A STUDY ON QUALITY OF CORPORATE DISCLOSURE IN SULTANATE OF OMAN

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[*With the advent of Information Technology era, the equations of cost benefit analysis, time and cost constraints and many more have changed a lot. With the extensive use of technology in all the areas right from the planning to analysis and interpretation of the results, the accounting and auditing professions are also no more an exception. Especially when it comes to the disclosure, presentation and reporting of the results for the period, the concepts like corporate governance, transparency, due diligence, reporting, compliances, uniformity, and global performance parameters play a vital role.*

For making economic decisions by the investors, availability of information regarding business firms is an important pre-requisite. Management discharges its accountability towards investors by providing information on financial performance and financial position of the company along with other relevant information through annual reports and other means of communication. Adequate corporate disclosures for both financial and non-financial data have to be ensured through a proper legislation. Based on the facts and figures, investors and analysts would make a wise and logical decision and perhaps the probability of investment getting proven the most fruit enabling the investors in making prudent economic decisions. Thus, disclosure of information by corporate entities plays an important role in the efficient capital allocation process and thereby contributes to the economic development of a country. Therefore, increasing attention must be devoted to improving the quality of corporate disclosure.

The present study seeks to measure empirically the extent of mandatory disclosure in corporate annual reports in Oman and to assess how far different company characteristics can explain the variation in such disclosure. In addition, it is desired to identify the nature of different types of non-disclosure and partial disclosure of mandatory information in such annual reports.

Keywords: *Cost Benefit Analysis, Corporate Disclosures, Annual Reports*]

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Introduction

With the advent of Information Technology era, the equations of cost benefit analysis, time and cost constraints and many more have changed a lot. With the extensive use of technology in all the areas right from the planning to analysis and interpretation of the results, the accounting and auditing professions are also no more an exception. Financial data are the source of decision making and based on the accuracy and certainty of the decision making, the fate of the funds invested and circulating in the economy also rests. The concepts like corporate governance, transparency, due diligence, reporting, compliances, uniformity, and global performance parameters are not effective and adequate if the quality, volume and completeness of the regulations and regulatory bodies are not maintained. Thus, in order to ensure the existence and effectiveness of these factors, the regulatory framework has to be strong enough. Here, the question remains whether to have many layers of such regulatory framework and keep on adding the same with the lapse of time or to strengthen the existing framework. With the information technology playing the role, the regulations and regulatory bodies implementing them have to be on constantly on toes and subject to the continuous refinements and advancements. Only requirement is to have a refined and modified versions of the framework rather than altogether new versions.

Over a period of time, the nature, quantum, intensity, depth and scope of Accounting, Auditing and Disclosure norms got changed and have been emerging as well. As data have been the major factor for decision making, it is of utmost importance to check the genuineness, authenticity and validity of the internal and external data published by the organization. Data are the backbone of any activity in which human element is observed. There remain to be many uses for which data are applied and utilized. So far as financial data are concerned, areas of usage remain to be investment decisions, routine functioning of the organization, projections with reference to the future and so on.

Due to growing scale and complexity of the businesses, the scope of collection and especially the quality of the data have shown the declining trend consistently. Financial shenanigans, concealment of material facts, window dressing to the facts and figures, and creation of the rosy picture for the financials have shown the clear involvement in unearthed financial frauds. They will remain forever as there is an involvement of human beings in all these activities. However, the robust system of reporting and disclosures would prevent the material misstatements to a considerable extent. In short, the creators and presenters of the information play a significant role in the decision making process of the stakeholders.

For making economic decisions by the investors, availability of information regarding business firms is an important pre-requisite. Management discharges its accountability towards investors by

providing information on financial performance and financial position of the company along with other relevant information through annual reports and other means of communication. Adequate corporate disclosures for both financial and non-financial data have to be ensured through a proper legislation. Based on the facts and figures, investors and analysts would make a wise and logical decision and perhaps the probability of investment getting proven the most fruit enabling the investors in making prudent economic decisions. Thus, disclosure of information by corporate entities plays an important role in the efficient capital allocation process and thereby contributes to the economic development of a country. Therefore, increasing attention must be devoted to improving the quality of corporate disclosure.

Corporate enterprises disclose information for external users through a number of documents and avenues of communication, like annual report, interim report, letters to shareholders and debt holders, communication with financial analysts, question and answer session held at the annual general meeting, telephone conversation and so on.

Disclosure by corporate entities can be either mandatory or voluntary. Disclosure of information imposed by regulations constitutes mandatory disclosure, while reporting of information by management at its own discretion is voluntary disclosure.

The present study seeks to measure empirically the extent of mandatory disclosure in corporate annual reports in Oman and to assess how far different company characteristics can explain the variation in such disclosure. In addition, it is desired to identify the nature of different types of non-disclosure and partial disclosure of mandatory information in such annual reports.

(i) What is the exact parameter on which the mandatory disclosure quality and depth in the annual reports of the companies could be measured in Oman?

(ii) In case there is any non-disclosure or partial disclosure of material information or convenient modification of the data by Management in the annual reports of the companies, could it be traced? In case yes, to what extent and covering what scope?

(iii) Whether the comparative analysis between the companies on defined parameters could produce the variation of the compliances of those companies?

The nation builds the trust level and governance practices when the organizations especially those organizations which influence the investment decisions of the investors or whose holdings are with the majority of the investors proactively apply many compliance measures. Financial statements, reporting and disclosures, when presented as a matter of formality and that too without the social awareness and responsibility do convey only the bookish figures and amounts. If the organizations do not follow the required transparency or completeness of the facts

disclosures, the legislation has to play a role. In any case, by choice or by force, the protection of the interest of the investors, money invested by them and circulation of the funds have to be safeguarded, ensured and sustained for a long period of time. The key goal of disclosure will be satisfied and the energy for the disclosure towards good Corporate Governance will be enhanced whenever disclosure is performed on the basis of consistent and constant accounting requirements.

