending Ranking	Sample No.	Lag (days)	Descending Ranking
S_4	352	1	S_11	188	1	S_4	233.4	1
S_9	304	2	S_4	145	2	S_11	209.8	2
S_1	293	3	S_1	133	3	S_1	196.6	3
S_7	256	4	S_10	114	4	S_7	170.6	4
S_3	227	5	S_2	97	5	S_10	150.0	5
S_11	220	6	S_8	96	6	S_3	144.8	6
S_10	197	7	S_7	95	7	S_2	139.0	7
S_2	181	8	S_5	77	8	S_8	113.8	8
S_8	136	9	S_3	71	9	S_9	113.4	9
S_5	126	10	S_6	61	10	S_5	99.6	10
S_6	88	11	S_12	53	11	S_6	74.4	11
S_12	79	12	S_9	43	12	S_12	66.0	12

The sample banks here ranked on the basis of the total lag days for each of the banks. Table 7.7 shows the top and bottom ranked banks by the total lag. This Table has given the insights which samples are experiencing more total lag. The banks are ranked to show their relative positions in terms of the total lag. The highest ranked banking company is sample no. 4 in case of maximum and average figure of total lag and sample no. 11 in case of minimum figure of total lag. The lowest ranked banking company is sample no. 12 in case of maximum and average figure of total lag and sample no. 9 in case of minimum figure of total lag.

7.6(h) Graphical Presentation of the Extent of Total Lag for the Year 2002

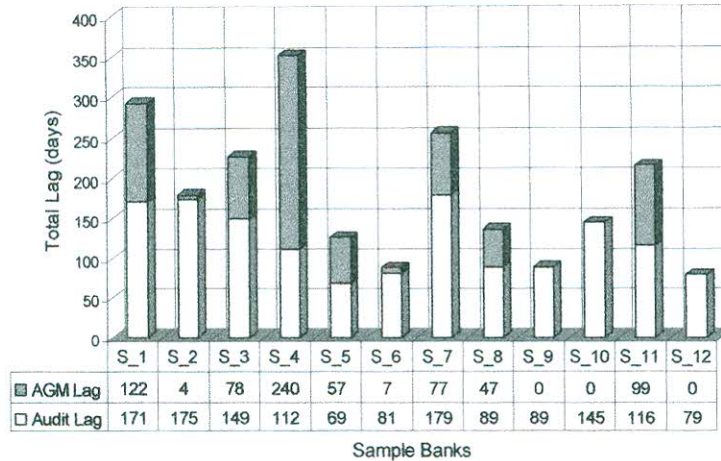
Graph 7.1



The graph 7.1 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2002, we observe that highest total lag and AGM lag were shown by the 'sample 9', and the highest audit lag was shown by the 'sample 4', and the lowest total lag was shown by the 'sample 3', the lowest AGM lag was shown by the sample 6 and the lowest audit lag was shown by the sample 3. From the sight of timeliness we can comment that overall lag profile of the sample 3, 5, 6 and 12 might be judged relatively low.

7.6(i) Graphical Presentation of the Extent of Total Lag for the Year 2003

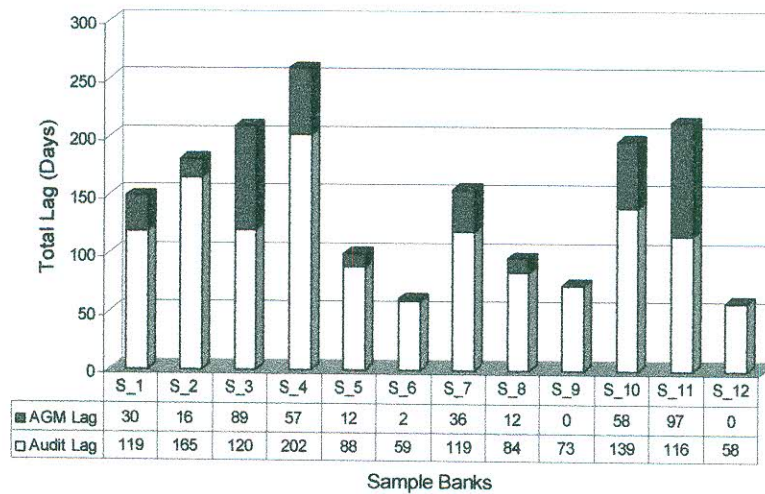
Graph 7.2



The graph 7.2 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2003, we observe that highest total lag and AGM lag were shown by the 'sample 4', and the highest audit lag was shown by the 'sample 1', and the lowest total lag was shown by the 'sample 12' and sample 9 and 12 were not shown by the AGM lag. From the perspective of timeliness we can comment that overall lag profile of the sample 6, 9 and 12 might be judged relatively low.

7.6(j) Graphical Presentation of the Extent of Total Lag for the Year 2004

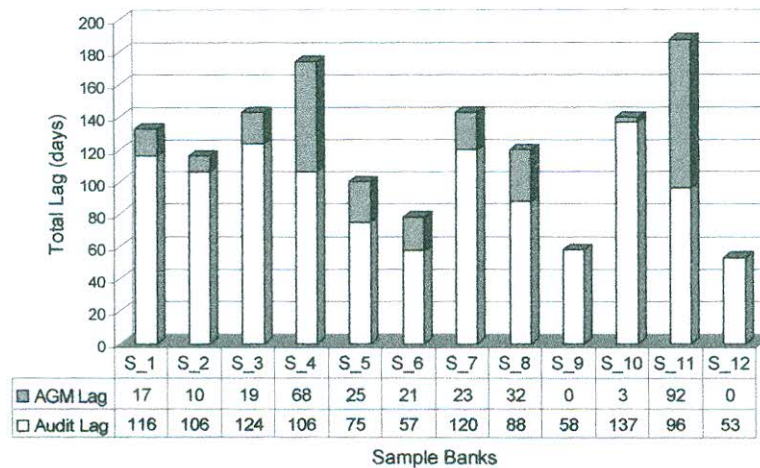
Graph 7.3



The graph 7.3 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2004, we observe that highest total lag and audit lag were shown by the 'sample 4', and the highest AGM lag was shown by the 'sample 11', and the lowest total lag was shown by the 'sample 12' and sample 9 and 12 were not shown by the AGM lag. From the sight of timeliness we can comment that overall lag profile of the sample 6, 9 and 12 might be judged relatively low.

7.6(k) Graphical Presentation of the Extent of Total Lag for the Year 2005

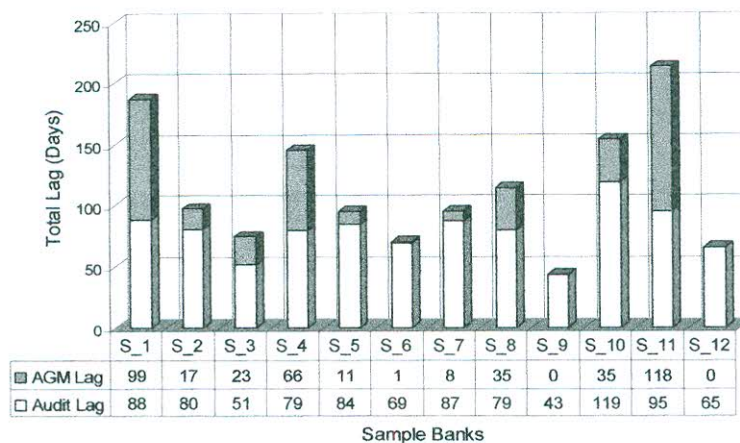
Graph 7.4



The graph 7.4 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2005, we observe that highest total lag and AGM lag were shown by the 'sample 11', and highest audit lag was shown by the 'sample 10', and the lowest total lag was shown by the 'sample 12' and sample 9 and 12 were not shown by the AGM lag. From the perspective of timeliness we can comment that overall lag profile of the sample 9 and 12 might be judged relatively low.

7.6(l) Graphical Presentation of the Extent of Total Lag for the Year 2006

Graph 7.5



The graph 7.5 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2006, we observe that highest total lag and AGM lag were shown by the 'sample 11', and highest audit lag was shown by the 'sample 10', and the lowest total lag was shown by the 'sample 9' and sample 9 and 12 were not shown by the AGM lag. From the perspective of timeliness we can comment that overall lag profile of the sample 3, 6, 9 and 12 might be judged relatively low.

7.7 Establish the Impact of Disclosure Score on Timeliness

To test whether disclosure level of sample banks is affected by the timeliness of the bank's financial reporting, we have taken different measures of timeliness such as audit lag, AGM lag and total lag to regress them with disclosure score. Accordingly, we have formulated different null hypotheses. The following specific hypotheses have been tested regarding timeliness.

- H₁: Timeliness as measured by audit lag does not affect the disclosure score of the sample banks.*
- H₂: Timeliness as measured by AGM lag does not affect the disclosure score of the sample banks.*
- H₃: Timeliness as measured by total lag does not affect the disclosure score of the sample banks.*
- H₄: There is no significant association between three measures of timeliness [viz., audit lag {AuL}, AGM lag {AgmL} and total lag {TotL} and the extent of disclosure.*

7.7(a) Regression Studies between Disclosure Score vs. Audit Lag (AuL)

Table showing the Regression Studies between Disclosure Score vs. Audit Lag (AuL)

Table 7.8

Year	R ²	F ratios	Significance Level
Y_2002	.090	.985	.344
Y_2003	.520	10.826	.008
Y_2004	.069	.746	.408
Y_2005	.210	2.653	.134
Y_2006	.032	.328	.580

From the regression result we observe that values of R² are small in case of year 2002, 2004, 2005 and 2006 and the significance levels of the regression co-efficients are above .05 for the said years. Further, we observe that values of R² are high in case of year 2003 and the significance level of the regression co-efficient is below .05 for this year. So, our null hypothesis is rejected which means that timeliness as measured by AuL affects the disclosure score.

7.7(b) Regression Studies between Disclosure Score vs. AGM Lag (AgmL)

Table showing the Regression Studies between Disclosure Score vs. AGM Lag (AgmL)

Table 7.9

Year	R ²	F ratios	Significance Level
Y_2002	.237	3.111	.108
Y_2003	.039	.403	.540
Y_2004	.024	.250	.628
Y_2005	.009	.087	.774
Y_2006	.231	3.008	.114

From the regression result we observe that values of R^2 are small and the significance levels of the regression co-efficient are above .05. So, our null hypothesis is accepted at significance level .05, which means that timeliness as measured by AgmL does not affect the disclosure score. Further, we observe that values of R^2 are relatively high in case of year 2002 and 2006 and the significance levels of the regression co-efficient are below .12 of this year.

7.7(c) Regression Studies between Disclosure Score vs. Total Lag (TotL)

Table showing the Regression Studies between Disclosure Score vs. Total Lag (TotL)

Table 7.10

Year	R ²	F ratios	Significance Level
Y_2002	.192	2.380	.154
Y_2003	.245	3.248	.102
Y_2004	.061	.650	.439
Y_2005	.136	1.580	.237
Y_2006	.190	2.348	.156

From the regression result we observe that values of R^2 are small and the significance levels of the regression co-efficient are above .05. So, our null hypothesis is accepted at significance level .05, which means that timeliness as measured by AgmL does not affect the disclosure score. Further, we observe that values of R^2 are relatively high in case of year 2002, 2003 and 2006 and the significance levels of the regression co-efficient is below .11 in case of year 2003 and regression co-efficient are below .16 in case of year 2002 and 2006.

7.8 Independent Variables with their Labels and Relationships in the Regression

The description of the three independent variables, their labels and expected signs and relationships are presented in Table 7.11.

Table 7.11

List of independent variables, their labels and expected signs and relationships in the regression

Variable Labels	Variables	Expected sign and relationship
AuL	Audit Lag	AuL has a negative relationship with the level of disclosure
AgmL	AGM Lag	AgmL has a negative relationship with the level of disclosure
TotL	Total Lag	TotL has a negative relationship with the level of disclosure

7.9 Multiple Regression Models

Multiple linear regression techniques are used to test two alternative versions of each hypothesis. The model is created using UDI as the dependent variable.

$$UDI = \alpha + \beta_1 AuL + \beta_2 AgmL + \beta_3 TotL + \varepsilon$$

Where UDI = total score received each sample bank under unweighted disclosure index;

α = the constant, and

ε = the error term.

7.10 Regression Studies between Disclosure Score vs. Multiple Variables

The goal of this chapter is to examine the association between the extent of information disclosure in published annual reports and timeliness. Accordingly we have formulated null hypotheses (H_4). The anticipated association is examined by that hypothesis. The multiple linear regression technique is used to test the two alternative hypotheses. To test whether disclosure level of sample banks is affected by multiple variables, we have taken the measures such as audit lag (AuL), AGM lag (AgmL) and total (TotL) to regress them with disclosure score.

Table 7.12

Table showing the Regression Studies between Disclosure Score vs. Multiple Variables

Year	R ²	F ratios	Significance Level
y_2002	.238	1.403	.295
y_2003	.525	4.982	.035
y_2004	.070	.338	.722
y_2005	.211	1.202	.345
y_2006	.233	1.370	.302

From the multiple regression result we observe that values of R^2 are small in case of year 2002, 2004, 2005 and 2006 and the significance levels of the regression co-efficient are above .05 for the said years. Further, we observe that values of R^2 are high in case of year 2003 and the significance levels of the regression co-efficient are below .05 of this year. So, our null hypothesis is rejected which means that timeliness as measured by Multiple variables affects the disclosure score only of the context of the year 2003.

7.11 Distribution of Timeliness

7.11(a) Distribution of Audit Lag for the Whole Sample

Table 7.13

Table showing the audit lag distribution for the whole sample

S_Year	N	Maximum	Minimum	Mean	Std. Dev.	Median
2002	12	202	51	102	46.72	90
2003	12	179	69	121	40.86	114
2004	12	202	58	112	43.09	118
2005	12	137	53	95	28.51	101
2006	12	119	43	78	19.99	80
Total	12	202 Max	43 Min	508	179.16	502
Average	12			102	36	100

Table 7.13 presents the summary statistics of the audit lags for the five years under study using all listed banks. Table 7.13 shows that the mean audit lag over the 5-year period ranges from 95 days in 2005 to 121 days in 2003 with a mean delay of 102 days for the entire population. The median ranges from 80 days in 2006 to 118 days in 2004 with a median of 100 days for the whole population.

7.11(b) Distribution of AGM Lag for the Whole Sample

Table 7.14

Table showing the AGM lag distribution for the whole sample

S_Year	N	Maximum	Minimum	Mean	Std. Dev.	Median
2002	12	135	5	50	43.71	35
2003	12	240	0	61	70.90	52
2004	12	97	0	34	34.04	23
2005	12	92	0	26	27.73	20
2006	12	118	0	34	39.68	20
Total	12	240 Max	0 Min	205	216.06	150
Average	12			41	43	30

Table 7.14 suggests that banks take a minimum period of 5 days to hold the AGM and even 0 days to hold the AGM from the date of auditor's signature in some years. Banks take an average of 26 days (in 2005) to 61 days (in 2003) with a population average of 41 days to hold the AGM from the date of auditor's signature. The median distribution shows that from 20 days in 2005 and in 2006 to 52 days in 2003 with a median of 30 days for the whole population.

7.11(c) Distribution of Total Lag for the Whole Sample

Table 7.15

Table showing the total lag distribution for the whole sample

S_Year	N	Maximum	Minimum	Mean	Std. Dev.	Median
2002	12	304	71	152	80.46	118
2003	12	352	79	182	87.66	162
2004	12	259	58	146	67.46	152
2005	12	188	53	121	42.29	127
2006	12	213	43	113	51.93	96
Total	12	352 Max	43 Min	713	329.80	655
Average	12			143	66	131

Table 7.15 shows the total lags – time between financial year end and holding of the AGM. This lag could be compared with the statutory maximum of 270 days (9 months) allowed by the Companies Act 1994. Table 7.15 suggests that banks take a further maximum period of 352 days to hold the AGM and a minimum period of 188 days to hold the AGM from the date of year-end. Extreme maximum delay can be observed in 2002 (304) and in 2003 (352).

As the Table 7.15 shows, the mean total delay is 143 days for the entire population. Extreme mean delays can be observed in 2003 (182). The medians show that from 96 days in 2006 to 162 days in 2002 with a median of 131 days for the whole population. From the distribution Tables, taking them into account, we can comment that the audit and AGM lag situation is not satisfactory.

7.12 Correlation Analysis

To examine the correlation between audit lag, AGM lag and total lag, *Spearman Rank Correlation* coefficients (r) were computed. Correlation matrices of all the values of r for the explanatory variables along with the dependent variables was constructed for the sample years under study and are shown in Tables 7.16, 7.17, 7.18, 7.19 and 7.20 respectively.

