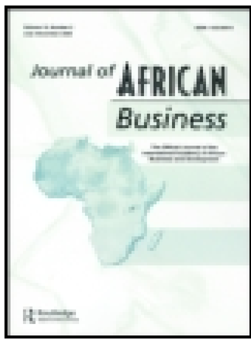

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Compliance with IAS Disclosure Requirements by Financial Institutions in Uganda

Samuel K. Sejjaaka

ABSTRACT. This study examines the extent of compliance by financial institutions (banks, and insurance firms) with IAS issued by the IASB and adopted in 1999 in Uganda. Despite the banking crisis of the 1990s and the drive to attract more foreign direct investment, we find that the extent of disclosure in the financial sector in terms of compliance with IAS is still poor. When we compare the disclosure scores for the two groups, we find that the scores are not significantly different. This indicates that the problem of low compliance is sector wide, and regulators need to improve on the standard of reporting in Uganda in order to improve acceptability of annual reports. *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-HAWORTH. E-mail address: <docdelivery@haworthpress.com> Website: <http://www.HaworthPress.com> © 2005 by The Haworth Press, Inc. All rights reserved.]*

KEYWORDS. Annual reports, disclosure, financial institutions, international accounting standards, Uganda

INTRODUCTION

The Institute of Certified Public Accountants of Uganda (ICPAU) was formed in 1992 as a result of the enactment of the Accountants Stat-

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ute 1992. The objectives, for which the institute was formed (*inter alia*) included the regulation of accounting practice and the provision of guidance on standards to be used in the preparation of financial statements. As with most developing countries, and in cognizance with developments in the area of accounting at a global level, the ICPAU in 1999 adopted International Accounting Standards (IAS) without any amendments (Dumontier and Raffournier, 1998). The ICPAU has, since its inception, issued only one Uganda Accounting Standard (UAS 1) in relation to Value Added Tax (VAT).

Prior to the adoption of IAS, there had been a proliferation of approaches to the preparation and presentation of financial statements in Uganda. One of the more obvious approaches to the presentation of financial statements was based on references to Generally Accepted Accounting Standards (GAAS) and company law. For example, the Financial Institutions Statute (FIS) 1993, required banks to use GAAS without specifying which GAAS were being referred to. There were no nationally recognized accounting standards (despite the reference in FIS 1993 to GAAS). The accounting values (Gray, 1988; Perera, 1989) that certified public accountants (CPAs) individually espoused were thus more likely than the undefined regulatory regime to impact on financial disclosure. The influence of CPAs values stems from the conjunction of the training and the socialization process they go through, and the degree to which technical aspects of financial disclosure are entrusted to them. Financial disclosures produced in such an unregulated accounting environment are also likely to vary on the basis of different work values, the training regime of the experience garnered through work. The imposition of IAS by the ICPAU was therefore intended to address this lacuna and also increase international conformance in accounting practice.

The objective of this paper is to examine the extent to which financial institutions (FIs) in Uganda have adjusted and hence comply with IAS disclosure requirements, especially following the banking crisis of the 1990s (Caprio, and Klingebiel, 1996). Compliance with IAS is important because the level of disclosure would be expected to increase with application of internationally acceptable guidelines. Furthermore, Uganda, as an emerging market, has a weak regulatory[1] environment and a nascent stock market. Efforts to raise capital and attract foreign direct investment in a globalized world are closely associated with the adoption of internationally acceptable reporting practices. It is therefore important to establish the progress made in adopting IAS and to examine areas of weakness in their use. We also examine if there is any significant differ-

ence between the level of usage of IAS by banks and insurance firms. It is expected that banks, which operate under a stricter regime of controls, would disclose more than insurance firms.

LITERATURE REVIEW

Development of Accounting in Uganda

The British Colonial administrators and religious communities (Catholic and Anglican) introduced bookkeeping to Uganda in the early nineteenth century (Kasanya, 2000). The guidelines used in writing financial reports were based on British firm law. Up to 1956, there was no significant legislation on accountancy in the colony. In this year, the Accountants (Designations) Act was introduced for the purpose of enlisting qualifications that would entitle somebody to describe himself or herself as an accountant. At the time of independence in 1962, there were only four qualified accountants in the country (ibid, 2000). Further legislation came in the form of the Companies Act in 1964. However this act only referred to the general use of accounting principles and preparation of financial statements without specifying guidelines. Thus there was an implied and continued reference to British Statements of Standard Accounting Practice (SSAP) in the preparation of financial statements.

Another attempt was made in 1970 to regulate accounting practice through the enactment of an Accountants Statute, but this effort was stillborn largely because of the political turmoil that ensued with the overthrow of the government by the military. Other efforts to regulate accounting practice through the creation of a professional association did not come to fruition until 1992 when the government of Uganda enacted the Accountants' Statute of 1992, establishing ICPAU and providing it with a mandate to prescribe accounting standards for Uganda. The ICPAU adopted IAS in 1999, and these are supposed to be used in the preparation of financial statements.