Thus, the guidelines issued by Capital Market Authority of Oman (CMA), IFRS and any other Laws relating to Accounting and Auditing professions form time to time make the significant factors for corporate governance. The measuring parameters remain to be disclosure requirements, reporting standards and any other expressly or impliedly mentioned requirement.

Thus, even though the companies in Oman are following IFRS and other disclosure norms stated by CMA and other national and international legislations, consistent efforts to make the regulatory and checking systems more and more robust and investment weather more safe are the real requirements.

The present study would focus on the existing frameworks / norms of disclosure for listed companies in Muscat Securities Market (MSM) of Sultanate of Oman. The first objective of this study is to empirically assess the extent of mandatory disclosure1 in annual reports of companies listed in the Muscat Securities Market, Sultanate of Oman and to analyze such extent of disclosure. To achieve this objective, the actual contents of mandatory information in annual reports of 46 companies are examined and measured, and the extents of mandatory disclosure obtained from such measurement are analyzed.

Need for Research

Corporate Governance is also one of such areas which is considered vital for the very existence of any regulatory or control system. Corporate governance implies that the company would manage its affairs with diligence, transparency, responsibility and accountability, and would maximise shareholders' wealth. Hence it is required to design systems, processes, procedures, structures and take decisions to augment its financial performance and stakeholder value in the long run. Good corporate governance requires companies to adopt practices and policies which comprise performance accountability, effective management control by the Board of Directors, constitution of Board Committees as a part of the internal control system, fair representation of professionally qualified, non-executive and independent Directors on the Board, the adequate timely disclosure of information and the prompt discharge of statutory duties. The three key aspects of corporate governance includes: inter-alia, accountability, transparency and equality of treatment for all stakeholders. Since the pivotal role in any system of corporate governance is performed by the Board of Directors, they

are primarily accountable and responsible for governance of their companies. A number of reports and codes of Corporate Governance have been published internationally. Notable among them are the Report of Cadbury Committee, the Report of Greenbury Committee, the Combined Code of the London Stock Exchange, the OECD Code on Corporate Governance, the Blue Ribbon Committee on Corporate Governance, the Hampel Committee on Corporate Governance and the Review of the Role and Effectiveness of Non-executive Directors published by the Department of Trade and Industry, U.K. and so on.

In conclusion, the overall viewing and referencing of the same merely for the sake of compliance and the detailed analysis of the actual disclosures and their impact on the decision making by the investors and the other stakeholders of the organizations was felt to be the need of an hour by Researcher. More than merely accounting and auditing work, some element of reading between the lines and detecting the untold stories also remain to be the crux of the disclosure norms and analysis.

Right from the initialization stage till implementation stage followed by the conclusions, interpretations and follow up action, if any, it involves the human elements. Many executives work hard to build a culture of trust in their organizations— that is, one in which leadership can remain confident that policies, procedures, and ethical standards are maintained throughout the enterprise. However, the wrongdoers attempt to build trust as well, with the sole purpose of duping colleagues and management in many of those same organizations. This dynamic can make trust a professional hazard; when someone in a position of authority trusts in the accuracy of a company's processes and financial reporting, that individual asks fewer questions, and the opportunity for fraud increases. Trust and skepticism are inversely related when it comes to managing fraud. Hiding anything or stating the facts of more than the real ones both are wrong doings only, may it be intentional or unintentional.

Objectives of Research

The objectives of the Research remain as under

(i) To empirically measure and analyze whether the existing disclosure framework / norms conducive to the exact requirements of the industries.

(ii) To empirically measure and analyze whether the disclosure framework benchmarked with the best in the GCC countries.

(iii) To measure and analyze whether there is any scope to improve the existing framework commensurate with the feedback received from the industries.

Universe of the Research

Researcher studied and analyzed the directories of the listed Public Limited Companies in Muscat Securities Market, Sultanate of Oman. The number remains to be 112 in total. However, keeping in

mind the probable quantum of the data, complete accounting and auditing procedures and scale of the businesses, 46 selected companies in the manufacturing and auxiliaries to manufacturing sectors was selected for data collection, analysis and interpretation.

Sample Size

Sample size remains to be 46. The reason being, in Sultanate of Oman, companies having a big scale, quantum of transactions and probability of having versatile transactions, taxations scrutinies and so on are comparatively less in numbers. More than 90% of the total companies in Oman are dominated by MSME sectors. Hence selected 46 companies represent in true sense the large scale business organizations which would give the clear picture of the quality and depth of the disclosure and reporting practices. Databases in the form of websites, journals and periodicals from the Muscat Securities Market, Oman Taxation Law, respective companies, big four audit firms, private and public organizations in the fields of accounting, auditing and taxation are browsed in this regard.

Sample Technique

Convenience Random Sampling method is being adopted for sampling companies from list (Sampling Frame) of listed companies. The list is developed after referring to several databases.

Methods of Data Collection

Data collection is made with the help of the following:

Primary Data are being collected with the help of:

a) Interview Method

b) Interaction Method

Secondary Data are being collected with the help of:

a) Online data through Websites, Research Papers, Articles, Reports, White Papers etc.

b) Reference Books, Journals, Magazines, Newspaper Articles, Excerpts of the conversations and interviews.

Overall disclosure score of each company is measured by an index of disclosure, called Mandatory Disclosure Index (MDI). This index is calculated by dividing total weighted score obtained by the company by total weighted score applicable to the company.

Mandatory Disclosure Index (MDI)

(For measuring the extent of overall mandatory disclosure)

$$= \frac{\textit{Total weighted score obtained by the Company}}{\textit{Total weighted score applicable to the Company}}$$

Scope of the Study

The scope of the work is as under:

1. To carry out literature review of available data in the fields of disclosures, reporting, presentation and related irregularities, legislations and laws at national as well as international level.

2. To develop suggestions and recommendations based on research which would help the regulatory bodies

and stakeholders to understand the reporting and disclosures made by the organization to a greater extent.

