

## UNDERSTANDING FINANCIAL REPORTING PRACTICE ON COMMERCIAL BANKS: EVIDENCE FROM DAHABSHIL BANK AND AMAL BANKS

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### ABSTRACT

*The purpose of this study is to investigate the understanding financial reporting practice on commercial bank in Mogadishu Somalia. The specific objectives of the study were “To examine the role of international financial reporting standards on commercial banks in Mogadishu Somalia”, to identify the role generally accepted accounting principle of commercial bank in Mogadishu Somalia”. And to find out the role of others standards on commercial bank in Mogadishu Somalia”. The sample size of this study was 52 respondents including offers and staffs targeted including Amal and Dahabshiil banks the study was conducted through descriptive research design and research instrument use quantitative and also used questionnaires as the main instrument for collecting data. The questionnaire was consisting of structured with closed End questions. Data was analyzed by assessing the frequency of respondents per question. Tabulated frequencies analysis was made using Statistical Package for social science SPSS version 20.0 to present the data analyses. The study found that the financial reporting practice on commercial bank overall mean ( $M=2.12$ ). Thus, this also indicates very Good. Finally, the study also found that there is positive significant relationship between financial reporting practice and commercial bank in Mogadishu-Somalia. And the relationship is measured with  $R\text{-Square}= 0.518$  and  $P\text{-value}$  ( $p<0.000$ ) and this result indicate that there is moderate positive relationship between financial reporting practice and commercial bank. Originality: this research contributes significantly to the theoretical and empirical development on commercial bank.*

**Keywords:** financial reporting practice, commercial bank

### INTRODUCTION

Although formal regulation of financial reporting was limited during the formative years of the nineteenth century, companies published annual financial statements so that boards of directors could demonstrate how investors' capital had been used, and to justify payments of dividends. Companies in some economically significant industries, such as banks, insurance companies and railways, were subject to statutory reporting requirements even at a time when these did not apply to the generality of companies. The emergence of a profession of accountancy by the mid-nineteenth century, and the first university courses in accounting by

the 1890s, provided a cadre of reflective practitioners who helped to develop accounting principles and conventions. Individuals with a background in professional accountancy practice continued to be the main contributors to the development of accounting regulations until recent years (Chand & White, 2007).

The globalization of the world's economies has inevitably brought with it moves to establish a single set of financial reporting standards (Chand & White, 2007) via the IFRS to achieve global harmonization and create an open and accountable world (Lehman, 2005). Malaysia, as one of the leading capital market hubs in South East Asia, has made a dramatic move to embrace the effort towards the globalization of accounting standards. The adoption of IFRS provides considerable convenience for some preparers and auditors (Stevenson, 2007). The benefits of global accounting standards include increased comparability of financial statements, kudos from presenting more sophisticated reporting, the transfer of political power, greater access to capital markets, allowing foreign and institutional investors specially to make investments and credit decisions (Godfrey & Chalmers, 2007). Additionally, reporting under the same regulatory framework in all jurisdictions certainly reduces costs and has the potential to ameliorate transparency (Chand & White, 2007).

Since the 1960s, statements of the objectives of financial statements (or financial reporting) have been the jumping-off, although attempts at formulating coherent theories of accounting go back to the 1920s. While I believe that the literature on objectives began in earnest with the decision-usefulness literature in the United States in the 1950s, one can find an alternative view that there existed, prior to then, a reasonably clear understanding of the objectives of financial statements in terms of stewardship, even though it might not have been expressed in those terms, and even though it was not expressed as prominently in authoritative pronouncements as the subsequent decision-usefulness views (Zeff, 2012).