FIs in Uganda are of particular interest because they are the most well-regulated sector in the economy, even though at the time of this study none of them was quoted on the Uganda Stock Exchange (USE). The *Financial Institutions Statute* 1993, (FIS) and *Insurance Statute* 1996, *inter alia*, require FIs to "keep accounts and records" which (a) show a clear and correct state of their affairs, and (b) explain their transactions and financial position to enable the Central Bank and Uganda Insurance

Commission determine whether the FI has complied with the provisions of the statutes. FIs are also required to have their accounts audited in accordance with generally accepted accounting standards and "such other regulations, directives, policies or guidelines as the Central Bank and Insurance Commission may issue." Periodic returns, an audited balance sheet, and a profit and loss account must be submitted to the regulators within a period of four months after the end of the FIs financial year.

Despite these fairly detailed directives on reporting and disclosure, ten banks faced liquidity problems between 1993 and 2001. Five of these banks were closed and the rest restructured after central bank intervention. The Judicial Commission of Inquiry into Closure of Banks found massive instances of accounting impropriety in the closed banks. The three banks that were investigated by the commission were found to have "incredibly bad corporate governance, persistent under-capitalization, imprudent credit practices and consistently weak supervision (p. 1-1)." These banks were insolvent and had been for most of the time they operated. According to the report of the commission, Cooperative Bank, in its long and inauspicious life as a commercial bank had always been inadequately capitalized. Its core was negative and thus it was illegal for the bank to operate as a commercial bank. International Credit Bank's financial statements included assets that the bank did not own. One of these assets–a family home–remained in the accounts for seven years (1992-1999). Greenland Bank Limited (GBL) also had capitalization difficulties. The bank embarked on "intricate accounting gimmicks" by which it sought to, and succeeded in, misinforming and misleading the Bank of Uganda (BOU). In particular, a portion of its headquarters property was claimed to have been sold to one of its prominent shareholders, and that the proceeds of that sale (shs. 2.5 billion[2]) were then turned into new shares, and allotted to all shareholders *pro rata*. This action magnified the firm's capital from shs 1.1 billion to shs 3.6 billion, yet there was no resolution authorizing such allotment, nor did the shareholder in question have any recollection of such transaction (p. 1-4). The catalogue of unethical behavior by the banks included poor asset quality resulting from massive insider lending, poor accounting for interest on non-performing assets, intermittent liquidity problems, several off-balance sheet items, and weak audit functions (internal and external). These banks also suffered from lack of a strong board and the one-man management syndrome.

Use of IAS Internationally

The International Accounting Standards Committee[3] (IASC) was created in 1973 with the objective of developing, in the public interest, a single set of high quality, understandable and enforceable global standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions (IASC Foundation Constitution, 2000). In line with this objective the International Accounting Standards Board (IASB) has been working closely with the International Organization of Securities Commissions (IOSCO) to develop a set of core standards acceptable to the latter for use in reporting the results of firms seeking listings on some global markets.[4] Such standards should encourage comparability and transparency and also allow for rigorous interpretation and application (Taylor and Jones, 1999). As a result of these developments, firms all over the world have began to reference IAS, while several national standard setting organs have recommended their unreserved use in making financial statement disclosures. Uganda is in the latter category.

Various authors have studied the adoption and use of IAS in different jurisdictions. Dumontier and Raffournier (1998) studied the use of IAS in Switzerland. They hypothesized that the adoption of IAS would lead to increased information disclosure. They found that there was a positive influence of size, internationality, listing status, auditor type and ownership diffusion on IAS usage. Taylor and Jones (1999) who studied the use of IAS in the United States (US) found that all firms in their study referred to IAS in footnotes but not all did in their audit opinions. Only half the firms in their study referred to the IASB by name, implying that although there were widespread claims to the usage of IAS, such usage was not explicit. They also noted that firms used a combination of standards to suit their objectives, including those that were clearly opportunistic (cherry pickers). Such firms used IAS only with exceptions that enhanced their reporting. These are Category 1 and 2, which consists of firms that reference IAS by way of footnotes and audit report, and firms that only use footnotes as references. Class A, B and C firms include firms that use IAS only, a combination of standards, or use IAS with exceptions (cherry pickers) respectively. Case I and II firms respectively make reference to IAS or use IAS but do not reference them as their source.

Street and Bryant (2000) however found that greater disclosure is associated with an accounting policies footnote that specifically states that the

financial statements are prepared in accordance with IAS and an audit opinion that states that International Standards on Auditing (ISA) were used when conducting the audit. Firms with a US listing or filings also had a higher level of compliance or listing.

Disclosure in Financial Statements

IAS defines the minimum level of disclosure in corporate annual reports expected by the regulatory forces. These are usually stated in a distinct section of each standard (disclosure) and prescribe what information should be presented in the financial statements. According to Buzby (1974), disclosure of information in corporate annual reports is considered "adequate" if it is relevant to the needs of users, capable of meeting those needs, and timely released. Owusu-Ansah (1998) defines adequate disclosure as the extent (no of items) to which mandated applicable information is presented in annual reports of firms and the degree of intensity by which a firm discloses those items in its annual report (p. 609).

Indeed, the quantity of information displayed has come to be seen as a proxy for quality of disclosure (Botosan, 1997). Financial disclosure is thus aptly defined as the release of information concerning the economic performance, position or prospects particularly as measured in monetary terms (Gibbins et al., 1992). Johnson (1992) describes the objectives of disclosure as:

1. The description of relevant items and provision of relevant measures;
2. The description of unrecognized items and provision of a relevant measure;
3. Provision of information to investors and creditors to help assess risk and potential for both recognized and unrecognized items and;
4. Provision of important information in the interim while other accounting issues are being studied in depth.