7.12(a) Correlation analysis for the year 2002

The *Spearman Rank* Correlation coefficients of the correlation between the (total lag and audit lag) and (total lag and AGM lag) variables is higher than the coefficient of the correlation between disclosure score and the reported lags. Table 7.16 suggests that the correlation between the total lag and audit lag and between the total lag and AGM lag variables may be an issue while collinearity across the other variables is not. Table 7.16 shows noteworthy collinearity ($p \leq 0.01$) between the total lag and audit lag variables (.935), between total lag and AGM lag (.808), and collinearity ($p \leq 0.05$) between audit lag and AGM lag variables (.688). However, Kaplan (1982) suggests that multicollinearity may be a problem when the correlation between independent variables is 0.90 or above. However, Emory (1982) considered more than 0.80 to be problematic.

Table 7.16

Spearman Rank Correlation Matrix for the year 2002

		DS	AUL	AGML	TOTL
DS	Correlation Coefficient	1.000			
	Sig. (2-tailed)				
	N	12			
AUL	Correlation Coefficient	.517	1.000		
	Sig. (2-tailed)	.085			
	N	12	12		
AGML	Correlation Coefficient	.516	.688*	1.000	
	Sig. (2-tailed)	.086	.013		
	N	12	12	12	
TOTL	Correlation Coefficient	.501	.935**	.808**	1.000
	Sig. (2-tailed)	.097	.000	.001	
	N	12	12	12	12

* Correlation is significant at the .05 level (2-tailed).

** Correlation is significant at the .01 level (2-tailed).

7.12(b) Correlation Analysis for the year 2003

The *Spearman Rank Correlation* coefficients of the correlation between the (total lag and audit lag), (total lag and AGM lag) and (disclosure score and audit lag) variables is higher than the coefficient of the correlation between disclosure score and the AGM and total lags and between the audit lag and AGM lag. Table 7.16 suggests that the correlation between the total lag and audit lag and between the total lag and AGM lag and disclosure score and audit lag variables may be an issue while collinearity across the other variables is not. Table 7.17 shows a noteworthy collinearity ($p \leq 0.01$) among certain variables between total lag and audit lag variables (.736), between total lag and AGM lag variables (.810) and between disclosure score and audit lag variables (.722).

Table 7.17

Spearman Rank Correlation Matrix for the year 2003

		DS	AUL	AGML	TOTL
DS	Correlation Coefficient	1.000			
	Sig. (2-tailed)				
	N	12			
AUL	Correlation Coefficient	.722**	1.000		
	Sig. (2-tailed)	.008			
	N	12	12		
AGML	Correlation Coefficient	.148	.310	1.000	
	Sig. (2-tailed)	.646	.326		
	N	12	12	12	
TOTL	Correlation Coefficient	.434	.736**	.810**	1.000
	Sig. (2-tailed)	.159	.006	.001	
	N	12	12	12	12

** Correlation is significant at the .01 level (2-tailed).

7.12(c) Correlation Analysis for the year 2004

The *Spearman Rank Correlation* coefficients of the correlation between the total lag and audit lag, total lag and AGM lag and AGM lag and audit lag variables is higher than the coefficient of the correlation between disclosure score and the reported lag variables. Table 7.17 suggests that the correlation between the total lag and audit lag and between the total lag and AGM lag and AGM lag and audit lag variables may be an issue while collinearity across the other variables is not. Table 7.18 shows a noteworthy collinearity ($p \leq 0.01$) among variables between total lag and audit lag variables (.865), between total lag and AGM lag variables (.923) and between AGM lag and audit lag variables (.724).

Table 7.18

Spearman Rank Correlation Matrix for the year 2004

		DS	AUL	AGML	TOTL
DS	Correlation Coefficient	1.000			
	Sig. (2-tailed)	.			
	N	12			
AUL	Correlation Coefficient	.298	1.000		
	Sig. (2-tailed)	.347	.		
	N	12	12		
AGML	Correlation Coefficient	.316	.724**	1.000	
	Sig. (2-tailed)	.317	.008	.	
	N	12	12	12	
TOTL	Correlation Coefficient	.203	.865**	.923**	1.000
	Sig. (2-tailed)	.527	.000	.000	.
	N	12	12	12	12

** Correlation is significant at the .01 level (2-tailed).

7.12(d) Correlation Analysis for the year 2005

To examine the correlation between the disclosure score and the reporting lag variables, the *Spearman Rank Correlation* coefficients (r) were computed for the year 2005. A correlation matrix of all the values of r for the explanatory lag variables along with the dependent variables was constructed and is shown in Table 7.19. The *Spearman Rank Correlation* coefficients of the correlation between the total lag and audit lag variables is higher than the coefficient of the correlation between every other variables. Table 7.18 shows a noteworthy collinearity ($p \leq 0.01$) among variables between total lag and audit lag variables (.719). The observation regarding Kaplan (1982) and Emory (1982) apply and it is evident from the Table 7.19 that the magnitude of the correlation between variables seems to indicate no severe multicollinearity problems..

Table 7.19

Spearman Rank Correlation Matrix for the year 2005

		DS	AUL	AGML	TOTL
DS	Correlation Coefficient	1.000			
	Sig. (2-tailed)	.			
	N	12			
AUL	Correlation Coefficient	.291	1.000		
	Sig. (2-tailed)	.359	.		
	N	12	12		
AGML	Correlation Coefficient	.151	.074	1.000	
	Sig. (2-tailed)	.640	.820	.	
	N	12	12	12	
TOTL	Correlation Coefficient	.350	.719**	.642*	1.000
	Sig. (2-tailed)	.264	.008	.024	.
	N	12	12	12	12

** Correlation is significant at the .01 level (2-tailed).

* Correlation is significant at the .05 level (2-tailed).

7.12(e) Correlation Analysis for the year 2006

The *Spearman Rank Correlation* coefficients of the correlation between the (total lag and audit lag) and (total lag and AGM lag) variables is higher than the coefficient of the correlation between disclosure score and the reported lags. Table 7.20 suggests that the correlation between the total lag and audit lag and between the total lag and AGM lag variables may be an issue while collinearity across the other variables is not. Table 7.20 shows noteworthy collinearity ($p \leq 0.01$) between the total lag and audit lag variables (.828), between total lag and AGM lag (.942), and collinearity ($p \leq 0.05$) between audit lag and AGM lag variables (.624).

Table 7. 20

Spearman Rank Correlation Matrix for the year 2006

		DS	AUL	AGML	TOTL
DS	Correlation Coefficient	1.000			
	Sig. (2-tailed)				
	N	12			
AUL	Correlation Coefficient	.284	1.000		
	Sig. (2-tailed)	.372			
	N	12	12		
AGML	Correlation Coefficient	.193	.624*	1.000	
	Sig. (2-tailed)	.548	.030		
	N	12	12	12	
TOTL	Correlation Coefficient	.291	.828**	.942**	1.000
	Sig. (2-tailed)	.359	.001	.000	
	N	12	12	12	12

* Correlation is significant at the .05 level (2-tailed).

** Correlation is significant at the .01 level (2-tailed).

7.13 Summary and Conclusion

This study reports the results of an empirical examination of the association between financial reporting timeliness and disclosure score. Three measures of timeliness are used. One, in terms of the number of days it takes a company to have the audit completed, the second the number of days it takes a bank to hold its AGM since the date of its fiscal year audit completed, and finally, the number of days it takes a bank to hold its total since the date of its fiscal year-end. Two levels of analyses are carried out. First, an analysis of the trend of extent in the three lags and second, statistical analysis on the impact of disclosure score on timeliness.

Results show that AGM, and total delays are not associated with disclosure score, i.e., there has been no significant positive relationship in corporate timeliness in reporting with the disclosure scores in reporting during the period under study. Though audit lag has the significant positive relationship.

During the post-regulatory period i.e., post- 'BRPD circular- 3' period, timeliness has deteriorated significantly which suggests that regulatory changes have failed to bring about improvement in the quality of financial reporting of banking sector in Bangladesh with respect to timeliness. The findings of this study can be used in the debate on the efficacy of regulatory pressure on financial reporting of banking sector in Bangladesh. The regulatory changes through BRPD circular brought about the banking sector in Bangladesh throughout the study period have been substantial. It was expected that the change would improve the age-old problem of chronic publication delay in corporate financial reporting of banking sector in the country. Mean publication delay has shown mixed trend over the years.

The regression models of disclosure score formulated here are identical to identify the relationship between disclosure score and timeliness attributes in the sample banks. The inclusion of the timeliness attributes used in the regression models has been discussed. The results suggest that the explanatory variables used in the studies of timeliness proved to be significantly negatively associated with disclosure score. AGM lag and total lag found not to be significantly associated with disclosure score. Other variable 'audit lag' failed to establish significant positive relationship with the disclosure score. From the multiple regressions result shows that only for the year 2003 timeliness attributes affects

the disclosure score and in case of year 2002, 2004, 2005 and 2006 the timeliness attributes do not affect the disclosure more. From the results of this study the following conclusions can be drawn. Firstly, there appears to be an unusually audit delay made by the Bangladeshi listed banking companies soon after the balance sheet date. The average interval of time between balance sheet date and the date of auditor's report is 3.4 months (the mean audit lag over the 5 years period ranges from 95 days in 2005 to 121 days in 2003 with a mean delay of 102 days for the entire population). Although the minimum audit delay is low (43 days), the average audit lag is 102 days (see Table 7.13) as against approximately 40 days after their clients' balance sheet dates in the USA, and approximately 80 days in the case of the listed companies in New Zealand and Australia. So, banking companies in Bangladesh are taking relatively more time to complete audit of their accounts. As a result the appeal of the information provided by the bank annual reports cannot help the users to take their decision in time if it takes another 102 days to arrange annual general meeting (see Table 7.14). With regard to timeliness as a qualitative objective of financial statements, this evidence can be regarded as unsatisfactory.

The findings of this study may be generalized after taking into consideration its limitation. The present research considers only the annual reports for listed banking companies. This study does not consider non-listed or non-financial or manufacturing companies. Further research can be undertaken to measure audit delay longitudinally in company characteristics (multi groups of companies) to determine whether the trend of audit delay has improved over time. Such a study would provide additional insights into the underlying causes for the audit delay in developing countries in general and in Bangladesh in particular. However, if anyone includes listed non-financial companies in the sample, he can attempt to examine the relationship between audit delay and industry type i.e., non-financial as '1' and financial as '0'. The results may be different if the number of company characteristics was increased or another set of variables were examined. Although the sample consisting 12 listed banks (25% of the population) in Bangladesh is reasonable, further research can be undertaken with a larger sample. This might be useful with respect to the stability of the regression equation.

7.14 Contribution on this Chapter: Abstract of the Published Paper

Paper Title:

Measurement and analysis of the Extent of Timeliness in Corporate Annual Reports of Banking Sector in Bangladesh

Abstract

This study focused whether timeliness of corporate financial reporting in the banking sector has improved in Bangladesh following the creation of the Securities and Exchange Commission (SEC) in 1993, the enactment of the Companies Act in 1994, the amendment of the SEC Rules in 1997, and the Banking Companies Act, 1991. Using 25% of the population (12 banks) observations over a period of 5 years (2002-2006), the present study observed that banking companies in Bangladesh are taking relatively more time to complete audit of their accounts. The result reveals that the appeal of the information provided by the bank annual reports couldn't help the users to take their decision in time if it takes another 102 days to arrange annual general meeting in another 41 days. With regard to timeliness as a qualitative objective of financial statements, this evidence can be regarded as unsatisfactory.

Key words:

Timeliness, Bangladesh, Audit Lag, AGM Lag, Total Lag

Paper published at- *The Development Compilation*, Dhaka, Bangladesh, March 2009.

Appendix 15 has provided the copy of the paper

7.15 Contribution on this Chapter: Abstract of the Paper Accepted for Presentation

Paper Title:

Timeliness in Financial Reporting and the Extent of Disclosure: A Study of the Banking Sector of Bangladesh

ABSTRACT

Timeliness of annual reports is an important attribute of their usefulness. There is a paucity of research about the timeliness of the published audited accounts of the banking sector companies in developing countries in general and audit delays in particular. This paper empirically examined the relationship between the disclosure score and audit delay in a developing country, Bangladesh. The objectives of this study are twofold. First, to measure the extent of audit lag in a developing country, Bangladesh. Second, to establish the impact of selected corporate attributes on audit delays in Bangladesh. In this study, I examine whether timeliness of corporate financial reporting in the banking sector has improved in Bangladesh following the creation of the Securities and Exchange Commission (SEC) in 1993, the enactment of the Companies Act in 1994, the amendment of the SEC Rules in 1997, and the Banking Companies Act, 1991. Using 25% of the population (12 banks) observations over a period of 5 years (2002-2006), I find that regulatory changes have not improved timeliness in corporate reporting in the banking sector of Bangladesh as measured by the extent of audit lag, AGM lag and total lag.

Key words:

Timeliness, Bangladesh, Audit Lag, AGM Lag, Total Lag

Paper Accepted for Presentation at- *6th International Conference on Enterprise Systems, Accounting and Logistics (6th ICESAL '09)*, Thessaloniki, Greece. **Appendix 16** has provided the Acceptance Letter.

Chapter Eight

Conclusions, Limitations and Recommendations

8.1 Introduction

This chapter summarizes the major findings of the study as well as draws the conclusions. The main findings of the chapters have been summarized first. The main limitations of the study are also acknowledged, and recommendations for the future research have been suggested. This is followed by an overall conclusion. This study sought to answer several question: to what extent listed banking companies disclose information in their corporate annual reports. Do the banks under the present study disclose adequate information in their annual reports? What corporate attributes influence the disclosure levels among the sample banks? To what extent does the level of disclosure differs across these banks? What is the impact of selected corporate attributes on audit delay in the sample banks under study? These entire questions relate to the quality of financial disclosure and reporting in the sample banks.

8.2 Review of the Main Conclusions of the Thesis

The main findings of the chapters have been summarized below:

Chapter Two has discussed on the development of theoretical and conceptual framework of financial reporting. It has been found from the discussion of the chapter that, it is necessary that the financial information must be presented in an understandable, timely uniform and consistent manner. The large mass of data should be properly condensed so as to provide the users a bird's eye view of the financial information, of course, without impairing its quality.

Chapter Three considers the research methodology of this study. The aim of this chapter was to set up the foundation of the statistical analysis. Company annual reports encompass most of the data of the present research and the survey of the present study will cover the annual reports of the scheduled banking companies for the years 2002-2006. The size of the sample will represent the greater area of banking companies in Bangladesh. The study decides to adopt the disclosure index method of measurement. Using the disclosure index method the level of disclosure is measured by selecting items that might be disclosed in annual reports and giving banks a score based on the number of disclosures actually made. This chapter describes the construction of disclosure index and

the scoring methodologies for the un-weighted disclosure index. This chapter exhibits the sources of data that were collected for this study.

Chapter Four analyzes the results of the questionnaire survey among a sample of professional accountants, bank loan officers, stockbrokers, financial analyst, and accounting professors. The main thrust of this chapter is to focus the perception of the various user groups about their perceived importance for various sources of information in making their decisions, reasons for using financial information, their perceived importance regarding various parts of a Bank's annual report, and their opinions regarding the adequacy and reliability of information of annual reports. Different users groups have different objectives in using financial reports and it has been pointed out that they may have diverse informational needs. It was hypothesized that there are no significant difference among the opinions of the respondents. Opinion survey regarding the qualitative characteristics of financial disclosure (i.e. adequacy, reliability, consistency, readability, relevance) was conducted and the null hypotheses were accepted. In case of the opinions of respondents regarding compliance of IASs by the banking companies, the study observed that a significant difference among the opinions of respondent groups exists the null hypothesis was rejected at .014 level of significance. The results from the respondents did not provide similar views.

Chapter Five focuses on the measurement and analysis of the extent of disclosure made in the annual reports of the sample banks. Sixty annual reports of twelve sample banks were collected, all for the year 2002-2006. Un-weighted disclosure index (UDI) was constructed which had a common base containing 144 items of information (both mandatory and voluntary items), which were presented under 9 headings. The annual reports of the sample banks were analyzed to determine the extent to which they contained the items of information included in the disclosure index. In constructing the UDI dichotomous scoring for each of the 144 score items was used (disclosure =1, non-disclosure =0). Hence, the maximum possible score attainable by a bank was 144 with a minimum theoretical score of 0. Non-disclosure was scored zero as in the UDI and the values of UDI obtained as a result provide the basic data reported in this chapter. This chapter reported the results of the bank annual report of the twelve sample banks. Despite their common regulatory roots difference in disclosure patterns can be observed between

the samples. Standard bank appeared to have the lowest levels of disclosure and Arab Bangladesh Bank (AB Bank) appeared to have the highest levels of disclosure. The sample banks here ranked on the basis of the value of unweighted disclosure index (UDI). Table 5.5 shows the top and bottom ranked banks by the size of the UDI. The main reason behind preparing this Table is to verify that this Table has given the insights which banks are disclosing more information in the sample under study. When the whole samples were analyzed, different patterns of the determinants of disclosure were observed among the samples. This chapter also reports the number of items universally disclosed or entirely excluded from disclosures by banks. The supporting Tables, discussion and graphs were sufficient to achieve the objective of our study, *“to measure the extent of disclosure of information made by the listed banking companies in Bangladesh”*. The information regarding various corporate attributes were extracted from the annual reports in order to measure the relationship between the extent of the relationships between disclosure and corporate attributes are considered in next chapter.