3. The scope of study does not support developing a new Model of corporate disclosures and reporting. It can be taken as further research study.

4. Out of the three major Stakeholders for Company's financial data viz. Management, Auditors and Investors, the selected annual reports and audited financial statements of the firms are used for comparison and analysis. The reason being, majority of the Investors are found to be having low / no knowledge about the concept of corporate disclosures and presentation norms and so on. Management could be unwilling to share the confidential matters relating to their strategies and stance on the reporting and disclosure compliances and auditors are not all based in the same country. However, a few auditors are approached personally and interactions with them are also noted.

5. The scope is restricted with regard to the listed companies on the Muscat Securities Market and that too in manufacturing sector. The reason being, most of the Oman's corporate sector is dominated by the trading and manufacturing based firms with the service industry having comparatively lesser number of companies. Manufacturing, auxiliaries to manufacturing and related organizations are considered.

Limitations of the Study

- Out of the total 112 companies, only 46 companies belong to industry sector are undertaken for the research purposes and balance 66 companies belong to Finance and Service sector are excluded for this study.
- Major emphasis of the research is on the secondary data due to the confidentiality and vast nature of the data to be collected and analyzed.
- As the concept is emerging at Oman level, not much data are available about the implementation of the concept even though the introductory and conceptual part is developed by many authors.
- The case studies in the literature review are conceptualized and many such live real examples were available but could not be considered for want of confidentiality and non- disclosure.

Indicative Review of Literature

While many of these studies have been reviewed for conducting the present research, review of the following studies are reported separately under this section, as they have appeared to be most relevant and helpful in our study.

(i) Allan R. Cerf (1961)

(ii) Surendra S. Singhvi and Harsha B. Desai (1971)

(i) Allan R. Cerf (1961)

Cerf has conducted a cross sectional study to examine the association between the extent of disclosure in corporate annual reports and four selected company

characteristics. He has studied 527 annual reports of US companies for the fiscal years ending between July 1956 and June 1957. The companies have been randomly selected from 'Index to Stock and Bond Reports' published by Standard and Poor's Corporation. He has excluded certain types of companies like railways, bank, and public utilities from his sample in order to reduce the problem of differing information needs of these industries. He has made a review of relevant literatures, state and federal disclosure laws and information requirements of stock exchange. His study has been considered as the most comprehensive (Lal 1985, Ahmed 2004) and influential (Ahmed 2004) study on corporate financial reporting.

To measure the extent of disclosure in annual reports, Cerf has developed and used a weighted disclosure index. For developing the index, he has prepared a list of information items to be disclosed in annual reports. Thirty-one information items have been selected on the basis of review of relevant literature and perception of financial analysts. Each item of information included in the index has been assigned weight on the basis of rating by financial analysts, the assigned weight varied from 1 to 4. Every item in the index has been given a list of minimum specification. Based on Cerf's judgment as to the degree to which the minimum specifications had been disclosed in annual reports, appropriate score has been awarded. The extent of disclosure in annual reports of a company has been represented in terms of its disclosure score. The disclosure of a company has been measured by applying the index, which has been calculated by dividing the weighted score received by the company by its maximum possible score.

The final disclosure scores have then been used to assess whether there was any association between the extent of disclosure and four selected company characteristics. These company characteristics are:

(i) Company size measured by total assets,

(ii) Extent of ownership as measured by number of stock-holders,

(iii) Profitability as measured by the rate of return,

(iv) Methods of trading shares i.e., whether the shares were traded on the New York Stock Exchange, other exchanges or in the OTC Market.

Cerf has examined the individual effect of each characteristic upon disclosure. To do this, he has focused upon the amount of variation in mean disclosure of groups of companies arranged in classes according to asset-size, stockholder number and rate of return on net-worth. Cerf has found a positive association between the disclosure scores and (i) asset size, (ii) number of stock holders, and (iii) rate of return.

A least squares regression analysis has been conducted in order to ascertain the combined effect of all independent variables in predicting disclosure. Six different regression equations have been constructed. When he has examined the

combined effect of all four independent variables, the regression results have showed that the signs of partial regression coefficients were all positive. All of these coefficients, except stockholder number, have been significant at the 0.05 level.

However, Cerf's empirical study is subject to some limitations. First, the disclosure checklist used by him is very limited and many important information items such as changes in accounting policies pursued, earning forecast data etc. have been ignored. Secondly, he has remained silent regarding the method for determining the applicability of undisclosed items to the concerned company. Thirdly, no attempt has been made to deal with the problem of multicollinearity among some of the tested independent variables. Also, the indicative measures which Cerf has focused to define the research problem do not represent the entire external environment. In the sense, the factors which Cerf considers to be the items necessitating the research are not complete.

(ii) Surendra S. Singhvi and Harsha B. Desai (1971)

Singhvi and Desai have attempted to examine the influence of some of the company characteristics on the quality of corporate disclosure of 155 US corporations. Their study have covered the annual reports of 100 listed and 55 unlisted corporations for the fiscal years ending between April 1, 1965 and March 31, 1966. Listed corporations have been selected randomly from the 500 largest United States Industrial Corporations included in the Fortune's directory of 1965. Unlisted companies have been selected following systematic sampling procedures, from the National Over-the-Counter quotations of about 800 corporations published in the New York Times.

They have selected six company characteristics to find out their association with disclosure level in corporate annual reports. The selected company characteristics are:

i) Asset size

ii) Number of stockholders

iii) Rate of return

iv) Earnings margin

v) Listing status

vi) Size of audit firms.

Statistical analyses have been made to find out association between disclosure scores and six selected company characteristics. Using chi-square test, they have found significant positive association between disclosure level and four company characteristics, namely asset size, number of stockholders, rate of return and earnings margin at .01, .01, .02 and .05 level respectively. The influence of listing status and size of audit firms has been tested by using Z test. The test has revealed that at .01 level of significance, disclosure level was better for the listed firms than that for the unlisted firms and the difference between the mean scores of firms audited by Big-Six CPA firms and small CPA firms was also significant.

