

# Financial Reporting On Internet

**W**ho are the Users of Financial Statements and how has the Internet changed the old norms of financial reporting?

*"The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade credi-*

*net, anyone can access the information.*

## Advantages of Financial Reporting on Internet

What makes the Internet potentially useful in corporate reporting is the fact that it offers the following advantages:

- is international. Improving access to potential investors for small companies.
- It offers dynamic updating potential.
- Fewer constraints on presentation flexibility than traditional paper versions.
- Access to greater volumes of data than previously possible.
- Flexibility in user models of data provided. Increasing the amount and type of data disclosed and supplementing traditional disclosure practices.
- Hypermedia delivery of data (using the inter-linking of information capabilities of the World Wide Web).
- The possibilities for exporting of data for user manipulation.
- The regular maintenance of websites means that the financial information provided can be kept up-to-date whereas paper reports have a very short shelf-life.
- It offers possibilities to enhance the provision of corporate reports to users. Some of the advantages / enhancements are provided in the following ways:
- The use of graphics, Ability for downloading of data, Press release provision, Trend Data and analysis, Dynamic Data Provision & Non-financial measures of performance provided



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Traditionally financial reporting by corporates was in print format and the annual reports were mailed to the users of the financial statements. Financial information was also released to media by way of press releases. The exponential growth in Internet usage is steadily changing the way users access financial information. Today, it is imperative for a corporate to have a website. Corporates are increasingly using Internet for Financial Reporting in the last few years. The article throws light on the changing scenario of financial reporting, the issues involved and the trends in Internet financial reporting in India and other parts of the world.

*tors, customers, governments and their agencies and the public. They use financial statements in order to satisfy some of their information needs" (Framework for the Preparation and Presentation of Financial Statements' Issued by ICAI)*

In countries with major capital markets, almost all large companies have websites and the majority of these sites include some form of financial reporting. A few years ago, the users of financial statements depended on the hard copies (print) of Annual report to reach them. Not everyone had access to the Annual reports / financial information and at times one had to either get the information from a library or from an analyst. With Financial information and Annual reports being available on In-

- It offers a low cost solution (to both users and producers) to access of corporate data by using an established network structure that all can participate in easily. Large companies can virtually eliminate the substantial cost of printing and posting annual reports to the thousands
- It offers instant (relative to paper versions) access to data at convenient times for users.
- It provides for a broadcast (mass communication) medium for corporate reports. The information can be accessed by a much wider audience than more conventional means of communication permit. There are no national borders, the reach

## General and Financial/ Annual Report related attributes found on websites

Today, the type and amount of information that companies put on their websites varies considerably depending on the type of disclosure, the company's industry and its size. Every company provides a brief description of its operations and a list of its products and locations. Additional information such as company's market share, mission statement, financial reports and corporate governance initiatives can be found amongst other information.

Some of the common attributes that are found on website are as follows:

- (a) Business related information: (i) Historical growth, (ii) Risks (iii) Management Discussion & Analysis (MD&A) (iv) Marketing strategies, (v) Plant Volume or capacities and (vi) Quality of products
- (b) Company Background: (i) Brands or Products, (ii) History, (iii) Key Drivers, (iv) Locations, (v) Mission statements and (vi) Vision / Core values
- (c) Forward Looking Data : (i) Future sales or earnings, (ii) Industry trends, (iii) Future goals / plans & (iv) New products
- (d) Investor Relations/Financials: Investor related financial and business information is often maintained in a separate section of the company's web site and is accessible from its home page. These investor sections usually contain at least the following types of information: (i) Financials/Quarterly & Annual Reports – Multiple file formats (Either PDF or HTML or both)

**The main concern with financial reporting on the Internet is the fact that information on a website is available to anyone, anyplace, at any time.**

See paragraph below for some of the common attributes found in Annual / Financial reports, (ii) Financial History, (iii) Shareholding pattern / Ownership makeup, (iv) Board of Directors, (v) Corporate Governance, (vi) Stock Price, (vii) Filings, (viii) Press releases, (ix) Analyst coverage, (x) Financial ratios and Key statistics, (xi) Management presentation transcripts and slides, (xii) Online company fact book, (xiii) Earnings commentary, (xiv) Investor relations calendar events, (xv) Email alerts etc

- (e) Other Information: (i) Search Box, (ii) Site map and a host of other business information and e-commerce related menus.