Chapter Six reported the results of multiple linear regressions to test the associations between a number of corporate attributes and the extent of disclosure in company annual reports. The extent of disclosure was measured using unweighted disclosure index. The corporate attributes considered are size proxied by total assets (TA), gross revenue (GR) and number of branches (NOB), profitability proxied by EPS, ROA, ROI and net profit margin (NPM), credit deposit ratio (CDR), capital adequacy ratio (CAR), debt equity ratio (DER) and shareholder's risk ratio (SRR). The Unweighted Disclosure Index (UDI) has been calculated for each of the banks studied and these have been used as the dependent variables. UDI has been arrived at by aggregating the number of disclosed items in each corporate annual report by using a dichotomous approach where a bank will be awarded '1' for disclosing an item and if not, has been awarded '0', so that the total number of items disclosed in the annual report becomes equal to the total score to be obtained by the bank. The main aim of this chapter is to examine empirically the likely association between the extent of disclosure and various corporate attributes. In order to identify the determinants of disclosure, regression analysis, multiple linear regression techniques have been used. The analysis and discussion of the previous chapter have already established the fact that the extent of disclosure varies across banks and across various sections of bank annual reports.

This chapter has been prepared having in mind the significant corporate attributes that are significantly associated with the level of disclosure. This chapter has reported the results of multiple linear regressions to test the association between a number of corporate attributes and the extent of disclosure in corporate annual reports of banking sector in Bangladesh. The extent of disclosure was measured using the unweighted disclosure index. The results showed that disclosure levels are associated with some company characteristics. Only two variables those were found to be significant in determining disclosure levels are return on assets and capital adequacy ratio. The return on investment showed significant but relatively weaker association. The other variables were found to be insignificant in explaining disclosure. Number of branch (NOB) is a new variable in relation to banking company disclosure index studies. In addition, this is the first study on disclosure data of banking companies to examine a credit deposit ratio (CDR) variable.

Chapter Seven empirically examined the association between financial reporting timeliness and disclosure score. Three measures of timeliness have been used. Two levels of analyses are carried out. First, an analysis of the trend of extent in the three lags and second, statistical analysis on the impact of disclosure score on timeliness. Results show that AGM, and total delays are not associated with disclosure score, i.e., there has been no significant positive relationship in corporate timeliness in reporting with the disclosure scores in reporting during the period under study. Though audit lag has the significant positive association. During the post-regulatory period i.e., post- 'BRPD circular- 3' period, timeliness has deteriorated significantly which suggests that regulatory changes have failed to bring about improvement in the quality of financial reporting of banking sector in Bangladesh with respect to timeliness. The findings of this study can be used in the debate on the efficacy of regulatory pressure on financial reporting of banking sector in Bangladesh. It was expected that the change would improve the age-old problem of chronic publication delay in corporate financial reporting of banking sector in the country. It was encouraging to note that the average publication delays have reduced over years. The regression models of disclosure score formulated here are identical to identify the relationship between disclosure score and timeliness attributes in the sample banks. The inclusion of the timeliness attributes used in the regression models has been discussed. The results suggest that the explanatory variables used in the studies of

timeliness proved to be significantly negatively associated with disclosure score. AGM lag and total lag found not to be significantly associated with disclosure score. Other variable 'audit lag' failed to establish significant positive relationship with the disclosure score. The multiple regressions result shows that only for the year 2003 timeliness attributes affects the disclosure score and in case of years 2002, 2004, 2005 and 2006 the timeliness attributes does not affect the disclosure score. From the results of this study the following conclusions can be drawn. There appears to be an unusually audit delay made by the Bangladeshi listed banking companies soon after the balance sheet date. With regard to timeliness as a qualitative objective of financial statements, this evidence can be regarded as unsatisfactory. The findings of this study may be generalized after taking into consideration its limitation.

8.3 Contribution of this Study

Many elements of this study are replications of previous similar studies but the current work possesses important new features. The samples of listed banking companies in Bangladesh are relatively large (25% of the population). This study focused on the disclosure of information made by listed companies in their corporate annual reports.

The results of the questionnaire survey among five groups of users of accounting information were analyzed regarding purposes of using financial reports, the perceived importance of various sources of information, the importance of various parts of a bank's annual reports. The results of this thesis supported the evidence of many disclosure studies and audit delay studies. These various elements represent a study reflecting different aspects of financial disclosure and reporting in Bangladesh. The results, which differ from other similar studies, have also pinpointed. The contributions of this thesis can be laid down as follows:

Bangladesh inherited the British accounting system until 1956. In Bangladesh, the outdated Companies Act, 1913 was replaced by the Companies Act, 1994. However, in Bangladesh the adopted accounting standards (BAS) are voluntary in nature. In Bangladesh, the SEC was established in 1993 with the objective of protecting the interest of the investors. In Bangladesh, some subsidiaries of the multinational banking companies are operating. However, there are no offices of the 'Big Five' audit companies in Bangladesh and the audit fees are comparatively lower in Bangladesh (Hossain, 1998). From the aforesaid

discussion, it is evident that the accounting environment is different and as a result, disclosure of information of a corporate annual report in Bangladesh was expected to be different. Hence, the general hypothesis of divergence of regulation from a common origin has strong support from the institutional analysis of the thesis.

The results showed that the respondents of questionnaire survey did not perceive consistently with respect to the different sources of information, and purpose of using annual reports. Also, the perceived mean response rates differed among the user groups. The analysis had a primary purpose in providing data for the un-weighted disclosure index it also provides possible evidence of differences in attitudes by users. The result, which differs with other similar studies, has also pinpointed. A new variable, number of branches (NOB) has been developed which might be used in addition to the debt-equity ratio to assess the potential impact of access to independent variable on disclosure.

In this study, it was found that among the twelve sample banks of Bangladesh, most of the banks did not enjoy rising high profit during the period under study. This tended to support the view that less profitable banks suffered losses during the period under study. This tended to support the view that less profitable banks would disclose less information than the more profitable banks. However, Size of the Banks variables (TA, GR and NOB) failed to establish any consistent relationships with the extent of disclosure.

The limitations of statistically significant variables for the samples suggest the possibility of different models to explain disclosure differences. These models may reflect differences in the degree of economic sophistication in Bangladesh. However, the quality of disclosure of the banks under study cannot be said to be satisfactory when a comparison is made between disclosure information and the actual disclosure of information considering the information needs of different interested groups. There is an ample scope to improve the quality of disclosure of information in the corporate annual report made by the banks.

Moreover, the evidence of its association with timeliness attributes suggested that timelines might not be an important concern for Bangladeshi banks in financial reporting policy. This can be regarded as unsatisfactory as regards timeliness as a qualitative objective of financial statements. This study examined the relationship between the variation of audit delays and a set of timeliness attributes in Bangladesh.

8.4 Suggestions about Improvement of Financial Reporting in the Banking Sector

The Present researchers believe that the new framework of financial statements in compliance with IAS 30, introduced by Bangladesh Bank (BRPD circular no. 3/2000) provides a basis for confidence in financial disclosure in corporate reporting that is at least as strong as has been in place in the banking sector of Bangladesh during the last eight years. In particular, fair presentation of financial and non-financial events remains a cornerstone of financial reporting and auditing in Bangladesh and professional judgment will continue to be central to the preparation of financial statements.

Significant changes in financial reporting of the banking companies in Bangladesh have taken place from 2000 as a result of the country requirement for listed banking companies to adopt International Accounting Standards (IAS). Furthermore, the standards that auditors in Bangladesh have to follow have also changed following the introduction of new standards in Bangladesh based on International Standards on Auditing (ISAs). Those changes will potentially affect preparers, auditors and users of financial statements.

We believe that a study on the practice of financial reporting of banking companies is likely to project as to what extent those banks have influenced the economic, social and political life of Bangladesh. In this perspective, therefore, it is perhaps necessary to collect information for providing energy, obviously to produce knowledge among the users. Such information is not surely to be looked into from merely accounting point of view. That information at the same time are likely to focus also from multi-disciplinary, behavioral and even from accounting for value-added point of view.

There is an increasing consensus among practitioners, standard setters and consultants about the criteria that a good social and environmental report should meet some judging criteria like: transparency, accountability to stockholders, negative and positive impacts on society and environment, ethical and environmental responsibilities, and impacts on communities and the environment which are material to key stakeholder groups. (Source: www.accaglobal.com). But findings of a study (Afrin, Yeshmin and Fowzia, 2008) show that though some banks are disclosing the issues related to Corporate Social Responsibility (CSR) in their annual reports, a clear picture of these issues cannot be identified from these efforts.

Another area of disclosure is corporate social responsibility disclosure. The companies have some responsibility for the people of the environment in which they work. But in our study we did not highlight it and we have mentioned it in the limitation of our study.

Yet our close examination of the annual reports of sample banks show that the full disclosures in annual reports are inconsistent and insufficient. Banks have already given much effort in the field of CSR disclosure in their annual reports. But still now it is voluntary requirement. So, the current accounting system should make it mandatory for the stakeholders of banks. As it is voluntary requirement, all banks do not disclose CSR in monetary terms. So, the transparency of the CSR report sometimes make question mark to the user groups. To resolve this problem the government should make it mandatory to disclose the CSR information with financial data. CSR disclosure should be presented in classified form such as community development, human resource management, and environmental contribution in separate headings.

It is true that all the users of accounting information desire that the management publish annual reports that must be certified by the public accountants. This certificate of the auditors adds value to the annual reports. The stakeholders of the company believe that the annual reports certified by the auditors present a true and fair view of the state of affairs of the company. But a study by Dey (2000) shows that 64.44% of the auditors believe that the word 'true and fair' be replaced.

Dey's (2000) study also shows that all the auditors and academicians are not unanimous regarding the meaning of the words 'true' and 'fair'. So, we suggest that the auditors should use the phrase 'present fairly' in place of 'true and fair' in order to avoid unnecessary harassment for passing opinion on the annual reports published by banking companies. The auditors should also be more helpful in enhancing the quality of the financial statements. This will also increase fidelity of the financial statements issued by banks through motivations companies to comply with BASs. It is true that independent auditors opinion is influenced by pressure of management, obtaining of business by the audit firms and other political factors. Since the economy of a country as well as the operation of a capital market depends to a large extent on the transparency of financial statements issued by the banks, we suggest that the financial statements should be more

qualitative and the management of banks should be more careful about compliance with the BAS 30 as well as BRPD circular no. 3.

In view of the emerging importance of fair disclosure in financial reporting, we observe that the users are likely to procure decision-oriented information from such narrative disclosure. The users of the annual reports of the banking companies of Bangladesh will, therefore, be no exception. What is required most is the totality of financial reporting. The financial reporting standard-setting bodies are to be concerned, therefore, with the totality of financial reporting. Thus information collected on various relevant matters are combined and analyzed finally to measure current performance level.

In this stage our specific suggestions are depicted below:

- The Companies Act 1994 should be amended and the BFRS should be mandatory.
- All voluntary disclosure provisions should be made mandatory.
- For each type of risk arising from financial instruments, the banks shall disclose summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity (as defined in BAS 24, Related Party Disclosure), for example, the entity's board of directors or chief executive officer.
- Growth rate and trends in performance should be disclosed properly.
- The management and independent auditors should ensure compliance with BRPD Circular-3.
- The total time lag should be reduced to improve timeliness in financial reporting.

True, the interest of the users in the annual reports is decision-oriented. So, the preparers of financial statements must be more cautious about ensuring the qualitative characteristics of accounting information so that it can help sound decision-making.

In the concluding word, it is hoped that this thesis has made a contribution to knowledge in the field of overall financial reporting and in particular in understanding of financial accounting issues of banking companies in developing countries.

8.5 Limitations of the Study and Conclusions

For Bangladesh, the Companies Act 1994 did not consider the adopted accounting standards as mandatory. Bangladesh should consider some adopted accounting standards as mandatory especially IAS 30 for banking companies and incorporate these into the Companies Act. In Bangladesh, the Securities and Exchange Commission has been established with the objective of protecting the interest of investors, to promote and develop the capital market and to regulate securities market in Bangladesh (Hossain et al, 1995). The findings of this study may be generalized after taking into consideration certain limitations. This study considers the annual reports for only five years. Further research can be undertaken to measure the extent of disclosure longitudinally to determine whether quality of disclosure has improved over time. This study does not consider non-listed, non-financial companies. Further research can be undertaken taking into consideration both groups of companies (listed and non-listed or financial and non-financial). This study concentrates on a particular industry type. Further research can be undertaken based on multi industry types. The number of disclosure items was limited to 144 items. The results may be different if the number of items was increased or another set of disclosure items were examined or if distinctions were made between mandatory items and other bases of disclosure. Thus, disclosure items could be segregated like Cooke (1989), Wallace (1987) and Wallace, Naser (1995), Wallace, Naser and Mora (1994) for direct comparisons with results. This study did not cover corporate social responsibility (CSR) disclosures directly, since it is not a developed area of financial reporting practices in the context of developing countries. The information regarding ownership structure of the companies was not available for all banks under study.

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Appendices

Appendix # 1

Sample wise t test

Pair #	Sample #	Result of t value	Significance level	Significant
Pair 1	1 vs. 2	15.198	.000	√
Pair 2	1 vs. 3	15.197	.000	√
Pair 3	1 vs. 4	17.895	.000	√
Pair 4	1 vs. 5	85.584	.000	√
Pair 5	1 vs. 6	20.608	.000	√
Pair 6	1 vs. 7	3.218	.032	√
Pair 7	1 vs. 8	9.307	.001	√
Pair 8	1 vs. 9	9.616	.001	√
Pair 9	1 vs. 10	22.643	.000	√
Pair 10	1 vs. 11	8.675	.001	√
Pair 11	1 vs. 12	9.721	.001	√
Pair 12	2 vs. 3	5.251	.006	√
Pair 13	2 vs. 4	5.550	.005	√
Pair 14	2 vs. 5	28.715	.000	√
Pair 15	2 vs. 6	2.771	.050	√
Pair 16	2 vs. 7	-4.059	.015	√
Pair 17	2 vs. 8	1.645	.175	
Pair 18	2 vs. 9	2.943	.042	√
Pair 19	2 vs. 10	1.847	.138	
Pair 20	2 vs. 11	-.497	.645	
Pair 21	2 vs. 12	2.189	.094	
Pair 22	3 vs. 4	-3.361	.028	√
Pair 23	3 vs. 5	8.367	.001	√
Pair 24	3 vs. 6	-3.055	.038	√
Pair 25	3 vs. 7	-14.496	.000	√
Pair 26	3 vs. 8	-2.276	.085	
Pair 27	3 vs. 9	-.413	.701	
Pair 28	3 vs. 10	-6.662	.003	√
Pair 29	3 vs. 11	-4.090	.015	√
Pair 30	3 vs. 12	-2.058	.109	
Pair 31	4 vs. 5	18.432	.000	√
Pair 32	4 vs. 6	-.927	.406	
Pair 33	4 vs. 7	-8.182	.001	√
Pair 34	4 vs. 8	-.781	.478	
Pair 35	4 vs. 9	.953	.394	
Pair 36	4 vs. 10	-3.849	.018	√
Pair 37	4 vs. 11	-3.782	.019	√
Pair 38	4 vs. 12	-.263	.805	
Pair 39	5 vs. 6	-18.795	.000	√
Pair 40	5 vs. 7	-13.398	.000	√

Pair 41	5 vs. 8	-9.382	.001	√
Pair 42	5 vs. 9	-7.308	.002	√
Pair 43	5 vs. 10	-23.106	.000	√
Pair 44	5 vs. 11	-13.735	.000	√
Pair 45	5 vs. 12	-9.030	.001	√
Pair 46	6 vs. 7	-6.237	.003	√
Pair 47	6 vs. 8	-.277	.796	
Pair 48	6 vs. 9	1.282	.269	
Pair 49	6 vs. 10	-2.673	.056	
Pair 50	6 vs. 11	-4.851	.008	√
Pair 51	6 vs. 12	.323	.763	
Pair 52	7 vs. 8	5.497	.005	√
Pair 53	7 vs. 9	4.589	.010	√
Pair 54	7 vs. 10	6.536	.003	√
Pair 55	7 vs. 11	3.214	.032	√
Pair 56	7 vs. 12	5.548	.005	√
Pair 57	8 vs. 9	1.430	.226	
Pair 58	8 vs. 10	-.815	.461	
Pair 59	8 vs. 11	-6.429	.003	√
Pair 60	8 vs. 12	1.139	.318	
Pair 61	9 vs. 10	-1.774	.151	
Pair 62	9 vs. 11	-3.918	.017	√
Pair 63	9 vs. 12	-.976	.384	
Pair 64	10 vs. 11	-1.928	.126	
Pair 65	10 vs. 12	1.297	.264	
Pair 66	11 vs. 12	4.62	.010	√