Review of Studies on Voluntary Disclosure

Post 2000 Frauds and Scandals in United States of America required formal legislation in order to curb the malpractices, boardroom failures, conflicts of interest of Auditors and Directors. Thought process of Senator Paul Sarbanes and Representative Michael Oxley has emerged in the form of Act which has included in itself various issues including Public Company Accounting Oversight Board (PCAOB)

Title I consists of nine sections and establishes the Public Company Accounting Oversight Board, to provide independent oversight of public accounting firms providing audit services ("auditors"). It also creates a central oversight board tasked with registering auditors, defining the specific processes and procedures for compliance audits, inspecting and policing conduct and quality control, and enforcing compliance with the specific mandates of SOX.

Auditor Independence

Title II consists of nine sections and establishes standards for external auditor independence, to limit conflicts of interest. It also addresses new auditor approval requirements, audit partner rotation, and auditor reporting requirements. It restricts auditing companies from providing non-audit services (e.g., consulting) for the same clients.

Corporate Responsibility

Title III consists of eight sections and mandates that senior executives take individual responsibility for the accuracy and completeness of corporate financial reports. It defines the interaction of external auditors and corporate audit committees, and specifies the responsibility of corporate officers for the accuracy and validity of corporate financial reports. It enumerates specific limits on the behaviors of corporate officers and describes specific forfeitures of benefits and civil penalties for non-compliance. To quote, Section 302 requires that the company's "principal officers" (Chief Executive Officer and Chief Financial Officer) certify and approve the integrity of their company financial reports quarterly.

Enhanced Financial Disclosures

Title IV consists of nine sections. It describes enhanced reporting requirements for financial transactions, including Off Balance Sheet transactions, pro-forma figures and stock transactions of corporate officers. It requires internal controls for assuring the accuracy of financial reports and disclosures, and mandates both audits and reports on those controls. It also requires timely reporting of material changes in financial condition and specific enhanced reviews by the SEC or its agents of corporate reports.

Analyst Conflicts of Interest

Title V consists of only one section, which includes measures designed to help restore investor confidence in the

reporting of securities analysts. It defines the codes of conduct for securities analysts and requires disclosure of knowable conflicts of interest.

Commission Resources and Authority

Title VI consists of four sections and defines practices to restore investor confidence in Securities Analysts. It also defines the SEC's authority to censure or bar securities professionals from practice and defines conditions under which a person can be barred from practicing as a broker, advisor, or dealer.

Studies and Reports

Title VII consists of five sections and requires the Comptroller General and the SEC to perform various studies and report their findings. Studies and reports include the effects of consolidation of public accounting firms, the role of credit rating agencies in the operation of securities markets, securities violations and enforcement actions, and whether investment banks assisted Enron, Global Crossing and others to manipulate earnings and obfuscate true financial conditions.

Corporate and Criminal Fraud Accountability

Title VIII consists of seven sections and is also referred to as the "Corporate and Criminal Fraud Accountability Act of 2002". It describes specific criminal penalties for manipulation, destruction or alteration of financial records or other interference with investigations, while providing certain protections for whistle-blowers.

White Collar Crime Penalty Enhancement

Title IX consists of six sections. This section is also called the "White Collar Crime Penalty Enhancement Act of 2002." This section increases the criminal penalties associated with white collar crimes and conspiracies. It recommends stronger sentencing guidelines and specifically adds failure to certify corporate financial reports as a criminal offense.

Corporate Tax Returns

Title X consists of one section. As per section 1001, Chief Executive Officer should sign the company tax return.

Corporate Fraud Accountability

Title XI consists of seven sections. Section 1101 recommends a name for this title as "Corporate Fraud Accountability Act of 2002". It identifies corporate fraud and records tampering as criminal offenses and joins those offenses to specific penalties. It also revises sentencing guidelines and strengthens their penalties. This enables the SEC to resort to temporarily freezing transactions or payments that have been deemed "large" or "unusual" **(Sarbanes Oxley Act, 2002).**

With the changing trends in the profession of Accounting and Auditing, temporary or permanent change in the lead auditor is also one of the essential ingredients. Sarbanes Oxley Act 2002 mentions that Lead Auditor and the reviewing partner should be rotated every five years. Disclosures and

presentations are done by the human beings only. Systems only facilitate the same or in case the systems do the same, the do it on the basis of the pre fed programs. Ultimately, apart from the nation, disclosure requirements and norms portray the uniform purpose of complete transparency and completeness. It is interesting to note that there exists a relationship between the tenure of the auditor with the audit engagement and the quality of the audit being done.

Like studies on aggregate disclosure, quite a good number of studies have been conducted on disclosure of voluntary information in corporate annual reports of different countries. Such studies include Firth (1979) in the context of UK; McNally et al. (1982) in the context of New Zealand; Chow and Wong-Boren (1987) in the context of Mexico; Cooke (1989a) in the context of Sweden; Hossain et al. (1994) in the context of Malaysia and Raffournier (1985) in the context of Switzerland. A number of such studies, which are considered relevant for the present research, have been reviewed and considered under section 2.5 while reporting on salient features and results of previous studies. However, this section reports separately the review of the following studies, as they have considered to be most influential by the present researcher:

(i) Michael Firth (1979)

(ii) Chee W. Chow and Adrian Wong–Boren (1987)

(i) Michael Firth (1979)

Firth has done a study of the relationship of voluntary disclosure in corporate annual reports of UK companies and three firm-specific characteristics. Those three characteristics are:

(a) Size of the company measured in terms of sales turnover and capital employed

(b) Listing status, i.e., whether listed on united Stock Exchange or not

(c) Auditing firm, i.e., whether audited by 'Big 8' audit firms or not.