### *Attributes found in Annual/Financial Reports*

- Chairman's Message
- Corporate Information
- Board of Directors & Officers
- Customer Profile
- Employee Profile
- Financial highlights
- Directors Report
- Management Discussion & Analysis (MD&A)
- Auditors Report
- Balance Sheet
- Profit and loss account / Income Statement
- Cash flow statement
- Schedules / Notes to accounts
- Statement of shareholders equity
- Risk Management Report
- Corporate Governance Report.

## Issues in Financial Reporting on Internet

The main concern with financial reporting on the Internet is the fact that information on a Web site is available to anyone, anyplace, at any time. Increasing use of the World Wide Web for reporting purposes is challenging the very nature of financial reporting - its boundaries, its frameworks and even its fundamental role in society. While the advantages of the Web as a new mode of information dissemination are clear, financial reporting on the Web creates a number of challenges for companies and their auditors as well as for regulatory and standard-setting organisations. It is no surprise that Web-based financial reporting has already drawn the attention of the international groups such as International Federation of Accountants (IFAC), International Accounting Standards Committee (IASC), Financial Accounting Standards Board (FASB), USA and major national regulatory organisations.

Some of the issues/concerns that arise due to financial reporting on the Internet can be seen in the following areas:

***Financial reporting on the Internet and external audit:*** Electronic dissemination of financial reports on the Internet is becoming ubiquitous for larger corporations in developed market economies. This form of reporting presents many challenges for the financial statement audit. It is critical that the audit profession proactively address the challenges or they will be certainly addressed by government, regulatory bodies and the courts of law. Corporates reporting on the Internet usually include auditors' report on their website which could lead

to certain issues. These issues include the ease with which the auditor's report can be changed without any indication that a change was made; the meaning of the look and feel of the auditor's report in a rapidly changing web environment; and the implications of hyperlinks to and from web-based auditors' reports as well as the location and placement of the auditors' reports. It is one thing to not know how a client is inappropriately using the paper version of the auditor's report, but it is a different thing when the whole world can see the auditor's report on a client's Web site.

***Audit Report along with Summarised Financial Statements*** - Many corporations that do summarise their finan-

cial statements do include the auditor's report. Generally, the only place in an annual report that indicates that the financial statements were completed in conformity with GAAP (or IASs, appropriate national accounting standards or relevant statutes of law) is in the auditor's standard report. On a significant number of websites there will be a link labeled, "Annual Report," however, in many cases, the link will take the user to a web page whose content will be significantly different than the paper-based annual report. Sometimes the web page will only include a summary income statement, a summary balance sheet, and a letter from the chairman of the board. For those companies that disclose less than their

paper-based annual report, a frequently missing element is the notes to the financial statements. The question that would come up is: what is the risk of associating at auditor's report with less than complete annual report? Is the company who included the auditor's report on the website at risk for implying that the summary financial disclosure is in accordance with GAAP? What is the auditor's risk and responsibility?

***Borders of Annual Report/Financial Statements***

- When the investor has the paper-based annual report in their hands, they have a clear sense of the beginning and the end of the annual report. The boundaries that are indicated on web sites are not as clear. It



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is not unusual to have hyperlinks inside an annual report that takes the user outside the annual report--and almost never is there any warning to the user that they are leaving the annual report. Similarly there are hyperlinks outside of the annual report that takes the user inside the annual report. Generally, the financial reports are included as a relatively small part of a company's overall website that includes significant other materials. As such, it can be difficult for the user to know when they are inside or outside the annual report. The entire report may be a few pages within the investor relations web pages, which in addition to the annual report, may include a wide variety of unaudited financial statements, forward looking financial information, as well as press releases and other investor relations material. Unless the borders are clearly labeled, a user of the financial website may misinterpret the scope of the auditor's report that accompanies the financial statements. These border issues have implications for auditors. Companies are freely adding hyperlinks that links to the auditor's report and they are creating hyperlinks inside the auditor's report to pages (e.g., footnotes) included in the auditor's report. Should companies be freely allowed to add hyperlinks to/from the auditor's report? Who is at risk here?

