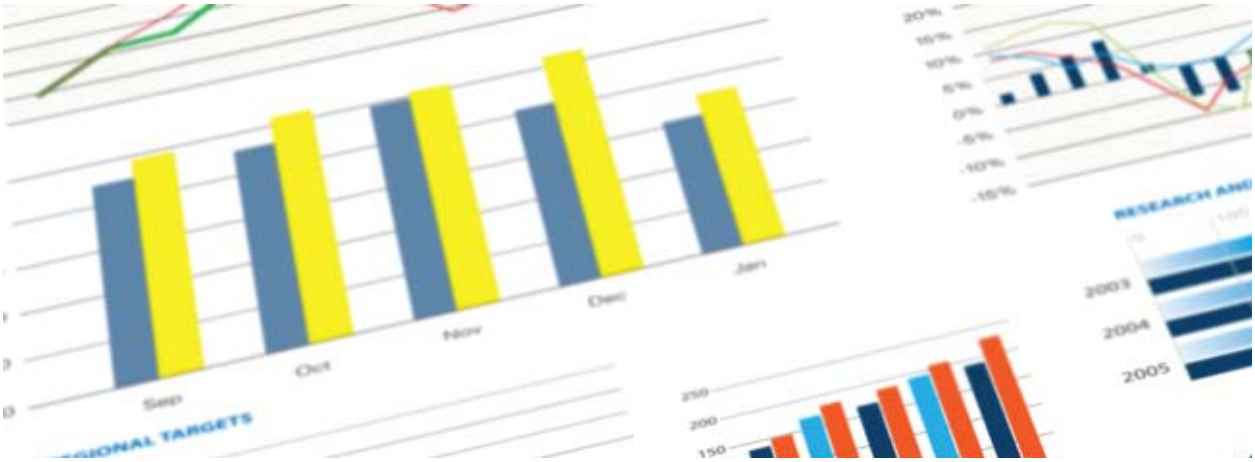
Global Trends in Reporting to the Stakeholders



Reporting to the shareholders/other stakeholders of the Company such as Regulators, Employees, Bankers, Society at large (collectively referred to as "Stakeholders") is an important activity on the part of the management of the Company. The quality and the transparency with which such disclosures are made enhance the comfort and the credibility of the Reporting Entity. Globally, the expectations of the readers of the Annual Reports have increased exponentially in the recent past and professional managements are making their best efforts to meet those expectations. The fundamental approach followed in this reporting seems to emanate from the principle of "More you Disclose….More the Comfort to the Reader"; but one has to remember "Quantity is not a substitute for the Qualitative Reporting". This Article deals with some of the interesting/ qualitative disclosures which are mandatorily / by general practice required to be disclosed in the Directors Reports, Auditors Reports, and in other documents in some of the countries globally and the fundamental principles behind such disclosure stipulations along with a comparison of the requirement / practices followed in India. Read on to know more…

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The Regulators worldwide have also stipulated various disclosure requirements in the annual reports to the stakeholders for ensuring proper disclosure of qualitative/ unbiased information. Though the regulatory requirements of the respective countries might have/are being changed in some of the cases, since the law is always evolving, the underlying principle behind such disclosures and its relevance in our reporting environment is still relevant and, hence, these are taken for analysis in this article.

Annual Report

Typically, the Annual Report sent to the shareholders once in a year would contain the Directors Report, Management Discussion & Analysis, Auditors' Report and Financial Statements. Further, various entities also provide additional details such as the Company's Historical Performance, Report on Current and Future Operations, Compliance with Corporate Governance Principles and Practices, Report on Corporate Social Responsibility Activities, Shareholder Information, etc. A majority of the disclosures are governed by the regulatory requirements of the respective countries and the trend of providing newer/innovative information/analysis to the stakeholders, *suomoto,* by the professional managements of the corporate is also on the rise.

Disclosures in Directors Report

In the Directors Report, in addition to the regular requirements relating to the performance of the Company, the following unique disclosures

are appearing in several Annual Reports;

Disclosure of Information to Auditors:

For certain type of companies in UK, there is a requirement that the Directors' Report should contain a statement to the effect that, in the case of each of the persons who are directors at the time when the report is approved, the following applies:

- so far as the director is aware, there is no relevant audit information (information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Though there are certain specific provisions relating to directors responsibilities in the preparation of the financial statements in India, there is no such explicit statement which is required to be made by the directors in their report.

Considering the transparency requirement and the expectations of the society, such a requirement on the part of the directors and a confirmation of the same by the auditors in their report would go a long way in enhancing the governance framework of companies in India.

