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Evidence on the Use of Non- Financial Reports based Information: Sources and Causes

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ABSTRACT

A tendency to use non-financial reports based information is noticed in the Sudan. This paper aimed at investigating the sources of information other than financial reports used by users in the Sudan to avoid the failure and shortages of financial reports in satisfying their needs. It focuses mainly on studying the causes that encourage users to tap sources of information other than financial reports. The data for the study is collected through the tool of questionnaire from two groups of respondents (users and auditors). Descriptive statistics and Mann-Whitney U test are used to analyze the perceptions of the two groups. The most important findings arrived at by the paper are that: many sources of non-financial reports based information -including advices from banks, consulting firms, financial analysts, companies' websites and corporate staff are applied in the Sudan. The users may resort to use these sources of information because they may contain additional or explanatory or complementary information to some of the information in the financial reports, in addition to the ease of use, understanding and quick access to the information provided by these sources. Furthermore, it might be available in Timely fashion.

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دليل على استخدام معلومات مستقاة من مصادر خلاف التقارير المالية: المصادر والأسباب

المستخلص

لوحظ أنّ هنالك اتجاه من المستخدمين في السودان نحو استخدام معلومات مستقاة من مصادر بخلاف التقارير المالية. هدفت هذه الورقة للتحقق من هذه المصادر والتي يلجأ إليها المستخدمون لتلافي أوجه نقص وقصور التقارير المالية عن تلبية احتياجاتهم، حيث ركزت بصورة أساسية على دراسة الأسباب التي دفعت المستخدمين إلى استخدام معلومات من مصادر خلاف التقارير المالية. تم جمع البيانات عن طريق أداة الاستبيان من مجموعتين من المستبانين هما المستخدمون أنفسهم والمراجعون. ولتحليل هذه البيانات عمدت الورقة إلى استخدام الإحصاءات الوصفية واختبار (Mann- U Test) Whitney للتعرف على الاختلاف في تصورات المجموعتين عن هذه المصادر ومبررات اللجوء إليها. تمثلت أهم النتائج التي توصلت إليها الورقة في أنّ هنالك لجوءاً لاستخدام مصادر للمعلومات بخلاف التقارير المالية شملت النصائح من البنك، شركات الاستشارات، المحللين الماليين، صفحات الشركات في الشبكة العنكبوتية وموظفي الشركة. كما توصلت الورقة إلى أنّ من أسباب اللجوء لهذه المصادر أنها قد تحوى معلومات تضيف إلى أو توضح أو تكمل بعض المعلومات المتوفرة في التقارير المالية بالإضافة لسهولة استخدام وفهم وسرعة الحصول على المعلومات من هذه المصادر وتوفرها في الوقت المناسب.

INTRODUCTION

Financial reporting is intended to provide information that is useful in making economic decisions and it should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions, [Parker (1998)]. The emphasis on financial reporting as an essential means of providing information to those who make investment decisions suggests the importance of financial disclosure in the resource allocation process. As such, financial disclosure can make either a positive or a negative contribution to the functioning of the free enterprise system. This leads to another conclusion: That society has an interest in financial reporting and financial disclosure. [Mautz and May (1978)]. This means that financial disclosure is important to any enterprise seeking capital or credit. Financial disclosure provides a company with the means of telling its story, of appealing to investors and of comparing itself with others in the continuing competition for the limited amounts of capital available

In fact, not all information required is likely to be included in the financial accounts (reports), [Alexander (1990)]. A lack of reliable information necessary for an investor to assess the relative risks and opportunities of investment possibilities may occur either for acceptable or unacceptable reasons. In some cases, the information he/she desires, such as what the company's competitors will do next year, is not available. In other cases (for example the absence of disclosure of an important contingent liability), there may be no valid reason for failure by the company to provide the information needed, [Mautz and May (1978)]. Even if adequate and reliable information is made available, there are number of reasons why investors may not use it effectively, reasons which also increase investor risk. In some cases, the information is too complex or voluminous for an investor to comprehend satisfactorily. Those investors who rely on the services of expert financial analysts and other advisors are unlikely to find this a problem, but many individual investors and those who rely on less than expert advice face it constantly. Some investors, of course, just fail to use the financial information available, choosing to rely instead on other bases for making investment decisions. Financial disclosure cannot help those who ignore it, [Mautze and May (1978)].

