

Usefulness of annual reports: Perceptions from Sri Lankan Investors and Lenders

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The IASB standards
(IFRS) guide general
purpose financial
reporting (GPFR)



Most jurisdictions (166)
including
Sri Lanka (SL) adopted
IFRS

The Conceptual Framework for Financial Reporting

objective of GPFR

is to provide financial information about the reporting entity that is **useful** to existing and potential **investors & lenders** in making decisions relating to...
(a) buying, selling or holding equity and debt instruments
(b) providing or settling loans and other forms of credit

(IASB, 2018, para. 1.2)



Frequency of using annual reports

Importance of various sources of information
e.g. Annual reports, Internet, Stock market publications etc.

Usefulness of the various parts of annual reports
e.g. Fin. statements, MDA, Sustainability report etc.

Adequacy of information provided in annual reports

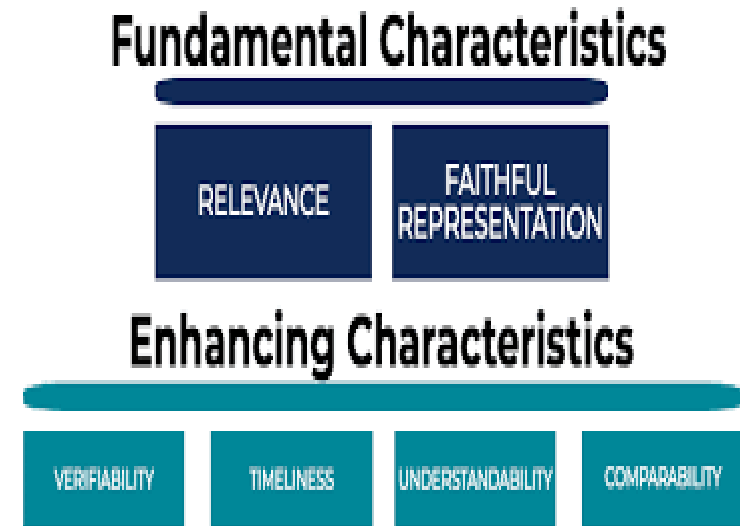
Investors and lenders require different information for decision-making

(Barth et al., 2008; Cascino et al., 2014; Ehalaiye et al., 2018; Kothari, Ramanna, & Skinner, 2010)

If financial information is to be **useful**, it must be “relevant” and “faithfully represent” what it purports to represent.. (IASB, 2010, p. 16; 2018, p. A23).



Which Qualitative Characteristics (QCs) are perceived important in investment and lending decisions?



IASB recognises improving “**quality**” of information through IFRS in their mission statement

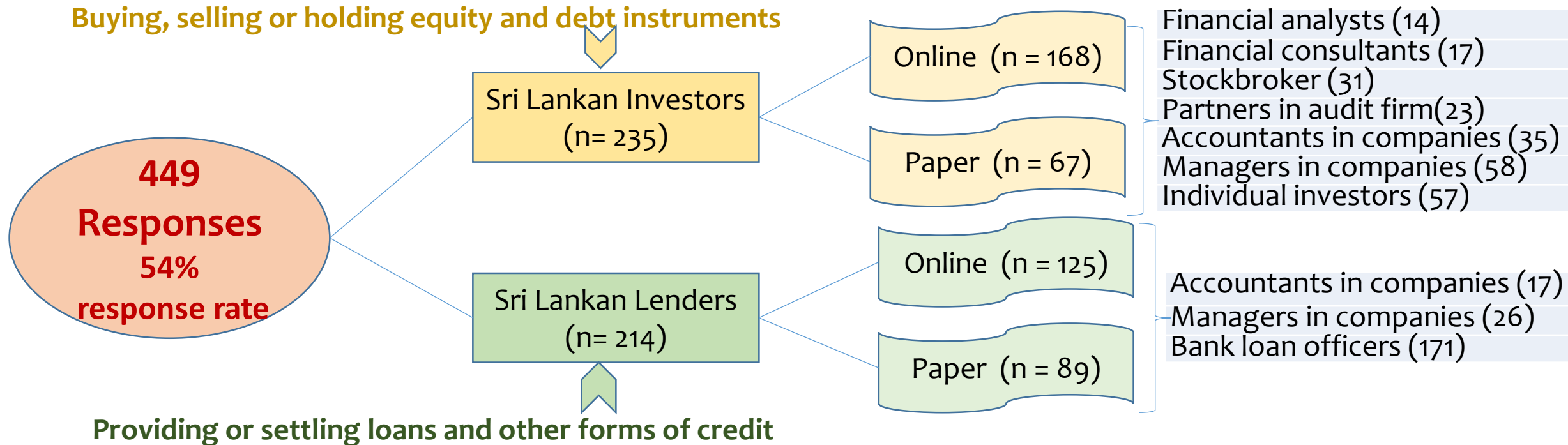
IASB indicates that meeting the objectives through the QCs Improves the **quality** of financial reporting

(Achim & Chiş, 2014; Agienohuwa & Ilaboya, 2018; Beest et al., 2009; G. J. M. Braam, & van Beest, F., 2013; Mbobo & Ekpo, 2016)

Has the usefulness in terms of QCs after adopting IFRS changed for better or for worse?



