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Recent trends in corporate reporting practices in India

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Abstract
Recent developments in corporate reporting practices indicate that the corporates have started addressing to the underlined questions. The extent of voluntary/non-financial reporting has been increasing and with the emergence of corporate governance, the annual reports are becoming very comprehensive and quiet useful for the shareholders and other users. The present paper highlights the recent and emerging trends in corporate reporting practices in India. The concept of corporate reporting has gained much significance due to the huge expansion and growth of corporations. Corporate reporting in India is primarily governed by Companies Act, 1956. The Securities and Exchange Board of India (SEBI) is another regulatory body which has major influence in reshaping and redesigning corporate reporting in India. Institute of chartered Accountants of India (ICAI) and Bureau of Public Enterprises (BPE) have also brought radical changes in corporate reporting requirements of the companies. These regulatory bodies have an important bearing on corporate reporting practices in India. The present study sets two basic objectives namely i) to study the recent amendments and changes made by regulatory and statutory bodies relating to corporate reporting by the companies in India, and ii) to study the contemporary issues in corporate reporting being followed by Indian companies. The study found that corporate reporting is at center stage of reforms and regulatory bodies are quiet busy in developing such a model of corporate reporting that may suit the needs of the users and the corporate entities simultaneously. Companies should not always look towards regulatory bodies for reforms but there should be voluntary efforts to disclose diverse information for the users of the annual reports.

Keywords: Recent, corporate, practices, underlined, emergence

Introduction
Separate legal entity feature and ability to raise resources from public at large of company form of organizations has paved way in setting up of multinational and transnational corporations. Information sharing with the investors and other users is the most important factor for the establishment and maintenance of corporate democracy.

The concept of corporate reporting has gained much significance due to huge expansion and growth of corporations, increased competition and increase in information needs of users of these reports in the changing global economic order. The complexities of modern business underline the need for the annual reports as an instrument of effective communication and propagation of information. Can annual reports be made more interesting and more informative? Can balance sheet be made more transparent? Can abridged annual reports be made more comprehensive? The answers to these questions should not be difficult for the modern innovative corporations, but such innovations have been conspicuously absent from the annual reports of most of the modern age corporations.

Recent developments in corporate reporting practices indicate that the corporates have started addressing to the underlined questions. The extent of voluntary/non-financial reporting has been increasing and with the emergence of corporate governance, the annual reports are becoming very comprehensive and quiet useful for the shareholders and other users. The present paper highlights the recent and emerging trends in corporate reporting practices in India.

Objectives of the Study
1. To study the recent amendments and changes made by regulatory and statutory bodies relating to corporate reporting by the companies in India, and

2. To study the contemporary issues in corporate reporting being followed by Indian companies.

Recent Amendments/Changes Made by Indian Regulators

Corporate reporting in India is primarily governed by Companies Act, 1956. The Securities and Exchange Board of India (SEBI) is another regulatory body which has major influence in reshaping and redesigning corporate reporting in India. Institute of chartered Accountants of India (ICAI) and Bureau of Public Enterprises (BPE) have also brought radical changes in corporate reporting requirements of the companies. These regulatory bodies have an important bearing on corporate reporting practices in India.

I. Companies Act, 1956

The Companies Act, 1956 has been amended several times since its inception. The major amendments were introduced in the years 1960, 1961, 1962, 1963, 1964, 1966, 1967, 1969, 1973, 1977, 1985, 1988, 1991, 1996, 1999, 2000, 2001, 2002 and second amendment 2002. But the amendments in 1974, 1978, 1988, 1999 and 2000 have an important bearing on the corporate disclosure.

The Sachar Committee Recommendations

In 1978, an expert committee on Companies Act, 1956 and Monopolies and Restricted Trade Practices (MRTP) Act, 1969 was constituted.

The Committee also made valuable recommendations with regards to the corporate reporting.

It recommended various reforms in the information disclosure contents of companies. It suggested improvements in balance-sheet, statement of profit and loss, and the directors' report. It also advocated for the vertical form for preparation of balance-sheet, and statement profit and loss.

The Companies (Amendment) Act, 1988

The Companies (Amendment) Act, 1988 also affected the corporate reporting requirements for corporate sector. It recommended various requirements for increased corporate reporting by including some more items of disclosure in the director's report. A new Section 217 (I) (e) was inserted in the Companies Act, 1956 which required companies to disclose more information in the board's report about the following:

a. Conservation of energy;
b. Technology absorption; and
c. Foreign exchange earnings and outgo.

It also recommended for the choice in preparation of corporate financial reports containing salient features rather that detail matters, known as abridged form of financial statements.

