

**CORPORATE GOVERNANCE AND ACCOUNTING STANDARDS IN OMAN:
AN EMPIRICAL STUDY ON PRACTICES**

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ABSTRACT

Good corporate governance ensures that companies perform better and have a better relationship with its stakeholders. The proper practice of accounting standards is very significant, as it leads to the effective disclosure and consequently good corporate governance programmes. Hence, the practice of proper accounting standards is more relevant issue of good corporate governance in the present competitive era as the standards provide a useful mechanism to restructure the core corporate values.

In this context, the paper attempts to discuss the practice of accounting standards for good corporate governance, as it is regarded as one of the important relevant issues of corporate governance, with an objective to make accounting standards useful to ensure better disclosure, for good corporate governance.

The empirical results revealed that the most of the select companies perceived the relevance of standards for good corporate governance and complied with twenty to twentyfive accounting standards with varied treatments of items, which jeopardised the comparability and left the scope for personal discretion and confusion. It is concluded that there is a necessity of stringent and uniform standards, wide participation, harmonisation of related laws for ensuring the true and fair view of business, thus good corporate governance.

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RELEVANCE:

In recent years, the Oman economy has undergone a number of reforms, resulting in a more market-oriented economy. Particularly, the financial impetus extended by the Sultanate of Oman had signaled the beginning of a positive trend. The size of Oman industry is becoming much bigger and the expectations of various stakeholders are also increasing, which can be satisfied only by the good Corporate Governance.

The importance of good Corporate Governance has also been increasingly recognized for improving the firm's competitiveness, better corporate performance and better relationship with all stakeholders(I), because of which the Oman industries have obliged to reform their principles of Governance. For that purpose, Oman companies will now be required to make more and more elaborate disclosures than have been making hitherto, for which they are also required to adhere to the uniform and proper accounting standards, as the standards reduce discretion, discrepancy and enhances not only the degree of transparency in sharing of information with the stakeholders but also reinforces the broader role the directors need to play for achieving Corporate objectives in the midst of challenges and adversities.

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Here, the Corporate Governance is a voluntary, ethical code of business concerned with the morals, ethics, values, parameters, conduct and behavior of the company and its management. The corporate responsibility begins with the directors who are the mind and soul of the organization. The Board is expected to act as conscience-keeper of the corporate vision and mission, and devise the right type of systems for organizational effectiveness and satisfaction of stakeholders. Thus, the Corporate Governance is a system of accountability primarily directed towards the shareholders in addition to maximizing the shareholders' welfare(2), where the debate on disclosure/ transparency issues of Corporate Governance eventually centres around the proper accounting standards and their practices and issues, as the application of accounting standards give a lot of confidence to the corporate management and the disclosure would be more effective and ensure the good Corporate Governance . Thus, the study of practices of accounting standards is an important and relevant issue of good Corporate Governance in the present environment, as the standards are viewed as a technical response to call for better financial accounting and reporting; or as a reflection of a society's changing expectations of corporate behavior and a vehicle in social and political monitoring and control of the enterprise(3).

STUDY:

In Oman, though the financial statements have been prepared in accordance with International Accounting standards issued by the International Accounting Standards Committee (IASC), interpretations issued by the Standing Interpretation Committee of the IASC and the requirements of the Commercial Companies Law of the Sultanate of Oman and the disclosure

requirements set out in the rules for disclosure issued by the Capital Market Authority of the Sultanate of Oman, the disclosure is inadequate and is a negative phenomenon to a country which wishes to be strengthened further, because it cannot hope to tap the GDR market with inadequate financial disclosures, since the more transparent activities of a company governed by the proper accounting standards, the more accurately will its securities be valued(4).

The old ways of selective and conservative reporting is yielding place to more transparent and voluntary disclosures, in tune with the changing times. There is no alternative to adopting by the corporate entities of new standards of accountability, where the accountability is largely a matter of disclosure, of transparency, of explaining a company's activities to those to whom the company has responsibilities(5) i.e. the disclosure in simple, understandable and comparable form, forms clearly the basis for accountability, which can be provided only if companies adopt uniform accounting policies and disclose adequate information about the accounting standards followed. Thus, accounting standards ensure the comprehensive disclosure of the corporate's accountability, which may be regarded as a prime issue and a pre requisite for good Corporate Governance.