He distinguishes recognition from disclosure thus, recognition is the process of formally recording an item in financial statements in words and in numbers. Disclosure by any other means is not recognition. Thus a disclosure must inform users of the monetary effect of the specific item whether it is aggregated with other elements of financial statements or not. A disclosure item refers to each separately stated requirement to disclose a number and/or piece of information.

Barth and Murphy (1994) identify six primary purposes for financial statement disclosures based on Statements of Financial Accounting Standards (SFAS) in the US. The purposes of financial statement disclosure are broad and encompass the entire spectrum of user requirements. These are (1) to describe recognized items and provide relevant measure of those items other than the measure in the financial statements; (2) describe unrecognized items and provide a useful measure of these items; (3) to provide information to help investors and creditors assess risks and potentials of both recognized and unrecognized items; (4) provide information that allows financial statement users to compare numbers to other firms and between years; (5) provide information on future cash inflows or outflows and; (6) help investors assess return on their investment (p. 5).

Under each primary purpose for financial statement disclosure, there are secondary purposes. These secondary purposes relate to a description of the contents of an item, its disaggregation so that users can understand its components, provision of alternative measures and disclosure of the critical assumptions on which estimates are based. Financial statement disclosures should enable users to make comparisons with prior years and to also assess risk and potential outcomes. Equally, financial statement disclosures should enable users to recalculate the amounts disclosed under alternative bases should they wish to do so to independently assess the cash flow situation of the firm, and return on investment.

The overarching objective of the financial disclosure is to ensure that users are provided with sufficient explanations to enable them to assess the performance and financial position of a firm. Despite this objective, the technical proficiency of those charged with making disclosure and the incentives they face when they make financial statement disclosures affects the quality and extent of disclosure outcomes. There is also not much explicit information provided on future cash inflows or outflows, while few standards provide measures of unrecognized items. Overtime, disclosure items have increased, while few have been eliminated which makes relevant disclosure much more difficult.

In the case of IAS, the adoption of a *conceptual framework* is intended to reduce the number of alternative accounting treatments permitted by IAS. Indeed, Alexander (1999) has argued that a general overriding requirement for disclosure (Type A) is the most consistent benchmark of adequacy, with the provision of useful information in a dynamic world. Thus the argument for examining the extent of compli-

ance with IAS at an all-inclusive level forms a persuasive basis for determining which firms provide adequate information.

The Index Approach

The index approach combines several variables of interest (disclosure measures) into a single measure. The index is constructed through an accumulation of scores assigned to individual voluntary and mandatory information items. The construction of an index involves two major stages. First is the selection of items for inclusion in the index. Second is the assignation of weights to the items in the index, i.e., a rule for relating disclosure items to the index (score). The annual reports are then scored using the index. A high score implies that disclosure is adequate and vice versa.

The rule for assigning weights to the scores for each information item is a key decision on the part of the researcher. A weighted (or differential) index is based on the assumption that the users of corporate annual reports attach different importance to different information items. This is reflected by weighting the information items. Weightings are typically determined by using a questionnaire survey where a particular user group is asked to assess each information item on a Likert-type scale. Each item is then weighted on the basis of the mean value based on the questionnaire responses. An information item disclosed in a sampled annual report is then scored on the basis of the mean weight of that item. Cerf (1961) assigned weights by reviewing the literature and surveying user groups. Buzby (1974) surveyed respondents and used their mean responses as his weighting. The literature on financial disclosure does not appear to resolve the issue of using a weighted or unweighted index. It is argued that if there were a large number of items in the index, weighted and unweighted scores would give the same result. Chow and Wong-Boren (1987) used unweighted scores in their statistical analyses. Firth (1980) and Cooke (1989) also used unweighted indices. The latter argued that weighting was a futile exercise because the subjective weights of different user groups would average each other out. Equally, those enterprises that are better at disclosing "important items" are also better at disclosing "unimportant items."

The index approach was first used by Cerf (1961). The technique has since been adopted and used in several studies (see Singhvi and Desai, 1971; Buzby, 1974; Barret, 1976; Firth, 1980; Chow and Wong-Boren, 1987; Wallace, 1988; Cooke, 1989; Raffournier, 1995; Owusu-Ansah, 1998). The approach has several advantages. First, it is capable of tap-

ping differences in magnitude of financial reporting of firms. Second, it rank-orders the sampled firms relative to each other. Third, the scores on an index can be treated as a parametric and non-parametric data set, which increase the power of analysis. Despite this widespread usage, the technique is susceptible to bias at the scoring stage. This is mainly a researcher-related problem (Marston and Shrives, 1991), which can be minimized by having other colleagues score the same annual reports for comparison. Another limitation is where firms differ significantly on the information items disclosed. Firms may earn similar scores if the number of sub-items is the same even when the actual content of the disclosures are fundamentally different. This, however, does not decrease efficacy of the index because generally firms that appear to have similar scores will have similar disclosure practices.

As a testing device, an index is designed to provide information about an underlying variable (Marston and Shrives, 1991) that is not amenable to measurement, i.e., financial disclosure. Financial disclosure is an abstract concept that cannot be measured directly (Cooke and Wallace, 1989). It does not possess inherent characteristics by which one can determine its intensity or quality like the capacity of a car (Marston and Shrives, 1991, p. 197). The appropriateness of an index as a measure is a function of its reliability and validity.