The Companies (Amendment) Act, 1999

The amendments in the Companies Act, 1956 made in 1999, again changed the concept of corporate reporting drastically. Important changes are worth mentioning in this regard. Firstly, the compliance of Indian Accounting Standards was made mandatory.

Secondly, the setting-up of National Committee on Accounting Standards. It was done by inserting new sections or sub-sections in the Act, which are as follows:

Section 210 A (1) (Constitution of National Advisory Committee on Accounting Standards)

The Central Government constituted an advisory committee to be called "National Advisory Committee on Accounting Standards". The basic purpose of it was to advise the Central Government with regards to formulation and laying down of accounting policies and accounting standards to be adopted by companies.

Section 211 (3A) (Compliance with Accounting Standards)

The Section makes it mandatory to comply with accounting standards in the preparation of profit and loss account and balance-sheet.

Section 211 (3B) (Non-compliance of Accounting Standards)

It describes the course of actions for the non-compliance of accounting standards.

Section 211 (3C) (Defining Accounting Standards)

Standards of accounting specified by the Institute of Chartered Accountants of India shall be deemed to be Accounting Standards until standards are prescribed by the Central Government.

The Companies (Amendment) Act, 2000

In the year 2000, amendments were made in the Companies Act, 1956 which provided few measures of good corporate governance as well as improved disclosures of these matters. It prescribed certain more items to be included in director's report of a company. Following Sections were included:

Section 217 (2AA) (Director's Responsibility Statement in Board's Report)

It states that Director's Responsibility Statement shall be included in Board's Report consisting of followings:

1. Compliance with accounting standards in preparation of annual report,
2. Application of appropriate accounting policies on consistent basis,
3. Ensuring to make reasonable and prudent judgments and estimates,
4. Proper and sufficient care to be taken by directors for maintaining adequate accounting records, and
5. Preparation of annual accounts on a going concern basis.

Section 292 A (4) (Audit Committee)

Under Section 292 A (4) requires to disclose composition of audit committee in annual report of a company.

Section 383 A (1) (Certificate of Secretarial Audit in Board's Report)

If a company is not required to employ whole-time secretary under Section 383 A (1) then it shall attach a copy of certificate with board's report as required by Section 217, stating compliance with all required provisions of this Act with regards to secretarial audit.

The Companies (Amendment) Act, 2000 has brought certain important reforms in the concept of corporate governance in particular and has an important bearing on the concept of corporate disclosure in general. Thereafter, three amendments have taken place in the Companies Act, 1956 in 2001, 2002 and second amendment in 2002 but they did not affect the corporate disclosure.

J.J. Irani Committee on the Company Law

The Ministry of Company Affairs constituted an Expert Committee on 2nd December 2004. The purpose of the Committee was to advise the Government with regards to the New Company Law under the chairmanship of Dr. Jamshed J. Irani, popularly known as J.J. Irani Committee. Following were major recommendations:

1. Institutional mechanism for developing accounting standards.
2. Holding subsidiary accounts and consolidation.
3. Form of accounting records and accounting standards.
4. Cash flow statement to be made mandatory.
5. Relaxation/exemption to small companies.
6. Financial year.
7. Authentication, circulation and revision of financial statements.
8. Directors' responsibility statement.
9. Certification of internal control by CEO/CFO.
10. Others.

II. The Securities and Exchange Board of India (SEBI):

There are various matters upon which specific disclosure has been prescribed by the SEBI. Clause 49 is one such matter which needs comprehensive and elaborative disclosure on certain specific matters relating with corporate governance. Corporate governance is not a very old phenomenon in Indian context. In India, the first initiative and organized effort was made by the Confederation of Indian Industry (CII) in 1996 by constituting a committee under the Chairmanship of Mr. Rahul Bajaj, then President CII and Chairman and MD, Bajaj Auto Limited. SEBI constituted various committees on corporate governance for promoting and raising standards of corporate governance in India. These committees include Kumar Manglam Birla Committee on Corporate Governance (1999), Naresh Chandra Committee (2001) and Narayanmurthy Committee (2003). The recommendations made by Narayanmurthy Committee have significant bearing on the corporate disclosure. Based on the recommendations of the Committee, the SEBI amended 'Clause 49' of the Listing Agreement in 2003 by issuing a circular on 26th August, 2003. After that, the SEBI has amended 'Clause 49' of the Listing Agreement for a number of times to update it as per the changing needs. The master circular was issued on February 21, 2000 as a complete 'Clause 49'. Major amendments took place on August 26, 2003 and October 29, 2005. The circular issued on August 26, 2003 was later withdrawn. But the SEBI directed that the circular dated October 29, 2005 will be the master circular and it will supersede all the earlier circulars issued in the context of 'Clause 49' of the Listing Agreement on corporate governance. A few changes in the non-mandatory items (Annexure - ID) have been witnessed in this circular as compared to the circular issued on February 21, 2000.