In Africa Covering South Africa's big banks in the period both prior to, and after the 2007 subprime meltdown highlights important changes that have occurred in the banking industry and tease out appropriate policy for improving bank performance. Compared to extant literature we favor FRA because it is effective in distinguishing high performing banks from others, tends to compensate for disparities and controls for any size effect on the financial variables being studied (Samad, 2004). Additionally, financial report enables us to identify unique bank strengths and weaknesses, which in itself inform bank profitability, liquidity and credit quality. The rest of the paper is organized as follows: the next section offers background information on the financial system in South Africa. Section 3 outlines the past studies in bank performance. Leverage affects both the numerator and denominator of this profitability measure. Appropriate financial statement analysis disentangles the effects of leverage Nissim and Penman (2001).

In Somali after the collapse of government led by Mohamed Siyad Bare country entered disorder in work places due to poor financial report, justice, less skill accounting method, and lack of job security where many companies in Mogadishu have experienced employees' turnover. So that many firms stress on this issue, where most of them do not practice hired skills and educated employees who are aware of the challenges or practices on human resource management.

## **OVERVIEW OF FINANCIAL REPORTING IN SOMALIA**

Globalization forces change and adoption of one standard especially multinational firm. Now central bank of Somalia imposed all Somali financial institutions mostly Hawalla and Commercial banks to adopt IFRS. Before 2014 the sector severely suffers from structural problems, including, but not limited to (1) absence of centralized payment and inter-bank

payment systems; (2) weak re-licensing, supervision, and regulation of commercial banks but At end-September 2017, the commercial banks' total assets and credit to the private sector were about 4 percent and 1.3 percent of GDP, respectively. Nonetheless, banks' assets have continued to improve since 2015, and their capitalization remains broadly adequate. The loan-to-deposit ratio reached 40.1 percent, up from 33.3 percent in September 2016, and credit to the private sector increased to 31.2 percent (as a share of total assets), from 24.8 percent in the previous year. Mobile money and money transfer businesses (MTBs) play a crucial role in providing financial services in Somalia (Central Bank of Somalia2016).

**Monetary institution reforms:** The CBS undertook reforms to struggle widespread counterfeiting, which included the development of an anti-counterfeiting strategy and hiring qualified staff and providing them with the needed training. The CBS also established a management function for the currency reform and prepared detailed plans for the conversion of the current (counterfeit) banknotes in circulation. The CBS is currently finalizing (1) the criteria for the design and security features of the new banknotes and will subsequently start procurement process for the currency printer(s); (2) the cost of the entire reform project; and (3) estimating the volume of banknotes to print. The authorities also have established a Financial Reporting Center (FRC) to contribute in protecting the Somalia financial system. To comply with their Anti-Money Laundering and Combating the Financing of Terrorism framework, a draft law to implement targeted sanctions was prepared (Central Bank of Somalia2016).

**Fiscal policy and reforms:** The authorities have implemented several tax revenue measures in 2017. They have agreed with the telecommunications companies to pay their tax obligations in line with the existing tax laws (sales and payroll taxes, and corporate income tax). In addition, they have concluded an agreement with an airline company to pay in full its sales tax, and arrival and departure fees arrears as well as its current obligations. Furthermore, the authorities recently completed a stock-taking exercise of all bank accounts for budget transactions and closed 133 bank accounts to have only one bank account controlled by ministry of Finance (Central Bank of Somalia2016).

## **OBJECTIVES OF THE STUDY**

This study examines the understanding of financial reporting practice on commercial banks in Mogadishu. In particular, the study seeks to find out the role of international financial reporting standards on commercial banks in Mogadishu, evaluate the role of generally accepted accounting principles on commercial bank in Mogadishu and investigate the role other accounting standard on commercial bank in Mogadishu. The aim is to promote awareness of the importance financial reporting in the commercial banks.

