

New Frontiers in Corporate Reporting



Corporate Reporting

The annual report is a medium of communication between a company's directors and its shareholders. Corporate reporting is a valuable tool for promoting good corporate governance, transparency, and building the confidence and trust of all stakeholders, including shareholders, lenders, and donors. It should be noted that stakeholders, especially investors, equate high-quality annual reports with high-quality management.

The Organization for Economic Cooperation and Development (OECD) requires that "The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters relating to the corporation, including the financial situation, performance, ownership, and governance of the company." This need for accurate disclosure is met through corporate reporting.

Transparency is also encouraged by the IMF, which requires that information be provided promptly unless there are compelling reasons against such disclosure. The IMF believes that openness and clarity facilitate accountability, which in turn raises credibility and aids in the effective and disciplined operation of international financial markets.

Here, I would like to endorse **Mr. Zaffar A. Khan**, a renowned corporate leader, who believes that a corporate report should not only reflect the immediate past but should also strive to be forward-looking.

Ms. Sandra Peters, Head of the Financial Reporting team at the CFA Institute, said:

"The desire and need for data are increasing. We've become used to having data at our fingertips through our smartphones. Users of financial reporting information are no different. They will continue to request additional information, as well as seek technological enhancements that can help them organize and analyze this information" (source: "The Future of Corporate Reporting," kpmg.com).

It is interesting to note that there is neither a definition of an annual report in law nor any specific requirement for an entity to produce and publish an annual report. According to International Standard on Auditing #720, the annual report is defined as "An entity ordinarily issues on an annual basis a document which includes its audited financial statements together with the auditor's report thereon. This document is frequently referred to as the 'Annual Report.'"

Best Corporate Report Award

The two premier accounting bodies in the country, ICAP and ICMA Pakistan, collaborated in 2000 to launch the Best

Corporate Report Awards. This initiative is a prominent example of the unity between the two professional institutions over the past 23 years. Similar competitions are organized at the SAFA level (since 1997), as well as in many countries around the world, including Canada, Singapore, Australia, and Malaysia.

The objective is to encourage and recognize excellence in annual corporate reporting, and to promote corporate accountability and transparency through the publication of timely, factual, and reader-friendly information.

The competition has led to significant improvements in the overall presentation of annual reports by companies in Pakistan. I am pleased to observe that the disclosures made in the annual reports of Pakistani companies are on par with, and in some cases even better than, those made by companies in the developed world.

It is also my pleasure to acknowledge that the increasing number of awards won by Pakistani companies each year in the SAFA Best Presented Awards highlights their commitment to excellence in corporate reporting, aligning with global best practices. We have been organizing consultative sessions with research heads of banks/DFIs, analysts, and CFOs to enhance transparency through the BCR Evaluation Criteria.

The awards are given to companies as an acknowledgment of their voluntary efforts to provide relevant and timely information to stakeholders, helping them make informed economic decisions. An elaborate set of criteria, which has evolved over the years, is used to evaluate the best reports. The criteria for 2024 include certain voluntary disclosures in addition to the disclosures required by various laws in Pakistan. Some of the additions to the 2023 BCR criteria are disclosures on IT Governance & Cyber Security, Enterprise Resource Planning, and specific disclosures related to banks, insurance, exploration, and production companies.

Additions to the 2024 BCR criteria include:

- A brief disclosure of sustainability-related risks and opportunities, including climate disclosures, as required by **IFRS S1** and **S2**.



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- **Disclosures for State-Owned Enterprises (SOEs)**, which include:
 - o Business plan for three financial years,
 - o A 'Statement of Corporate Intent' covering:
- The main business of the SOE,
- Business goals and business plan,
- Performance measures and benchmarks against business goals/targets and the primary objective,
- Strategies for achieving business goals and the primary objective,
- A summary of key risks identified in achieving the business goals,
 - o A summary of the annual report on the SOE's website,
 - o A board declaration on the SOE's liquidity position and the integrity of its internal control system and processes.

