

**THE ROLE OF ACCOUNTING IN CORPORATE
GOVERNANCE OF BANKS IN A DEVELOPING
COUNTRY: EVIDENCE FROM SRI LANKA**

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ABSTRACT

The purpose of this study is to examine how accounting could contribute to the corporate governance of banks in a developing country. Accounting and corporate governance failures of banks have figured prominently in discussions of the possible causes leading to the Asian financial crisis in the late 1990s and the recent global financial crisis. These discussions suggest that accounting has failed to play its potential role in corporate governance of the failed organizations.

To achieve the above purpose, this study has the following five objectives: (a) to conduct a comprehensive literature review in order to explore the ways in which accounting could facilitate corporate governance of banks; (b) to analyse the actual role that accounting plays in the corporate governance of banks; (c) to explain the contextual relativity of the role of accounting in corporate governance of banks; (d) to examine the differences in the role of accounting in the corporate governance of public and private sector banks; and (e) to make recommendations for enhancing the role of accounting in corporate governance in the banking industry.

Following the qualitative research approach, this study adopts the case study research method to achieve the aim of the study. Two major banks in Sri Lanka were selected as the case organizations representing the public and the private sectors. Data collection and analysis were guided by the analytical framework developed in this study. Data were gathered primarily by semi-structured interviews and also by documentary evidence. Data analysis was undertaken using three interactive processes, namely data reduction, data display, and conclusion drawing and verification.

The findings of the study suggest that although accounting has a potential role in the corporate governance of banks, in reality that role is influenced to a large extent by various contextual factors, such as the level of effectiveness of the enforcement mechanisms for laws and regulations, and, in the case of public sector bank in particular, the multiple roles played by the government and political interference. Further, this study finds a number of differences between the roles played by accounting in corporate governance in the public and the private sector banks.

STATEMENT OF THE CANDIDATE

The work presented in this thesis has not been submitted for a higher degree to any other university or institution. The sources of information used and the extent to which the work of others has been utilized are acknowledged in the thesis. Ethics Committee approval has been obtained (Protocol Number: HE26SEP2008-D06094) (See Appendix 7).

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AGM	Annual General Meeting
ARC	Annual Report Competition
ASC	Accounting Standards Committee
ASX	Australia Stock Exchange
ATM	Automated Teller Machines
AuSC	Auditing Standards Committee
BOD	Board of Directors
CAPA	Confederation of Asian & Pacific Accountants
CBSL	Central Bank of Sri Lanka
CEO	Chief Executive Officer
COPE	Committee on Public Enterprises
CSE	Colombo Stock Exchange
DHM	Debtholder Monitoring
DPE	Department of Public Enterprises
EA	External Auditing
EE	External Environment
EFTPOS	Electronic Fund Transfer facilities at the Point Of Sale
ER	External Reporting
GDP	Gross Domestic Production
IA	Internal Auditing
IAPS	International Auditing Practice Statements
ICASL	Institute of Chartered Accountants of Sri Lanka
ICBS	International Comprehensive Banking System
ICT	Information Communications Technology
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IO	Internal Organization
ISA	International Standards on Auditing
KPI	Key Performance Indicators
LM	Labour Market
L&R	Laws and Regulations

MA	Management Accounting
MCP	Managerial Compensation Plans
NPA	Non Performing Assets
NYSE	New York Stock Exchange
OECD	Organization for Economic Co-operation and Development
OI	Organizational Interface
PM	Product Market
PRIB	Private Sector Bank
PUB	Public Sector Bank
RC	Registrar of Companies
SAFA	South Asian Federation of Accountants
SBE	Specified Business Enterprises
SEC	Securities and Exchange Commission
SHM	Shareholder Monitoring
SLAASMB	Sri Lanka Accounting and Auditing Standards Monitoring Board
SLAPS	Sri Lanka Auditing Practice Statements
SLAS	Sri Lanka Accounting Standards
SLAuS	Sri Lanka Auditing Standards
SLR	Sri Lankan Rupees
U.K.	United Kingdom
U.S.	United States of America