He has developed an index of disclosure for measuring disclosure level of annual reports. This index includes 48 voluntary information items. The items exclude those that had to appear in annual accounts because of statutory regulations such as Companies Acts. Only those items have been included which were certainly bound to be present in an annual report of a company. The items have been assigned weights on the basis of their importance to the financial analysts, being one of the major types of users of accounts. Assignment of weights has been done by means of questionnaire survey of 46 financial analysts on a five-point (1 to 5) scale. Assigning the score of 5 means the item was very important, the score of 4 means the item was important, the score of 3 related to moderately important items, the score of 2 relates to slightly important, and the score 1 means unimportant.

A weighted disclosure index, comprising 48 items of information along with their associated weights (assigned by financial analysts), has then been used to measure disclosure level of annual reports of companies released in 1976 of three

different samples. These samples consist of 40 companies with no stock exchange listing, 40 stock exchange listed companies who were paired with the unlisted companies on the basis of size and industry, and 100 stock exchange listed companies. A disclosure index for each of the sample companies has been computed. If an item was disclosed, then the company has received the weighted score and if the item was not disclosed, then the company has received a zero score. The scores for the individual items for each company have then been totaled. This total has then been expressed as a percentage of the maximum score. This percentage figure has indicated the disclosure index for a company.

Two statistical tests have been carried out to examine the impact of stock exchange listing on disclosure indexes. These two tests are (i) a standard t test to examine whether the difference in group means are statistically significant, and (ii) a Wilcoxon matched-pairs signed-ranks test to examine if the disclosure rankings between listed companies and unlisted companies are significantly different. The results of the t test have showed a significant difference in group- means at the 0.05 level of significance. The Wilcoxon matched-pairs signed-ranks test has confirmed this result. From these results, Firth has concluded that companies with a stock market listing made greater disclosure than those that did not have a listing.

Firth has used Kendall's rank correction coefficient (tau) for each of the three sample companies to test association of their size and levels of disclosure. The results have showed that there was a positive association between size, whether measured in terms of sales turnover or capital employed, and levels of disclosure for all three samples. The probabilities of obtaining the tau values by chance have been very low and hence, Firth has concluded that the association was significant.

To assess the impact of auditing firms on the disclosure index scores, standard t test and Wilcoxon's matched- pairs signed-ranks test have been applied. The result of the t test has revealed that there was no significant difference at 0.05 level in the group mean disclosure scores between 'Big 8' audited companies and those audited by smaller auditing firms, for any of the samples. Wilcoxon matched-pairs test was significant at .48 level. Thus auditors have appeared to have had very little influence on the levels of disclosure made by companies in their annual report.

(ii) Chee W. Chow and Adrian Wong–Boren (1987)

Chow and Wong-Boren have examined the reporting practices of a sample of 52 listed Mexican manufacturing companies. Sample companies have been chosen from the Official Gazette of the Mexican federal governments in 1982. The objective of their study is to assess the impact of the three selected company characteristics on the extent of voluntary disclosure in the annual reports of Mexican companies. Selected company characteristics are:

(a) Size of company (measured by the market value equity plus book value of debt)

(b) Financial leverage (measured by the book value of debt divided by sum of the market value of equity and book value of debt)

(c) Proportion of assets in place (measured by dividing net book value of fixed assets by total assets).

Extent of voluntary disclosure in annual report has been measured by using two separate disclosure scores: weighted score and unweighted score. Under both weighted score and unweighted score, 24 voluntary information items were used to construct the disclosure scores. In case of the former, information items have been rated by bank loan officers on a seven-point scale on the basis of importance of the respective item to them. Mean importance rating of each information item has been computed on the basis of questionnaire responses from 67 bank loan officers. If any one of the 24 voluntary items was disclosed in the annual report of a company, the company has been awarded with the mean importance rating applicable to that item. The sum of awarded mean importance ratings gave the weighted disclosure score for the company. In case of unweighted score, information items have not been weighted. Hence, the sum of items disclosed in the annual report of a company have given unweighted disclose score for that company.

Both weighted and unweighted disclosure scores have then been regressed on the three selected firm characteristics. Both models have showed that only the size variables had a significant positive coefficient confirming the prediction of more extensive voluntary disclosure by larger firms. No significant effects of financial leverage and asset in place on the extent of voluntary disclosure have been observed.

Basic Problems of Disclosure

In disclosing information, business enterprises, particularly corporate entities, are confronted with certain basic problems, the solutions of which need answers to the following questions:

(i) Who are the users of information or for whom information should be disclosed?

(ii) What information should be disclosed?

(iii) How much information should be disclosed?

(iv) How should information be disclosed?

(v) When should information be disclosed?

Legal Framework of Corporate Reporting in Annual Reports in Sultanate of Oman

Omani Financial accounting is governed by Capital Market Authority. The principal role of the CMA is to supervise the capital market and insurance sectors in the Sultanate of Oman.

Among other things, the CMA:

- Regulates, licenses, and monitors the issuance of securities.

• Supervises public shareholding companies (SAOG).

• Supervises audit firms accredited to audit the accounts of the companies regulated by CMA.

• Develops and reviews legislation relating to capital markets and insurance.

• Enforces laws under its jurisdiction, including the Capital Market Law which requires the use of IFRS.

The commitment of the Sultanate of Oman to IFRS has been made in various legislation adopted in the Sultanate, including the following:

In Sultanate of Oman, Capital Market Authority has been keen on the quality and content of the reporting in audited statements. Capital Market and Insurance sector are governed by CMA. Under Omani Taxation Laws, the corporate taxpayers are divided into three categories, Omani Establishment, Permanent Establishment and Omani Company. For all the taxpayers, CMA focuses to attain the efficiency of policyholders and stakeholders. Right from increasing the awareness amongst the various stakeholders of the corporate sector, CMA also attempts to have guidelines of compliances for the Managements of the companies. The regulatory role of CMA could be explained in the following manner:

• CMA regulates and monitors the issuance of securities in Oman along with the confirmation of the required procedures and compliances

• CMA through its various watchdog agencies and regulatory authorities supervises Muscat Securities Market (MSM), Muscat Clearing and Depository Company, Public Shareholding Companies and Audit Firms who undertake the audits of these corporations / companies.