## **METHODOLOGY**

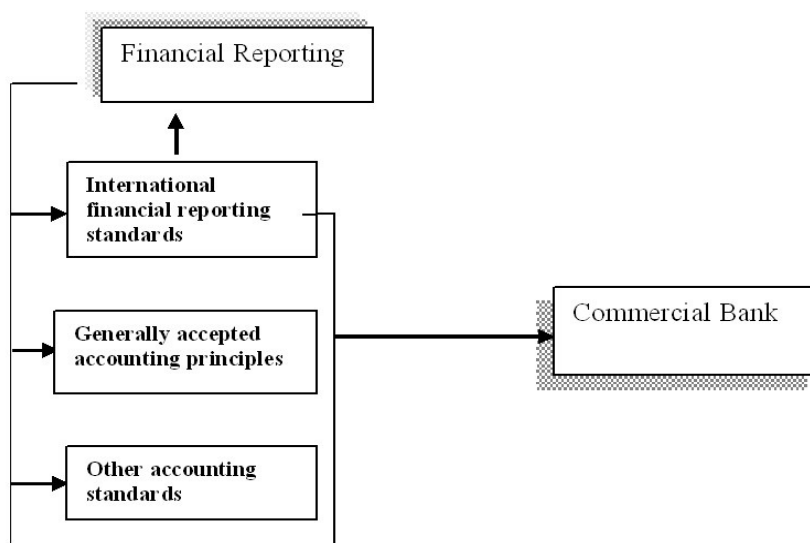
This study employed descriptive design. According to Cooper and Schindler (2007) a descriptive study is concerned with finding out the what, where and how of a phenomenon. The researcher used this approach in order to describe and to investigate understand financial reporting practice on commercial banks in Mogadishu, using information gained from the questionnaire. In this study data was mined using 52 questionnaires distributed to the employees of the Dahabshiil and Amal banks. The questionnaire was designed such that data on the respondents' demography, dependent variable and independent were mined. The data were then analyzed using Statistical Package for Social Sciences (SPSS).

## RESEARCH FRAMEWORK

The theoretical arguments of previous research touch on the idea that firms' financial issues of financial reporting to provide users with information about the financial and financial issues. The transaction process is based on the company's accounting policies and can be found in (Tendeloo & Vanstraelen, 2005). Certainly, the proposal was the bases for the interest in studying the current research which investigates the understanding of financial reporting and commercial Bank.

The study examines the role of financial reporting element as independent variable consisting of three constructs (International financial reporting standards, generally accepted accounting principles and Other accounting standards) on commercial bank as the dependent variable (See Figure 1)

**Figure 1. Research Framework**



## LITERATURE REVIEW

Financial reporting is a network of communication. The company interprets events that affect the issues and financial issues of financial reporting to provide users with information about the financial and financial issues. The transaction process is based on the company's accounting policies (Tendeloo & Vanstraelen, 2005). The idea of financial reporting has gained considerable importance because of increased company firms, increased competitiveness and the need for user information.

The financial information system is often intended to provide information to investors and non-creditors who cannot access accounts directly from other companies or sources, but they are reasonably aware of the business and those who want to learn such information. The mathematical information would be useful if it had the ability to make a change of decision (Brown, Lawrence D. 1987). Financial reports were the search for companies and their understanding of their low financial behavior. Finally, by increasing the presentation of the financial report, the companies have issued a special publication.

Financial statements refer to the provision of financial information and important business information for the relevant parties (internally as well as in internal users) (van Tendeloo & Vanstraelen, 2005). Financial reporting for integration is a compulsory requirement for companies to comply with accounting standards as provided by trust organizations, companies want to raise market capitalization.

Acquired International standard Financial Reporting (IFRS) was a major trust in 2002, when the European Commission was registered with the European Union to prepare financial statements in line with the International Financial Reporting Standards, from January 1, 2005. The idea was to unite the European Union to have a different economic and political understanding by adopting a one-point benchmark to simplify and adapt to the financial accounting practices (Adzis, 2012).

The main objectives of the International Financial Statements are to improve the transparency of economic and comparative evidence, and the development of international market capitalism, and improve the quality of information, and increase the financial data, such as many global countries. The presence of local businesses to prepare financial reports in line with the International Financial Reporting Standards (Adzis, 2012).