Approach – Survey Questionnaire



How this survey study is different from others?

- Considers decision type, not the occupational titles or profession of users
- Designs two questionnaires to cater investors and lenders separately focusing their decision types
- Considers usefulness in terms of IASB financial reporting objective

Findings

Frequency of using annual reports

- Approximately 2/3 of respondents use annual reports ‘frequently’ and ‘always’ in all decision roles
De Zoysa and Rudkin (2010) from the year 2000 data, - 48% in Sri Lanka - Unknown for what purpose

Importance of the various sources of information

- **Investors** - Stock market publications, **Lenders** - Communication with company management
- **Annual reports** - the **second** source of information for both the user groups
- “Important” or above: 94% - investors & 89% - lenders
Al-Razeen and Karbhari (2007); Mirshekary and Saudagaran (2005); as well as De Zoysa and Rudkin (2010) - “annual reports” were the most important source of information for all the user groups

Usefulness of different sections in annual reports

- Both identified “financial statements” as **the most useful** section in annual reports
Supported by- Alattar and Al-Khater (2008); Anderson (1981); Streuly (1994); Winfield (1978)
- 91% - Investors & 87% - lenders accepted that annual reports are “useful” or above
- No statistically significant difference in the responses between two user groups

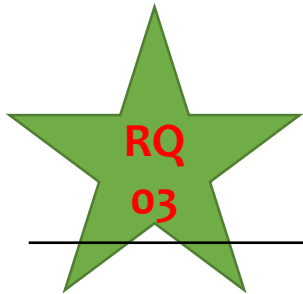
Adequacy of annual report information

- Annual report information is “adequate” or above: 71% - investors & 73% - lenders
Abu-Nassar and Rutherford (1996) – stated adequate in Jordan, De Zoysa and Rudkin (2010) from the year 2000, - 25% - reported adequate in Sri Lankan users
- No statistically significant difference in the responses between two user groups



Importance of QCs are

- Both groups considered all QCs important for their decisions - “important” >95%
- **Understandability** is the most important QC for both groups followed by timeliness
Supported by - Smith (1996) & Al-Ajmi (2009)
- No statistically significant difference in the responses between two user groups



Impact of IFRS

Both the user groups perceived that;

- All the **QCs have been improved** after adopting IFRS in Sri Lanka - “Agree” and “Strongly Agree” > 70%
- The **overall reporting quality has improved** in Sri Lanka after adoption of IFRS compared to before the adoption- “Agree” and “Strongly Agree” > 80%
Supported by - Tasios and Bekiaris (2012); Yurisandi and Puspitasari (2015) & Agyei-Mensah (2013)
- No statistically significant difference in the responses between two user groups

Study concludes that:

The **usefulness** of annual reports is **not affected** by the type of decision being made, whether investment or lending in Sri Lanka...

Respondents perceived that **IFRS improved quality of reporting** through improving QCs... So, **IASB's objective of IFRS in GPFR is achieved...**

Results **contradict with the classification of QCs** of IASB as fundamental and enhancing...



What is the motivation for researching usefulness of annual reports in Sri Lanka?

- One of the major objective of adopting IFRS is to improve the quality of reporting in Sri Lanka. This study provided evidence of achieving this objective form the perception of investors and lenders in Sri Lanka.
- Adopted IFRS for all SBEs in 2012.
- Annual report size of top 50 companies has been increased by 3 times over last 10 years.
- Most developing economies, especially in South Asia, adopted IFRS with in last 10 years. Lack of studies to examine the usefulness and quality of reporting after IFRS adoption. None in Sri Lanka

What are the implications of the results/findings of the study in this manuscript for the readers outside of Sri Lanka?

- Most of the Asian economies adopted IFRS due to international donor organizations' pressure – *Coercive Pressure* (Poudel et al., (2014); Nijam, (2016); ROISC, (2015)). This study provides a feedback to international donor organizations who pressurise on implementing IFRS in developing countries
- This study provides a feed back to IASB on classification of QCs as fundamental and enhancing.
- This study provides a feed back to IASB on the achievement of objective of financial reporting through IFRS in developing countries