Appendix # 2

Year wise *t* test

Pair #	Year	Result of <i>t</i> value	Significance level	Significant
Pair 1	2002 vs. 2003	-1.696	.118	
Pair 2	2002 vs. 2004	-3.066	.011	√
Pair 3	2002 vs. 2005	-3.934	.002	√
Pair 4	2002 vs. 2006	-3.846	.003	√
Pair 5	2003 vs. 2004	-1.383	.194	
Pair 6	2003 vs. 2005	-1.747	.109	
Pair 7	2003 vs. 2006	-2.996	.012	√
Pair 8	2004 vs. 2005	-1.159	.271	
Pair 9	2004 vs. 2006	-1.941	.078	
Pair 10	2005 vs. 2006	-1.021	.329	

Appendix # 3

Disclosure Index For Banking Companies

Keys of Disclosure		
A	Company Profile Items	CPI
B	Accounting Policy Items	API
C	Balance Sheet Items (Assets)	BSIA
D	Balance Sheet Items (Liabilities)	BSIL
E	Income Statement Items (Cr.)	ISIC
F	Income Statement Items (Dr.)	ISID
G	Ratios, Statistics and Other Details	RSD
H	Projections and Budgetary Disclosure	PBD
I	Measurement and Valuation Method	MVM

CHECK LIST OF DISCLOSURE ITEMS

Un-weighted Index of Disclosure with Corresponding Score

A. Company Profile Items		Score
1.	Name of the Bank	1
2.	Corporate headquarters	1
3.	Date of Incorporation	1
4.	Year of incorporation as a limited liability company	1
5.	Year of listing on the DSE	1
6.	Bank's audit firm(s)	1
7.	Corresponding figure of preceding period	1
Sub Total		7
B. Accounting Policy Items		
1	Basis of accounting	1
2	Subsequent events after the balance sheet date	1
3	Consolidation Policy (if any)	1
4	Reporting currency	1
5	Methods of Revenue recognition	1
6	Changes in Accounting policy and their cumulative effects	1
7	Basis of measurement (historical or other)	1
8	Method of calculating EPS	1
9	Changes in Accounting Estimates	1
10	Disclosure of monetary impact of any change in accounting policy	1
11	Changes in accounting principles	1
12	Information about compliance with IAS	1
Sub Total		12

C. Balance Sheet Item (Assets)

Details about quick assets			Score
1	(i) Cash in hand (including foreign currency)	0.20	
	(ii) Balance with Bangladesh Bank and Sonali bank	0.20	
	(iii) Treasury bills and other bills eligible for rediscounting with the central bank	0.20	
	(iv) Balance with other banks and financial institutions- In Bangladesh	0.20	
	(v) Balance with other banks and financial institutions- Outside Bangladesh	0.20	
2	Money at call and short notice		1.00
3	(i) Cash and Cash equivalents	0.50	1.00
	(ii) Accruals and deferred income	0.50	
4	Information on disclosure of investment items-		1.00
	(i) Treasury bills-1	0.10	
	(ii) National Investment Bonds-1	0.10	
	(iii) Prize Bonds	0.10	
	(iv) Debenture	0.10	
	(v) Other Bonds-1	0.10	
	(vi) Shares	0.10	
	(vii) Debenture and bonds	0.10	
	(viii) Gold	0.10	
	(ix) Worthless stock	0.10	
	(x) Other investments	0.10	
5	Information relating to investment-		1.00
	(i) Cost of marketable securities	0.20	
	(ii) Market value of marketable Securities	0.20	
	(iii) Investments accounted for using the equity method	0.20	
	(ix) Portfolio Investment	0.20	
	(x) Valuation Basis	0.20	
			1.00

	Information relating to fixed assets-		1
6	Classification of Fixed assets		1
7	Cost		1
8	Market		1
9	Revaluation amount		1
10	Basis for Valuation		1
11	Information as to other assets-		
	(i) Commission and Brokerage on shares and debentures	0.33	
	(ii) Preliminary formation and organization expenses (if it is capitalized)	0.33	
	(iii) Development and prepaid expenses (if it is capitalized)	0.34	
			1
12	Information relating to-		
	(i) Branch adjustments (Contra Entry)	0.25	
	(ii) Prepaid rent and deferred advertisement (if it is periodical)	0.25	
	(iii) Assets acquired in satisfaction of claims (Contra Entry)	0.25	
	(iv) Other security deposits and other assets	0.25	
			1
13	Non-banking assets (classified)		1
	Details about loans, cash credit and advances		
14	(i) Loans and cash credits- In Bangladesh	0.50	
	(ii) Loans and cash credits- Outside Bangladesh	0.50	
			1
15	(i) Bills discounted and purchased (Contra Entry)- Payable in Bangladesh	0.50	
	(ii) Bills discounted and purchased (Contra Entry)- Payable outside Bangladesh	0.50	
			1
16	(i) Placement with, and loans and advances to, other banks	0.33	
	(ii) Other Money Market Placements	0.33	
	(iii) Loans and Advances to Customers	0.34	
			1
17	(i) Classification amount	0.20	
	(ii) Doubtful amount	0.20	
	(iii) Bad amount	0.20	
	(iv) Loan taken by directors and officers of the banking company	0.20	
	(v) Information about security of loan	0.20	
			1
18	Information as to intangible assets-		
	(i) Goodwill	0.34	
	(ii) Other intangible assets	0.33	
	(iii) Amortization policy	0.33	
			1
	Sub Total		18

D. Balance Sheet Item (Liabilities)

		Score
1	Details about shareholders' interest-	
	(i) Issued Capital	0.50
	(ii) Shareholder's equity or paid up capital	0.50
2	Information as to-	1.00
	(i) Provisions	0.25
	(ii) Provision for taxation	0.25
	(iii) Provision for loans and interest suspense accounts	0.25
	(iv) Provision for bad and doubtful investment	0.25
3	Information as to-	1.00
	(i) Statutory Reserve	0.25
	(ii) Revaluation Reserve (if not capitalized)	0.25
	(iii) Surplus Profit and Loss Account	0.25
	(iv) Gratuity and benevolent fund	0.25
4	Information as to-	1.00
	(i) Commitments – Directors (classified)	0.50
	(ii) Commitments – Contingent liabilities	0.50
5	Details about-	1.00
	(i) Borrowing from other banks in Bangladesh	0.25
	(ii) Borrowing from agents, financial institutions & banks outside Bangladesh	0.25
	(iii) Secured borrowing amount	0.25
	(iv) Unsecured borrowing	0.25
6	Information about-	1.00
	(i) Nature and amount of Security given	0.34
	(ii) Other Commitments	0.33
	(iii) Other borrowed Fund	0.33
7	Information as to principal deposits-	1.00
	(i) Current deposits and other accounts with rate of interests	0.34
	(ii) Fixed deposits or Customer's deposits	0.33
	(iii) Savings bank deposits	0.33
8	Information about-	1.00
	(i) Balances with the Central Bank	0.33
	(ii) Placements with other Banks	0.33
	(iii) Other Money Market Placements and Money Market Deposits	0.34
9	Information about-	1.00
	(i) Amounts owed to other depositors	0.25
	(ii) Certificate of Deposits	0.25
	(iii) Deposits from other Banks	0.25
	(iv) Other Deposits	0.25
		1.00

10	Information as to-		
	(i) Long-term Debt with security	0.25	
	(ii) Particular of Redemption of Long Term Debt	0.25	
	(iii) Current portion of Long Term Debt	0.25	
	(iv) Mortgages on assets against loan in Bangladesh	0.25	
			1.00
11	Information about-		
	(i) Pension or insurance funds	0.25	
	(ii) Non-current interest-bearing liabilities	0.25	
	(iii) Rate of interest	0.25	
	(iv) Conversion Feature	0.25	
			1.00
12	Information relating to-		
	(i) Repayable on demand	0.25	
	(ii) Promissory notes and other liabilities evidenced by paper	0.25	
	(iii) Unciamed dividends	0.25	
	(iv) Advance payments and bill purchased (Contra Entry)	0.25	
			1.00
13	Details as to-		
	(i) Liabilities to subsidiary companies	0.25	
	(ii) Proposed dividend	0.25	
	(iii) Prepaid Deferred tax at the end of the period	0.25	
	(iv) Minority interest	0.25	
			1.00
14	Information as to-		
	(i) Bill payable	0.25	
	(ii) Trade and other payable	0.25	
	(iii) Income tax payable	0.25	
	(iv) Interest payable	0.25	
			1.00
15	Information about-		
	(i) Interest expenses on deposits	0.33	
	(ii) Interest expenses on borrowings	0.33	
	(iii) Bearer Certificate of Deposit	0.34	
			1.00
		Sub Total	15

E. Income Statements Items (Cr.)		Score
1	Details as to-	
	(i) Interest Income from loan and advances to customers	0.20
	(ii) Interest and similar Income	0.20
	(iii) Interest income from accounts with foreign banks	0.20
	(iv) Interest income from debentures	0.20
	(v) Interest on bill and Treasury bills	0.20
		1.00
2	Income from balances with other banks/ financial institutions	1.00
3	Details about-	
	(i) Commission on the allotment of shares to a client	0.50
	(ii) Other Commission income	0.50
		1.00
4	Information as to-	
	(i) Fees earned as services are provided	0.25
	(ii) Fees earned on the execution of a significant work	0.25
	(iii) Fees charged for servicing a Loan	0.25
	(iv) Fees from the development of customised software	0.25
		1.00
5	Details as to-	
	(i) Investment Income	0.50
	(ii) Gains less losses arising from investment securities	0.50
		1.00
6	Information as to-	
	(i) Profit from ordinary activities	0.25
	(ii) Profit from operations	0.25
	(iii) Profit from invested shares	0.25
	(iv) Dividend Income	0.25
		1.00
7	Information as to-	
	(i) Gains less losses arising from dealing securities	0.25
	(ii) Gains arising from dealing securities	0.25
	(iii) Gains on foreign currency transaction	0.25
	(iv) Gains less losses arising from dealing in foreign currencies	0.25
		1.00
8	Information about-	
	(i) Non banking income	0.50
	(ii) Income from non banking assets	0.50
		1.00
9	Information on income from rent, taxes, insurance, Licence fees, royalties and other operating income	1.00
Sub Total		9.00

F. Income Statements Items (Dr.)**Score**

1	Information as to-		
	(i) Salaries, allowances and fees	0.20	
	(ii) Stationary, Postage, Stamp etc. and General administrative expenses	0.20	
	(iii) Printing and Advertisement expenses	0.20	
	(iv) Internet, Telegram, Telephone and Communication expenses	0.20	
	(v) Fees and commission expenses	0.20	
			1.00
2	Information as to-		
	(i) Foreign Exchange Loss	0.25	
	(ii) Loss from ordinary activities	0.25	
	(iii) Losses on foreign currency transaction	0.25	
	(iv) Losses on Loans and Advances	0.25	
			1.00
3	Information as to-		
	(i) Legal expenses	0.50	
	(ii) Taxes on Income	0.50	
			1.00
4	Information as to-		
	(i) Chairman and Director's Remuneration	0.50	
	(ii) Auditors fees	0.50	
			1.00
5	Information as to-		
	(i) Dividend paid for the period	0.50	
	(ii) Appropriation against profit on Dividends	0.50	
			1.00
6	Information as to-		
	(i) Provision for classified loans and advances	0.20	
	(ii) Provisions for gratuities	0.20	
	(iii) Provision for diminution value of investment securities (if it is apprehend)	0.20	
	(iv) Provision for decline in value of trading securities and Other Provisions	0.20	
	(v) Bad and doubtful provisions on loan and Provision for bad and doubtful debts against adversely classified and advances	0.20	
			1.00
7	Information as to-		
	(i) Appropriation against profit on Statutory Reserve	0.50	
	(ii) Appropriation against profit on General reserve	0.50	
			1.00
8	Details as to-		
	(i) Depreciation of fixed assets and amortization expenses	0.20	
	(ii) Repair expenses of Machinery	0.20	
	(iii) Repair expenses of Furniture	0.20	
	(iv) Repair expenses of buildings	0.20	

	(v) Depreciation on repairs and maintenance	0.20	1.00
9	Information as to-		
	(i) Interest expenses on foreign bank accounts	0.25	
	(ii) Interest expenses and similar charges	0.25	
	(iii) Tax expenses for the period	0.25	
	(iv) Taxes , including deferred taxes	0.25	1.00
10	Disclosure as to-		
	(i) Extraordinary Items- Loss on expropriation of car engine	0.20	
	(ii) Extraordinary Items-Insurance Proceeds from earthquake disaster settlement	0.20	
	(iii) Losses arising from dealing securities	0.20	
	(iv) Foreign Currency Translation and Hedging	0.20	
	(v) Other operating expenses	0.20	1.00
11	Information about-		
	(i) Amount expended on human resource	0.25	
	(ii) Loss from sale of or dealing with non-banking assets	0.25	
	(iii) Allowances for doubtful debts	0.25	
	(iv) Charitable donations	0.25	1.00
		Sub Total	11.00

G. Information useful to Projections and Budgetary Disclosure

1	Disclosure as to loss on sale of investment	1.00
2	Disclosure as to profit on sale of investment	1.00
3	Disclosure as to loss on unuseful Items	1.00
4	Disclosure as to provision for diminution in the value of investmnet	1.00
5	Information as to proposed capital expenditure in near future	1.00
6	Information about offer of new services	1.00
7	Information about labour management relationship	1.00
8	Information about number of days in strike by the employers (yearly)	1.00
9	Information about bank's issuing bonus shares	1.00
10	Information about pension and retirement plans	1.00
11	Information about employees social welfare scheme	1.00
12	Information about number of cases filed for recovery of loan	1.00
13	Information about cash inflow	1.00
14	Information about cash outflow	1.00
15	Information relating to sale of property and other assets	1.00
16	Information relating to transfer of research and development	1.00
17	Inflation adjusted accounts	1.00
18	Information about Tax refunds Receivable	1.00
Sub Total		18.00

H. Ratios, Statistics and Other Details

	Information about ratios indicating profitability	Score
1	Return on Capital Employed	1.00
2	Return on Shareholder's Equity	1.00
3	Return on Equity Funds	1.00
4	EPS	1.00
5	DPS	1.00
6	Earning yield	1.00
7	Dividend yield	1.00
8	Rate of Return on Investment	1.00
9	Return on Total Assets	1.00
	Information about ratios indicating solvency	
10	Debt-equity Ratio	1.00
11	Debt to Total Capital Ratio	1.00
12	Debt to Total Assets Ratio	1.00
13	Proprietary Ratio	1.00
14	Capital Gearing Ratio	1.00
15	Interest Coverage Ratio	1.00
16	Dividend Coverage Ratio	1.00
17	Total Coverage Ratio	1.00
18	Cash Flow Coverage Ratio	1.00
	Information relating to statistics and other details	
19	Comparative income statement (at least one year)	1.00
20	Comparative balance sheet (at least one year)	1.00
21	Cash budgeting projection up to 5 years	1.00
22	Extent of dependence on a few customers	1.00
23	Review of the year and prospects for the future (discussion of the factors which will influence bank's next year performance)	1.00
24	Forecast of next years earnings	1.00
25	Statement of the bank's objectives and policies	1.00
26	No. of shareholders and shares held by them	1.00
27	Information on number of employees	1.00
Sub Total		27.00

I. Information useful to Measurement and Valuation Method		Score
1	Amount of depreciation	1.00
2	Fixed assets valuation method	1.00
3	Basis of overall valuation	1.00
4	Method used in calculating depreciation	1.00
5	Depreciation policy	1.00
6	Consistency of the method rate of depreciation	1.00
7	Rate of depreciation	1.00
8	Gains and losses on disposal of Property	1.00
9	Pension costs and retirement plans	1.00
10	Estimated useful life and change in estimate (if any)	1.00
11	The reason for change in method and rate of depreciation	1.00
12	The monetary impact on profit	1.00
13	The tax effect for the change	1.00
14	Consistency of useful lives of assets	1.00
15	Disclosure of significant inter banking transactions	1.00
16	Disclosure about related party transactions	1.00
17	Accounting policy adopted for the recognition of revenue	1.00
18	Methods adopted to determine the stage of completion of transactions	1.00
19	Disclosure of significant category of revenue recognized during the period	1.00
20	The nature and amount of commitments to extent credit that are irrevocable	1.00
21	The nature and amount of contingent liabilities and commitments arising from off balance sheet items	1.00
22	Disclosure of maturity date of liabilities	1.00
23	Disclosure of significant concentration of assets and liabilities and off balance sheet items in terms of geographical areas, customer or industry groups or other concentration risks	1.00
24	Disclosure of significant net foreign currency exposure	1.00
25	Accounting policy on the basis of which uncollectable loans and advances are recognized as an expense and written-off	1.00
26	Disclosure about appropriation of retained earnings	1.00
27	Disclosure of secured liabilities and the carrying amount of the assets pledged as security	1.00

Sub Total 27

Grand Total 144.0

Appendix # 4

Overall individual score of the sample banks as a percentage of average score of years of the UDI.