METHODOLOGY

Sample Size

This study involved using a non-random sample based on the list of Financial Institutions registered by BOU and UIC. In total, 43 firms were contacted by the researcher using a letter and physical visits. Out of these, a positive response was received from 35 (81%) firms that provided their annual reports for financial years ending in 2001, which were then used for the analysis. The responding firms included 21 banking institutions (coded B1-B22 in Appendix I) and 14 insurance companies (coded I1-I22 in Appendix II).

Extent of Disclosure Compliance

To measure the extent of disclosure compliance, the study used indexes derived from IAS (Owusu-Ansah, 1998). The disclosure indexes developed consisted of 271 items for banks and 274 items for insurance firms. Double counting of items was avoided by adjustment to the check-

list of items required by more than one IAS. The disclosure indexes were designed to achieve the following objectives:

i. Quantify both financial and non-financial disclosures,
ii. Apply with consistency to firms in the same category.

Disclosure of an item is mandatory if it is required under IAS. The items scored as a measure of extent of disclosure consist of all items required to be disclosed in corporate annual reports by an FI. An information item is scored one when disclosed and zero when not disclosed (Wallace and Naser, 1995), giving equal weighting to all items in the index. This removed the need for judgmental treatment of disclosure items and reduced subjectivity. Where an item mandated by IAS is not applicable to a particular institution, the score for disclosure was adjusted by using the relative index technique (Cooke, 1989, 1992; Raffournier, 1995; Owusu-Ansah, 2000). The relative mandatory score (RMS) was derived as a ratio (percentage) of the total number of mandated information items actually disclosed by the FI to the total possible number of mandated information items applicable to that FI and expected to be disclosed.

Reliability and Validity

Reliability of the disclosure index was established by requesting an independent person to score 10 randomly selected annual reports. An index should be reliable if it generates consistent measures of different sample firms on different occasions (Owusu-Ansah; 1998, 2000). The scores of the independent scorer were compared with the researchers score and found to have a Pearson product moment correlation coefficient = 0.871, p-value < 0.01, indicating a high degree of reliability. Validation of the indexes was done by requesting four independent auditors to evaluate its relevance to the reporting requirements in IAS (content validity). The adjusted indexes were then used in the study.

Data Analysis

The scores for each FI were collated on the basis of each IAS upon which a firm was required to report using Microsoft Excel.™ For each group of firms, a mean score was then derived from the data in Appendix I and II. An absolute mean score (FISCORE) was also derived by averaging the individual scores for each firm to determine the number of actual disclosures that had been observed. The RMS is thus derived

by adjusting each firm's FISCORE after taking into account which standards were relevant to a particular FI. The mean scores for each IAS for banks and insurance firms were also analyzed using an independent sample t-test to determine whether they were significantly different. This was done using SPSS Version 10.0.™

RESULTS AND DISCUSSION

The results show that the general level of disclosure, and therefore the application of IAS, is low for most of the standards. The absolute scores for banks and insurance firms for all accounting standards are shown in Appendix I and II. Summary descriptive statistics were computed for banks and insurance firms for each IAS (Table I and II) using the detailed information in the appendices.

Banks scored highest on IAS 4: *Depreciation* (x = 98.81%, σ = 5.46%) and IAS 18 *Revenue* (x = 95.24, σ = 15.04%). Low mean scores are recorded on IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (x = 1.59, σ = 7.27%) and IAS 27 *Consolidated Financial Statements and Accounting for Investment in Subsidiaries* (x = 3.57%, σ = 5.79%) because these standards are not applicable to all banks. Poor scores are recorded in respect of IAS 16 *Property, Plant and Equipment* (x = 35.12%, σ = 15.75%), IAS 19 *Employee Benefits* (x = 29.93%, σ = 23.43%), IAS 21 *The Effect of Changes in Foreign Exchange Rates* (x = 30.95%, σ = 13.21%), IAS 23 *Borrowing Costs* (x = 12.70%, σ = 24.67%), IAS 36 *Impairment of Assets* (x = 3.97%, σ = 10.41%), IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (x = 31.55%, σ = 26.70%), and IAS 38 *Intangible Assets* (x = 4.37%, σ = 13.34%), all of which are applicable across the board.

Insurance firms scored highest on IAS 4: *Depreciation* (x = 100%, σ = 0%), IAS 12 *Income Taxes* (x = 57.14%, σ = 30.46%) but with a wide variation in the latter score, and IAS 7, *Cash Flow Statements* (x = 41.14%, σ = 12.88%). Poor scores are recorded for all the other IAS, even when they have a lot of relevance to the industry, for example IAS 33 *Financial Instruments: Disclosure and Presentation* (x = 8.93%, σ = 15.14%), IAS37 *Provisions, Contingent Liabilities and Contingent Assets* (x = 9.82%, σ = 15.64%) and IAS 40 *Investment Property* (x = 6.67%, σ = 7.84%). Wide variations in the extent of compliance are also noted from the large standard deviations for specific IAS. This result is attributable to the fact that even within similar firms, there are large disparities in disclosure (also see Kahl and Belkaoui, 1981).