Disclosure of Details Relating to Indemnification of Officers and Auditors:

In Australia, there is a requirement on the part of the directors to give the details of indemnification of officers and auditors of the company during the year or of any related body corporate against a liability incurred as such as officer or auditor. Further, they should also give the details as to whether the company has paid or agreed to pay any premium in respect of a contract insuring against a liability incurred by an officer or auditor.

There is no such requirement in India to disclose the details of any indemnification of officers and auditors of the company during the year in the Directors Report.

Disclosure of Directors and Secretary's Interest in Shares/ Debentures:

One of the disclosure requirements in Ireland as part of the Directors' Report is to give details of the interests in the form of shares in the company of the directors and secretary specifically as at the beginning and at the end of the reporting period. This requirement also extends to the shareholding, if any, in the parent company/group companies. Similar requirement is also there in Malaysia, Singapore, etc.

There is no such requirement as regards the aforesaid disclosure requirement in the Directors Report specifically in India. Such a disclosure in the Annual Report would go a long way in ensuring governance obligations on the part of the Directors.

Disclosure of Directors Benefits:

In Malaysia, directors need to confirm in their Report, the following specifically pursuant to the Malaysian Companies Act;

- Whether at the end of that financial year –
  - there subsist arrangements to which the company is a party, being arrangements with the object or objects of enabling directors of the company to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate; or
  - there have, at any time in that year, subsisted such arrangements as aforesaid to which the company was a party, and if so the report shall contain a statement explaining the effect of the arrangements and giving the names of the persons who at any time in that year were directors of the company and held, or whose nominees held, shares or debentures acquired in pursuance of the arrangements;

Similarly, in Singapore, directors are required to comment specifically about any arrangements which enable directors to acquire benefits by means of the acquisition of shares and debentures. Similarly, details of director's receipt and entitlement to contractual benefits, if any, also should be disclosed in the Directors Report in Singapore.

In India, there is no such disclosure requirement in the Directors Report as regards the above items, though certain types of contracts or arrangements where the directors are interested would require approval of the regulators/ shareholders and would require documentation in the Statutory Register, Review and Reporting by the Auditors as stipulated under the Indian Companies Act, 1956.

Disclosure Relating to Books of Account:

In certain countries, such as Ireland, there is a requirement on the part of the directors to specifically comment on the measures taken by them to ensure that proper books and accounting records are kept in accordance with the provisions of the law including the employment of appropriately qualified accounting personnel and the maintenance of appropriate accounting systems. Further, they are also specifically

required to indicate in their Directors Report, the place where the books of account are located.

In India, other than the Directors Responsibility Statement which deals with the preparation of the financial statements, application of accounting standards, accounting policies, maintenance of accounting records, etc, there is no requirement to comment about the location of Books of Account, employment of appropriately qualified accounting personnel, maintenance of appropriate accounting systems, etc. specifically.

Risks & Uncertainties and Events after the Balance Sheet Date & Future Developments:

In some countries such as Cyprus and Ireland, there is a requirement, on the part of the directors to identify the risks and uncertainties their company faces and to disclose these in the Directors Report accompanying the company's financial statements.

Further, there is also a need for disclosure of any important events since the period end in the Directors Report in many countries. For example, in Malaysia, there is a need for specific disclosure in the Directors Report as to whether there has arisen in the interval between the end of the financial year and the date of the report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the company's operations for the financial year in which the report is made and, if so, giving particulars of the item, transaction or event.

Details on any future developments the directors intend on undertaking within the coming years is also required to be disclosed in the Directors Report mandatorily in some of the countries such as Ireland. The future rather than the past of each company is becoming increasingly more important. Thus, an emphasis in priority is given to this section of the Directors Report in terms of the detail and the information being presented to the reader of the financial statements.

In India, though there is no specific stipulation to mandatorily comment about the Risks & Uncertainties/Future Developments in the Directors Report, the section relating to Management's Discussions and Analysis, applicable to listed entities, is expected to deal with various Risks & Uncertainties, Future Developments impacting the entity.

Details relating to material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the balance-sheet relates and the date of report is required to be disclosed in the Directors Report in India as well.

Disclosure relating to Rounding Off of Amounts in Directors Report:

There is a requirement in Australia for certain type of companies to specifically indicate the method of rounding off of the amounts disclosed in the Directors Report. This could be in the form of rounding off to nearest thousand of the unit of currency, depending on the size, etc. subject to the terms and conditions stipulated in the regulations.

We do not have any such specific disclosure requirement relating to rounding off of amounts in the Directors Report in India. Though there are stipulations in India relating to rounding off of amounts in the financial statements depending on the size of the company, there is no such requirement as regards the Directors Report and other documents submitted as part of the Annual Report.