**Convergence of management and financial reporting:** With the increasing use of Internet for financial reporting and the ever increasing user traffic, often companies resort to publishing various kinds of reports on their website. Obviously, management has more information available to itself than to outside stakeholders and this is likely to continue.

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It is, however, probable that the web will blur the distinction between financial information used by management and information made available to the public. If an approach similar to that used for internal reporting were to be used for reporting to external stakeholders, the inexperienced investor/ user could end up interpreting unaudited financial data as being sanctified by the audit.

**Usage of Financial information on the Internet by Investors/other agencies:** Online brokerages and inexperienced investors are using websites for their investment research and subsequent placement of their investment orders. They are not discussing their investments with human brokers or reviewing paper-based annual reports. Using incomplete annual reports from websites could lead to bad decisions. Companies may argue that investors should recognise that these Web-based annual reports are summaries. This may be a big assumption. Similarly many online brokerages and other agencies or third party consultants use the company website to source financial information which in turn is used by their clients for various purposes.

**Links to Analyst websites:** There are cases where a company provides links to websites of analysts who follow the company. What are risks here? Is the company tacitly agreeing with forward-looking statements on those analysts' sites? Again, companies rarely included any form of appropriate disclaimers.

**Downloading Annual Reports:** Many companies who have summary disclosures on their Web sites frequently include downloadable versions of their annual reports in an Adobe Acrobat "Portable

Document Format" (PDF) file. When downloaded and printed these files can provide an exact duplicate of the printed annual reports. However, to read or print these PDF files requires that the users download and install the Adobe Acrobat reader on their computers. The size of these reports is typically very large. Users with dial-up modems will find it very difficult to the complete files.

**Administering:** Internet financial reporting by companies creates new challenges to management in charge of establishing the control framework and to internal auditors in charge of reviewing the controls. The issues in administering can be related to the following aspects:

- What to report
- When to report
- How to report
- Who is responsible to report

It is essential to have policies and guidelines on reporting of financials on the Internet.

**Third Party Website Maintenance:** Often Corporates outsource their website maintenance to third parties. This poses questions in terms of control, risk and efficient administering that needs to be kept in mind.

**Security:** In the absence of appropriate security measures the information on the websites is open for alteration and manipulation either by someone internally or by third parties and often can be undetected or apparent. The management has responsibility for implementing and monitoring control procedures.

The trend towards the provision of financial information on the Internet is irreversible and the above disadvantages are, by and large, matters that large companies simply have

to live with — they are not factors to be taken into account when deciding whether or not provide such information: the issue for all large companies now is not if, but when and how, they will provide financial information. The provision of detailed financial information to a wider audience inevitably means more criticism by groups and individuals that are increasingly well-informed and well-organised, thanks to Internet technology. Legislation in some countries permits companies to send annual reports and other financial information to shareholders electronically, rather than by post, but only if the shareholder agrees to this and only a very small proportion of shareholders do so. Paper reports still have to be produced for a very large number of shareholders. The maintenance of websites can be costly and the security of websites, particularly those sections containing financial information, is paramount. Users can be irritated to say the least, and even misled, by poorly designed websites and many companies do not properly understand that despite the absence of specific regulation, the publication of financial information on corporate websites is regarded by many legal experts as being subject to the same stringent regulations that apply to paper-based financial publications. Many websites are too technologically advanced for the novice user because they require time and space — consuming downloads or multi-media plug-ins which too often have the effect of locking the inexperienced user out.