Basis of BCR Criteria:

The following elements are considered when developing the BCR Criteria:

- The content elements (disclosures) of the International Integrated Reporting Framework <IR>.
- ISA 720 "The Auditor's Responsibilities Relating to Other Information."
- IFRS Practice Statement on Management Commentary (IASB).
- Best practices for corporate reporting worldwide.
- The experiences of BCR Committee Members.

Sustainability Reporting

The Sustainability Reporting Award was introduced in 2011 in Pakistan by the BCR committee. The International Sustainability Standards Board (ISSB) recently issued two Sustainability Standards in June 2023:

IFRS S1: General Requirements for Disclosure of Sustainability - related Financial Information

IFRS S2: Climate-related Disclosures

These standards are currently undergoing the SECP approval process. ICAP has provided its recommendations to SECP.

Once SECP notifies the adoption of these standards in Pakistan, the BCR committee will consider revamping its Best Sustainability Report evaluation criteria in line with IFRS S1 and S2.

Recommendation to SECP

Contents of the Annual Report: The Companies Act 2017, Listed Companies (Code of Corporate Governance) Regulations 2019, Public Sector Companies (Corporate Governance) Rules 2013, and the PSX Rule Book do not provide specific guidelines for the contents of the Annual Report. We have been recommending that the SECP direct all listed companies to follow our BCR criteria for developing their annual reports.

Interestingly, the State-Owned Enterprises (Governance and Operations) Act 2023, which was passed by the National Assembly in January 2023, provides guidelines for the contents of the Annual Report and the Statement of Corporate Intent.

Recommendation to PSX

PSX and Transparent Corporate Reporting: While announcing top companies' awards, the PSX does not give much consideration to transparent corporate reporting. PSX's recognition of transparent reporting would help build trust among investors. In 2018, our committee members met with the former CEO of the Pakistan Stock Exchange (PSX), Richard Morin, who was convinced of this need. However, no action has been taken by the PSX so far.

It is suggested that the PSX, being a regulator of the capital market, should also follow the BCR criteria for transparent reporting when preparing its own Annual Report.

NPOs

It is estimated that there are approximately 10,000 functional NPOs in Pakistan. These NPOs receive substantial financial charity in the form of Zakat and donations. *However, in general, these NPOs lack transparency and do not publish proper annual reports.*

NPOs need to be transparent and should disclose to the providers of funds how charity funds, particularly Zakat funds, are being utilized.

A separate criterion for NPOs is available to encourage trustees to be transparent. However, regrettably, the response from this sector has been very poor.

It is noted that the financial reporting standards applicable in Pakistan, including the Accounting Standards for Not-for-Profit Organizations, do not provide specific disclosures for Zakat utilized by an entity. Although some NPOs obtain Sharia certification, without transparency, these certifications are of limited value. However, I am pleased to note that the Accounting Standards Board of ICAP, which includes representatives from SECP, PSX, and the Ministry of Finance, has recently issued an Accounting Standard for the transparency of Zakat usage, which has also been approved by SECP. Objective No. 3 of the Exposure Draft states, "Financial reporting standards in Pakistan ... do not provide specific disclosures regarding Zakat received and utilized by an entity."

About the Author: *Abdul Rahim Suriya is a professional accountant with an extensive experience as a trainer, coach, and management consultant. At present he is a Partner at Suriya, Nauman Rehan & Co, Chartered Accountants. He is a former President of the Institute of Chartered Accountants of Pakistan (ICAP) and served as its Council member for 16 years. He represented Pakistan on the International Federation of Accountants (IFAC) Education Board for six years. Currently, Mr. Suriya is the Chairman of the subcommittee of ICAP and ICMA Pakistan for the Best Corporate Report Award and Best Sustainability Reporting Award. For the past 20 years, he has been actively conducting training sessions on Corporate Governance and "Finance for Non-Finance Executives," empowering leaders with essential financial insights. He is also a visiting faculty member at the IBA and the author of the book "A Guide to Business Decision Making." In 2016, he served as a consultant for the World Bank on the Report on the Observance of Standards and Codes (ROSC) in Accounting and Auditing.*