• CMA also issues licenses and monitors on regular basis the progress of and compliances by the companies in the securities market, investment funds, insurance brokerage firms and companies, credit rating agencies and various agents operating in this field. The main reason is, not only the companies and operators in this area but also those who act as advisors and consultants are to be brought under the purview of the supervision and control.

• It reviews the current legislature in capital market and insurance sector, notes the gap between the required and actual practices and attempts to make the regulatory measures at par with the major international practices in the area.

Measurement and Analysis of the Extent of Mandatory Disclosure in Corporate Annual Reports

The first objective of this study is to empirically assess the extent of mandatory disclosure[1] in annual reports of companies listed in the Muscat Securities Market, Sultanate of Oman and to analyze such extent of disclosure. To achieve this objective, the actual contents of mandatory information in annual reports of 46 companies are examined and measured and the extents of mandatory disclosure obtained from such measurement are analyzed.

Overall Disclosure Score of Sample Companies

Sl. No.	Name of Sample Companies	OverallScore
1	A'Saffa Foods SAOG	0.848837
2	Abrasives Manufacturing Company SAOG	0.766667
3	Al Anwar Ceramic Tiles Co SAOG	0.802632
4	Al Fajar Al Alamia Co SAOG	0.845238
5	Al Hassan Engineering Co SAOG	0.918605
6	Al Jazeera Steel Products Co. SAOG	0.868421
7	Al Maha Ceramics SAOG	0.833333
8	Al Oula Company (Oman) SAOG	0.486486
9	Areej Vegetable Oils & Derivatives SAOG	0.941176
10	Computer Stationery Industry SAOG	0.823529
11	Construction Materials Industries & Contg SAOG	0.935897
12	Dhofar Beverages & Food Stuff Co SAOG	0.725806
13	Dhofar Cattle Feed Co SAOG	0.953125
14	Dhofar Fisheries Industries Co SAOG	0.926471
15	Dhofar Poultry Co SAOG	0.691176
16	Galfar Engineering & Contracting SAOG	0.870968
17	Gulf International Chemicals SAOG	0.870370
18	Gulf Mushroom Products Co SAOG	0.916667
19	Gulf Plastic Industries Co SAOG	0.937500
20	Gulf Stone Co SAOG	0.685185
21	Majan Glass Co SAOG	0.875000
22	Muscat Thread Mills SAOG	0.806452
23	National Aluminium Products Co SAOG	0.844828
24	National Biscuit Industries Ltd SAOG	0.790323
25	National Detergent Co SAOG	0.815789
26	National Mineral Water Co SAOG	0.794872
27	National Pharmaceutical Industries Co SAOG	0.863636
28	Oman Agriculture Development Co SAOG	0.827586
29	Oman Cables Industry SAOG	0.937500
30	Oman Cement Co SAOG	0.937500
31	Oman Ceramics Co SAOG	0.838710
32	Oman Chlorine Co SAOG	0.987179
33	Oman Chromite Co SAOG	0.844828
34	Oman Fiber Optic Co SAOG	0.937500
35	Oman Fisheries Co SAOG	0.888889
36	Oman Flour Mills Co SAOG	0.875000
37	Oman Refreshment Co SAOG	0.893939
38	Oman Textile Mills Co SAOG	0.821429
39	Omani Euro Food Industries Co SAOG	0.821429
40	Omani Packaging Co SAOG	0.730769
41	Packaging Co Ltd SAOG	0.821429
42	Raysut Cement Co SAOG	0.785714
43	Salalah Mills Co SAOG	0.843750
44	Sohar Poultry Co SAOG	0.788462
45	Sweets Of Oman SAOG	0.896552
46	Voltamp Energy SAOG	0.879310

Analysis of the Extent of Overall Mandatory Disclosure

For making analysis, overall disclosure scores have been classified into different levels. The following table shows frequency distribution such disclosure scores:

Frequency Distribution of Overall Disclosure Score

Disclosure Score (%)	Sample Companies		Cumulative Sample Companies			
			More than type		Less than type	
Col. (1)	Number Col. (2)	(%) Col. (3)	Number Col. (4)	(%) Col. (5)	Number Col. (6)	(%) Col. (7)
Above 95%	2	4.35%	2	4.35%	44	95.65%
90% - up to 95%	9	19.57%	11	23.92%	35	76.08%
85% - up to 90%	10	21.74%	21	45.66%	25	54.34%
80% - up to 85%	14	30.43%	35	76.09%	11	23.91%
75% - up to 80%	5	10.87%	40	86.96%	6	13.04%
70% - up to 75%	3	6.52%	43	93.48%	3	6.52%
65% - up to 70%	3	6.52%	46	100%	Nil	Nil

Summary Statistics relating to Overall Disclosure Score

Mean	84.67%
Maximum	98.72%
Minimum	68.52%
Range	30.2%
Standard Deviation	7.41%

Above results indicate the following important findings in respect of overall disclosure score relating to mandatory information:

(i) No sample company has disclosed 100% mandatory information

(ii) The maximum disclosure score is 98.72%

(iii) The minimum disclosure score is 68.52%

(iv) The mean disclosure score is 84.67%

(v) 4.35% companies (2 companies) disclose more than 95% mandatory information, 23.92% sample companies (11 companies) have disclosed more than 90% mandatory information and all most all sample companies (40 companies representing 86.96% sample companies) have disclosed more than 75% mandatory information (Col. 5 of Table 5.2). However, the extent of disclosure is

less than 75% for only 2.5% of the sample companies (6 companies)

(vi) Highest level of disclosure (i.e., more than 95%) is made by 2 companies (representing 4.35% of sample companies)

(vii) Highest number of companies (14 companies representing 35% of sample companies) report 80% to 85% mandatory information

(viii) The standard deviation and range of disclosure score are 7.41% and 30.2% respectively.