TABLE I. Descriptive Statistics for Financial Disclosure Scores of Banks

Mandatory Disclosures (IAS Requirements)	Mean Score (%)	Std. Dev. (%)
C1 IAS 1–Presentation of Financial Statements	26.98	14.73
C2 IAS 2–Inventories [Not marked]	-	-
C3 IAS 4–Depreciation	98.81	5.46
C4 IAS 7–Cash Flow Statements	47.05	7.37
C5 IAS 8–Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policy	23.81	13.93
C6 IAS 10–Events after the Balance Sheet Date	34.92	7.27
C7 IAS 11–Construction Contracts [Not marked]	-	-
C8 IAS 12–Income Taxes	59.52	34.79
C9 IAS 14–Segment Reporting [Not marked]	-	-
C10 IAS 15–Information Reflecting the Effects of Changing Prices	3.57	16.37
C11 IAS 16–Property, Plant and Equipment	35.12	15.75
C12 IAS 17–Leases	5.95	15.62
C13 IAS 18–Revenue	95.24	15.04
C14 IAS 19–Employee Benefits	29.93	23.43
C15 IAS 20–Accounting for Government Grants and Disclosure of Government Assistance	1.59	7.27
C16 IAS 21–The Effects of Changes in Foreign Exchange Rates	30.95	13.21
C17 IAS 22–Business Combinations	-	-
C18 IAS 23–Borrowing Costs	12.70	24.67
C19 IAS 24–Related Party Disclosure	44.22	32.55
C20 IAS 25–Accounting for Investments (Superceded by IAS 39 and 40)	-	-
C21 IAS 26–Accounting and Reporting by Retirement Benefit Plans (Not marked)	-	-
C22 IAS 27–Consolidated Financial Statements and Accounting for Investment in Subsidiaries	3.57	5.79
C23 IAS 28–Accounting for Investments in Associates	13.33	25.56
C 24 IAS 29–Financial Reporting in Hyperinflationary Economies	-	-
C25 IAS 30–Disclosures in the Financial Statements of Banks and Similar Institutions	56.57	15.48
C26 IAS 31–Financial Reporting of Interests in Joint Ventures	-	-
C27 IAS 33–Financial Instruments: Disclosure and Presentation	40.48	28.54
C28 IAS 33–Earnings per Share	71.43	46.29
C29 IAS 34–Interim Financial Reporting [Not marked]	-	-
C30 IAS 35–Discontinuing Operations	4.23	8.94
C31 IAS 36–Impairment of Assets	3.97	10.41
C32 IAS 37–Provisions, Contingent Liabilities and Contingent Assets	31.55	26.70
C33 IAS 38–Intangible Assets	4.37	13.34
C34 IAS 39–Financial Instruments: Recognition and Measurement [Not marked–see IAS 32]	-	-
C35 IAS 40–Investment Property	14.60	12.93
C36 IAS 40–Agriculture [Not marked]	-	-

TABLE II. Descriptive Statistics for Financial Disclosures Scores for Insurance Firms

Mandatory Disclosures (IAS Requirements)	Mean Score (%)	Std. Dev. (%)
C1 IAS 1–Presentation of Financial Statements	46.91	8.59
C2 IAS 2–Inventories [Not marked]	-	-
C3 IAS 4–Depreciation	100.00	0.00
C4 IAS 7–Cash Flow Statements	41.14	12.88
C5 IAS 8–Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policy	15.00	10.92
C6 IAS 10–Events after the Balance Sheet Date	33.33	0.00
C7 IAS 11–Construction Contracts [Not marked]	-	-
C8 IAS 12–Income Taxes	57.14	30.46
C9 IAS 14–Segment Reporting [Not marked]	-	-
C10 IAS 15–Information Reflecting the Effects of Changing Prices	0	0
C11 IAS 16–Property, Plant and Equipment	24.11	12.70
C12 IAS 17–Leases	0	0
C13 IAS 18–Revenue	50.00	0.00
C14 IAS 19–Employee Benefits	26.53	18.46
C15 IAS 20–Accounting for Government Grants and Disclosure of Government Assistance	0	0
C16 IAS 21–The Effects of Changes in Foreign Exchange Rates	23.81	12.60
C17 IAS 22–Business Combinations	-	-
C18 IAS 23–Borrowing Costs	7.14	19.30
C19 IAS 24–Related Party Disclosure	23.81	25.08
C20 IAS 25–Accounting for Investments (Superceded by IAS 39 and 40)	-	-
C21 IAS 26–Accounting and Reporting by Retirement Benefit Plans [Not marked]	-	-
C22 IAS 27–Consolidated Financial Statements and Accounting for Investment in Subsidiaries	2.68	5.32
C23 IAS 28–Accounting for Investments in Associates	0	0
C 24 IAS 29–Financial Reporting in Hyperinflationary Economies	0	0
C25 IAS 30–Disclosures in the Financial Statements of Banks and Similar Institutions [Not marked]	-	-
C26 IAS 31–Financial Reporting of Interests in Joint Ventures	0	0
C27 IAS 33–Financial Instruments: Disclosure and Presentation	8.93	15.14
C28 IAS 33–Earnings per Share	28.57	46.88
C29 IAS 34–Interim Financial Reporting [Not marked]	-	-
C30 IAS 35–Discontinuing Operations	0.79	2.97
C31 IAS 36–Impairment of Assets	0	0
C32 IAS 37–Provisions, Contingent Liabilities and Contingent Assets	9.82	15.64
C33 IAS 38–Intangible Assets	0	0
C34 IAS 39–Financial Instruments: Recognition and Measurement [Not marked - see IAS 32]	-	-
C35 IAS 40–Investment Property	6.67	7.84
C36 IAS 41–Agriculture (Not marked)	-	-

In order to obtain a global view of the results, the scores for each group of firms was then summarized and overall means for all IAS computed as in Table III below.