### Safeguards/Controls over Financial Reporting on the Internet

Notwithstanding the fact

that there are issues in financial reporting on the internet as evidenced by the above discussion it is bound to grow in the coming years. Some of the safeguards that can be taken by the concerned parties when financial numbers are put out on a website can be seen as follows:

**Auditors:** The information provided by companies varies enormously. Financial highlights, interim reports, preliminary announcements, summary financial statements, full accounts and financial information that do not fit any established category can be found on corporate websites, most of it in downloadable Adobe Acrobat (PDF) or HTML format. Some information is audited and some is unaudited, but the audit status of information is not made clear in too many cases. So to what extent should auditors be concerned about financial information on websites? Opinions differ as to the auditor's responsibilities in relation to information on the Internet. However, if a question were to arise on the issues that auditors might wish to take account of in this context, the following matters should be considered:

- I. Under the International Federation of Accountants (IFAC) and other codes of professional ethics, auditors should not permit their names to be associated with information that is misleading. Auditors should therefore ensure that when they agree to act as auditors, their clients agree that the firm's name and the audit report should not be included in the corporate website without the firm's express permission;
- II. In deciding whether or not to permit their clients to use the firm's name

or audit report, auditors should consider whether:

- i. the information is secure. If the information is not secure, hackers might alter financial information and the firm's name might then be associated with misleading information. Auditors might wish to test the security of the website generally, and of those sections containing financial information with which their name is to be associated in particular;
- ii. the financial information with which the firm's name or audit report is to be associated is clearly distinguished from other information. This issue is even more important in the context of web-based financial reporting than it is in the context of paper financial reports. If the annual report is an original version scanned into a pdf file then the page numbers on the original version and the electronic version would match. But this is not the case many a time. Where HTML is used, the information has to be keyed in from paper originals. Keying in gives rise to two risks:
  - That errors will be introduced;
  - That the page numbers (or other reference identifying

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the information audited) in the paper audit report will not correspond with the pages as displayed on the website (and in most cases this is highly likely as paper pages and HTML pages rarely correspond exactly).

The auditors should ensure that controls to prevent and detect keying errors are operating adequately, and perform substantive tests to ensure that financial information on the website is the same as financial information in the paper report. They should also ensure that if adjustments to the auditor's report appearing on the website are necessary, that they are properly made.

III. The auditor should ensure that the website is frequently maintained. The auditors should also make sure that if financial information with which the firm's name or auditor's report is to be associated is to be changed, it should only be changed with the agreement of the firm;

IV. There are local regulations on the publication of financial information. Many jurisdictions require that where statutory accounts are published, the auditor's report should be published with them. Regulation may also require that when other accounts are published, a statement should be made by the company stating that they are not statutory accounts, and whether statutory accounts dealing with the period to which the published information relates have been audited and filed with the relevant authorities. Au-

ditors should ensure that where such regulations exist, the proper statements have been made on the website. Similar regulations may apply to the publication of statutory summary financial statements.

**Administering the Website:**

Many of the issues associated with the traditional paper reporting are also relevant when enterprises use their website. Directors and senior management need to ensure that any financial information provided has the same integrity as that published in paper form. The International Federation of Accountants (IFAC) in its paper on 'Financial Reporting on the Internet' issued in August 2002 listed the following in this context:

**Responsibilities of directors and management**

Management has a responsibility to determine:

- how the corporate web site will be used to provide financial information,
- what information will be provided,
- the timing of that information and
- the format of such information.
- These decisions should be formulated into an approved policy that is also published on the website so that users are aware to the enterprise's approach to the provision of financial information.

Management may wish to take legal advice when considering and formulating this policy."

The management should ensure that an 'Internet Reporting Policy' is in place that is comprehensive.

**Governance:** To improve the reliability of the information that companies put on the



web, and knowing that people will reply on the web site, companies should incorporate their sites in their governance procedures. This would include adding website disclosures to the responsibilities of the board of directors and the audit committee. The board should consider setting up a special website subcommittee to report to it on website activities and security. In addition, the internal auditor should include the web site in the scope of the internal audit.

**Boundaries:** The issue of boundaries might be addressed by developing new standards of presentation - for example, situations in which hyperlinks would be allowed and the kind of information that could legitimately be linked to the financial statements. If hyperlinks are included with the audited financial information, the information on the linked page is effectively incorporated into the financial information. The auditors should ensure that any information so incorporated has in fact been audited. This is particularly important where links are made with pages outside the annual report. "Electronic signposts" warning users that they are leaving formal financial information can be installed so that users activating certain hyperlinks would encounter them. Background colour and distinctive boundaries can be used to identify a particular type of document, such as an annual report, to assist users in determining when they have left the report.