	S_1	S_2	S_3	S_4	S_5	S_6	S_7	S_8	S_9	S_10	S_11	S_12
CPI	7.00	5.00	4.00	4.00	4.00	4.00	7.00	6.00	4.00	4.00	6.00	6.00
% of 7	100.0%	71.43%	57.14%	57.14%	57.14%	57.14%	100.0%	85.71%	57.14%	57.14%	85.71%	85.71%
API	8.00	5.00	5.80	6.00	4.20	6.00	9.00	5.80	4.60	5.00	6.00	6.20
% of 12	66.67%	41.67%	48.33%	50.00%	35.00%	50.00%	75.00%	48.33%	38.33%	41.67%	50.00%	51.67%
BSIA	13.70	12.50	10.78	10.48	7.28	12.28	13.46	10.18	11.81	12.50	11.14	10.20
% of 18	76.11%	69.44%	59.87%	58.23%	40.44%	68.22%	74.78%	56.56%	65.61%	69.44%	61.89%	56.67%
BSIL	8.47	7.59	7.05	7.46	6.50	8.30	7.67	7.20	7.19	7.40	7.40	7.25
% of 15	56.44%	50.63%	47.00%	49.73%	43.33%	55.33%	51.15%	48.00%	47.91%	49.33%	49.33%	48.33%
ISIC	5.50	6.50	5.10	4.58	4.86	5.34	4.90	4.74	5.34	4.89	5.40	5.50
% of 9	61.11%	72.22%	56.67%	50.89%	54.00%	59.33%	54.44%	52.67%	59.33%	54.33%	60.00%	61.11%
ISID	8.45	7.79	6.90	8.45	6.83	7.83	7.83	6.69	7.14	7.25	7.39	7.09
% of 11	76.82%	70.82%	62.73%	76.82%	62.09%	71.18%	71.18%	60.82%	64.91%	65.91%	67.18%	64.45%
PBD	9.00	7.20	6.00	7.20	5.00	8.00	7.20	7.00	8.00	8.40	7.00	7.00
% of 18	50.00%	40.00%	33.33%	40.00%	27.78%	44.44%	40.00%	38.89%	44.44%	46.67%	38.89%	38.89%
RSD	13.60	13.80	12.40	11.80	8.00	7.20	13.80	11.40	9.20	12.00	12.20	10.00
% of 27	50.37%	51.11%	45.93%	43.70%	29.63%	26.67%	51.11%	42.22%	34.07%	44.44%	45.19%	37.04%
MVM	13.40	9.00	10.20	11.00	11.00	12.60	10.40	12.80	12.00	11.40	12.60	12.00
% of 27	49.63%	33.33%	37.78%	40.74%	40.74%	46.67%	38.52%	47.41%	44.44%	42.22%	46.67%	44.44%

Keys of Disclosure		
A	Company Profile Items	CPI = 7
B	Accounting Policy Items	API = 12
C	Balance Sheet Items (Assets)	BSIA = 18
D	Balance Sheet Items (Liabilities)	BSIL = 15
E	Income Statement Items (Cr.)	ISIC = 9
F	Income Statement Items (Dr.)	ISID = 11
G	Ratios, Statistics and Other Details	RSD = 18
H	Projections and Budgetary Disclosure	PBD = 27
I	Measurement and Valuation Method	MVM = 27

Appendix # 5

Questionnaire

PART -I: (Group - A)

1. Name :
2. Name of Organization :
3. Department/ Section :
4. Designation/ Position :
5. Length of Service : Year.....Months.....
6. Educational Qualifications :
7. Professional Qualifications :
8. How long have you been serving in your current position?
.....
9. What training do you have in Accounting? (Please tick the appropriate box)
 - ☐ None
 - ☐ Worked/Working as a bookkeeper
 - ☐ Attended appropriate course(s) in accounting
 - ☐ Hold accounting qualifications ☐ M.Com, ☐ M.Phil, ☐ Ph.D, ☐ CMA, ☐ CA
 - ☐ Served/serving as an accountant executive
 - ☐ Served/serving as head of accounts
 - ☐ Served as Business/ Accounting studies teaching profession
 - ☐ Other (please specify).....
10. Age Group of the respondents : Years
 - Below 25 ☐
 - 25 – 30 ☐
 - 30 – 35 ☐
 - 35 – 40 ☐
 - 40 – 45 ☐
 - 45 – 50 ☐
 - 50 and above ☐

PART -I: (Group - B)

11. Do you use financial reports as a basis for decision making?

☐ Yes ☐ No

12. For what purpose(s) do you use financial reports?

(Please tick as many boxes as are relevant to you)

- ☐ For reading and academic interest
- ☐ For deciding about holding or selling shares in your private capacity
- ☐ To decide buying, holding or selling shares in your professional capacity
- ☐ To grant loan (both short term & long term)
- ☐ To negotiate labor/trade
- ☐ To grant trade credit
- ☐ To make decisions on behalf of clients or employer
- ☐ To exercise discretion as a government official
- ☐ To advice clients
- ☐ Other (please specify)

13. Do you think that the company annual report(s) that you use contain adequate information necessary to serve your purpose of using them?

- (a) Fully adequate ☐
- (b) Partially adequate ☐
- (c) Not adequate ☐

14. Do you think that the information provided by the company annual report(s) that you use are reliable?

- (a) Fully reliable ☐
- (b) Partially reliable ☐
- (c) Not reliable ☐

15. If your answer to the question No. 14 is '(b)' or '(c)', please suggest ways and means of improving the reliability of company annual reports. (Please use additional sheet, if necessary)

.....

16. Do you think that the information disclosed in the annual reports of multinational banking companies is more reliable than those of domestic companies? Yes ☐ No ☐

17. Do you think that the annual reports of the banks are consistent? Yes ☐ No ☐

18. Do you think that the annual reports of the banks are comparable? Yes ☐ No ☐

19. Do you think that the annual reports of the banks are readable? Yes ☐ No ☐

20. Do you think that the information provided by the annual report of the banking companies is relevant? Yes ☐ No ☐

21. Are the International Accounting Standards (IAS) followed in preparing financial statements of the banking companies? Yes ☐ No ☐

22. If the answer to the question No. 21 is 'Yes', please name the IASs followed.

- (a) (c)
- (b) (d)

23. Who, you think, are the prime users of bank financial statements?
- | | Yes | No |
|--|--------------------------|--------------------------|
| (a) Govt. (Ministry of Finance) | ☐ | ☐ |
| (b) Bangladesh Bank | ☐ | ☐ |
| (c) Shareholders/ Brokers | ☐ | ☐ |
| (d) Depositors | ☐ | ☐ |
| (e) Creditors (loan giving agencies, etc.) | ☐ | ☐ |
| (f) Borrowers | ☐ | ☐ |
| (g) Others (please specify) | ☐ | ☐ |
24. Do you think that the objective of bank financial statements is to provide information to enable the users evaluate the following?
- | | Yes | No |
|-----------------------------------|--------------------------|--------------------------|
| (a) Risk | ☐ | ☐ |
| (b) Solvency | ☐ | ☐ |
| (c) Liquidity | ☐ | ☐ |
| (d) Profitability | ☐ | ☐ |
| (e) Others (please specify) | ☐ | ☐ |
25. Should the following be disclosed in the bank profit and loss account separately?
- | | Yes | No |
|--|--------------------------|--------------------------|
| (a) Interest and similar income | ☐ | ☐ |
| (b) Interest expense and similar charges | ☐ | ☐ |
| (c) Dividend income | ☐ | ☐ |
| (d) Fees and commission income | ☐ | ☐ |
| (e) Fees and commission expense | ☐ | ☐ |
| (f) Losses on loans and advances | ☐ | ☐ |
| (g) General and administrative expenses | ☐ | ☐ |
26. Do you think that the bank investments should be valued?
- | | Yes | No |
|--|--------------------------|--------------------------|
| (a) at cost | ☐ | ☐ |
| (a) at market value | ☐ | ☐ |
| (b) at the lower of cost or market value | ☐ | ☐ |
27. Whether the following should be disclosed separately?
- | | Yes | No |
|---------------------------------|--------------------------|--------------------------|
| (a) Deposits from other banks | ☐ | ☐ |
| (b) Other money market deposits | ☐ | ☐ |
| (c) Other deposits | ☐ | ☐ |
28. Is it necessary to disclose the rate of interest on:
- | | Yes | No |
|--------------------------------|--------------------------|--------------------------|
| (a) Various deposits | ☐ | ☐ |
| (b) Various loans and advances | ☐ | ☐ |
29. Please give any other suggestions for improvement of the compliance of financial disclosure of banking sector in Bangladesh
- (a)
- (b)
- (c)
30. Please provide any other item(s) of information which you think are most important for the compliance of financial disclosure but not included in the above. Please explain the reason for wanting to include the information:
-
-

PART -2:
(For Bankers Only)

31. Do you prepare Aging Schedule of Loans and Advances? Yes ☐ No ☐
32. At what point of the Aging do you write off loan as bad? Yes ☐ No ☐
33. Do you fix the rate of provisions for bad debts? Yes ☐ No ☐
34. What is the name of your auditing firm for the last five years?

Year	Name of your auditing firm

35. Have you ever received qualified opinion or disclaimer? Yes ☐ No ☐
36. If Answer to the question no. 35 is 'Yes', please specify the reasons.

.....

.....

37. Do you create secret reserves in your balance-sheet? Yes ☐ No ☐
38. Do you strictly follow cost principle in valuing your assets? Yes ☐ No ☐
39. If cost principle is not followed, do you disclose that information in the annual reports?
Yes ☐ No ☐

40. Should the personal prescribed forms of bank balance sheet and profit and loss account be withdrawn or modified for better reporting?

Balance Sheet

- | | | |
|------------------------------|--------------------------|--------------------------|
| | Yes | No |
| (a) Form should be withdrawn | ☐ | ☐ |
| (b) Form should be modified | ☐ | ☐ |

Profit and Loss Account

- | | | |
|------------------------------|--------------------------|--------------------------|
| | Yes | No |
| (a) Form should be withdrawn | ☐ | ☐ |
| (b) Form should be modified | ☐ | ☐ |

Give reasons and suggest modifications (if any)

- i)
- ii)

41. Are you happy with the present : Yes No
- | | | |
|----------------------------|--------------------------|--------------------------|
| (a) reporting requirements | ☐ | ☐ |
| (b) reporting practices | ☐ | ☐ |

Give reasons mentioning the area of shortcomings and/ appreciable features of both:

- i)
- ii)
- iii)

42. Do you disclose the name of default directors with amount due in notes to financial statements?

Yes ☐ No ☐

43. Do you disclose the name of borrower directors in notes to financial statements?

Yes ☐ No ☐

44. How do you make provisions for bad debts?

Rate of provisions

1 – 60 days	%	☐
61 – 180 days	%	☐
181 – 360 days	%	☐
1 – 2 years	%	☐
2 – 5 years	%	☐
> – 2 years	%	☐
or any other basis	%	☐

45. Do you disclose the name of business enterprises of the borrower directors? Yes ☐ No ☐

46. Do you disclose the name of relatives of borrower directors? Yes ☐ No ☐

47. Do you disclose the labor management relationship in your chairman's statement?

Yes ☐ No ☐

BANK LOAN OFFICERS' PERCEPTION TOWARDS CORPORATE FINANCIAL DISCLOSURE IN THE BANKING SECTOR OF BANGLADESH: AN EMPIRICAL ANALYSIS

Alim Al Ayub Ahmed* Dr. Madan Mohan Dey**

Abstract

Entire financial disclosure i. e., mandatory disclosure and voluntary disclosure are both included in an effective information disclosure system. Mandatory disclosure is the basic demand of the market, and voluntary disclosure is the extended demand of the market, because of its informative complement to the timing, content and depth of disclosure. Some specific disclosure includes the laws governing the formations of banks; the by-laws established by the bank itself, and the structure of the bank. The issue of the corporate financial disclosure is receiving greater attention both the developed and developing countries in the corporate sectors particularly. Nevertheless, this issue still remains largely unfamiliar in the corporate arena of the banking sector of Bangladesh. This study focuses on the practices of some selected disclosure practicing through annual reports by banks operating in Bangladesh. For this paper, an empirical study as well as a questionnaire survey has been conducted. The principal findings include, firstly, most of the banks discloses the name of default directors with amount due, the name of borrower directors, prepares aging schedule, fixes the rate of provisions for bad debts, do not take qualified opinion or disclaimer, creates secret reserves in the balance-sheet and uses cost principle in valuing assets and secondly the respondents are in favor of such disclosures. As it is requirement, the current disclosures are not ample in evaluating the goals of corporate financial disclosure in the banking sector.

Keywords

Financial Disclosure, Bank Loan Officer (BLO), Bangladesh

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1. Introduction

The aim of the present research is to enhance our understanding of the corporate financial reporting disclosure environment in Bangladesh by seeking the opinions of the Bank Loan Officers that are expected to be affected by such an environment. Our objective therefore is to discover the major corporate information sources to the major interested parties in the banking sector in Bangladesh. Such a study will also shed light on how corporate financial disclosure prepares and regulators can improve the current corporate reporting practices as well as provide rich description of some aspects of financial accounting and its environment in Bangladesh. Although the subject of the present research is not a new one, it is, however, handled more thoroughly and has a broader scope than previous research attempts. There is a paucity of research regarding users' information needs in developing countries. There are studies of Wallace (1988a; 1988b) in Nigeria and Nicholls and Ahmed (1995) in Bangladesh, which measured the quality of disclosure taking into consideration the perception of users in a developing country perspective. This chapter analyzes the results of the questionnaire survey among a sample of bank loan officers. The main thrust of this paper is to focus the perception of the users (BLO) about their perceived importance for various sources of information in making their decisions, reasons for using financial information, and their opinions regarding the adequacy and reliability of information of annual reports. Different users groups have different objectives in using financial reports and it has been pointed out that they may have diverse informational needs (Benjamin and Stanga, 1977; p.187).

2. Objectives of the Study

The destination of this study is to focus the perception of the BLO as users about their perceived importance for various sources of information in making their decisions, and their opinions regarding the adequacy and reliability of information of annual reports. This study attempts to focus on the present scenario of corporate financial disclosure by the banks of Bangladesh in their annual reports. Objectives of this study cover the followings:

- a) To have an idea about the perception of BLOs regarding the importance of various items of disclosure in decision-making.
- b) To examine the opinion of BLOs regarding adequacy and reliability of corporate annual reports.
- e) To suggests some measures to take a sound corporate financial report by the banking companies.

3. Methodology

The article is based on empirical study as well as questionnaire survey i. e. primary information. For the purpose of the study, the questionnaires were sent to 20 bank loan officers (BLO) of different banks.

3.1. Method of Data Collection

This part of the paper considers the research methodology of the present study. The aim of this phase is to set up the foundation of the statistical analysis. The researchers have used direct interview method to collect response for the respondents at Rajshahi. In this context, we have prepared a questionnaire to collect the necessary data. We have used this method to avoid non-response bias by the respondents. In case of some respondents from Dhaka and Bogra the questionnaire were sent through mail.

3.2. Preparation of Questionnaire

We have prepared a questionnaire to collect opinion of the respondents about the voluntary disclosure which judges the quality of information disclosed in financial statements. The questionnaire used was divided into two parts, PART-1 and PART-2. The PART-1 included questions representing the name, occupation, age, educational and professional qualifications, accountancy training of the respondent. The number of questions included in PART-2 asked to bankers, which dealt with their perception of disclosed items in the financial statements. The total number of questions included in PART-1 was 9 and PART-2, 10 to 21.

3.3. Number of Respondents

Our survey will cover a sample of 20 bank loan officers. Among the total of 20 questionnaire issued, 17 respondents gave valuable feedback regarding the questionnaire while others were reluctant to give any information regarding this. This chapter represents the sources of data that were collected for this study. The questionnaire surveys from BLO play a very important role in the study. To conduct a questionnaire survey is a difficult task on the part of any researcher. In any questionnaire survey the response rate may be very low if the questionnaire is mailed to the respondents.