The comparative RMS scores show that deposit-taking institutions (banks) have a higher level of disclosure (mean RMS = 34.00%, σ = 9.41%) compared to insurance firms (mean RMS = 25.08%, σ = 5.14%). The collated scores show that there is a very low level of compliance with IAS, even after adjusting for those items on which the firms are not required to report. Generally, banks appear to report slightly better than insurance firms, but still perform poorly.

To test whether there is no difference between the mean IAS scores for Banks and Insurance firms, we compute the independent sample t-statistic for the mean scores of each group for the standards on which banks and insurance firms are all scored. In total, there are 25 standards on which each group has a recorded score (see Table IV below).

Levenes test of equality of means test shows that the F-statistic = .327 (p = 0.570), is not significant at the 95% confidence level. This implies that the variances for both banks and insurance firms are similar. The t-test for equality of means = 1.560, (p = 0.125). The observed two-tailed significance is larger than 0.05. We therefore reject the proposition that the mean scores on each IAS for banks are not similar to those of insurance firms. Thus banks and insurance firms have the same level of disclosure based on the t-test above.

CONCLUSION AND MANAGERIAL IMPLICATIONS

The results show that there is a low level of compliance with IAS in Uganda. These results also confirm Street et al.'s (1999) findings of significant noncompliance with IAS. In their study, it was observed that major firms all over the world were not fully complying with the reporting requirements for reporting profit/loss, and there was a general failure to

TABLE III. Comparative Mean RMS for Financial Institutions

Score	Banks	Insurance Cos
Mean FISCORE (absolute values)	92.14 (25.49)	68.71 (14.08)
Mean RMS (%)	34.00 (9.41)	25.08 (5.14)

Figures in parentheses are standard deviations.

TABLE IV. Comparison of Mean IAS Scores for Banks and Insurance Firms (Independent Sample T-test)

			Mean Score on Each IAS	
			Equal Variances Assumed	Equal Variances Not Assumed
Levene's Test for Equality of Variances	F		.327	
	sig		.570	
t-test for Equality of Means	t		1.560	1.560
	df		48	47.204
	Sig. (2-tailed)		.125	.126
	Mean Difference		11.5232	11.5232
	Std. Error Difference		7.3888	7.888
	95% Confidence Interval of the Difference	Lower	−3.3331	−3.3395
		Upper	26.3795	26.3859

provide all required disclosures for property, especially those associated with revaluations, pension disclosure requirements and many others.

In the case of Uganda, there are several plausible explanations for the observed noncompliance. These include the fact that IAS are a recent adoption (1999) and there are several difficulties or costs associated with the more stringent disclosure requirements of IAS. Another possible explanation for these results may be found in the type of auditors employed by banks and insurance firms. About six audit firms (including the Big-Four[5]), using similar audit guidelines, are responsible for the audits of most of the banks and insurance firms. Banks, which are regulated by the Central Bank, probably operate under a stricter regime than insurance firms and therefore have a slightly better level of disclosure, even if this is not significantly different from that reported by insurance firms.

FI's and their supervisory authorities maintain a shroud of secrecy regarding their operations and financial stability. This is done under the guise of "confidentiality," which in actual fact is an excuse for poor governance. While banks and insurance firms report on a very regular basis to the regulators, and also have onsite inspections, the results of such inspections do not enter into the ambit of public discourse until a bank encounters a serious financial problem. (The regulatory authorities for both banks and insurance firms refused to provide copies of annual reports

filed with them, yet these are acclaimed public documents!). On the other hand, the UIC, is mainly funded by contributions of the firms it regulates and may be suffering from "regulatory capture." There is also no IAS specifically geared to addressing the reporting requirements of insurance firms, and the ICPAU has not come in to fill this vacuum as in some other developing countries like Nigeria and Zimbabwe. Insurance companies are thus heavily reliant on the skill and knowledge of their CPAs and auditors to effect more disclosure.

It can also be argued that the extent of compliance is low because all the firms in this study are unquoted. Firms without a stock exchange listing are more likely to disclose less information in their corporate annual reports because of their institutional context. Good quality information, in this instance proxied by extent of disclosure, is necessary to ensure that investors and other users are informed about the firms' performance. In a perfect market where investors can punish a company for not disclosing an adequate level of information, this is the norm. Botosan (1997) notes that there are real benefits in disclosing information to users. Firms that disclose more information also attract capital at a cheaper cost. Thus as the USE grows and more companies resort to the stock market as a means of raising capital, the need to increase disclosure will require more urgent action to maintain the confidence of the suppliers of capital.

