INTERIM REPORTING PRACTICES IN INDIA

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Abstract

In the modern times, accounting is regarded as an information system. Companies interact with stakeholders by means of various financial reports. Users of financial statements base their decisions on the information given in these financial reports. Earlier, companies were disclosing financial reports at the accounting year-end. But Clause 41 of the Listing Agreement requires companies to report quarterly results at the end of each quarter. This study has been conducted to check the compliance with major provisions contained in Clause 41 of the Listing Agreement by the Indian Companies. Analysis of 67 quarterly results, published in '*The Economic Times*' during the month of October 2012. The analysis has shown mixed results of the compliance with the requirements of Clause 41 by the selected companies.

Introduction

Accounting is considered to be the language of business. Friar Luca Paciolo, an Italian monk and mathematician, laid the basic foundations of accounting in 1494 by writing the first treatise on the accounting titled, 'Summa de Arithmetica, Geomatria, Proportioni et Proportionalita', which means 'Everything about Arithmetic, Geometry and Proportion'. During its earlier phases of development, it was proprietors' centric, just to assist the owners by giving an account of their resources and their performance. But it has developed itself to such an extent that it is regarded as an information system in the modern times. The emergence of distinct corporate legal entity, professionalism of management, relying more on outsiders' funds, increased complexities of business operations are the factors, which contributed to the development of accounting as reporting system.

Corporate Financial Reporting

The term corporate financial reporting refers to the reporting of company related financial matters. Funds invested by owners but managed by professional managers increased the responsibility on part of managers to give an account of the use of financial resources and their status. Various financial reports are prepared by managements, stating financial position, financial results, use and disbursement of cash resources, and on certain other matters. By means of corporate reporting, various persons, interested in the working of the organization are provided with some useful information, which helps them in their decision-making. The content and quality of disclosure affects the rationality of decision-making. In the absence of meaningful information, capital owners, investors, creditors, and others are likely to make their decisions on tips, hunches, guess-work and un-reliable news, leading to an inefficient allocation of resources.[1] Various recognized and reputed accounting bodies and authorities of the world, such as the Accounting Principles Board (APB), the Trueblood Report, the Corporate Report London, the Financial Accounting Standard Board (FASB), the Stamp Report, the International Accounting Standards Committee (IASC) etc, have developed various objectives of financial reporting. However, in a constantly changing environment, it is very difficult to fix the objectives of corporate financial reporting since they are not limited to the measurement of the economic and financial performance of a company.[2] But the basic objective of corporate financial reporting is to assist the various stakeholders in their financial decision-making This objective is served by providing information through various means such as prospectus, press releases, statutory reports, newspaper and magazine stories, annual financial reports, interim reports etc. The published corporate annual report is undoubtedly the most widely distributed comprehensible source of corporate financial data.[3] It includes basic financial statements and other reports. Basic financial reports provide financial information with respect to financial results, financial position and flow of cash. Others include information regarding human resources, inflation adjusted accounts, social overheads etc. Various stakeholders including, shareholders, creditors, suppliers, debtholders, security analysts, researchers, press media, government, tax-authorities etc, use financial reports to take various rational decisions.

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Interim Reporting

Reporting of financial matters between the dates of annual financial statements is known as 'Interim Financial Reporting'. Corporate annual financial reports are prepared for a particular period, generally for a period of 12 months, on the basis of Accounting Period Concept. Annual reports state the effects of whole year in the aggregate terms. Different parts of the year are prone to different risk factors including, seasonal, climatic, economic, political etc. Year end financial information can be better assessed if information with regard to various parts of the year also provided at short intervals. Taking into account the various information needs of the users of financial reports, the scope of the Accounting Period Concept has been widened by introducing more frequency in reporting. The emphasis has been shifting towards a more frequent reporting of information. It resulted in the emergence of Continuous Reporting Process (CRP). Three approaches to reporting interim accounting data have been posited in accounting literature. In the first approach, financial information is provided for the interim period by means of disclosures other than computations of net income. In the second approach, net income is reported taking the activity of the year as independent of the activity of the year. The third approach takes the activity of the interim period as dependent on the activity of the accounting period.[4] The start of the liberalization process in the Indian economy since 1991-92, initiated certain concrete reforms in the Indian capital market. The establishment of the Securities and Exchange Board of India (SEBI) developed capital market regulations, which has a bearing on the corporate financial disclosure. Now, as per the requirements of the Listing Agreement, companies have started periodic reporting of financial matters, known as interim reporting.

Interim reporting covers period between 2 annual financial year dates, i.e. half-year, quarters and sometimes even monthly basis. The concept of interim reporting enhances frequency of reporting. Now, companies are more frequent in reporting their financial matters. Users of financial information are now having more current information at short intervals, which helps them to adjust their projections as per the scenario. In India, companies listed on stock exchange, are required to follow listing agreement. As per the requirements of Clause 41 of the Listing Agreement companies are required to report financial results on quarterly basis.