Unfortunately, there is convincing and consistent evidence that many users neither understand nor read the accounting data in financial reports, preferring instead to rely upon the chairman's report or even to use alternative information from newspapers or professional advisors, [Alexander(1990)].

Generally, even on the side of managements, line managers may ignore formally produced accounting information if they regarded it as irrelevant and may develop alternative sources of information. The problem is not merely on the side of financial reporting process, the nature of investors has its effects as well. Because most of them are not adequately qualified to understand the role of accounting and the importance of accounting information. What they are concerned about is how to gain quickly; they do not aim for long stable investment and this is close to gambling. Most of them rely on brokers who direct the investors without their awareness or understanding, [Obaidat (2007)].

A glance at the situation in the developing countries appears to show that the financial reports are not trustful (credible) to investors, Banks, Taxation authorities and financial control, due to the inadequate disclosure of some significant information or because of preparing very especial financial reports by accountants to accomplish very special purposes regardless of the neutrality of such financial reports. Thus, investors, creditors and Banks in developing countries have been faced with many obstacles when they depend upon financial reports to make a decision of purchasing or selling shares or to make a decision of giving the short-term or long-term loans, [Turki (1995)]. It was argued that the legal financial reporting model fails to satisfy varying needs of the investors, especially in developing countries in which legal reporting model is mainly affected by the external rather than contextual factors. Therefore the investors consult with informal sources of information resulting in a financial reporting gap, [ArabSalehi and Velashani(2009)].

Sudan is not an exception to these countries (developing countries). It has been noted that the majority of users in the Sudan are categorized as less-sophisticated users, a fact which affects the use of accounting information negatively. Hence, such users depend on informal information in making their decisions, [Siddig(1994)]. Also, there are some shortcomings in the financial reports in the Sudan which encourage the users to ignore their content of information, [Motwali (2005), Ahammed (2005), Abu- Elgasim (1992), Mirghani (1979)] so the users may resort to sources of information other than financial reports to avoid these shortages.

It appears that sources of non-financial reports based information have distinguished characteristics and are perceived by users as beneficial (sufficient) enough for them so as to resort to obtaining their information needs. Thus, this paper aims at identifying the sources of non-financial reports based information relied upon by users in the Sudan to avoid the failure and shortages of financial reports in satisfying their needs. It focuses mainly on studying the causes encourage them to apply sources of information other than financial reports.

LITRATURE REVIEW

There are many indicators that appear to judge the effectiveness of the financial reporting as a good communicator of information. The most important indicators were the extent to which the financial reports are encompassing the lower level of information that should be disclosed, the extent to which the users dose depends upon the financial reports as a source of financial information, also, the extent to which users should read any of these reports and understand the information it contains, [Turki (2005)]. It looks that in developing countries (including Sudan) the information provided by means of financial reporting is hardly or rarely

used by users, El-Basri (2006). There are many justifications for the non use of accounting information in the decision-making process and shifting instead to sources of information other than financial. Taking the taxation and Zakat authorities as examples, Osman (2007) mentioned that "some of tax-payers intended to avoid tax by providing misleading information, forgery in the accounts and documents, and by non-disclosure of profit". Siddig (1994) stated that "the lack of trust on the part of the taxation and Zakat Chambers is the main factor for not using accounting information in the assessment of the tax and Zakat amount, the tax-payers do not oblige themselves to submit sound, precise and fair accounting statements". Siddig (1994) reached to the fact that "Taxation Chamber always fails to get the true and correct information from the client who submits the financial reports (e.g. Large private firms and companies). The same is true with individual tax-payers who lack the understanding of the tax system as a result of the absence of contact between them and taxation offices. As a result, the majority of tax assessments based on estimation according to information obtained through field surveys made by the taxation officials".

Along the same line, according to Al-sheikh (2000) accounting information provided by the client is hardly used as a base in the tax assessment.

Lack of trust between the two parties together with the misunderstanding of the tax system on the part of the tax-payers and the absence of communication which was to enable the chamber to inform the client is regarded as the main reasons for not using accounting information as far as the private firms and companies (large and small) are concerned. In accordance to the public sector, the Taxation Chamber often receives information so late in time leading the chamber to estimate the amount of tax according to past records.