Declaration on Financial Information:

In Malaysia, there is a need for specific declaration in the Directors Report from the directors with respect to the following items relating to the financial statements;

- Whether the directors (before the profit and loss account and balance sheet were made out) took reasonable steps to ascertain what action had been taken in relation to the writing-off of bad debts and the making of provision for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts;
- Whether at the date of the report the directors are aware of any circumstances which would render the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent and, if so, giving particulars of the circumstances;
- Whether the directors (before the profit and loss account and balance sheet were prepared) have taken reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their value as shown in the accounting records of the company have been written down to an amount which they might be expected so to realise;
- Whether at the date of the report the directors are aware of any circumstances -
  - which would render the values attributed to current assets in the accounts misleading; and
  - which have arisen which render adherence to the

existing method of valuation of assets or liabilities of the company misleading or inappropriate; and, if so, giving particulars of the circumstances;

- Whether there exists at the date of the report-
  - any charge on the assets of the company which has arisen since the end of the financial year which secures the liabilities of any other person and, if so, giving particulars of any such charge and, so far as practicable, of the amount secured; and
  - any contingent liability which has arisen since the end of the financial year and, if so, stating the general nature thereof and, so far as practicable, the maximum amount, or an estimate of the maximum amount, for which the company could become liable in respect thereof;
- Whether any contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may affect the ability of the company to meet its obligations when they fall due and, if so, giving particulars of any such liability;
- Whether at the date of the report the directors are aware of any circumstances not otherwise dealt with in the report or account which would render any amount stated in the accounts misleading and, if so, giving particulars of the circumstances; and
- Whether the results of the company's operations during the financial year were, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature and, if so, giving particulars of that item, transaction or event and the amount or the effect thereof, if known or reasonably ascertainable.

Such a specific and detailed confirmation by the directors not only adds credibility to the financial statements, but also confirms the care taken by the directors in ensuring all specific accounting aspects.

In India, there is no such requirement for the aforesaid disclosures in the Directors Report other than the Directors Responsibility Statement which deals with the above items by way of giving specific confirmations relating to compliance with Accounting Standards and GAAP and thus, addresses the above requirements indirectly. But a specific confirmation on some of the critical accounting estimates, realisability of the assets, assessing the contingent liabilities by the directors would force those in charge of governance to look into the minute accounting details so as to deal with the same appropriately.

Auditors Independence Declaration:

There is a requirement to attach the Independence Declaration obtained from the auditors as part of the Directors Report in certain countries. This independence declaration is obtained from the auditor and will specifically give the required confirmation for ensuring compliance with the independence requirements and the other applicable professional conduct by the auditors.

Such a requirement of including the Independence Declarations of the auditors as part of the Directors Report is not applicable in India. However, the auditors are required to maintain their independence and confirm the same to the client, but such an explicit confirmation of the fact as part of the Directors Report would provide greater comfort and confidence to the Stakeholders of the Company.

Internal Control Declaration:

In Malta there is a requirement of including a specific declaration by the directors on the internal control environment of the company. This declaration would state that the directors through oversight of management are responsible to ensure that the company establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Further, there will be a declaration that management is responsible, with the oversight from the directors, to establish internal control environment and

Though there are certain specific provisions relating to Directors Responsibilities in the preparation of the financial statements in India, there is no such explicit statement which is required to be made by the directors in their report. Considering the transparency requirement and the expectations of the society, such a requirement on the part of the directors and a confirmation of the same by the auditors in their report would go a long way in enhancing the governance framework of companies in India.

In India, other than the Directors Responsibility Statement which deals with the preparation of the financial statements, application of accounting standards, accounting policies, maintenance of accounting records etc, there is no requirement to comment about the location of Books of Account, employment of appropriately qualified accounting personnel, maintenance of appropriate accounting systems etc. specifically.

maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of business. This responsibility also includes establishing and maintaining controls pertaining to the company's objective of preparing financial statements as required by the regulations and managing risks that may give rise to material misstatements in those financial statements. In determining which control to implement to prevent and detect fraud, management considers the risk that the financial statements may be materially misstated as a result of fraud.

Such a requirement relating to internal control/similar declarations is applicable in some other countries as well such as UK, Ireland, and South Africa. Needless to add that the SOX requirement relating to internal control in the US for certain companies and the related disclosure aspects in the Annual Reports is well known.

In India, there is a requirement relating to Directors Responsibility Statement which deals with the preparation of financial statements on a going concern basis, by applying Accounting Standards, consistent application of accounting policies, safeguarding of assets, controls for preventing/detecting frauds and other related declarations. However, there is no such specific requirement relating to a declaration by the directors on internal control aspects for all the companies, though, for listed companies, there is a requirement relating to internal controls in the Management's Discussion and Analysis Section and also in the Certification by the CEO and the CFO of the Company.