The International Financial Reporting Standards (IFRS), using a combination of models of financial products, some of which are estimated at fair value, while estimating others have been depreciated, and therefore the fair value of the calculation is that make sure the factories in the current value of the financial assets and the balances keep track of the actual cost of their performance (Adzis, 2012).

Generally accepted accounting principles are a "general" law or rule that has been adopted or considered as a guide to action; a fixed ground or basis for conduct or practice. Accounting principles define accounting principles as "a fact or a fundamental proposition on which many others rely; an initial fact that understands or forms the basis for various secondary facts." A generally accepted principle or procedure is one with considerable formal support (Warehime, 1963).

General Acceptance of Accounting Principles (GAAP) became more important as the institutional structure of the organization grew. Under the forms of organization and partnership in the organization, each company can choose the method of reporting that best meets their needs. Since all owners had close contact with the company, there was little risk of misleading them through the reporting practices. However, the growth of absentee ownership under the institutional form of regulation created a need for greater uniformity in the accounting principles used to report the activities of the company to its owners. In an evolutionary process to meet this need, old accounting procedures were rejected and new procedures were accepted into place. As discussed later, GAAP principles and procedures should continue to be improved if the needs of shareholders are fully met (Warehime, 1963).

According to (Ambily, 2013) There are basic differences between the conceptual concept of the order of the order of the two concepts. Based on the International Financial Reporting Standard, it is a reliable way of thinking, and the concepts that apply in the usual manner or in its particular sense apply to a business or event or other condition. However, in accordance with the United States accounting principles generally accepted, the opinions expressed in the Financial Accounting Standards Board (FASB).

Another example is the difference between the value structure and the definition of property and debts. "It describes the idea of originating from the international financial accounting standards or must be respected in the future (ie the economic benefits of the economic sacrifice and the discount) the "outcome" describes the overall context used, to refer to what is reasonable or logical basis based on available evidence "IFRS." On the other hand, does not include the assumption of the probability that the property or debt deficit. In contrast, the probability factor is considered a qualitative factor, for example, "You know originally when the future financial stream is likely to be recognized and acknowledged by the promoter when



it is capable of producing a return removal from now."However, the" prospects "described in the Standardized International Financial Reporting (IFRS) and therefore, are open to a wide range of interpretations, and in addition," international standards for standardized financial reporting require extra discrimination. Is an organization capable of satisfying the value or value before recognizing it The diversity of basic standards contributes to the difference between the US GAAP and the current IFRS standards and the reasons why the linkage will take longer Obradović et al (2014).

The Chinese Accounting Standards are the accounting rules used in China. From February 2010, China's Chinese accounting standards Standard 38 are the standard requirements and guidelines for the application. With the development of international co-operation in accounting standards, China is one of the major economies, making many efforts to deal with this. In 2007, China began to adopt the new ASBE accounting standards, which is the first step in the International Financial Reporting Standards (IFRS), which can be seen from the commentator. On 17 August 2009, the preparation for the Oceanic Ocean Group (OSSG) was held in Beijing. The participants discussed the issue of AOSSG creation in order to encourage or promote international standards for economic reporting in the region to ensure that ASBE's request for access to AOSSG aims to build strong, accountable, accountable and accountable policies in China. We would like to offer Chinese development policy in a large number of people and provide the proposals that are implemented by the administration to improve the relevance and representation of the standard development process (Qi, n.d.).

## DATA ANALYSIS AND DISCUSSION

### Demographic Profile of the Respondents

This section of the study presents the demographic data of the respondents those who participated in the study. The shape of the demographic characteristics is comprised to the gender, age, educational level and experience of the respondents as summarized in tables below:

**Table1. Characteristics of the Respondents**

Characteristics	Classification	Frequency	Percentage
<b>Gender</b>	Male	37	71.2
	Female	15	28.8
<b>Age</b>	less than 20	5	9.6
	21-30	36	69.2
	31-40	11	21.2
<b>Educational Background</b>	Diploma	6	11.5
	Bachelor	30	57.7
	Post-graduate degree	14	26.9
	PHD	2	3.8
<b>Experience</b>	Less than one Years	3	5.8
	1-2Years	15	28.8
	3 years	7	13.5
	2-3 Years	27	51.9