The world is becoming a smaller place as a result of globalization. Increasingly, developing nations are also required to operate with the same standards as more developed countries in order to attract international finance capital. The need to increase compliance and therefore disclosure becomes more urgent when considered in the context of liberalization and cross border listings for multinationals. To be competitive and attract foreign direct investment, firms in developing countries will be required to improve their disclosure regimes. While this study has dealt only with mandatory disclosures, good corporate governance and citizenship shall also mean that voluntary disclosures must be improved.

NOTES

1. Regulatory forces have been identified as consisting of the stock market, legislation and accounting practice (Ahmed and Nicholls, 1994).
2. US $1 = Uganda shillings 2000 as of July 2003.
3. The Trustees of the International Standards Committee Foundation appoint members of the International Accounting Standards Board to carry out its mandate. The IASB started work in 2001 and is headquartered in London. It is funded by contri-

butions from the major accounting firms, private financial institutions and industrial firms throughout the world.

4. By 2005, all firms listed throughout Europe shall be required to report using IAS.

5. Big Four firms in Uganda are Deloitte and Touché, Ernst and Young, KPMG Peat Marwick, and PricewaterhouseCoopers.

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APPENDIX I

Summary of Annual Report Financial Disclosure Scores for Banks

	FI CODE	B1	B2	B3	B4	B5	B6	B7	B8	B9	B11	B12	B13	B14	B15	B16	B17	B18	B19	B20	B21	B22
Mandatory Disclosures (IAS Requirements)	Max Score																					
C1 IAS 1–Presentation of Financial Statements	9	3	5	3	2	5	2	2	2	1	0	2	2	2	0	4	3	2	4	2	2	3
C2 IAS 2–Inventories [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C3 IAS 4–Depreciation	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	3	4
C4 IAS 7–Cash Flow Statements	25	12	13	15	11	13	12	14	13	11	9	12	12	12	7	11	14	11	12	11	9	13
C5 IAS 8–Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policy	11	2	1	3	4	2	2	3	3	1	1	1	2	2	1	2	2	2	5	6	5	5
C6 IAS 10E–Vents after the Balance Sheet Date	3	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	1	1	1
C7 IAS 11–Construction Contracts [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C8 IAS 12 –Income Taxes	6	3	5	5	5	0	4	5	5	5	1	5	5	2	0	5	5	0	5	5	0	5
C9 IAS 14–Segment Reporting [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C10 IAS 15–Information Reflecting the Effects of Changing Prices	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	0	0
C11 IAS 16–Property, Plant and Equipment	16	7	7	12	8	5	5	5	6	3	3	4	5	5	3	7	8	7	7	1	2	8
C12 IAS 17–Leases	8	0	0	0	0	0	0	4	0	0	2	0	0	0	0	0	0	0	0	0	4	0
C13 IAS 18–Revenue	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	1	1	2
C14 IAS 19–Employee Benefits	7	2	4	5	3	3	0	2	2	2	0	1	0	0	0	4	4	3	3	0	2	4

APPENDIX I (continued)

	FI CODE	B1	B2	B3	B4	B5	B6	B7	B8	B9	B11	B12	B13	B14	B15	B16	B17	B18	B19	B20	B21	B22
	Max Score																					
C15 IAS 20–Accounting for Government Grants and Disclosure of Government Assistance	3	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C16 IAS 21–The Effects of Changes in Foreign Exchange Rates		1	1	1	1	3	2	2	3	1	2	2	2	2	2	2	2	2	4	2	1	1
C17 IAS 22–Business Combinations	9	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C18 IAS 23–Borrowing Costs	3	0	0	0	1	2	1	0	0	0	0	0	2	0	0	0	2	0	0	0	0	0
C19 IAS 24–Related Party Disclosure	7	5	5	6	5	1	4	3	6	5	0	0	0	3	0	4	4	4	5	0	0	5
C20 IAS 25–Accounting for Investments (Superceded by IAS 39 and 40)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C21 IAS 26–Accounting and Reporting by Retirement Benefit Plans [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C22 IAS 27–Consolidated Financial Statements and Accounting for Investment in Subsidiaries	8	0	1	1	1	0	1	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0
C23 IAS 28–Accounting for Investments in Associates	5	3	0	0	2	0	0	3	0	4	0	0	0	2	0	0	0	0	0	0	0	0

	Max Score																					
C 24 IAS 29–Financial Reporting in Hyperinflationary Economies	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C25 IAS 30–Disclosures in the Financial Statements of Banks and Similar Institutions	66	40	42	49	46	47	37	43	49	50	13	28	39	41	23	41	43	38	36	21	23	35
C26 IAS 31–Financial Reporting of Interests in Joint Ventures	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C27 IAS 33–Financial Instruments: Disclosure and Presentation	12	2	4	7	6	5	4	4	8	8	0	8	10	10	0	9	9	2	2	1	1	2
C28 IAS 33–Earnings per Share	3	3	3	3	3	3	0	0	3	3	0	3	3	3	0	3	3	3	3	0	0	3
C29 IAS 34–Interim Financial Reporting [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C30 IAS 35–Discontinuing Operations	9	2	2	2	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C31 IAS 36–Impairment of Assets	6	1	0	0	0	0	0	0	2	0	0	0	0	2	0	0	0	0	0	0	0	0
C32 IAS 37–Provisions, Contingent Liabilities an Contingent Assets	8	2	0	6	6	3	4	3	4	2	0	0	2	4	0	5	5	3	4	0	0	0
C33 IAS 38–Intangible Assets	12	0	0	2	0	0	0	0	0	0	0	0	2	0	0	0	0	0	7	0	0	0
C34 IAS 39–Financial Instruments: Recognition and Measurement[Not marked - see IAS 32]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