The requirements of Clause 41 of the Listing Agreement have changed rapidly. Earlier, reporting period covered half-year, but with effect from the quarter ending on March 31, 2000, it is on quarterly basis. The concept of limited audit review by the auditors has been introduced. Companies are also required to report on the investors' complaints status with effect from the quarters ending on or after 30th June, 2003. Items to be disclosed in the given format have been increased from 10 to 12 items. Segment wise disclosure of revenue, results and capital employed with effect from the quarter ending on or after September 30, 2001 is also required.

The study

The present study is based on the interim financial reports (IFRs) of various companies published in '*The Economic Times*' during the month of October 2012. This data covers the quarterly results for the quarter between July 2012 to September 2012. During this period, total 77 quarterly results of various companies have been published. The quarterly results of banks and finance companies, which are 10 in number, have been excluded from this study because of their different reporting requirements. So, quarterly results of 67 companies constituted the sample of the study. This study has been conducted with the objective to check the degree of compliance with major provisions of Clause 41 in the Listing Agreement by Indian Companies.

The Findings

The interim reporting practices followed by the companies under study, have been analyzed in the light of major provisions contained in the Clause 41 of the Listing Agreement. These findings are as follows:-

1. Disclosure of Items: -

All the listed companies are required to prepare un-audited quarterly results as per the given format within one month from the end of quarter. Clause 41 of the Listing Agreement has given a specific number of items to be included in the interim report, which are as follows;

Table 1: Disclosure of Minimum Items

Sr. No.	Items	No. of Companies	Percentage
1.	Net Sales/Income From Operations	61	91
2.	Other Income	61	91
3.	Total Expenditure	59	88
4.	Interest	67	100
5.	Depreciation	66	99
6.	Profit (+)/Loss (-) Before Tax (1+2-3-4-5)	66	99
7.	Provision for Taxation	65	97
8.	Net Profit (+)/Loss (-) (6-7)	67	100
9.	Paid-up Equity Share Capital (face value of the share shall be indicated)	56	84
10.	Reserves (excluding revaluation reserves of previous accounting year to be given in column 5.)	66	99
11.	Basic and Diluted EPS	53	79
12.	Aggregate of Non-Promoter Shareholding: -Number of Shares - Percentage of Shareholding	53	79

Table 1 reveals that majority of the companies have complied with this requirement. Disclosure of items such as Interest and Net Profit is made by 100 percent of the companies. Disclosure of certain important items such as Depreciation, Profit or Loss before Tax, and Reserves have been made by 99 percent of the companies. Provision for Taxation has been disclosed by 97 percent of the companies. 3 percent (2 companies) of the reports did not report the provision for taxation in the format but stated in notes that they will consider the deferred tax at the year-end. 91 percent of the reports contained information on Net Sales and Other Income. Among these, 6 percent (4 companies) of the reports didn't report on Sales/Income From Operations net of excise duty. 3 percent (2 companies) of the reports namely, Mphasis BFL Ltd. and I-flex Solutions Ltd., have shown revenue in place of net sales/income from operations. In case of Other Income, one company namely, I-flex Solutions Ltd. disclosed other income in notes rather than in the given format. 8 percent (5 companies) of the reports including 3 of Swaraj Group and 2 of Jindal Group made no disclosure of other income either in the given format or in notes, explaining the reasons for non-disclosure. Disclosure of Total Expenditure stood at 88 percent. The disclosure of vital item i.e. Paid-up Capital (with face value of share), has been made by 84 percent of the companies. Out of the total, 16 percent (11 companies) of the reports, which did not follow this requirement, 3 percent (2 companies) of the reports made no mention of this item. But 13 percent (9 companies) of the reports disclosed paid-up capital but did not make any mention about the face –value of share. Lastly, the disclosure compliance of Earning Per Share (EPS) and Aggregate of Non-Promoter Shareholding is followed by 79 percent of the companies. Although, majority of the companies (10 out of 14), which are in default of EPS disclosure, disclosed EPS but did not classify it into either diluted or basic value. 3 percent (2 companies) of the reports gave no EPS status and another 3 percent (2 companies) of the reports reported inadequate EPS status. In case of non-promoter shareholding status, 50 percent of the defaulting companies (7 companies) did not give any such information and rest of the companies reported varied results.