**Information Disclosure Safeguard:** Where an enterprise is producing information in other forms such as in printed reports or in press releases, the enterprise should include on its Web site versions of its financial reports that include the information

provided in those other forms. Information disclosed on the Web should not be contradictory to other versions of its published financial reports. If, for some reason, documents available online do not provide the full information from their original formats, the fact that information is missing should be clearly indicated, and a point of contact for obtaining this information should be provided. Conversely, if additional information is provided on the Web that is not provided in other formats, the fact that this is additional information should be disclosed.

**Disclaimers:** When a company is designing its financial reporting web site it may have a specific audience in mind such as financial analysts, customers etc. But unless the Web pages are protected by passwords, anyone could be using the information provided on the Web site. So, what if an unsophisticated investor uses the information on the Web site to make an investment decision, which they are subsequently unsatisfied with? Can the company defend itself by saying that the Web site was not intended for unsophisticated investors? If companies want to avoid the situation, should they actually put some form of disclaimer on the Web site stating who the intended audience is?

**Legal:** Corporates should design and maintain their corporate websites, particularly the financial information in a way that should not give rise to any legal issues that could affect the company. Appropriate legal advice should be sought that takes into account the legal environment of a particular region, and also keeping in mind the potential users could be boundary less. It is common to see Disclaimers on almost all the

websites. The disclaimers are sometimes in general nature that applies to the contents of the whole website or in some cases specific, say to an Annual report or to a particular piece of information.

### International trends in Financial reporting on the Internet

The variations in reporting between companies are often wide enough for an user to be left with the impression that there are no rules for financial reporting on the Web. Depending on a person's interpretation of current financial-reporting rules it is somewhat difficult to determine what exactly is allowed and what should be avoided when it comes to Web-based reporting. A general observation on the financial reporting trends on websites of most of the countries reveal that by far and large the attributes on websites are as discussed in the paragraph captioned "General and Financial / Annual Report related attributes found on websites" above. Guidance and draft guidance on the audit of financial information on the Internet has been produced in a number of countries. A brief discussion on the same follows:

#### **United States of America:**

In the United States, the Securities and Exchange Commission (SEC), in Securities Act Release No. 33-7233, indicates, in part, that, "The liability provisions of the federal securities laws apply equally to electronic and paper-based media." What that means is, the Internet is just another media and the rules that apply to paper-based financial reporting equally apply to the Internet. By contrast, although the AICPA's professional standards apply to auditing; its view of the Web provides an

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interesting different perspective. In Other information in documents containing audited financial statements: auditing and interpretations of Section 550 (AU 9550) paragraph 16 ends with the question “When audited financial statements and the independent auditor’s report thereon are included in an electronics site, what is the auditor’s responsibility with respect to other information included in the electronics site?” The answer, which appears in paragraph 17 states “Electronic sites are a means of distributing information and are not ‘documents,’ as that term is used in Section 550 ... Thus, auditors are not required by Section 550 to read information contained in electronics sites, or to consider the consistency of other information (as that term is used in Section 550) in an electronic sites with the original documents.” However, companies should carefully consider their online disclosures in light of the SEC’s Securities Act Release No. 33-7233 (or their own country-specific rules) so as to ensure that their Web sites are not inadvertently violating existing financial reporting regulations.

What the above means is that, the current thinking does not regard financial information on websites as constituting ‘published’ information at all. Auditors are therefore not required to read financial information on websites, nor are they required to consider its integrity or completeness, even if the auditor’s report is published with the information. Clearly, few US firms are going to take the risk of ignoring financial information on corporate websites in the current litigious climate but it is important to note that there is at present, no obligation to do so.

**It is important to distinguish, however, between the provision by auditors of assurance relating to the financial content of the website, and the provision by auditors of assurance relating to the security of the website generally, which are two, quite different issues.**

*Australia:* Auditing guidance emphasises management’s responsibility for the preparation and presentation of financial information on the corporate website and the need to distinguish clearly between audited and unaudited information. Auditors must be confident that management has addressed the security and control issues that ensure the quality and integrity of financial information on the website. It is important to distinguish, however, between the provision by auditors of assurance relating to the financial content of the website, and the provision by auditors of assurance relating to the security of the website generally, which are two quite different issues.