Summary Statistics of Disclosure Score relating to Non-financial Statements

Non-financial Statements	Mean	Maximum	Minimum	Range	SD
Directors' Report	69.85%	100%	14.29%	85.71%	18.83%
Corporate Governance Report	95.31%	100%	77.78%	22.22%	6.27%
Management Discussion & Analysis Report	86.92%	100%	37.5%	62.5%	11.55%

Out of 46 sample companies, only 2 companies (4.35%) have provided full (100%) mandatory information in this report. The average disclosure level of this report is 69.85%, which is the lowest among the 3 Non-financial statements. The maximum and the minimum disclosure are 100% and 14.29% respectively resulting in a range of 85.71%. The standard deviation of disclosure level is 18.83%. Thus, variability in disclosure of this statement is the highest among the Non-financial statements. The mandatory disclosure is poor in BOD report in comparison to other two Non-financial statements.

Table : Summary of Disclosure

Sl No.	Applicable	Obtained	Score	BOD	CGR	MDA	MII
1	43.00	36.50	0.8488372	0.769231	1.000000	0.750000	0.875000
2	45.00	34.50	0.766667	0.666667	0.777778	0.750000	0.884615
3	38.00	30.50	0.802632	0.555556	1.000000	0.750000	0.863636
4	42.00	35.50	0.845238	0.636364	1.000000	0.875000	0.884615
5	43.00	39.50	0.918605	0.866667	1.000000	0.875000	0.950000
6	38.00	33.00	0.868421	0.777778	1.000000	0.875000	0.800000
7	39.00	32.50	0.833333	0.681818	0.900000	0.937500	0.850000
8	36.00	25.00	0.694444	0.500000	0.916667	0.857143	0.450000
9	34.00	32.00	0.941176	0.888889	1.000000	0.937500	0.928571
10	34.00	28.00	0.823529	0.666667	0.950000	0.812500	0.857143

Sl No.	Applicable	Obtained	Score	BOD	CGR	MDA	MII
11	39.00	36.50	0.935897 4	0.875000	1.000000	1.000000	0.888889
12	31.00	22.50	0.725806 5	0.142857	1.000000	0.812500	0.800000
13	32.00	30.50	0.953125	0.833333	1.000000	1.000000	0.928571
14	34.00	31.50	0.926470 6	0.888889	0.958333	0.937500	0.900000
15	34.00	23.50	0.691176 5	0.500000	0.954545	0.875000	0.200000
16	31.00	27.00	0.870967 7	0.777778	1.000000	0.875000	0.750000
17	27.00	23.50	0.870370	0.500000	1.000000	1.000000	1.000000
18	36.00	33.00	0.916666 7	0.777778	1.000000	1.000000	0.875000
19	32.00	30.00	0.937500	0.875000	1.000000	1.000000	0.833333
20	27.00	18.50	0.685185 2	0.142857	0.900000	0.875000	0.750000
21	28.00	24.50	0.875000	0.812500	0.900000	0.875000	1.000000
22	31.00	25.00	0.806451 6	0.600000	1.000000	0.875000	0.666667
23	29.00	24.50	0.844827 6	0.722222	1.000000	0.750000	1.000000
24	31.00	24.50	0.790322 6	0.444444	0.900000	0.937500	1.000000
25	32.00	23.50	0.734375	0.611111	0.800000	0.875000	0.600000
26	39.00	31.00	0.794871 8	0.444444	0.900000	0.875000	0.916667
27	33.00	28.50	0.863636 4	0.611111	0.900000	1.000000	1.000000
28	29.00	24.00	0.827586 2	0.555556	1.000000	0.750000	1.000000
29	32.00	30.00	0.937500	0.944444	0.850000	1.000000	1.000000
30	32.00	30.00	0.937500	0.900000	1.000000	0.875000	1.000000
31	31.00	26.00	0.838710	0.777778	0.900000	0.812500	0.875000
32	39.00	38.50	0.987179 5	1.000000	1.000000	1.000000	0.944444
33	29.00	24.50	0.844827 6	0.812500	0.909091	0.750000	1.000000
34	32.00	30.00	0.937500	1.000000	0.900000	0.875000	1.000000
35	28.00	25.00	0.892857 1	0.666667	1.000000	1.000000	1.000000
36	32.00	28.00	0.875000	0.727273	1.000000	0.875000	1.000000
37	33.00	29.50	0.893939 4	0.714286	1.000000	0.937500	0.857143
38	28.00	23.00	0.821428 6	0.500000	1.000000	0.875000	1.000000
39	28.00	23.00	0.821428 6	0.555556	1.000000	0.875000	1.000000
40	26.00	19.00	0.730769 2	0.714286	0.800000	0.625000	1.000000
41	28.00	23.00	0.821428 6	0.728571	1.000000	0.875000	1.000000
42	29.00	23.00	0.793103 4	0.900000	1.000000	0.375000	1.000000
43	32.00	27.00	0.843750	0.727273	0.909091	0.875000	1.000000
44	27.00	21.50	0.796296 3	0.871429	0.909091	0.812500	1.000000
45	29.00	26.00	0.896551 7	0.750000	0.909091	1.000000	1.000000
46	29.00	25.50	0.879310 3	0.714286	1.000000	0.812500	1.000000

Mean	32.8478	27.8587	**0.8466**	**0.6985**	**0.9531**	**0.8692**	**0.8941**
SD	4.8211	5.0240	**0.0741**	**0.1883**	**0.0627**	**0.1155**	**0.1585**
Range	19.0000	21.0000	**0.3020**	**0.8571**	**0.2222**	**0.6250**	**0.8000**

Max	46.00	39.50	**0.987179**	**1.000000**	**1.000000**	**1.000000**	**1.000000**
Min	26.00	18.50	**0.685185**	**0.142857**	**0.777778**	**0.375000**	**0.200000**