2. Periods of Information Disclosure: -

Clause 41 of the Listing Agreement further requires that minimum disclosure of 12 items, as shown in Table 1, must be made for 5 different periods. These include information with regard to last quarter ended, corresponding quarter in the previous year, year to date figures for the current period, corresponding year to date figures for the previous year and previous accounting year. The analysis of various reports shows that the degree of compliance with regard to periodic information disclosure is very high. Results of this analysis have been given in Table 2:

Table 2: Periods of Disclosure

Sr. No.	Periods	No. of Companies	Percentage
1.	Last Quarter	67	100
2.	Corresponding Quarter in The Previous Year	67	100
3.	Year To Date Figures	66	99
4.	Corresponding Year To Date Figures in The Previous Year	66	99
5.	Previous Accounting Year	67	100

The analysis of Table 2 reveals that all the sample companies have reported their quarterly results for the last quarter ended, corresponding quarter in the previous year and for the previous accounting year. 100 percent disclosure of all these three periods is found, which reflects that all the companies have complied with this requirement very strictly. Degree of compliance with other two periods is also very high. 99 percent of the companies have reported information for both the other two periods. Only one company namely, Tele data Informatics Ltd., neither disclose information for year to date figures in the current period and corresponding year to date figures in the previous year, nor gave any explanation in the notes explaining reasons for such non-disclosure. It is important to mention here that one company namely, Pertronet LNG Ltd. did not provide information for the corresponding quarter in the previous year and corresponding year to date in the previous year because the same was not applicable in its case.

3. Additional Information Disclosure:

Over and above the statutory minimum disclosure required as per the various requirements of Clause 41 of the Listing Agreement, companies have disclosed certain other items of information, voluntarily. Major and frequently disclosed such items have been given in Table 3;

Table 3: Additional Items Disclosed

Sr. No.	Items	No. of Companies	Percentage
1.	Gross Turnover	29	43
2.	Earnings Before Interest, Depreciation and Tax (EBIDT)	27	40
3.	Earnings Before Depreciation but After Interest (EBDAI)	24	36
4.	Expansion Status	11	16
5.	Exceptional Items	10	15
6.	Mergers and Acquisitions	9	13
7.	Impairment of Assets as per AS-28	5	7
8.	No. of Products Sold/Production in Physical Terms	5	7
9.	Operating Profit	4	6
10.	Listing Status	4	6

Though a number of items have been disclosed by the companies but Table 3 shows the summary of 10 such items, which have been disclosed by majority of companies. 81 percent of the companies (54 companies) have disclosed additional items. Gross turnover have been disclosed by 43 percent of the companies (29 companies). Other items including Earnings Before Interest, Depreciation and Tax (EBIDT), and Earnings Before Depreciation But After Interest (EBDAI) have been reported by 40 percent and 36 percent of the companies, respectively. Only 16 percent of the companies have disclosed information with respect to Expansion of Projects. Disclosure of another important item affecting decision of various users i.e. Exceptional Items, has been made by 15 percent of the companies. Mergers and Acquisitions has been reported by 13 percent of the total companies. Certain other important items have also been disclosed by the sample companies but their percentage is very small. Only 7 percent of the companies have disclosed items like, Impairment of Assets as per Accounting Standard No. 28 and Number of Products Sold/Produced in Physical Terms. 6 percent of the companies have made disclosure about Operating Profit and Listing Status. Although 10 major items have been identified in Table 3 but not even single company disclosed all these items. Such additional items have been disclosed to the maximum number of 7 items by 3 companies (4 percent). The analysis reflects that majority of the companies reported on earnings and profitability matters.

4. Segment Reporting:

Clause 41 of the Listing Agreement requires listed companies to furnish segment wise revenue, results and capital employed along with the quarterly un-audited financial results. The analysis of the sample reveals the following results:-

Table 4: Segmental Information

Sr. No.	Particulars	No. of Companies	Percentage
1.	Companies Disclosing Segmental Information or Notes	61	91
2.	Companies Making Mention in Notes For Not Disclosing Segmental Information	33	49
3.	Companies Giving Information About Segment Reporting As Per Performa :- (a) Revenue (b) Results (c)Capital Employed	28 28 28 23	42 100 100 82

Table 4 reveals that 91percent of the companies either reported segmentwise information or made mention in notes for not disclosing segment information. 42% of the total companies have complied with the requirements of the listing agreement by providing segmental information as per the given format. But an important result, being highlighted by this analysis, is that a number of companies i.e. 49% of the total companies have stated in notes the reasons for non-disclosure of segment-wise information. Majority of the such companies have mentioned that company is being operated as a single unit and various activities bear same set of risks and returns. Hence, there is no segmentation of the organizations activities and as such no segmental information disclosure is made. Segmental information is an important factor affecting the decisions of the users of financial information because different segments are subjected to different kinds of risks and returns. Such practice must be properly checked because it can cause real threat to the ultimate utility of the interim reporting because one part or segment of the organization may not be as efficient as the others. On the other hand, analysis made to check the compliance with regard to item wise disclosure is quite satisfactory. All these companies, which are reporting segment wise information as per the requirement, have reported segment wise revenue and result items, as is given in Table 4. But some variations have been found in disclosing Capital Employed information. 82 percent of these companies disclosed it as per requirement.