3.4. Questions solicited

The questionnaire for the current study was pre-tested with personnel of accounting department, prominent academicians, and researchers. The respondents were again supplied with the questionnaire two weeks after they had filled up first questionnaire. The final questionnaire for the

study contained a covering letter and a brief background of the study. In the covering letter, it was mentioned that the researcher was conducting the study as part of PhD thesis, so that the respondents would understand that the study is sponsored which might increase chances of better responses. Identifying the perceptions of various bank loan officers about the disclosure of the selected items of voluntary information in the banks annual reports through a questionnaire survey constitutes the main part of the study. The first part of the final version of questionnaire included questions representing the name, occupation, age, accounting training, educational qualifications of the respondents and the second part contained voluntary disclosure information of the banks stated earlier. The questionnaire used in the survey is presented in Appendix. To make this paper more informative different published textbooks, related journals, reports, seminar papers and research works have been analyzed. The questionnaire survey method, regardless of its inherent drawbacks seemed appropriate for this type of study. Survey method is most appropriate and effective for drawing conclusion regarding peoples' inference and attitudes (Carmichale and Swieringa, 1968). The response rate of the survey among the respondents is discussed in the empirical part of the paper.

4. Response rate

The questionnaire survey consists of a sample of 20 bank loan officers as indicated in Table 4.1.

Table 4.1: *Response Rate of the Questionnaire Survey*

User Group	Sample Size	No. of Responses	Rate of Response (%)
Bank Loan Officers	20	17	85

Table 4.1 showed the specified user group of the respondents and the size of the sample of the respondents. It also describes the response rate of the questionnaire survey from bank loan officer. Questionnaires were sent to 20 BLOs of the scheduled banks of Bangladesh. The respondents were requested to reply as early as possible for a significant involvement in the study. All the respondents were sent reminders through mobile about 10 days after the questionnaire were sent. Within two weeks of sending, 17 responses were received. The 17 usable responses constituted a response rate of 85 percent, which is acceptable. The response rate is above the rate mentioned by Moser and Kalton (1971) and Ali, Khan Fatima and Masud (2008) as being sufficient for a study leading to policymaking.

5. Review of the related literature

It is widely accepted that corporate annual reports are prepared primarily for external users. Therefore, such reports should be designed, in form and content, according to the needs of the external users (Radebough, and Gray, 1993). These users should be contacted frequently to assess their perceptions about various aspects of the reporting practices of public companies since their views will provide the main feedback to improve the communication function of corporate reports (Epstein, 1993).

One of the pioneering studies to have attempted to discover the information needs and sources of such information was undertaken in the United States by Baker and Haslem in 1973. The authors found that the majority of the individual investors rely heavily on stockbroker's advice as their main source of information about companies. Financial statements, however, were found to be a source of information by only a minority (i.e., 8 per cent) of individual investors. Regarding other information items that are expected to be disclosed by companies, Baker and Haslem (1973) highlight that individual investors attach a great deal of importance to the information about the future expectations of the company. At the same time, individual investors attached a much lower degree of importance to information regarding dividends.

Anderson (1981) also recognized the need for research in this area and focused on institutional investors in Australia. He sought, primarily, to discover their perceptions about the importance of annual corporate reports to their decision making process by analyzing the responses of 188 institutional investors. Anderson (1981) found that Australian investors relied mostly on the annual report when making their investment decisions followed by visits to the companies. Regarding the annual corporate report itself, the most readable sections of the annual report were the balance sheet, profit and loss account, notes to the accounts, and the chairman's statement respectively. The profit and loss account, however, was perceived to be more important than the balance sheet. However, the author failed to perform any statistical test to determine whether there is a significant difference between the users' usage of the annual report sections on the one hand and the perceived importance of such sections on the other hand. Anderson (1981) also documents the external users' desire (i.e., 72 per cent) for additional information to be provided in the annual corporate report such as information about the company's product, current value of long-term assets, and remuneration of directors.

Anderson and Epstein (1995) further extended their research by providing a useful investigation on Australia. Unlike the Anderson (1981) study, which specifically focused on Australian institutional investors, the Anderson and Epstein (1995) study was more concerned with individual investors' usage of annual corporate reports. Their findings revealed that the annual corporate reports came third, after stockbrokers' advice and financial newspapers and

magazines, as a basis for investment decision of Australian individual investors. Nevertheless, the vast majority of their respondents (i.e., 72 per cent) perceived annual corporate reports to be of only moderate use. Regarding the use of the annual report, the authors highlight the directors' report to be the most thoroughly read followed by the income statement. Nevertheless, their respondents did perceive the income statement to be more useful than the directors' report in making an investment decision. Arguably, Anderson and Epstein (1995) did not statistically determine whether the difference between the pattern of readership of the annual reports' sections and the perceived usefulness of such sections is of any significance in the Australian environment. Respondents had also expressed a desire for the simplification and more explanation of the balance sheet, statement of cash flow, and the income statement. Finally, the authors highlight the Australian investors' demand for additional disclosure in the annual reports; such as pending litigation, unasserted claims, management audit, and information on change of auditor.

In another Middle Eastern environment, Jordan, Abu-Nassar and Rutherford (1996) undertook a study to discover the view of external users of annual corporate reports. The authors targeted different groups of external users, namely individual shareholders, institutional shareholders, bank loan officers, stockbrokers, and academics. Their sample comprised of 224 respondents and all of their analyses are of a unvaried type. In terms of the usage of the annual report, Abu-Nassar and Rutherford (1996) found bank loan officers to be the heaviest users of the annual reports in Jordan while individual shareholders and academics were found to be the least. They also found the income statement and balance sheet to be the most widely read parts of the annual corporate report by all the users. The authors documented the low degree of users' satisfaction about many qualitative characteristics of corporate reports in Jordan. In terms of the importance of the various sources of corporate information, Abu-Nassar and Rutherford (1996) argue the annual corporate report to be the most important source of information for all user groups. The only exception being the bank loan officers who indicated that the most important source of information to them was to personally visit companies followed by an independent examination of the annual report itself.

Ali, Khan, Fatima and Masud (2008) provide a useful survey of the attitudes of individual respondents on the various aspects of Bangladeshi annual corporate reports. They analyzed the responses of 25 individual investors and found firstly, British American Tobacco (BAT) Bangladesh Co. Ltd makes very few disclosures on corporate governance on a voluntary basis and secondly, the user groups of the annual reports are in favor of such disclosure. The researchers further found that the current disclosures are not ample in evaluating the goal of corporate governance.

6. Data analysis

6.1 Academic achievement of respondents

Table 6.1 shows the overall respondent' academic achievements. Table 6.1 shows that 17.6% of the respondents have graduate education and 82.4% of the respondents have a Masters.

Table 6.1: *Academic achievement of respondents*

Educational Qualification		Total
		B.L.O.
Bachelor	Count	3
	% within res.gr.	17.6%
Masters	Count	14
	% within res.gr.	82.4%
Ph.D.	Count	0
	% within res.gr.	0.00%
Total	Count	17
	% within res.gr.	100.0%

Table 6.4: *Accounting Qualification of the Respondents*

Accounting Qualifications		Total
		B.L.O.
None	Count	11
	% within res.gr.	64.7%
Worked/working as a bookkeeper	Count	1
	% within res.gr.	5.9%
Attended appropriate course(s) in accounting	Count	0
	% within res.gr.	0.0%
Hold accounting qualifications	Count	2
	% within res.gr.	11.8%
Served/serving as an accountant executive	Count	2
	% within res.gr.	11.8%
Served as accounting teaching profession	Count	1
	% within res.gr.	5.9%
Total	Count	17
	% within res.gr.	100.0%

6.5 Opinion of the respondents regarding preparation of Aging Schedule
The bank loan officers were asked to respond regarding the preparation of aging schedule. The responses are summarized in Table 6.5.

Table 6.5

		B L O
No	Count	4
	% within	23.53%
Yes	Count	13
	% within	76.47%
Total	Count	17
	% within	100.0%

Table 6.5 shows that 76.47% of the bankers responded positively and 23.53% of the banker don't prepare aging schedule of loans and advances.

6.6 Opinion of the respondents regarding fixation of rate of provisions for bad debts

The bank loan officers were asked to respond regarding fixation of the rate of provisions for bad debts. The responses are summarized in Table 6.6.

Table 6.6

		B L O
No	Count	1
	% within	5.88%
Yes	Count	16
	% within	94.12%
Total	Count	17
	% within	100.0%

Table 6.6 shows that 94.12% of the banker opined that they fix the rate of provisions for bad debts.

6.7 Opinion of the respondents regarding receiving qualified opinion

The bank loan officers were asked to respond regarding receiving qualified opinion or disclaimer. The responses are summarized in Table 6.7.

Table 6.7

		B L O
No	Count	14
	% within	82.35%
Yes	Count	3
	% within	17.65%
Total	Count	17
	% within	100.0%

Table 6.7 shows that 82.35% of the banker responded that they have not received qualified opinion.

6.8 Opinion of the respondents regarding creating secret reserves in balance-sheet

The bank loan officers were asked to respond regarding creating secret reserves in balance sheet. The responses are summarized in Table 6.8.

Table 6.8

		B L O
No	Count	3
	% within	17.65%
Yes	Count	14
	% within	82.35%
Total	Count	17
	% within	100.0%

Table 6.8 shows that 82.35% of the banker responded that they create secret reserves in their balance sheet.

6.9 Opinion of the respondents regarding use of cost principle in valuing their assets

The bank loan officers were asked to respond regarding the use of cost principle in valuing their assets. The responses are summarized in Table 6.9.

Table 6.9

		B L O
No	Count	2
	% within	13.3%
Yes	Count	15
	% within	88.24%
Total	Count	17
	% within	100.0%

Table 6.9 shows that 88.24% of the banker opined that they use cost principle in valuing their assets.

6.10 Opinion of the respondents regarding disclosure of information in annual reports if cost principle is not followed

The bank loan officers were asked to respond whether disclosure is made in corporate annual reports if the bank did not follow cost principle. The responses are summarized in Table 6.10.

Table 6.10

		B L O
No	Count	2
	% within	13.3%
Yes	Count	15
	% within	88.24%
Total	Count	17
	% within	100.0%

Table 6.10 shows that 88.24% of the banker responded that if cost principle is not followed, they disclose that information in the annual reports.

6.11 Opinion of the respondents regarding adequacy of disclosure in annual reports

The information disclosed by companies in their annual reports should be adequate for the economic decision-making. Without adequate information the present and prospective shareholders or investors must find it difficult to make their investment decisions. Keeping this point in mind, in the questionnaire, the respondents were asked if they thought that annual reports contain adequate information necessary to serve their purposes in using them. The responses are summarized in Table 6.11.

Table 6.11: *Opinion of the respondents regarding adequacy of disclosure in annual reports*

		B.L.O.
Fully adequate	Count	7
	% within	41.2%
Partially adequate	Count	9
	% within	52.9%
Not adequate	Count	1
	% within	5.9%
Total	Count	17
	% within	100.0%

Table 6.11 shows that 5.9% of the respondents thought that the annual reports were 'not adequate'; while majority of them thought that they were either partially adequate (52.9%) or fully adequate (41.2%).

6.12 Opinion of the respondents regarding reliability of information in annual reports

Adequacy and reliability are two important qualitative characteristics that should be followed by the banks in their corporate annual reports. The information disclosed by banks in their annual reports should be reliable for the economic decision-making. Without the reliability of information

the present and prospective shareholders or investors must find it difficult to make their investment decisions. Keeping this point in mind, in the questionnaire, the respondents were asked if they thought that annual reports contain reliability of information necessary to serve their purposes in using them. The responses are summarized in Table 6.12.

Table 6.12: Opinion of the respondents regarding reliability of information in annual reports

		B.L.O.
Fully reliable	Count	5
	% within	29.4%
Partially reliable	Count	8
	% within	47.1%
Not reliable	Count	4
	% within	23.5%
Total	Count	17
	% within	100.0%

Table 6.12 shows that 23.5% of the respondents thought that the annual reports were 'not reliable'; while majority of them thought that they were either partially reliable (47.1%) or fully reliable (29.4%).

6.13 Opinion of the respondents regarding the satisfaction of reporting requirements

The bank loan officers were asked to respond regarding their satisfaction with the present reporting requirements and present reporting practices. The responses are summarized in Table 6.13.

Table 6.13

Are you happy with the present-		reporting requirements	reporting practices
No	Count	3	4
	% within	17.65%	23.53%
Yes	Count	14	13
	% within	82.35%	76.47%
Total	Count	17	17
	% within	100.0%	100.0%

Table 6.13 shows that 82.35% and 76.47% of the respondents express their satisfaction on present reporting requirements and present reporting practices respectively.

6.14 Opinion of the respondents regarding disclosure of the name of default directors with amount due in notes to financial statements

Table 6.14

		BLO
No	Count	15
	% within	88.24%
Yes	Count	2
	% within	11.76%
Total	Count	17
	% within	100.0%

Table 6.14 shows that only 11.76% of the respondents disclose the name of default directors with amount due in notes to financial statements. Most of the respondents (88.24%) don't disclose the name of default directors.

6.15 Opinion of the respondents regarding disclosure of the name of borrower directors in notes to financial statements

Table 6.15

		BLO
No	Count	16
	% within	94.12%
Yes	Count	1
	% within	5.88%
Total	Count	17
	% within	100.0%

Table 6.15 shows that only 5.88% of the respondents disclose the name of borrower directors in notes to financial statements. Most of the respondents (94.12%) don't disclose the name of borrower directors.

6.16 Opinion of the respondents regarding disclosure of the name of Business enterprises of the borrower directors

Table 6.16

		BLO
No	Count	17
	% within BLO	100.0%
Yes	Count	0
	% within BLO	0.0%
Total	Count	17
	% within BLO	100.0%

Table 6.16 shows that no respondents disclose the name of business enterprises of the borrower directors. 100.0% respondents don't disclose the name of business enterprises of borrower directors.

7. Major findings

Though corporate financial disclosure is an on-going concept in the banking sector, some weaknesses of the reports may be identified. The paper revealed the following key findings:

- ☐ No respondents disclose the name of business enterprises of borrower directors.
- ☐ With regard to disclosing the name of borrower directors in notes to financial statements a significant number of respondents held the opinion that they don't disclose the name of borrower directors.
- ☐ Again most of the BLO take the view that they don't disclose the name of default directors.
- ☐ The BLOs were asked to respond regarding their satisfaction with the present reporting requirements and present reporting practices. A majority of the BLO expressed their satisfaction on present reporting requirements and present reporting practices.
- ☐ The findings also reported that most of the bankers use cost principle in valuing their assets. Further they reported that if cost principle is not followed, they disclose that information in the annual reports.
- ☐ Majority of respondent thought that annual reports were either partially reliable (47.1%) or fully reliable (29.4%).
- ☐ Majority of respondent thought that annual reports were either partially adequate (52.9%) or fully adequate (41.2%).
- ☐ As the whistleblower most of the respondents state that they create secret reserves in their balance sheet.
- ☐ The findings cover also the soundness of the corporate financial disclosure of the banks that greater portion of the banker prepare aging schedule of loans and advances, they fix the rate of provisions for bad debts and they have not received qualified opinion or disclaimer.
- ☐ It is important to note that percentages for yes/no answer calculated from the total number who answered the questions as opposed to the total number of surveys distributed, this was done to prevent any distortion in the survey findings.

8. Limitations of the Study

- ☐ The study is based on empirical evidences and several areas of asymmetry have been illuminated.
- ☐ The authors have done the analysis on the basis of semi-structured primary data and some secondary data.
- ☐ For preparing the paper the authors only consider BLO as respondents and several respondent groups like Professional

Accountants, Stock Brokers, Financial Analysts, and Accounting Professors have been avoided.

9. Conclusion and recommendations

Annual reports, to a large extent, form the basis for action by investors, creditors and potential creditors of the banks. Because of this, shareholders, in particular, must understand in general way the contents of annual report. This study examines the perceptions of major user group, namely bank loan officer. The study reveals that the corporate annual report of banking company was the most important source of corporate information to the entire participating user group. This report provides an overview of the results pertinent to the questionnaire survey regarding disclosure policy of the commercial banks. The report offers a summary of the perception of key senior experts of BLO, pertaining to the disclosure policy of banks' level of compliance with best practice in corporate governance. This report provides an overview of the results pertinent to the Corporate Governance Survey of the Bangladeshi Banking Sector. Among the majority of respondents, the questionnaires were completed by representatives of the banks' top management, (e.g. Assistant General Managers) as well as heads of business divisions (e.g. Head of Compliance, Chief of Internal Audit). Respondents have in place a good general framework for corporate governance more emphasis is needed in the area of conducting structured reporting on compliance with good disclosure practices. More policies are needed to address minority rights and more efforts need to be geared toward designing and implementing special training programs on corporate governance and internal control practices for employees. Independent directors do not have a majority presence in the boardroom Banks, in general, do not take into consideration the evaluation of client's financial reporting practices in their credit risk assessment. Banks should have special committees for supervising and monitoring major business functions. Banks have already given much effort in the field of corporate financial disclosure in their annual reports. But still now some voluntary essential requirement exists; the current accounting system should make it mandatory for the stakeholders of banks. Corporate financial disclosure should be presented in classified form such as name of default directors with amount due, the name of borrower directors, Aging Schedule, fixing the rate of provisions for bad debts, qualified opinion or disclaimer, creating secret reserves in the balance-sheet, using cost principle in valuing assets, labor management relationship, environmental contribution in separate headings. As it is voluntary requirement, all banks do not disclose corporate social responsibility in monetary terms. So the transparency of the corporate social responsibility report sometimes makes question mark to the user groups. To resolve this problem the Government of Bangladesh should

make it mandatory to disclose the corporate social responsibility information with financial data. Accounting should develop a standard to guide the practice of corporate financial disclosure and reporting with which the company can make a compliance report the corporate governance disclosure.