Along the same line, there is an insignificant usage of financial statements in shareholder's decision-making in the Sudan as a result of socio-cultural influences concluded by Hamza (2004) who arrived at the fact that "Structure has inordinately deterred the external utilization of accounting information in the country. It has crucially led to low share-dealing (only 19% of shareholders deal in buying and selling shares). Naturally, low share-dealings imply low needs and usage of accounting information. Also the influence of socio-cultural factors on share-dealing decisions implies that shareholders who are motivated by such influence are likely to make decisions with little or no regard to company's economic results. As a result, their use and dependence on financial statements is minimal".

Motwali (2005) indicated that " the defects in the financial reports and statements which has been prepared by each company whose shares were actively traded in Khartoum Stock Exchange (KSE) has been one of the significant reasons which led to the weakness of Khartoum Stock Exchange efficiency. These reports and statements were annual and they have included only the income statement, profit and loss account and balance sheet, and they have not been provided at the right time, a factor that has contributed to the delay of communicating the information to the investors in order to enable them to make investment decisions, and such information could not meet their needs. Furthermore, these statements have suffered from a lack of relevance and credibility of accounting information what leads to improve the investor's ability in decision-making and their ability on predicting the potential result. Furthermore, each company in Khartoum Stock Exchange does not disclose the accounting information which enables the investors to assess the degree of risk which surrounds their decision-making". The fear of information diffusion and information misusing by competitors not only affect the disclosure via financial reports in KSE negatively, but also prevent the companies from being listed. [Al-Sharif (2003)].

The above mentioned implies that There is a large and diverse number of users of published financial statements in the Sudan, most, if not all of them are not feeling satisfied with the information provided by means of financial reporting. Sources of non-financial reports based information (informal) may be applied to satisfy their needs.

In examining the financial reporting gap in Iran (as one of the developing countries), ArabSalehi and Velashani (2009) found that the Iranian investors used information provided by brokers, friends, financial analysts' report, media, companies' websites, and corporate staff in their decision making process, which are not included in the legal reporting model. The investor requires more (especially non-financial) and on time information, which help them to make better decisions in new global markets. They also found that the traditional financial reporting is losing its position as a main source of information for the investors.

Huvila(2013) tried to examine the patterns of information sources preferences of corporate finance professionals with a special focus on the respective roles of formal and informal sources of information and the implications of source preferences for the information work of professionals, the study revealed that the corporate finance professionals use a wide array of information sources and have a strong preference for less formal and social sources of information even if they are not necessarily consulted on a daily basis. Major financial information and news providers are significant sources of primary data, but the success of corporate finance specialists lies more on their ability to combine formal information with informal cues and earlier experiences than on possessing or lacking a relevant piece of information.

METHODS AND METHODOLOGY

The study used the questionnaire as an appropriate tool for collecting data, [Singh (2006)]. It is worth mentioning that, nowadays, the questionnaire is widely used for data collection in social research. It is a reasonably fair tool for gathering data from large, diverse, varied and scattered social groups, a situation which coincides with this study, [Kothari (2004)]. Also, the type of descriptive research uses the questionnaire as a research tool for data collection, both the advantages and disadvantages of questionnaire, which are well known in literature, have been taken in consideration in this study.

Since it is difficult to measure something that is in a person's mind, and as a solution, the researcher has relied heavily on asking people and used attitude questionnaire. In a typical attitude questionnaire, respondents have been asked to indicate whether they agree or disagree with each of a series of statements about an attitude object, [Busheery (2001) narrated from Hogg and Vaughan (1998)]. The questionnaire has been developed to investigate the attitudes and opinions of respondents (selected sample) towards using types of non- financial reports based information in the Sudan. To do so, rating scales (the opinions or attitudes scales) have been designed to measure attitudes of respondents. Rating is the term applied to the expression of opinion or judgment regarding some situations, objects, character. These opinions are usually expressed on a scale, or by categories of values, [Singh (2006)]. Also Rating techniques are devices by which judgments may be quantified, [Singh (2006)].