An examination of practices of accounting standards, and their issues in Oman industry may help to understand the existing practices of accounting standards, which in turn help in designing the effective standard practices so as to ensure good Corporate Governance.

In this context, an attempt is made here to examine the accounting standards and their practices in Oman, with a view to strengthen the accounting standards and improve their practices for

good Corporate Governance. The data for the study are obtained from the annual reports (published during 2002-'03) of ten Oman companies of different nature, selected from the top companies in terms of assets. The sample consists of 6 private and 4 public companies. The simple per centage method is used to analyze the data. The authenticity of the data is verified with the opinions of management, who are aware of the company affairs and Corporate Governance. The corporates' perceptions on the relevance of accounting standards for good Corporate Governance in the context of Oman are also examined.

STANDARDS IN OMAN:

In any country, the awareness and competitiveness among the corporates would be strengthened when they understand each other and compare their performance, for which the simple, understandable and comparable disclosure is an important instrument. The main objective of disclosure would be fulfilled and the utility of the disclosure towards good Corporate Governance would be improved when the disclosure is done on the basis of uniform and consistent accounting standards. Thus, the development and the practice of uniform accounting standards is an essential essence of Corporate Governance and various bodies have been contributing their wisdom to strengthen the standards to make the Corporate Governance more effective in the context of the changing corporate environment. The corporate management is also now feeling the pressure for reforming accounting practices and level of transparency emanating from alert lenders, regulatory agencies, financial analyst and above all, board of directors who realize that it is the quality of information which will determine how efficiently they have discharged their responsibilities towards the good Corporate Governance.

The Standing Interpretation Committee of the IASC, Commercial Companies Law of the Sultanate of Oman and Capital Market Authority of the Sultanate of Oman, the prime responsible bodies, are working for the adoption and improvement of accounting standards. The financial statements in Oman have been prepared in accordance with International Accounting standards issued by the International Accounting Standards Committee.

The Table-1 gives an idea about the International Accounting Standards followed in Oman industry.

//Table-1//

Though the Oman industry has been following all the International Accounting Standards, in practice, some of them are not free from criticism due to certain inherent weaknesses. The practices of these standards in the Oman industries and the gaps are discussed in what follows with a view to strengthen them for ensuring the good Corporate Governance.

PRACTICES:

The primary and secondary data collected from the select companies are presented in table-2 to table-9 and a careful examination of the same, made to find the extent of compliance with the accounting standards and issues in corporate practices, reveal the following:

//Table-2// to //Table-9//

i). Table-2 reveals that except one sample of private companies which has not disclosed its opinion, all others (90% of the sample) have expressed the accounting standards as more relevant for Corporate Governance.

ii). The table-3 shows that the majority of the sample companies (80%) disclosed twenty to twenty five policies and the remaining is equally distributed between less than twenty and more than twenty five standards disclosed by the select companies. All the select public limited companies have complied with twenty to twenty five accounting standards.

iii). The most of the companies have adopted the lower of cost or net realisable value and moving average methods for the inventory valuation. The lower of cost or net realisable value method is popular among public limited companies. The significant aspect is that all the sample companies have followed some method, but different.

iv). All the select companies have presented cash flow and changes in equity statements.

v). Table-6 reveals that the majority of the sample companies (90%) have followed straight line method for the computation of depreciation and the remaining followed diminishing value method.

vi). The sample consists of one construction company, which has followed per cent of completion method.

vii). No one of the select companies has disclosed the expenditure on research and development.

viii). Table-9 reveals that the accounting practices related to fundamental errors and changes, effects of changing prices, business combinations, hyperinflationary economies, financial statements of banks and similar financial institutions and agriculture were not disclosed by any of the select companies as the companies are not concerned with such activities.

From the analyses of practices and general discussions, some of prime issues of accounting standards in the context of Oman are identified and presented here under in brief.