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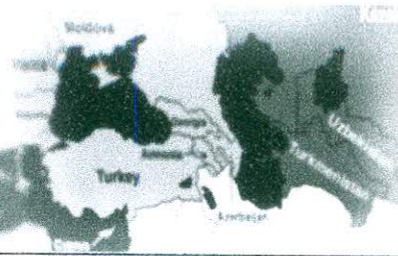
Appendix QUESTIONNAIRE

1. Name :
2. Name of Bank :
3. Designation/ Position :
4. Length of Service : Year..... Months.....
5. Educational Qualifications :
6. Professional Qualifications :
7. How long have you been serving in your current position?
8. What training do you have in Accounting? (Please tick the appropriate box)
 - ☐ None
 - ☐ Worked/Working as a bookkeeper
 - ☐ Attended appropriate course(s) in accounting
 - ☐ Hold accounting qualifications ☐ M.Com, ☐ M.Phil, ☐ Ph.D, ☐ CMA, ☐ CA
 - ☐ Served/serving as an accountant executive
 - ☐ Served/serving as head of accounts
 - ☐ Served as Business/ Accounting studies teaching profession
 - ☐ Other (please specify).....
9. Age Group of the respondents: Years

Below 25	☐
25 – 30	☐
30 – 35	☐
35 – 40	☐
40 – 45	☐
45 – 50	☐
50 and above	☐
10. Do you prepare Aging Schedule of Loans and Advances? Yes ☐ No ☐
11. Do you fix the rate of provisions for bad debts? Yes ☐ No ☐
12. Have you ever received qualified opinion or disclaimer? Yes ☐ No ☐
13. Do you create secret reserves in your balance-sheet? Yes ☐ No ☐
14. Do you strictly follow cost principle in valuing your assets? Yes ☐ No ☐
15. If cost principle is not followed, do you disclose that information in the annual reports? Yes ☐ No ☐
16. Do you disclose the name of default directors with amount due in notes to financial statements? Yes ☐ No ☐
17. Do you disclose the name of borrower directors in notes to financial statements? Yes ☐ No ☐
18. Do you disclose the name of business enterprises of the borrower directors? Yes ☐ No ☐
19. Do you think that the company annual report(s) that you use contain adequate information necessary to serve your purpose of using them?
 - (a) Fully adequate ☐
 - (b) Partially adequate ☐
 - (c) Not adequate ☐
20. Do you think that the information provided by the company annual report(s) that you use are reliable?
 - (a) Fully reliable ☐
 - (b) Partially reliable ☐
 - (c) Not reliable ☐
21. Are you happy with the present :
 - (a) reporting requirements Yes ☐ No ☐
 - (b) reporting practices Yes ☐ No ☐

Give reasons mentioning the area of shortcomings and/ appreciable features of both:

 - i)
 - ii)



April 15, 2009

ALIM AL AYUB AHMED
Asian University of Bangladesh
Bangladesh
billah_aub@yahoo.com

Dear Professor ALIM AL AYUB AHMED,

Based on the recommendation of the conference chair and a session chair, your proposal entitled **"Measurement and Analysis of the Extent of Disclosure: A Study of Banking Companies in Bangladesh"** has been accepted for presentation at the EBES 2009 Conference. This is also to confirm that your abstract will be published in the Conference Program and the Abstract Book if at least one of the co-authors registers for the conference. All papers and proposals are evaluated using a double blind reviewing process.

The **EBES 2009 Conference** will be held in Istanbul, Turkey, on June 1-2, 2009 at the historical main campus of Kadir Has University. The deadline for the registration is May 10, 2009. For further information about registration, please visit our website at www.ebesweb.org

Congratulations on your successful research efforts, and thank you for presenting your research paper at the **EBES 2009 Conference**.

We look forward to seeing you in Istanbul, Turkey in June. Have a safe trip to Turkey.

Respectfully,

Ender Demir
04/15/2009

Ender Demir
EBES
Conference Coordinator



Dear Alim Al Ayub Ahmed & Dr. Madan Mohan Dey,

Congratulations! Your paper, "Measurement and Analysis of the Extent of Disclosure: A Study of Banking Companies in Bangladesh", has been accepted for presentation at the Sixteenth Annual South Dakota International Business Conference in Rapid City, South Dakota on October 1-3, 2009. Northern State University is pleased to host the International Business Conference and we look forward to the presentation of your paper at the Radisson Hotel Rapid City/Mt. Rushmore.

Registration and check-in will be held at the hotel on Thursday, October 1 from 8:00 a.m. to 8:00 p.m. The conference will run from 10:00 a.m. to 4:30 p.m. on Thursday and 8:30 a.m. to 2:30 p.m. on Friday with the Mt. Rushmore dinner and keynote speaker event scheduled that evening. On Saturday, paper sessions will run from 8:00 a.m. to 5:00 p.m. Please visit our website at <http://www.northern.edu/ceib/ibc/program.html> for the most current version of the conference program as times and participants are finalized.

Included are a registration form, which should be mailed or faxed to the Conference Coordinator no later than September 10, 2009, and a detailed instruction form regarding the submission of the final paper. Final papers are due no later than September 24, 2009. If you are bringing a guest who would like to participate in the conference events, please contact me for the appropriate guest registration form and fees.

Please be sure to make all travel and lodging reservations in advance. Information on the conference hotel, airline service, and the Rapid City Convention and Visitors Bureau can be found on our website at <http://www.northern.edu/ceib/ibc/hotel.html>. For visitors and attendees coming from outside the United States, we suggest you begin now to obtain your necessary travel documentation, visas, etc. Increased United States immigration security has dramatically increased the time necessary to obtain a visitor's visa.

We look forward to your participation in the International Business Conference in Rapid City, SD. Please feel free to contact me if you have any questions at phone - (605) 626-7721, fax - (605) 626-3355 or email - jmwegleitner@northern.edu.

Sincerely,

Jennifer Wegleitner
Conference Coordinator
Northern State University
1200 South Jay Street
Aberdeen, SD 57401



**INTERNATIONAL SOCIETY
MANAGEMENT CONFERENCE
(ISM - 2010)**

Sector AG / 80, Scheme No. 54, Vijay Nagar, A.B. Road, INDORE 452 010 (M.P.), INDIA

Fax: +91-731-2552837 **Phone:** +91-731-2552837, 4004000 **Mobile:** 094250-56228

Email: conference@managein.org **Website:** www.managein.org

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"ADVANCES IN MANAGEMENT"

Dear Dr.Alim Al Ayub Ahmed,

1st International Society Management Conference (ISM-2010) is being held in year 2010 from 23rd Jan to 26th Jan 2010 at Indore, INDIA on focal theme of Strategic Management along with all broad fields related to Management, Commerce and Economics.

You are most respectfully invited to participate in 1st International Society Management Conference (ISM-2010) being held in year 2010 from 23rd Jan to 26th Jan 2010 at Indore, INDIA. We are pleased to inform you that your abstract / paper entitled Measurement and Analysis of the Extent of Disclosure: A Study of Banking Companies in Bangladesh.

has been accepted by scientific committee for oral presentation in the conference. Your abstract / paper will be published in book of proceedings which will be a special issue of our peer reviewed monthly international journal "Advances in Management". Our journal has been included in Cabell's Directory and RePEc.

ISM-2010 is being organized by "Advances in Management", Indore, INDIA. You are requested to make all your arrangements for participating in the conference. You are a good researcher and your contribution will inspire all of us at conference. Details of conference, journal, organizers, accommodation, registration, visa, payment are given at our website

<http://www.managein.org/manage/conference/default.htm>

Please confirm your participation immediately so that we may make all the arrangements to make conference a grand success. Please pay your registration fees at earliest and send us the registration form duly filled in as attachment.

We had organized International Congress of Chemistry and Environment ICCE-2001, ICCE-2005 in India, ICCE-2007 in Kuwait and now we are organizing ICCE-2009 in China. More details of ICCE are available at our website www.chemenviron.org

Please keep in mind that you or your institute should bear your travel, registration and hotel expenses. It won't be possible for us to sponsor you. For any other enquiry, please contact us without any hesitation.

With kind regards and best wishes,

Yours sincerely,

Dr. Shankar Gargh

Editor-in-Chief and Conference Chairman,

M.Sc. (Gold Medalist), Ph. D., MBA (U.S.), LL.B.,

FICCE., FISBT, FISM, FICDM, A. Inst. Pet. (UK)

Certificate of Acceptance

Tuesday, March 24, 2009 11:05 AM

From:

"ICAB" <ds.press@icab.org.bd>

Add sender to Contacts

To:

billah_aub@yahoo.com

This is to confirm receipt of an article titled "corporate attribute and the extent of Disclosure: A Study of Banking Companies of Bangladesh" authored by from Alim Al Ayub Ahmed, Lecturer of Accounting, School of Business, Asian University of Bangladesh, Bangladesh and Dr. Madan Mohan Dey Professor, Department of Accounting and Information System, University of Rajshahi, Bangladesh. The Article has been placed before the Editorial Board for January-March 2009.

Md Zahirul Hoque
Deputy Secretary-ICAB



With contributions from



Acceptance Letter

The Faculty of Accounting and Management Information Systems of the Academy of Economic Studies of Bucharest, Romania, in collaboration with the International Association for Accounting Education and Research (IAAER) and the Association of Chartered Certified Accountants (ACCA) and with contributions from International Accounting Standards Committee Foundation (IASC Foundation) announces the

4th International Conference Accounting and Management Information Systems (AMIS 2009)

to be held in Bucharest, at the Academy of Economic Studies, on June 18-19, 2009.
amis2009@cig.ase.ro

CORPORATE ATTRIBUTE AND THE EXTENT OF DISCLOSURE: A STUDY OF
BANKING COMPANIES IN BANGLADESH
Result: ACCEPTED

Dear **ALIM AL AYUB AHMED**,

The AMIS Scientific Committee has now finished the review process of all papers submitted to our conference. A large number of contributions have been submitted, and we are confident that the papers which have been selected by the Committee will support a good conference experience.

The AMIS organizing committee now invites you to check out the reviews received for your paper, by registering on the Paper Submission page, with the:

User: billah_aub@yahoo.com

Password: m363B363m

The AMIS organizing committee reminds you that it intends to include the papers in the conference proceedings on a CD with ISBN. Should you not agree with this publication, you are kindly asked to send an e-mail specifying this choice at amis2009@cig.ase.ro.

We thank you for your submission and await you to submit papers to future editions of our Conference.

Best regards,

The AMIS organizing committee



26 Tim Vassou str., 11521, Athens
Tel: +30 210 6459812, +30-22730-94537, Fax: +30-22730-94456
e-mail: samos@ineag.gr

6th AFE Conference: 02-04 July 2009, Samos Island Greece

Samos, 29/03/2009

Dear **Professor Alim Al Ayub Ahmed,**

On behalf of the 6th AFE Scientific Committee I would like to inform you that your paper under the title "**Corporate Attribute and the Extent of Disclosure: A Study of Banking Companies of Bangladesh**" for the AFE 2009 CONFERENCE on Samos, Greece, has been accepted as an oral presentation based on your peer reviewed proposal/abstract.

Resubmit the fully paper for the conference proceedings, following the process/submitted form that is on the site <<http://www.ineag.gr/afe>>. I remind you that the submitted full paper has to be in the form of **(MS Word)** and has to be sent to the afe@ineag.gr, under the mail title "full paper". Papers must not exceed 3000 words or **9-10 pages** (including abstract, references, tables, figures and diagrams).

I would like to inform you that after the May 31, 2009 the papers are going to sent to printers. I advise for early registration fees (until May 31, 2009), otherwise their papers will not be included on the proceedings. Please sent your registration by e-mail (afe@ineag.gr), under the title "registration form" and inform us what kind of receipt do you need, invoice or just receipt.

I also advise for early accommodation arrangement. As soon as you will book your hotel room, please inform us in which hotel are you staying on Samos, in order to arrange the bus transportation programme (Afe's list hotels on conference web site).

It should be noticed that all papers are peer reviewed by members of the Scientific Committee are published in the Conference Proceedings under the form of full papers.

We would be glad to see you in Samos on 02-04 July, 2009.

For any further information do not hesitate to contact us.

With kind regards

Valadis Prachalias
AFE Director

A handwritten signature in black ink, which appears to be 'V. Prachalias', is written over the typed name and title of the AFE Director.

Acceptance Notification and Invitation Letter
for International Symposium on Finance and Accounting
at Parkroyal Hotel, Kuala Lumpur, Malaysia, July 6-8, 2009
<http://isfa2009.org>

Alim Al Ayub Ahmed
Asian University of Bangladesh, Bangladesh

Dear Alim Al Ayub Ahmed,

I am pleased to inform you that based upon the recommendations of two blind reviewers your paper has been accepted for presentation at the ISFA2009, to be held in Kuala Lumpur, Malaysia on 6-8 July 2009.

Paper #: 19

Title: Corporate Attribute and the Extent of Disclosure: A Study of Banking Companies of Bangladesh

Author(s): Alim Al Ayub Ahmed

At this time, please make sure that you take care of the following details:

1. Please email your final version manuscript to ISFA2009@gmail.com. If you need to change file, the deadline for final submission (full papers or abstracts, authors could choose to publish their full papers or one- page abstracts in the conference proceedings) is May 10, 2009. If authors do not submit their final version manuscripts, the original submission manuscripts will be used for the conference proceedings. That is, May 10, 2009 is the last date to update or revise the manuscripts. After that, conference proceedings (CD-ROM) will be finalized. Detailed instructions can be found at <http://isfa2009.org>.
2. Registration will begin on March 1, 2009. The registration fee is US\$300 per person/paper. The registration deadline is May 10. The registration instruction can also be found at the website. At least one author must register and pay the registration fee by the deadline

The details about the above can be found at <http://isfa2009.org>. Once again thanks for your interest in the conference. We look forward to your participation in this very important event for academic community.

Yours sincerely,

Honor Chair:

Ali M. Kutan, Southern Illinois University, United State

Coordinators:

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Cheng-Hwai Liou, National Taichung Institute of Technology

Yung-Sheng Su, National Kaohsiung First University of Science
and technology

Secretary :

Chia-Yi Dong (Ms), National Taipei University

Shawn Chen (Mr), National Taipei University

Yi-Lei Chang (Ms), Secretary of BAI2009 conference

BAI2009 Conference Chair:

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Symposium Co-Chairs:

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Chih-Chien Wang, National Taipei University

Chung-Huey Huang, National Taipei University

Chih-Yun Wang, Ming Chung University

Treasurer:

Mu-Fen Zhao, Tam-Kang University



International Management Accounting Conference

KUALA LUMPUR, 19 -21 OCTOBER 2009

Emergent Theories and Practices in Accounting

16 April, 2009

Dear Alim Al Ayub Ahmed

On behalf of IMAC5, I am pleased to inform that your paper entitled **"Corporate Attributes and Extent of Disclosure: A Study of Banking Companies of Bangladesh"** has been accepted for presentation at the IMAC5 conference and is to be published in the Conference Proceedings subject to review of the final paper. Please find attached the reviewer's report.

I would like to ask you to check that your final paper is prepared according to the submission guidelines. Do ensure your revised paper respond to the concerns of the reviewer. Please e-mail your revised paper to imac5@ukm.my by 16 May, 2009. It is important to meet this deadline to ensure that your paper is include the conference proceeding. It also should note that the publication of the paper in conference proceeding is conditional on your registration to IMAC5 conference. For registration form, please refer to our website <http://www.ukm.my/imac5>.

Should you have any question, please do not hesitate to contact me.

We look forward to receive your reviewed paper soon, and also meeting you at the conference.

Best wishes

Rozita Amiruddin
Proceeding Committee

IMAC5 Conference Secretariat, School of Accounting
Faculty of Economics and Business, National University of Malaysia
43600 UKM Bangi, MALAYSIA
Tel: 603 89215748 Fax: 603 89213162
E-mail: imac5@ukm.my Website: <http://www.ukm.my/imac5>



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MEASUREMENT AND ANALYSIS OF THE EXTENT OF TIMELINESS IN CORPORATE ANNUAL REPORTS OF BANKING SECTOR IN BANGLADESH

Allim Al Ayub Ahmed*

Abstract

This study focused whether timeliness of corporate financial reporting in the banking sector has improved in Bangladesh following the creation of the Securities and Exchange Commission (SEC) in 1993, the enactment of the Companies Act in 1994, the amendment of the SEC Rules in 1997, and the Banking Companies Act, 1991. Using 25% of the population (12 banks) observations over a period of 5 years (2002-2006), the present study observed that banking companies in Bangladesh are taking relatively more time to complete audit of their accounts. The result reveals that the appeal of the information provided by the bank annual reports couldn't help the users to take their decision in time if it takes another 102 days to arrange annual general meeting in another 41 days. With regard to timeliness as a qualitative objective of financial statements, this evidence can be regarded as unsatisfactory.