The study has adopted the method of summated ratings developed by Likert, more commonly known as the Likert scale, because it is one of the most frequently used methods for the measurement of social attitude, [Wikipedia (2012)]. Specifically, this paper used five-points scale (strongly agree, agree, do not know, disagree, strongly disagree). The population from which the sample has been drawn in this study consisted of the most important groups of users of accounting information in the Sudan (Owners, Creditors, Managers, Investors in Capital Market, Taxation Chamber, Zakat Chamber and Employees and

their unions) in addition to the Auditors as representative of the accounting profession. Each group of users represents a stratum and the auditor as well; these strata are different among themselves and homogeneous internally.

Stratified sampling is considered as an appropriate method for the sake of this study; because the population embraces a number of distinct categories. Hence, the sampling frame has been organized by these categories into separate "strata". Each stratum is then sampled as an independent sub-population, out of which individual elements are randomly selected [Barreiro and Albandoz (2001)].

A sample consisting of 175 users on one side, and 21 auditors on the other side were chosen randomly and the questionnaire was sent out to them. 114 of users and 21 of auditors provided usable responses to the questionnaire.

To achieve the aim of the study, a comparable method between the groups of users on the one hand and the group of auditors on the other was adopted. Descriptive statistics have been used by the researcher to describe the data collected in the research and accurately characterized the variables under observation within specific sample, [Marczyk *et al* (2005)]. In this respect, types of descriptive statistics such as the frequency distribution, the mean, the mode, standard deviation, the minimum, the maximum and coefficient of skewness were calculated. Then, to examine the possible difference between the perceptions of the two groups (users and auditors) Mann-Whitney U test was applied. The equation used to calculate the U test is as follows:

$$U = N_1N_2 + \frac{N_1(N_1 + 1)}{2} - R_1$$

Where:

U is the Mann-Whitney statistic,

N_1 is the number of cases in sample 1

N_2 is the number of cases in sample 2

R_1 is the sum of the ranks for the first sample.

DATA ANALYSIS

To analyze the data collected through the questionnaire, the descriptive statistics were used to describe the responses of the sample. Mann-Whitney U test was adopted to test the difference between the perceptions of the two groups (users and auditors).

Sources of Non- Financial Reports based Information used to obtain the needed Information.

This part of the study provides analysis of the opinions and perceptions of the users and the auditors of the financial reports about the types of non- financial reports based information used:

Table (1) Sources of Non-Financial Reports based Information Used to obtain the needed Information

Statements	Mean	Mode	SD	Min	Max	Skewness	M-W Sig.
Newspapers and Other Media.	2.66	2	1.19	1	5	0.528	.472
Brokers.	2.32	2	1.08	1	5	0.718	.162
Statements Published by Management.	3.04	4	1.24	1	5	-0.133	.255
Personal Expectations.	2.58	2	1.14	1	5	0.456	.653
Approximate Statements.	2.96	4	1.14	1	5	-0.140	.034*
Advices from Friends.	2.43	2	1.05	1	5	0.614	.165
Rumors from the Market.	2.20	2	1.14	1	5	0.932	.547
Advices from the Bank.	3.73	4	.93	1	5	-0.845	.666
Consulting Firms.	4.11	4	.83	1	5	-0.994	.811
Financial Analysts.	4.32	4	.63	2	5	-0.752	.281
Companies Websites.	3.81	4	.92	1	5	-0.774	.025*
corporate staff.	3.90	4	.76	1	5	-0.983	.056

Source: own calculations based on the survey data (2013)

Table (1) above presents the perceptions of the users and auditors about the sources of non- financial reports based information used by the users in their decision-making process to fill the gap in financial information and to avoid the deficiencies of the financial reports. The descriptive statistics show that the users do not resort to the first seven sources which are, namely: newspapers and other media, brokers, statements published by management, personal expectations, approximate statements, advice from friends and rumors from the market as alternative sources which provide the information needed by the users. This result is reflected in the low values of the means of using these sources which range between 3.04 and 2.20 and the low mode values ranging between 4 and 2, and the positive coefficient of skewness in all these sources except in the case of approximate statements. All these results imply that the respondents either strongly disagree or tend to disagree. Whereas the respondents believe that the users apply some sources of non- financial reports based information (informal) such as advice from the banks, consulting firms, financial analysts, companies' websites and corporate staff in their decision-making process. The evidence of this is the mean values ranging between 3.73 and 4.32, and the mode of 4 in all these sources, and the negative coefficient of skewness.