*United Kingdom:* A discussion paper was issued on the subject some time back, which suggested that corporate websites should be divided into ‘restricted’ and ‘unrestricted’ sections. Restricted sections should only contain information on which auditors have issued a report, and the unrestricted section should make it clear that the information it contains has not been audited. In the restricted section, there should be no external hyperlinks and the full annual report should be reproduced. Highlights or abridged versions of the audited financial statements should not appear in the restricted section. Auditors should satisfy themselves as to website security but the site itself should state that the responsibility for the security and integrity of the website rests with directors.

*Some of the Interesting (Non Indian) corporate websites are:*

- The annual report section opens in a new window (Microsoft, Wal-Mart, Coca Cola, Cisco etc)
- Appearance of a message to notify the surfer upon

leaving the annual report area (Microsoft, Intel)

- Use of unique design and different colors from the rest of the website sections (Royal Bank of Scotland – UK)
- Appearance of the title ‘Annual Report’ on every page of the annual report section (Pfizer – USA)
- Microsoft –USA has its Annual report in Word document format apart from having it in an XBRL format. There are also Financial tables and Alternate Views (Financial highlights in 7 different currencies) available for download in Excel format.

**Financial Reporting on the Internet in India**

India has the 5th highest number of Internet users in the world (Source: website [www.internetworldstats.com](http://www.internetworldstats.com)). From 5 million users in 2000 to the present number of 39 million. That is a growth of 680% in 5 years in terms of Internet users. Mumbai Stock exchange has one the highest number of listed companies in the world – 4743 companies listed as at July 2005. There are many private companies in India, but the Mumbai stock exchange statistics is relevant to this article since public companies have to share their financials with stakeholders/investing public. Link the fact that India boasts of a very robust software industry (no dearth of web professionals to create and maintain web sites) to the statistics on Internet users and listed public companies; we are looking at the potential of tremendous activity in terms of financial reporting on the Internet.

There is no guidance or standard on the audit of financial information on the Inter-

net in India. It is common to see the auditors report being reproduced in the annual reports that are available on the websites of Indian companies. Financial statements / Annual reports of Public companies are in the nature of public documents in India and one can access the same from Registrar of companies. That being the case, as long as Schedule VI accounts are presented along with the Audit report on the web site, it would not affect the auditor. But if the company makes a modification to any of the contents of the financial information signed off by the auditor, then the auditor needs to make sure he is aware of the same and has agreed to the information contents to be put out on the website as long as it adheres to the existing guidance / standards.

There is no study on the trends in financial reporting on the Internet in India available at present. For the purpose of this article, 32 companies were selected for a study. 30 companies that are the constituents of BSE Sensex as at August 2005 and 2 companies that were moved out of BSE sensex as on 06/06/2005. The following is the summary of the trend related to this study:

**1. Websites:** All the companies have websites.

**2. Under what attribute within the website of a Company can one find the Annual Report?**

(a) *Investors/Investor Relations/Investors Center/Investors Desk/Investors Interests:* 24 companies out of 32 i.e. 75% have the annual report listed under the Investors attribute. It is interesting to note the various variations to the term as listed above.

(b) *Financials/Financial Information:* 4 companies out of 32 i.e. 12.5% list it under this attribute.

(c) *Exceptions :* i) Zee television has Investor Information listed under the tab 'Corporate' on its home page ii) Cipla has its annual report listed under the menu 'Corporate Profile' within which is the 'Financial Profile' iii) NTPC has its annual report under 'Company Performance' but the same can be seen on its home page. iv) ITC has its Annual report under the menu 'Shareholder Value' on its home page. On the home page one can find the 'Investor relation' but there are no financials / annual report listed therein

**3. Annual Report Format :**

(a) PDF files are used by 30 out of the 32 companies.

(b) 6 out of the 32 companies do not have a full Annual report download. The other 26 company annual reports can be downloaded in full.

(c) 5 out of the 6 companies that do not have a full download, one can download any part from the Table of contents individually.

(d) Infosys has an MS Excel download of its Indian GAAP and US GAAP datasheet

(e) Companies listed in United States stock exchanges provide US GAAP financials apart from the Indian GAAP financials.