Key words:

Timeliness, Bangladesh, Audit Lag, AGM Lag, Total Lag

Introduction

Stock exchanges in different countries have certain requirements for listed companies to publish their annual audited accounts within a specified period after the end of their accounting period. In developed countries, the filing requirements for listed companies vary from 90 days (in the USA and New Zealand), four months in the case of Australian listed companies and six months (in the UK) after the balance sheet date (Davis and Whittred, 1980; and Dayer and McHugh, 1975). In developing countries, Bahraini listed companies for example, are required to publish their annual

* Lecturer in Accounting, School of Business, Asian University of Bangladesh, billah_aub@yahoo.com

reports within 165 days from the financial year-end (Abdullah, 1996), while in the case of India and Bangladesh the maximum time limit to prepare corporate annual reports or financial statements for presentation at the annual general meeting in six months and nine months respectively from the accounting year end (Hossain, 1998). The objective of the study is to measure the extent of audit lag, AGM lag and total lag of the sample banks under study. There is a paucity of research about the timeliness of published audited accounts of companies in developing countries in general and a particular shortage of developing country studies of audit delay (Hossain 1998).

The Nature of Timeliness

The usefulness of published corporate reports depends on their accuracy and their timeliness. Timeliness was first identified by the American Accounting Association (AAA, 1954 and 1957) as one of the qualitative attributes of usefulness in accounting information. Subsequently, the Accounting Principle Board (APB) in the USA, the Institute of Chartered Accountants of England and Wales (ICAEW) followed the AAA path recognizing timeliness as one of the most important characteristics of financial statements. Timeliness requires that information should be made available to financial statement users as rapidly as possible (Carslaw and Kaplan, 1991) and it is a necessary condition to be satisfied if financial statements are to be useful (Davies and Whittred, 1980; p. 48-49).

There is evidence that there is a relationship between security prices and the timeliness disclosure (Givoy and Palmon, 1984 and Chambers and Penman, 1984). It has been argued that the shorter the time between the end of the accounting year and publication date of accounting reports (Abdulla, 1996). Legal or other accounting regulations may not permit publication of financial reports unless they have been certified by an external auditor. Even in the absence of such restrictions, managers of reporting firms may be unwilling to publish financial reports without audit certification due to agency cost considerations. Thus, publication of annual reports by companies may be delayed by the need is that accounts be audited. Time lag in financial report publication and audit delay are intertwined and frequently used interchangeably in the financial reporting literature. As a result, in many cases timeliness have actually dealt with audit delays. The length of the audit lag has been regarded as the *'single most important determinant of the timeliness of the earning announcements'* (Givoy and Palmon; 1982, p.419). Audit delay is generally defined in these studies as the length of time from a company's financial year-end to the date of the auditor's report.

Timeliness has long been recognized as one of the qualitative attributes of general purpose financial reports (AICPA, 1973; APB, 1970; FASB, 1979). Empirical research on timeliness of financial reporting provides evidence that the degree of timeliness of information release has information content (Beaver 1968) and affects firm value (Chambers & Penman, 1984; Givoly & Palmon, 1982; Kross & Schroeder, 1984; Schwartz & Soo, 1996). Recognizing the theoretical and practical importance of timely release of financial information, regulatory agencies around the world have set statutory maximum time limits within which public companies are required to issue audited financial statements to shareholders and other external users and file them with concerned regulatory bodies (for a summary of maximum allowable reporting lags in different countries, see Alford et al. 1993, pp 188-190). Most organized stock exchanges have similar or more stringent reporting and filing requirements. In emerging economies, the provision of timely information in corporate report assumes more importance since other non-financial statement sources such as media releases, news conferences and financial analysts forecasts are not well developed and the regulatory bodies are not as effective as in Western developed countries (Wallace, 1993).

Timely Financial Reporting- Bangladesh Perspective

Time lag in financial report publication and audit delay are intertwined and used interchangeably in financial reporting literature. As a result, in most cases timeliness have actually dealt with audit delays. The long audit delay normally leads to an even longer publication delay as companies in Bangladesh is reluctant in calling the annual general meetings (AGM) of shareholders in years with poor financial performance and/or low or no dividend announcement prospects. Although the Companies Act requires all companies, listed and unlisted, to furnish their annual accounts before the AGM within nine months of expiry of their respective financial years, a significant portion of these companies do not comply with this requirement. Many companies do not submit their annual accounts with the Registrar of Joint Stock Companies for several years. Some companies are found to take up to seven years to present audited financial statements before the AGM of shareholders (Karim, Ahmed & Islam, 2006). The usefulness of the information disclosed in company annual reports (CARs) will decline as the time lag increases, and it has been argued by Abdulla (1996) that the longer the period between year end and publication of the annual report, the higher the chances that the information will be leaked to some interested investors. Five major developments, directly or indirectly relevant to corporate financial reporting, took place in Bangladesh between 1993 and 1997 (Karim, Ahmed & Islam, 2006). First, a Securities and Exchange

Commission (SEC) was established with effect from 3 May 1993 under the SEC Act of 1993. The SEC Act, in its preamble, states that the SEC was established 'for the purpose of protection of interest of investors in securities, for the development of (securities) markets and for matters connected therewith or incidental thereto' (GOB 1993). One of the functions of the Commission, as specified by the SEC Act, is to call for information from issuers of securities. Although the SEC Act does not directly deal with the issue of timeliness of financial reporting, it empowers the Commission to issue new rules or amend existing rules, as it considers appropriate to improve the capital market and to ensure its smooth functioning.

Second, a new Companies Act was enacted in 1994 that came into force on 1 October 1995, replacing the Companies Act of 1913. The Companies Act 1994 preserved the provisions of the 1913 Act with regard to the 9-month time limit within which companies were required to furnish their financial statements before an AGM of shareholders. However, the new Act increases the penalty for non-compliance with this provision by ten times the penalty imposed by the old Act. The new Act provides for a penalty of up to Tk 5,000 (A\$200) on each director of the company for failure to comply with relevant provision.

A third development took place in October 1997 when the SEC amended the Securities and Exchange Rules (SER) of 1987 that required a listed company to prepare half-yearly financial statements within one month of the close of the first half-year of its accounting year and issue those statements to the stock exchange(s) in which its securities are listed, to holders of its securities, and to the Commission.

Fourth, the country's capital market saw an unprecedented boom and a subsequent collapse in stock prices during 1996-97. One of the reasons contributing to the unusual rise and fall in securities prices was due to artificial manipulation of securities prices by a number of securities dealers and issuers in the absence of timely provision of reliable financial information in the market.

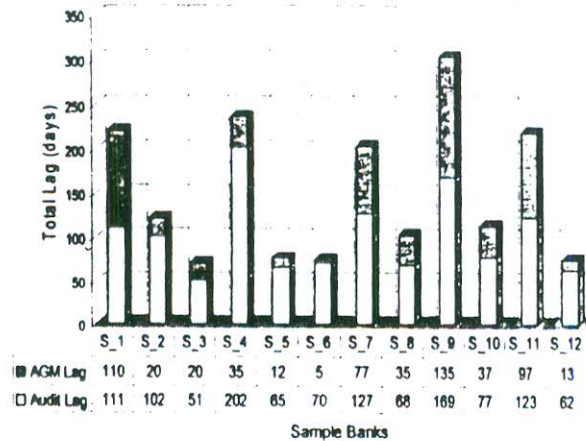
Finally, after the stock market crash in 1996, the SEC has been insisting listed companies on holding regular AGMs and publishing up to date annual reports. The fact that some companies were found to hold up to 5 AGMs and publish financial statements of up to 5 consecutive years on the same day is most likely to be in response to the SEC pressure. In the context of the above developments taking place in Bangladesh over the period 1993 – 1997, it is considered to be an ideal setting to study the impact of regulatory changes on timeliness of corporate financial reporting. In view of the above developments, it is expected that companies would provide more timely information for the following reasons:

- I. The creation of the SEC in 1993 would mean listed companies would come under the SEC oversight leading to improvement in all aspects of corporate financial reporting including timeliness;
- II. The increase in penalty for non-compliance to the time limit for holding the AGMs under the Companies Act 1994 could be expected to improve the overall timeliness in corporate financial reporting following enactment of the Act;
- III. The amendment of the SER in 1997 requiring publication of half-yearly financial statements within one month of the first half of the year should make it easy for companies to prepare annual financial statements sooner as they would already have prepared half-yearly financial statements;
- IV. In the aftermath of the biggest stock market crash in 1996-97, listed companies could be expected to be extra careful in maintaining and increasing shareholder confidence in the company and its management. They could also be expected to install internal audit and/or improve existing internal audits to improve accountability within the organization. Timely provision of financial information and regular holding of AGMs could be two of the ways management might want to signal their commitment to the shareholders.

In addition to the above, the steady increases in foreign investment into the country and greater degree of financial liberalization are expected to improve the timeliness of financial reporting in the country over time. This study focuses on one aspect of corporate financial reporting in banking companies – timeliness. The study aims to see whether the above-mentioned developments in the financial reporting regulatory environment have been successful in significantly reducing the time lag in publishing financial statements by banking sector in Bangladesh.

Graphical presentation of the extent of total lag for the year 2002

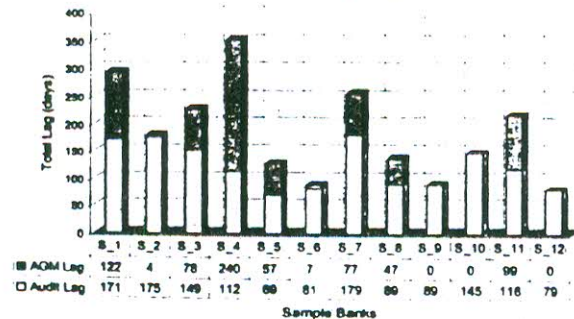
Graph 1



The graph 1 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2002, we observe that highest total lag and AGM lag were shown by the 'sample 9', and the highest audit lag was shown by the 'sample 4', and the lowest total lag was shown by the 'sample 3', the lowest AGM lag was shown by the sample 6 and the lowest audit lag was shown by the sample 3. From the sight of timeliness we can comment that overall lag profile of the sample 3, 5, 6 and 12 might be judged relatively low.

Graphical presentation of the extent of total lag for the year 2003

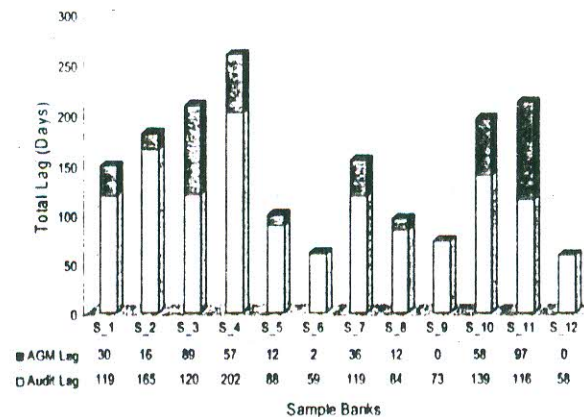
Graph 2



The graph 2 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2003, we observe that highest total lag and AGM lag were shown by the 'sample 4', and the highest audit lag was shown by the 'sample 1', and the lowest total lag was shown by the 'sample 12' and sample 9 and 12 were not shown by the AGM lag. From the sight of timeliness we can comment that overall lag profile of the sample 6, 9 and 12 might be judged relatively low.

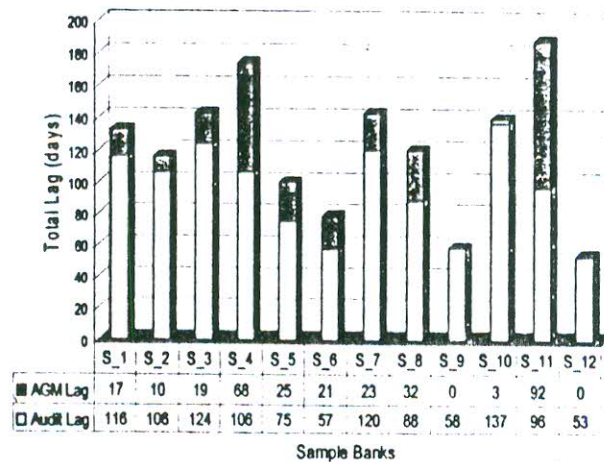
Graphical presentation of the extent of total lag for the year 2004

Graph 3



The graph 3 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2004, we observe that highest total lag and audit lag were shown by the 'sample 4', and the highest AGM lag was shown by the 'sample 11', and the lowest total lag was shown by the 'sample 12' and sample 9 and 12 were not shown by the AGM lag. From the sight of timeliness we can comment that overall lag profile of the sample 6, 9 and 12 might be judged relatively low.

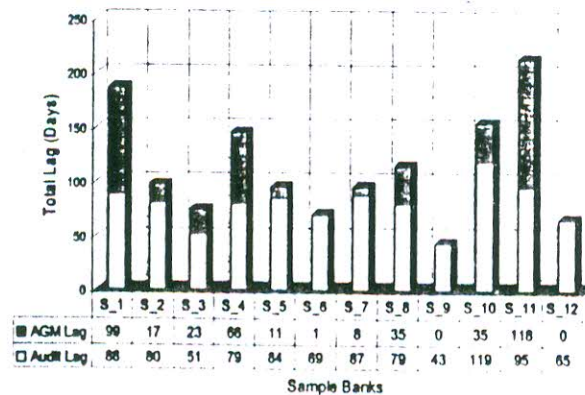
Graphical presentation of the extent of total lag for the year 2005
Graph 4



The graph 4 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2005, we observe that highest total lag and AGM lag were shown by the 'sample 11', and highest audit lag was shown by the 'sample 10', and the lowest total lag was shown by the 'sample 12' and sample 9 and 12 were not shown by the AGM lag. From the sight of timeliness we can comment that overall lag profile of the sample 9 and 12 might be judged relatively low.

Graphical presentation of the extent of total lag for the year 2006

Graph 5



The graph 5 is showing the total lag (audit lag + AGM lag) of the financial statements for the sample under study. From the above graphical presentation based on the data of year 2006, we observe that highest total lag and AGM lag were shown by the 'sample 11', and highest audit lag was shown by the 'sample 10', and the lowest total lag was shown by the 'sample 9' and sample 9 and 12 were not shown by the AGM lag. From the sight of timeliness we can comment that overall lag profile of the sample 3, 6, 9 and 12 might be judged relatively low.

Summary and Conclusion

This study reports the results of three measures of timeliness are used. One, in terms of the number of days it takes a company to have the audit completed, the second the number of days it takes a bank to hold its AGM since the date of its fiscal year audit completed, and finally, the number of days it takes a bank to hold its total since the date of its fiscal year-end. The levels of analysis are the trend of extent in the three on the impact of disclosure score on timeliness.

During the post-regulatory period i.e., post- 'BRPD circular- 3' period, timeliness has deteriorated significantly which suggests that regulatory changes have failed to bring about improvement in the quality of financial reporting of banking sector in Bangladesh with respect to timeliness. The findings of this study can be used in the debate on the efficacy of regulatory pressure on financial reporting of banking sector in Bangladesh. The regulatory changes through BRPD circular brought about the banking sector in Bangladesh throughout the study period have been substantial. It was expected that the change would improve the age-old problem of chronic publication delay in corporate financial reporting of banking sector in the country. While the average publication delays have reduced by year.

Banking companies in Bangladesh are taking relatively more time to complete audit of their accounts. As a result the appeal of the information provided by the bank annual reports couldn't help the users to take their decision in time if it takes another 102 days to arrange annual general meeting in another 41 days. With regard to timeliness as a qualitative objective of financial statements, this evidence can be regarded as unsatisfactory.

The findings of this study may be generalized after taking into consideration its limitation. The present research considers only the annual reports for listed banking companies. This study does not consider non-listed or non-financial or manufacturing companies. Further research can be undertaken to measure audit delay longitudinally in company characteristics (multi groups of companies) to determine whether the trend of audit delay has improved over time. Such a study would provide additional insights on the

underlying causes for the audit delay in developing countries in general and in Bangladesh in particular. However, if anyone includes listed non-financial companies in the sample, can attempt to examine the relationship between audit delay and industry type i.e., non-financial as '1' and financial as '0'. The results may be different if the number of company characteristics was increased or another set of variables were examined. Although the sample includes 12 listed banks (25% of the population) in Bangladesh is reasonable, further research can be undertaken with a larger sample. This might be useful with respect to the stability of the regression equation.

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PAPER TITLE:	Timeliness in Financial Reporting and the Extent of Disclosure: A Study of the Banking Sector of Bangladesh
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