Auditors Report

In addition to the regular report on the financial statements of the Company by the Auditors, the following disclosures are also mandated by law in various countries;

Auditors Report on Directors Report/Management's Review:

As per the UK Laws, in the Auditors Report, there is a mandatory requirement on the part of the auditors to comment about whether the information contained in the Directors Report is consistent with the financial statements. Hence, naturally, there is a regulatory requirement on the part of the auditors to read the Directors Report and consider the implications for their report as well.

This requirement is also applicable in various other countries such as Denmark which requires a separate opinion on the part of the auditors regarding their reading of the Management's Review Statements and its consistency with the disclosures made in the financial statements.

Further, as per the Cyprus Companies Law, the auditors are required to comment about the consistency of the information given in the Directors Report with the financial statements specifically as part of their Other Legal reporting requirements.

The underlying principle behind such a requirement is to make sure the correct information reaches the stakeholders irrespective of the form in which it takes. If the director's report and the financial statements are not in sync, the readers of the annual report may be misguided. Hence this responsibility has been fixed on the part of the auditors.

In India, there is a requirement on the part of the auditors, in view of the new Auditing Standard SA 720, effective for periods beginning on or after 1st April, 2010, which deals with the auditor's responsibilities in relation to other information in documents containing audited financial statements, to review the "documents containing audited financial statements" as the annual report or other similar documents which are issued to the owners or similar stakeholders containing audited financial statements and the auditor's report thereon.

The Auditing Standards requires

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the auditor to read the other information to identify material inconsistencies, if any, with the audited financial statements before issuing the auditor's report on the financial statements. Further, the Standard defines "Other Information" as financial and non-financial information (other than the audited financial statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing the audited financial statements and the auditor's report thereon.

However, there is no explicit requirement on the part of the auditors to indicate their Review/ Reading of the Directors Report and the result thereof in their Auditors Report, similar to that of UK/Denmark, etc.

Disclosure Relating to Serious Loss of Capital

As per the Irish Regulations, there is a requirement on the part of the auditors to comment about whether the net assets of the company, as stated in the Balance Sheet, are more than half the amount of its called up share capital and on that basis whether in the opinion of the auditor, there exists, as at the date of the Balance Sheet, a financial situation which would require convening of the extra ordinary general meeting of the shareholders of the company. This requirement is mandated since there is an obligation on the part of the directors to convene an extra ordinary general meeting of the shareholders in the event of serious loss of capital and the auditors have to report this situation on an independent basis.

In India, as part of the Companies Auditors Report Order (CARO), there is a requirement to comment about whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year

There is a requirement to attach the Independence Declaration obtained from the auditors as part of the Directors Report in certain countries. This independence declaration is obtained from the auditor and will specifically give the required confirmation for ensuring compliance with the independence requirements and the other applicable professional conduct by the auditors. Such a requirement of including the Independence Declarations of the auditors as part of the Directors Report is not applicable in India.

However, this is appearing only in CARO (Annexure to the Auditors Report) and also does not directly talk about the requirement relating to any action to be taken on the part of the company, if the financial health of the company is dismal.

Zakat Deduction at Source:

In Pakistan, the auditors are required to comment whether any Zakat is deductible at source under the statutory provisions in their audit report in addition to their regular report on the financial statements.

This requirement is similar to that of the requirement relating to commenting on remittance of statutory dues in India as part of the CARO requirements.

Directors Interest in Contracts with Company:

In Sri Lanka, the auditors are required to comment in their report about the details of the director's interests in the contracts with the company.

This requirement is similar to that of the requirement in India relating to disclosure of Section 301 contracts wherein the auditors are required to comment as to whether the particulars of contracts or arrangements referred to in Section 301 of the Companies Act have been entered in the register required to be maintained under that section;

Conclusion

Considering the global trends emerging in the area of reporting to the stakeholders, the professional managements of corporate could consider implementing such global best practices in disclosures in their Annual Reports, to the extent relevant and applicable, *suomoto*, without waiting for the mandatory regulatory requirements. Needless to add that many corporate entities in India have already initiated required steps in this direction and are setting benchmarks for ensuring enhanced and value added disclosures in their Annual Reports to the Stakeholders. Currently, the regulatory environment in India is also responding swiftly and favorably to ensure greater/ enhanced disclosure requirements to the Stakeholders. Greater transparency and assuming more and more responsibility by those in charge of governance, ensuring unbiased approach in implementing governance practices and following the disclosure requirements in letter and spirit are the corner stones of building greater confidence amongst the investors, general public, regulators and the global international community and this could be well achieved based on enhanced, extensive, qualitative disclosures in the Annual Reports to the stakeholders. ■