A discussion as to the contents of the Annual report is not being made here since there is a considerable variation from company to company. All the companies studied do carry most of the 'General and Financial / Annual Report related attributes found on websites' listed earlier in the discussion.

**If combined with a more events-based database reporting strategy it offers the possibility of perpetual reporting with access to real time data for users to analyse themselves rather than relying on delayed, aggregated data.**

**The future for Corporate Reporting on Internet**

The emerging trends in corporate reporting on the Internet can be briefly listed under the following heads:

*Frequent and real time Corporate Reporting:* There are major forces shaping the new world of business reporting to external stakeholders. The old concept of periodicity is changing to a more flexible concept of continuous reporting on a basis closer to real-time reporting. The World Wide Web, combined with other Internet tools, also offers the possibility of a revolution in the delivery of corporate reports. The web offers a number of possible futures for corporate reporting. It offers a mechanism to support more frequent reporting than the current quarterly reports distributed by most of the companies. If combined with a more events-based database reporting strategy it offers the possibility of perpetual reporting with access to real time data for users to analyse themselves rather than relying on delayed, aggregated data. The implications of such a move however, are significant. For example, the concerns of data comparability, confidential-

ity, liability concerns over data ownership and use, integrity questions and the subject of quality all become important issues that need to be resolved and managed. There is also some evidence (Jenkins 1994) that reporting more frequently than quarterly is not actually desired by users who are only interested in more frequent data if critical to their investment decisions. The problem of 'information overload' will be a significant concern with more frequent and more dynamic publication of corporate information. There would be a need for computer support to deal with this. Such technologies do exist and are being refined.

**Democratising the disclosure process:** The traditional model of corporate reporting is static and unilateral, the internet model will be dynamic and interactive. A move toward using more complex technology on a real-time basis affects reliability. Users can become more involved in the design of reports by drawing down data and creating their own reports. Reporting is moving beyond financial measures to include non-financial measures. Balanced scorecard, value reporting and the AICPA's Special Committee on Financial Reporting model are all variations on this shift. Email alerts, chat groups and web based financial information release could lead to investors and users asking for more information and clarifications on the financial numbers.

**User-designed reporting models:** Because of the ease of putting information on the web and the capacity of users to ask for information, financial information presented online is more likely to be presented in an unstructured or disaggregated format that has

**The importance of models to enable users to make use of raw accounting data means that preparers, users and standard-setters should give more attention to the formulation of the user models - including the use of software agents - as distinct from generalised forms of financial statements.**

traditionally been the case with printed reports. Although it is unlikely that investors would be given access to raw data or databases, there is a likelihood of customisation of sites, perhaps based on user profiles or preferences. For example, a shareholder would get access to a shareholder configuration of the site and a customer would gain access to a customer configuration, reflecting their different interests. Analysts and others will quickly find ways to import the data into models that they build for their own purposes - in fact, some are already doing this.

Intelligent software agents are now being used to search for information on the Internet and it is expected they will be integrated into a range of applications and information services over the next few years, including models for retrieval and analysis of information. The use of intelligent software agents in the corporate reporting process has the potential to provide a means by which users can search for relevant information within the extensive volumes of corporate data available to them. The importance of models to enable users to make use of raw accounting data means that preparers, users and standard-setters should give more attention to the formulation of the user models - including the use of software agents - as distinct from generalised forms of financial statements.

**Using Financial information on the websites of Companies & filing of reports by companies:** At present almost all of the financial numbers are found on websites either in HTML or PDF files or both. The problem is that users cannot import such information directly into any spreadsheet program for their analysis.

Instead, the data will have to be manually keyed in into the spreadsheets. On the other hand, Corporates need to file their financial reports to various agencies and organisations in various formats that are not compatible in HTML or PDF format.

The solution to this could be 'XBRL', which has been around for some time now. Active support from Corporates, users and Agencies and organisations could see XBRL become to Corporate Reporting what HTML became to Web. XBRL (Extensible Business Reporting Language) is a language that has been developed. The language helps in solving the context and problems of computers and establishing linkage between the content and format to make the information more complete.