5. Status of Investors` Complaints:

Another important requirement has been introduced in the Listing Agreement of the information relating to investors` complaints. With effect from the quarter ending on or after 30$^{th}$ June 2003, companies are required to publish along with un-audited quarterly results, the status of investors` complaints, which shall contain information under four heads. These include the number of investors` complaints pending at the beginning of the quarter, received during the quarter, disposed off during the quarter and lying unresolved at the end of the quarter. The analysis of the sample data to check compliance with regard to disclosure of investors` complaints status has been given in Table 5, as follows;

Table 5: Status of Investors' Complaints

Sr. No.	Particulars	No. of Companies	Percentage
1.	Disclosure of Investors` Complaints Status	62	93
2.	No Status	3	4
3.	Inappropriate Status	2	3
4.	Unresolved Complaints (at the end of the quarter)	14	21
5.	Companies Having No Complaints	10	15

Table 5 shows that the degree of compliance with investors` complaints status requirement is very high because 93 percent of the companies disclosed information under all the four heads. Among these, 15 percent of the companies are those, which reported about investors` complaints but had no complaint under any head. 4 percent of the companies did not disclose any such status. Furthermore, a very small number of companies, 3 percent of the total, though disclosed investors` complaints status but inappropriately. Results of this analysis also highlighted that companies are very efficient in resolving investors` complaints because only 21 percent of the companies were having unresolved complaints at the end of the quarter. One company namely, Mangalore Refinery and Petrochemicals Ltd., received as many as 1211 complaints from investors and had 71 complaints pending at the beginning of the quarter. But was also efficient in resolving such complaints, which resolved 1240 complaints during the quarter. So, the results of this analysis reflects that there is fairly a high degree of compliance with investors` complaints disclosure.

6. Limited Audit Review :

Listed companies are also required to conduct a limited review by the auditors of the company. Clause 41 of the Listing Agreement states that the Board of Directors shall approve the un-audited quarterly results prepared by the company and subjected to a limited review the auditors of the company. Table 6 shows the results of analysis made to check the compliance with this requirement.

Table 6: Status of Audit

Sr. No.	Particulars	No. of Companies	Percentage (%)
1.	Limited Audit Review:		
	a) By Statutory Auditors	37	56
	b) By Audit Committee	30	45
	c) By Both (a & b)	19	29
	d) No Review	18	27
2.	Previous Year Audited Results	59	88
3.	No Review or Audit	3	4
4.	All Audit Results	3	4

Results in Table 6 have been given in two main parts. First part shows the status of companies with regard to limited audit review of data pertaining to last quarter end, corresponding quarter in the previous year, year to date results and corresponding year to date results in the previous year. Second part shows the status of companies showing previous year audited results.

One of the total 67 companies has reported the audited results instead of un-audited fourth quarter results as the Listing Agreement permits for the same. So, the total number of companies falling under this analysis is 66. Table 6 shows that only 56 percent of the companies have conducted limited audit review of their quarterly results by the auditors of the company. 45 percent of the companies have conducted limited review by the audit committee. Within these two heads, there are 29 percent of the companies, which conducted limited audit review of their interim results by both, the statutory auditors and the audit committee, which includes directors of the board and not the statutory auditor. But as many as 27 percent are the companies, which did not conduct limited review from any authority at all. Again, it is a serious threat to the reliability of the interim financial reports because users give more weight-age to the audited data than un-audited. Though interim financial reports are not fully and completely audited but limited audit review enhances the confidence of the users of such reports upon which they base their decisions. On the other hand, information with regard to previous year audited results reflects that 88 percent of the companies have reported audited previous year results. In this regard, there are 4 percent of the total companies, which provided audited results of all the periods. Further, 4 percent of the total companies did not conduct any audit. So, this analysis reflects that position of auditability of previous year results is quite satisfactory. But, compliance with limited audit review has shown mixed trend.

The conclusion

The study has produced mixed results. Though the selected companies have complied with majority of the above quoted major provisions but certain violations with regards to other important items have also been witnessed. Compliance with regards to the disclosure of minimum 12 items, periodic disclosure and investors' complaints' status is quite satisfactory as minute variations are found in these from the requirements. But compliance with vital items like segmental information and audit review is poor. A large number of companies did not report segment wise information but made mentions in notes for non-disclosure. The legislation must check this part that whether the claim is justified because the segment wise information is of vital importance for decision-making. Compliance with audit requirements is very dissatisfactory. Auditability enhances reliability of data and confidence among users of such data with which they use these data and base their decisions. Here too, the concerned regulatory bodies have a role to play. At the end, it can be concluded that though the present state of interim reporting practice is moving in the right direction but new dimensions are needed to be added in its concept for it to be regarded as a developed reporting system, which caters all the needs of its users.

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