### Descriptive and Correlation Analysis

Descriptive statistics was used to examine the range of possible values, means and standard deviation of the variables in this study and are presented in Table 2 below. The respondents surveyed score above the overall mean, the score was International financial standard (IFS)

(Mean=2.04, SD=1.05) they agreed very good(IFS) measurement, second was Generally accepted accounting principles (GAAP) (Mean=2.09, SD=1.02); third scored was Other Accounting Standards mean value of 2.23, standard deviation of 1.19 and commercial banks the scored Mean=1.90; SD=1.12.

Bivariate correlation was conducted to examine the interrelationships between Financial Reporting and commercial banks. As shown in table (below), the dependent variable in this study (Financial reporting practice) is significantly and positively correlated with three independent variables, Financial Reporting namely (International financial standard (IFS), Generally accepted accounting principles and Other Accounting Standards) ( $r=.518$ ,  $p=.000$ ).

**Table 2. Relationship between financial reporting practice and commercial bank**

		Financial reporting practice	Commercial banks
<b>Financial reporting practice</b>	Pearson Correlation	1	.518**
	Sig. (2-tailed)		.000
	N	52	52
Commercial banks	Pearson Correlation	.518**	1
	Sig. (2-tailed)	.000	
	N	52	52

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

## DISCUSSION AND CONCLUSION

The main objective of the study was to examine the relationship between Financial Reporting and commercial banks in Mogadishu Somali; data was collected from 52 respondents from the main Banks in Mogadishu in January 2018, the study developed descriptive Analysis and correlation to examine role of Financial Reporting dimensions on commercial banks. As shown in table 2 above the findings from Financial Reporting dimensions (IFS, GAAP and other standards) and commercial banks. findings specifically address the research objectives regarding the research questions; the table further illustrated positive and significance relationship with three dimensions of Financial Reporting (IV) and commercial banks.

The study showed the role of international financial reporting standards on commercial banks in Mogadishu, and they agree that the effect is high. This study shows that the scored (M=2.04) and standard deviation (SD=1.05) indicates that use of the international financial reporting standards in Mogadishu banks has influence on the commercial banks, this result indicates that the international financial reporting standards in the selected banks has an influence.

The study showed the role of generally accepted accounting principles in commercial bank in Mogadishu, and they agree that the effect is high. This study shows that the scored (M=2.09) and standard deviation (SD=1.02) indicates that generally accepted accounting in Mogadishu banks has impact on the commercial bank, and this result indicates that the generally accepted accounting principles in the selected banks is very good. The study showed the role other accounting standard on commercial bank in Mogadishu, and they agree that the effect is high. This study shows that the scored (M=2.23) and standard deviation (SD=1.19) indicates that the other accounting standard in Mogadishu banks has influence on the commercial bank, and this result indicates that the other accounting standard in the selected banks was very good.

Finally, the study indicates the correlation between the two variables which are financial reporting practice and commercial banks measured using Pearson's correlation method with two tailed and the relationship between the two variables were positive relationship with R-value of 0.518 and this information indicates that there is moderate positive relationship between financial reporting practice and commercial bank.

## CONCLUSION AND RECOMMENDATIONS

The study concludes that Financial Reporting meaningfully influences Commercial banks. Meanwhile this study was incomplete lone to examining the relationship between Financial Reporting and Commercial banks users as case study.

The study recommended that a study be done on the understanding financial reporting practice on organizational performance with focus on to banks in order to depict real situation across the sectors. And the study recommends future researchers carry out study on Relationship between IFRS and GAAP and role of financial reporting practice in the investment. This study also suggests that, Auditors and advisors of banks should be aware of the effect of accounting standard on financial reporting and trend analysis. So, this study suggests that the management of banking firms and their financial statements preparers should be careful in examining these impacts.

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