APPENDIX I (continued)

	FI CODE	B1	B2	B3	B4	B5	B6	B7	B8	B9	B11	B12	B13	B14	B15	B16	B17	B18	B19	B20	B21	B22
	Max Score																					
C35 IAS 40– Investment Property	15	5	6	3	1	1	1	2	6	5	0	2	3	2	0	3	3	1	1	0	0	1
C36 IAS 41– Agriculture [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fiscore	271	100	106	130	114	101	86	102	119	108	38	75	96	99	43	108	115	85	109	55	54	92
Relative Mandatory Score		36.90%	39.11%	47.97%	42.07%	37.27%	31.73%	37.64%	43.91%	39.85%	14.02%	27.68%	35.42%	36.53%	15.87%	39.85%	42.44%	31.37%	40.22%	20.30%	19.93%	33.95%

APPENDIX II.

Summary of Annual Report Financial Disclosure Scores for Insurance Firms

	FI CODE	I1	I3	I4	I5	I6	I7	I8	I9	I11	I12	I15	I17	I18	I22
Mandatory Disclosures (IAS Requirements)	Max Score														
C1 IAS 1–Presentation of Financial Statements	74	38	34	36	26	42	35	40	33	42	24	41	40	30	25
C2 IAS 2–Inventories [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C3 IAS 4–Depreciation	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
C4 IAS 7–Cash Flow Statements	25	11	13	12	0	11	9	12	10	11	9	13	12	11	10
C5 IAS 8–Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policy	10	4	1	1	1	2	1	1	4	1	1	1	1	1	1
C6 IAS 10–Events after the Balance Sheet Date	3	1	1	1	1	1	1	1	1	1	1	1	1	1	1
C7 IAS 11–Construction Contracts [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C8 IAS 12–Income Taxes	6	5	5	4	2	3	1	1	1	5	5	5	5	1	5
C9 IAS 14–Segment Reporting [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C10 IAS 15–Information Reflecting the Effects of Changing Prices	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C11 IAS 16–Property, Plant and Equipment	16	7	3	2	2	3	4	6	3	8	3	3	2	6	2
C12 IAS 17–Leases	8	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C13 IAS 18–Revenue	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1
C14 IAS 19–Employee Benefits	7	3	2	0	0	3	0	3	1	3	1	3	3	3	1
C15 IAS 20–Accounting for Government Grants and Disclosure of Government Assistance	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0

APPENDIX II (continued)

Mandatory Disclosures (IAS Requirements)	FI CODE Max Score	I1	I3	I4	I5	I6	I7	I8	I9	I11	I12	I15	I17	I18	I22
C16 IAS 21–The Effects of Changes in Foreign Exchange Rates	6	2	2	1	0	1	2	2	2	2	1	2	1	0	2
C17 IAS 22–Business Combinations	9	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C18 IAS 23–Borrowing Costs	3	0	0	0	0	0	2	0	0	0	0	0	1	0	0
C19 IAS 24–Related Party Disclosure	6	3	3	2	0	3	3	0	0	0	0	1	0	1	4
C20 IAS 25–Accounting for Investments (Superceded by IAS 39 and 40)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C21 IAS 26–Accounting and Reporting by Retirement Benefit Plans [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C22 IAS 27–Consolidated Financial Statements and Accounting for Investment in Subsidiaries	8	1	1	1	0	0	0	0	0	0	0	0	0	0	0
C23 IAS 28–Accounting for Investments in Associates	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C 24 IAS 29–Financial Reporting in Hyperinflationary Economies	3	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C25 IAS 30–Disclosures in the Financial Statements of Banks and Similar Institutions [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C26 IAS 31–Financial Reporting of Interests in Joint Ventures	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C27 IAS 33–Financial Instruments: Disclosure and Presentation	12	1	2	1	1	6	0	0	0	0	0	4	0	0	0
C28 IAS 33–Earnings per Share	3	3	3	3	0	0	0	3	0	0	0	0	0	0	0
C29 IAS 34–Interim Financial Reporting [Not marked]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C30 IAS 35–Discontinuing Operations	9	0	0	0	0	0	0	1	0	0	0	0	0	0	0
C31 IAS 36–Impairment of Assets	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0

	FI CODE	I1	I3	I4	I5	I6	I7	I8	I9	I11	I12	I15	I17	I18	I22
Mandatory Disclosures (IAS Requirements)	Max Score														
C32 IAS 37–Provisions, Contingent Liabilities an Contingent Assets	8	0	0	0	0	4	0	1	0	1	0	0	1	1	3
C33 IAS 38–Intangible Assets	12	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C34 IAS 39–Financial Instruments: Recognition and Measurement [Not marked–see IAS 32]	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
C35 IAS 40–Investment Property	15	2	2	1	0	0	0	0	1	2	0	3	3	0	0
C36 IAS 41–Agriculture	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fiscore	274	86	77	70	38	84	63	76	61	81	50	82	75	60	59
RMS		31.39%	28.10%	25.55%	13.87%	30.66%	22.99%	27.74%	22.26%	29.56%	18.25%	29.93%	27.37%	21.90%	21.53%