This reflects either a strong agreement or a tendency to agree with using these complementary or alternative sources of information by the users.

Looking again at table (1) shown earlier, the results of the Mann-Whitney u test show that there is no significant statistical differences in the perceptions of the two surveyed groups, the users and auditors, with respect to the use of the informal sources of information except in the cases of using approximate statements and companies' websites.

Concerning the users resort to the approximate statements, the perceptions of the two groups are significantly different at a 0.05 level. There is a negative view given by the users and a positive view given by the auditors. On the one hand, only about one-third of the users (31.6%) tend to agree that they turn to the informal sources of information instead of, or to fill the gap in, the current financial reports, while two-thirds (66.7%) of the auditors tend to agree that this is the case. An almost equal strong agreement was given by the users and auditors (5.3% and 4.8% respectively). On the other hand, 43.0% of the users either strongly disagree

or tend to disagree, whereas 28.6% of the auditors either strongly disagree or tend to disagree.

The positive view given by the auditors was not expected by the researcher because it is highly expected that the auditors (who represent the accounting profession and who assist in preparing the financial reports) are more concerned with and more adopter of accounting information than the others.

There is also a significant difference between the perceptions of both groups with regard to the getting of the information from the companies' websites. Nearly three-quarters (74.6%) of the users either strongly agree or tend to agree that companies' websites can provide them with the useful information which help in decision-making instead of, or as complementary to the financial reports, while only about three-fifths (57.6%) of the auditors either strongly agree or tend to agree that this is the case. On the other side, only 5.3% of the users tend to disagree, whereas more than one-quarter (28.6%) of the auditors tend to disagree and 9.5% of them strongly disagree.

The results of the descriptive statistics and Mann-Whitney u test reveal that the financial reports are not the only source to depend on by the users to get their information, other important sources of non-financial reports based information including advice from the banks, consulting firms, financial analysts, companies' websites and corporate staff are used.

The users' tendency to use and apply sources of information other than financial reports implies that it is not enough to depend only on financial reports; sources of non-financial reports based information are needed to provide the relevant information which respond to users' needs. As the gap between the content of the financial reports and the users' needs of information is clear; therefore the users resort to use sources of non-financial based information (informal) in order to bridge this gap.

Causes that make Users resort to non-Financial based Information:

This part of the study analyzes the opinions and perceptions of the users of the financial reports on one hand and the auditors (as representative of the accounting profession) on the other hand about the reasons why the users resort to the other sources of information:

Table (2) Causes that make Users resort to non-Financial based Information to assist in Making the Economic Decision

Causes	Mean	Mode	SD	Min	Max	Skewness	M-W Sig.
These sources contain additional information that cannot be provided by the financial reports.	4.15	4	.88	2	5	-1.104	.073
these sources contain complementary information to some of the information in the financial reports.	4.22	4	.78	2	5	-1.085	.891
These sources contain information explaining some of the information available in the financial reports.	4.15	4	.87	2	5	-0.918	.098
Ease and quick access to and obtaining of information from these sources.	3.93	4	.95	2	5	-0.719	.795
These sources of information provide the information in an appropriate time compared to the financial reports.	3.90	4	.98	2	5	-0.732	.381
Information available from these sources correspond with and suit the needs of the users	3.88	4	.93	2	5	-0.775	.931
Confidentiality and credibility of the information provided by these sources.	3.83	4	.97	1	5	-0.658	.071
Failure of the user to use the information provided by the financial reports, which leads him/ her to use these sources	3.67	4	1.1	1	5	-0.625	.116
Ease of understanding the information contained in these sources.	3.91	4	.97	1	5	-0.831	.317
Ease of use of the information provided by these sources.	4.04	4	.89	2	5	-0.866	.121
Ease of the language of these sources.	3.92	4	.98	1	5	-0.856	.320

Source: own calculations based on the survey data (2013)

Table (2) above reports the perceived causes that make the users resort to the some sources of non-financial reports based information. As demonstrated by the table and based on the descriptive statistics, the highest value of the mean is 4.22 and the lowest is 3.67, the mode for all the causes mentioned in the table is 4, the coefficients of skewness are negative in all the cases. These descriptive statistics reflect either a strong agreement or a tendency to agree of the respondents that the users need to apply other sources of information to help in avoiding the deficiencies in the financial reports provided by the companies and to help in closing the gap between the quality and amount of information required and the quality and amount of information prepared and presented through the financial reports.