Major Findings of the Present Study

The major empirical findings of the present study are reported under the categories like findings relating to the nature of non-disclosure and partial disclosure of mandatory information, findings relating to the impact of company characteristics on the extent of mandatory disclosure.

a) No sample company has disclosed all the mandatory information items (100%) in its annual report though in each statement or part of annual report full disclosure has been seen to be made by one company or other.

b) Though the maximum extent of overall mandatory disclosure is high enough (98.72%), the minimum extent of such disclosure is very low (68.52%). However, the average level of disclosure is 84.67%, which may be considered as moderate. The standard deviation (7.41%) and range (30.2%) of disclosure score indicate that the variability in the extent of such disclosure is wide.

c) Among the three non-financial statements, average level of disclosure is the highest for Corporate Governance Report (95.31%) followed by and Management Discussion & Analysis Report (86.92%) and Board of Director's Report (69.85%).

d) The Variability in the extent of disclosure, measured in terms of both range and standard deviation, is the lowest for Corporate Governance Report (22.22% and 6.27% respectively) and highest for Board of Director's Report (85.71% and 18.83% respectively). Such variability for Management Discussion & Analysis Report (62.5% and 11.55% respectively) lies in between those of Corporate Governance Report and Board of Director's Report.

e) In financial statements, the average level of disclosure of Material Information Items is 89.41%. The maximum and the minimum disclosure are 100% and 20% respectively, which give a disclosure range of 80%. The standard deviation of disclosure is 15.85%. These results indicate that the variability in disclosure level of financial statements is also high as compared to non-Financial statements.

f) The average disclosure level has been found to vary across the parts of annual reports of sample companies. However, all the sample companies, which were required to disclose information relating to amalgamation and government grants, have made 100% disclosure of these information.

g) Using the criteria that the extent of mandatory disclosure is good, fair and poor for mean disclosure score of 'above 95%', 'between 85% and 95%' and 'below 85%' respectively, it has been observed that

- The extent of mandatory disclosure is good for Corporate Governance Report, Balance Sheet, Balance Sheet abstract, Merger and government grants.
- The extent of mandatory disclosure is fair for Management Discussion and Analysis Report, Income Statement and Cash Flow Statement.

- The extent of mandatory disclosure is poor for Board of Directors' report, accounting policy, information relating to subsidiaries companies, related party disclosure and effect of change in accounting policies.

h) The annual reports and the available data were not complete in all aspects. In the sense, in all the reports all the shortcomings were not observed, however minute detailing of the differences have been attempted in the study. The reason being, the interpretations and explanations are relative concepts and have to be thought from all the possible angles before the observations are finalized to be confirmed opinions.

i) Disclosure in different parts of the annual reports does not present the picture of a flatland. On the contrary there are different types of non-disclosure and partial disclosure of much significant mandatory information in different parts of these reports.

j) Deficiencies in information disclosure are observed in almost all financial and non-financial statements of annual reports, in respect of mandatory information relating to amalgamation and government grants. In few cases, auditors have not reported these observed deficiencies and anomalies.

Suggestions and Recommendations

Suggestions and recommendations are based on the observations noted and validated. However, in the wake of the need for awareness and emerging tendencies of the irregularities in disclosures and presentations, generic suggestions and recommendations are also inputted by the researcher. Suggestions and recommendations in all are aimed towards Capital Market Authority, corporate sector companies and investors in particular including all the other stakeholders in general.

- The separate arrangement may be in practice to go through the compliances of the GAAP and IFRS implementation for the financials.

- The declarations and signing may be made more stringent thereby establishing the accountability and responsibility to a larger scale.

- The departmental inclusion of the management to be held responsible for the presentation, reporting and disclosure may be implemented.

- The appointment of the auditors by rotation may be refined and fine-tuned.

- The correspondence of the auditors with the management representatives and company officials may be submitted with the Capital Market Authority separately in the form of annexure with the option of publishing the same in annual report of the company.

- Impact of the non-disclosure / inadequate disclosure / wrong disclosure on the financials may be quantified and brought to the notice of the companies under consideration.

- Companies may be made to re publish the annual reports with the revised versions. Even though the same remains to be little unrealistic and impractical, the

provision of the same in the legislation would make the company to make the reporting, disclosures and presentations carefully. The republishing of the revised annual reports may be subject to the heavy fines and would also cost the company in the form of ill effect on the trustworthiness and reliability of the company in the eyes of the investors.

- Any deviation from the required compliance may be clearly mentioned with the reasons and prior approval of the authorities. This should also be clearly mentioned in the annual report of the company.
- Sector specific and partial application of the IFRS should be stopped and complete applicability of the same may be put in effect.
- There may a separate compliance and disclosure team of the organization with their details printed in the annual report. They may also be made signatories to the annual report for their defined role and scope of work.
- Shareholders should be considered as financial investors or owners remains to be crucial for the very success of the complete disclosures. In the sense, like western countries wherein the shareholders are considered to be the financial investors, Oman does have the traditional way of putting the rights and functionalities of the shareholders as owners.
- Interconnections between the shareholders, family owned large scale businesses and predominantly skewed trading based businesses make insider trading stronger. The legislation may have more and more measures to prevent the same.
- Non-executive and independent directors should play a vital role rather than the role which they play currently. Due to this, the implementation of the laws and interdependence and interconnectivity of the shareholders and board of directors always exist.
- Organizations should have a robust internal checks and control systems which would generate early warning signals or red flags wherein before the annual report is published, the system may put the requirements in place.
- In the wake of the proposed joining for stream of major indirect taxation sources like VAT and Service Tax, CMA may make prior and desired changes in the Accounting and Auditing laws and rules. The reason being, due to accounting and presenting of the VAT and other indirect taxes, the complexity and difficulty level is bound to increase. This requires more stringent disclosure and presentation norms.

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