ISSUES:

i) Disclosure of Accounting Policies is followed by all most of all the sample companies, since it is mandatory. The items stated under accounting policies or notes are more or less same in all the concerns selected for the study, but the treatment of some items were not similar to the other concerns.

The requirement of the disclosure standard is only to disclose the material facts, what is the material or immaterial it would be decided by the organization, where the influence of personal judgement is expected in the absence of concrete guidelines. Therefore, the existence of the standard is doubtful.

ii) In few accounting standards, such as, valuation of inventories and depreciation accounting, the alternative accounting treatment is allowed. This kind of flexibility creates problems in judging the quality and reliability of financial statements of an enterprise and the different

methods are followed for different companies or for different periods, the possibility of inter-unit, intra-industry or inter-period comparison is impaired. The lack of comparability renders the financial information less useful and creates confusion in the minds of the investing public.

iii) In case of construction contracts, the standard provides for adoption of either completed contract method or percentage of completion method for recognition of profit on completed contract, which attracts the same limitation of comparability.

iv) The hybrid method of accounting i.e. accounting for income on cash basis and expenditure on accrual (mercantile basis), followed by corporates, conveniently allows them to manipulate their reports.

v) The standards setting process is closed and narrow and the execution is unsound, that causes the various practices and imperfect disclosure, which defeats the prime objective of accounting standards in achieving the good Corporate Governance.

vi) The adoption of IAS in toto without looking into their relevance in the context of Oman industrial environment, lacks the focus on the domestic problems and indigeneousness.

The following suggestions are made on the basis of discussions with the corporates to solve the above issues and to improve the utility of accounting standards for ensuring the good Corporate Governance.

SUGGESTIONS:

i) The most important suggestion for strengthening the accounting standards to improve the quality reporting thus Corporate Governance values, is focusing on the local conditions, improving the relevance i.e. indigenisation of accounting standards to make the standards more suitable or appropriate to the existing industrial phenomenon in Oman.

ii) The Capital Market Authority in Oman in consultation with other professionals and regulatory bodies should evolve some mechanism to limit the scope of alternative methods available within an accounting standard. Thus, the use of uniform accounting standards would enhance the qualitative and comparability dimensions of financial statement and reporting.

iii) The establishment of harmony among the applicable laws like Companies Act, Income Tax Act, Banking Regulations etc., which have significant bearing on different items of financial statements, would give true and fair view of business.

iv) The formulation of comprehensive and indogeneous standards, like accounting for changes in prices, inflationary economies, segment accounting, accounting for joint ventures, earning per share, investment in subsidiaries, associates etc., useful to make accounting standards more user friendly and international acceptable.

To sum up, though the entire industrial community in Oman has been following the International Accounting Standards uniformly and adopting disclosure practices to ensure true

and fair view of the economic activities, with the policy of liberalization and increase in international capital market activities due to globalization the variety of approaches in the each accounting standard are to be limited and all accounting standards have to be made mandatory, otherwise it will be exceedingly difficult for Oman investors to trust the Corporate Governance.

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TABLES:**Table-1: Statement of International Accounting Standards**

IAS.No.	Standard
1	Presentation of Financial Statements
2	Inventories
7	Cash Flow Statements
8	Net Profit or Loss for the period, Fundamental Errors & Changes in Accounting policies.
10	Events After the Balance Sheet Date
11	Construction Contracts
12	Income Taxes
14	Segment Reporting
15	Effects of Changing Prices
16	Property, Plant and Equipment
17	Leases
18	Revenue
19	Employment Benefits
20	Accounting for Govt. Grants & Govt. Assistance
21	Effects of Changes in Foreign Exchange Rates
22	Business Combinations
23	Borrowing Costs
24	Related Party Disclosures
26	Retirement Benefit Plans
27	Consolidated Financial Statements
28	Investments in Associates
29	Hyperinflationary Economies
30	Banks & Similar Financial Institutions
31	Interests in Joint Ventures
32	Financial Instruments: Disclosure & Presentation
33	Earnings Per Share
34	Interim Financial Reporting
35	Discontinuing Operations
36	Impairment of Assets
37	Provisions, Contingent Liabilities & Assets
38	Intangible Assets
39	Financial Instruments: Recognition & Measurement
40	Investment Property
41	Agriculture

Source: www.iasc.org.uk.