As indicated by table (2) , the results of Mann-Whitney u test show that the responses of the two surveyed groups do not differ significantly at a 0.05 level in all the causes that motivate the users to resort to the sources of non-financial reports based information. The test reflects similar perceptions shown by the users and auditors. The respondents in both groups felt more

strongly about the first three reasons and the eleventh one in the table as can be shown as follows:

Between two-thirds and four –fifths of the users felt that the users tend to consult with sources of non-financial reports based information in order to get additional information that can not be obtained from the traditional financial reports such as the adequate non-financial information which help the users to make better decisions, and/or that because the other sources contain complementary information can be used to complete the shortages of the information in the financial reports, and /or that because some other sources can provide some information which assist in explaining the complex and vague information provided by the financial reports.

Moreover, they believe that the information in some sources of non-financial reports based information is more understandable to him than the information provided by the financial reports. Also, there is a considerable support for the remaining reasons by the two surveyed groups. About three-quarters of the users and between one-half and nearly three-quarters of the auditors believe that the users can readily and quickly have an access to and get the information available in some other sources compared to the traditional financial reports. A good example here is the case of the companies' websites which acquired its importance after the spread of the new advanced technology such as the internet and computers. These tools can provide immediate and updated information. Both groups also perceive the other sources of information as capable of providing timely information.

In contrast, the traditional financial reports failed in providing the information in appropriate time compared to the other informal sources. Further, the users and auditors believe that other sources can provide the users with relevant and suitable information to their needs, a good example here is the information needed by the taxation authority and the Zakat chamber who construct some of their decisions and assessments of the imposed-tax on the information gained from different kinds of channels which communicate both financial and non-financial information such as the information gained from the market. Since some users deal with the information provided by the financial reports as untrustworthy, both groups felt that the other sources of information can provide more credible data on describing and assessing the performance of the companies. They cited a greater confidence in the information provided by the informal sources due to its impartiality which enhanced the use of sources of non-financial reports based information, that is mainly due to a seemingly lack of trust in the financial reports provided by the Tax and Zakat payers.

Also, since some users fail to use the financial information available in the financial reports, they may resort to the sources of non-financial reports based information (informal). The failure of the users can be attributed either to the users themselves or to the difficulties of the technical financial language used in the financial reports, or because the financial reports were misunderstood or provide misleading information. If this is the case, the users may find themselves obliged to seek and resort to some sources of non-financial reports based information (informal) so as to close this gap. Resorting to other informal sources is also due to the simplicity of the information gained from these sources which are prepared in the layman's language. Both groups believe that the most common causes that encourage the users to resort to applying the sources of non-financial reports based information (informal) are the ease of understanding these sources and the ease and simplicity of the language used to prepare them.

Findings and Implications:

Based on the data collected and analyzed, this paper arrived at the following findings:

1. Many sources of non -financial reports based information -including advice from the bank, consulting firms, financial analysts, companies' websites and corporate staff- are applied.
2. The causes why users resort to use and apply other sources of information is due to the followings:
 - a. The sources of information other than financial reports may contain additional, explanatory and complementary information to some of the information in the financial reports.
 - b. Ease and quick access to obtaining of information from the sources other than financial reports.
 - c. The sources of information other than financial reports provide the information in an appropriate time compared to the financial reports.
 - d. Information available from the sources of information other than financial reports corresponds with and suits the needs of the users.
 - e. Confidentiality and credibility of the information provided by the sources of information other than financial reports as in the case of the tax and Zakat authorities.
 - f. Failure of the users to use the information provided by the financial reports, which leads them to use the sources of information other than financial reports.
 - g. Ease of use and understanding of the information contained in the sources of information other than financial reports.
 - h. Ease of language which used in preparing the other sources.
3. The implication of this tendency to use and apply sources of information other than financial reports implied that it is not enough to depend only on financial reports, sources of information other than these reports are needed to provide the relevant information which responds to users' needs. The users also feel that not all information needed by them can be obtained from the financial reports. The gap between the content of the financial reports and the users' needs for information is clear; and therefore, the users may resort to use non-financial reports based information in order to bridge this gap.

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