XBRL delivers corporate information along with the identification tags (metadata) and makes it possible for the computers to present the information in the same manner on different platforms. As an example, if a particular asset value has to be sent on the Internet, programming was required to recognise the figure as asset value. XBRL delivers the figure along with the tags, which identify it as asset value, mention its currency and also the period to which it pertains. The capabilities of XBRL are not limited to financial information alone. It can tag any kind of information, which may be industry-specific or company-specific. Users can capture the information into various analytical and decision-making tools from the Internet and use it. The most important aspect from the company perspective is that XBRL enables the use of the information generated once for many purposes. For exam-

ple, it is generally necessary to collate information again and again to provide it to different users like shareholders, lenders, regulators, etc. This need is obviated and information generated once can be used any number of times.

*A brief list of agencies that are accepting XBRL formats:*

- In The Netherlands, all government agencies, from the justice department to bank regulators to tax collectors, are working together on a national taxonomy of business reporting items, and Dutch municipalities are already filing quarterly reports in XBRL.
- The Australian Prudential Regulation authority has been collecting regulatory data in XBRL for years.
- The Toronto Stock Exchange publishes its financial statements in XBRL since 2003.
- Japan has already launched an XBRL-based corporate tax filing system, and five regulators are collaborating on XBRL taxonomy.
- China's Security Regulatory Commission has mandated XBRL filing for the country's largest stock exchange.
- The U.K. has issued a draft of GAAP taxonomy for commercial and industrial sectors, and Inland Revenue is set to obtain corporate tax return information for all corporate filers.
- Denmark has been accepting XBRL filings for company registration
- Spain's central bank is leading several XBRL-based data collection efforts, including information on annual real

property valuation and money laundering.

- European Union (EU) banking regulators are building a taxonomy that all EU banks will use.
- U.S. Federal Financial Institutions, U.S. Securities & Exchange Commission & NASDAQ also have XBRL projects rolled out.

XBRL has been slow to take off, it had generated a lot of interest when it was planned and rolled out, but it did not gather pace. Maybe, with a focused effort from all the players will see XBRL being a force to be reckoned with in financial reporting on the Internet.

### Conclusion

Financial reporting on the Internet will increase in the coming years. As we see an increase in transparency by Corporates and increase in users of Internet, this is a force to be reckoned with. At the moment existing financial-reporting rules apparently applies equally to the Web, the wide range of variations observed in Web-based financial reporting would probably draw one to conclude that some companies are violating existing financial-reporting regulations. Companies should ensure that they take a close look at what they are reporting (financials) on the Internet and make sure that the required safeguards are in place and they are not in violation of any reporting requirements / standards. Corporates should not call the Web-based financial information an "annual report" unless it is as complete as the corresponding paper-based annual report and also make sure that there they add appropriate disclaimers.

It is also important that auditors and standard-setting

organisations look at what the auditor's roles and responsibilities should be. Standard-setting organisations may need to take a closer look at the various aspects involved in financial reporting on the Internet and provide guidance / Standard. Regulatory organisations will have to consider the fact that the Web-based paradigm is so different than the paper-based paradigm--in terms of multimedia, hyper linking, virtual space, interactivity, bit-based ethereal audit trials--that these organisations will have to specifically address Web-based reporting. One way of moving towards an uniform financial reporting on the Internet is for the standard setters to come up with an accounting standard for the same. In future that may well happen.

The discussion can be concluded by quotes from Sir Bryan Carsberg who was the secretary-general of the International Accounting Standards Committee from 1995 to 2001 and which is relevant even now: "Technology has altered irreversibly not only the physical medium of corporate financial reporting but also its traditional boundaries. Paper reports are being supplemented - and, for many users, replaced - by electronic business reporting, primarily via the Internet. And while we accounting standard-setters have, even to this day, tended to focus primarily on the traditional financial statements and related note disclosures, investors and lenders have moved far beyond that". The present scenario of financial reporting on the Internet shows that there is no uniformity in terms of access, presentation, or contents of financial information or annual reports. With increased usage and attention we may see changes to that. □

**As we see an increase in transparency by Corporates and increase in users of Internet, financial reporting on the internet is a force to be reckoned with and will increase in the coming years.**