Table-2: Corporate Perceptions on the relevance of Accounting Standards for Corporate Governance (n=10) (%)

<i>Accounting Standards</i>	<i>Private Sector</i>	<i>Public Sector</i>	<i>Total</i>
Relevant	5 (83)	4 (100)	9 (90)
Irrelevant	0	0	0
No Comment	1 (17)	0	1 (10)
Total	6 (100)	4 (100)	10 (100)

Table-3: Corporate Practices of Accounting Policies Disclosed in Annual Reports(n=10)(%)

<i>Range of Policies</i>	<i>Private Sector</i>	<i>Public Sector</i>	<i>Total</i>
Less than 20	1 (17)	0 (100)	1 (10)
20 – 35	4 (66)	4 (100)	8 (80)
25 & More	1 (17)	0	1 (10)
Total	6 (100)	4 (100)	10 (100)

Table-4: Corporate Practices of Inventory Valuation (n=10) (%)

<i>Method</i>	<i>Private Sector</i>	<i>Public Sector</i>	<i>Total</i>
Moving Average	4 (67)	3 (75)	7 (70)
Lower of Cost or NRV	2 (23)	1 (25)	3 (30)
Not disclosed	0	0	0
Total	6 (100)	4 (100)	10 (100)

Table-5: Corporate Practices of Preparation of Cash Flow Statement (n=10) (%)

<i>Statement Published</i>	<i>Private Sector</i>	<i>Public Sector</i>	<i>Total</i>
Cash Flow & Changes in Equity	6 (100)	4 (100)	10 (100)

Table-6: Corporate Practices of Depreciation (n=10) (%)

<i>Method</i>	<i>Private Sector</i>	<i>Public Sector</i>	<i>Total</i>
Diminishing Value	1 (17)	0	1 (10)
Straight Line	5 (83)	4 (100)	9 (90)
Not disclosed	0	0	0
Total	6 (100)	4 (100)	10 (100)

Table-7: Corporate Practices of Construction Contracts (n=10) (%)

<i>Method</i>	<i>Private Sector</i>	<i>Public Sector</i>	<i>Total</i>
% of Completion	1 (100)	0	1 (100)
Completed	0	0	0
Other	0	0	0
Not disclosed	0	0	0
Total	1 (100)	0	1 (100)

Table-8: Corporate Practices of Research & Development (n=10)

<i>Method</i>	<i>Private Sector</i>	<i>Public Sector</i>	<i>Total</i>
Deferred	0	0	0
Wholesome	0	0	0
Not disclosed	6 (25.0)	4	10 (100)
Total	6 (100)	4 (100)	10 (100)

Table-9: Corporate Practices of other Standards (n=10) (%)

<i>IAS.No.</i>	<i>Standard</i>	<i>No. of companies</i>	<i>%</i>
8	Net Profit or Loss for the period, Fundamental Errors & Changes in Accounting policies.	0	0
10	Events After the Balancesheet Date	5	50
12	Income Taxes	9	90
14	Segment Reporting	8	80
15	Effects of Changing Prices	0	0
17	Leases	2	20
18	Revenue	4	40
19	Employment Benefits	8	80
20	Accounting for Govt. Grants & Govt. Assistance	4	40
21	Effects of Changes in Foreign Exchange Rates	9	90
22	Business Combinations	0	0
23	Borrowing Costs	1	10
24	Related Party Disclosures	3	30
26	Retirement Benefit Plans	9	90
27	Consolidated Financial Statements	4	40
28	Investments in Associates	4	40
29	Hyperinflationary Economies	0	0
30	Banks & Similar Financial Institutions	0	0
31	Interests in Joint Ventures	2	20
32	Financial Instruments: Disclosure & Presentation	6	60
33	Earnings Per Share	10	10
34	Interim Financial Reporting	5	50
35	Discontinuing Operations	3	30
36	Impairment of Assets	3	30
37	Provisions, Contingent Liabilities & Assets	8	80
39	Financial Instruments: Recognition & Measurement	6	60
40	Investment Property	5	50
41	Agriculture	0	0

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