III. The Institute of Chartered Accountants of India (ICAI)

The Institute of Chartered Accountants of India (ICAI) was established in 1949 when the Chartered Accountants Act, 1949 was passed by the Parliament of India. The ICAI has been given the charge to standardize the accounting and auditing profession in the Indian corporate sector by recommending various accounting and auditing standards. Till date the Accounting Standards Board (ASB) of the ICAI has issued a number of accounting standards covering variety of diversified areas. Therefore, it has affected the corporate disclosure to a large extent. The major change was introduced in the company legislations in 1999, when the Companies (Amendment) Act, 1999 was passed that made compliance with Indian Accounting Standards mandatory for Indian companies, which has important impact on the corporate disclosure. Till now, 32 Accounting Standards have been issued by the Accounting Standards Board (ASB) of the ICAI. Hence, the Accounting Standards issued by the Accounting Standards Board (ASB) of the ICAI, have a significant bearing on the disclosure practices followed by the Indian companies. Following are few Accounting Standards and guidance notes issued by the ICAI having impacts on presentation of accounting information like:

1. AS-1: Disclosure of Significant Accounting Policies,
2. AS-5: Revised and renamed as 'Net Profit or Loss For the Period, Prior Period Items and Changes in Accounting Policies'.
3. Revised AS-3 'Cash Flow Statements' superseded AS-3 'Changes in Financial Position' issued in June 1981. It is recommendatory in nature to be used by companies listed on any recognized stock exchange.

IV. Bureau of Public Enterprises (BPE): In India, public sector undertakings (PSUs) are governed by the Bureau of Public Enterprises. It has prescribed guidelines to be followed by the public sector undertakings. For the accounts and audits of PSUs, the provisions of the Comptroller and Auditor General of India (CAG) are applicable. So, various guidelines of the Bureau of Public Enterprises (BPE) and Comptroller and Auditor General of India (CAG) have an important influence on the disclosure practices followed by public sector undertakings. Public sector undertakings are subject to follow those disclosure requirements as are required to be followed by non-PSUs but Section 619(4) of the Companies Act, 1956 requires public sector undertakings to include an additional statement showing comments by the Comptroller and Auditor General of India (CAG).

Section 619(4) of the Companies Act, 1956 (Comments of CAG on Auditor's Report)

The Section requires from auditors to submit a copy of auditor's report to the Comptroller and Auditor General of India (CAG) in case of public sector undertakings (PSUs) having right to comment upon the same and include it in the annual report. So, Public Sector Undertakings have to comply with this requirement and to include the Comments Report in their annual report.

Contemporary Issues in Corporate Disclosure

Recently many new issues in corporate disclosure have been witnessed in the corporate reporting practices of major Indian companies. These are voluntary efforts of companies to educate investors and other stakeholders and to give a better disclosure of management's actions, moves, polices, philosophies etc. They are as follows:

1. Human Resource disclosure,
2. Corporate Social Responsibility disclosure,

3. Intellectual Capital Reporting,
4. Inflation Adjusted Financial Statements,
5. Segment reporting,
6. Economic Value Added Reporting,
7. Electronic Corporate Disclosure (e-reporting),
8. Corporate e-reporting language,
9. International Financial Reporting Standards (IFRS)
10. Management Policies & Overview of Company
11. Brand Value
12. Corporate Governance
13. Balance Sheet Abstract and General Business Profile
14. Technology Absorption etc.
15. Y2k Compliance
16. Inflation Adjusted Accounts
17. Corporate Social Reporting
18. Environmental Accounting and Reporting

Conclusion

Corporate reporting is at the center stage of reforms and the regulatory bodies are quiet busy in developing such a model of corporate reporting that may suit the needs of the users and the corporate entities simultaneously. The users' needs are changing and reporting norms of regulatory bodies are becoming stringent day by day. International Financial Reporting Standards (IFRS) are going to reshape global accounting and reporting. Keeping in view the present scenario, there is a need to adopt the changing reporting norms by the corporate entities. Annual reports should be designed in such a way that they do not impart information to shareholders only but transparency of balance sheet and sustainability obligations should also be fulfilled. E-reporting in a structured format should be encouraged. Companies should not always look towards regulatory bodies for reforms but there should be voluntary efforts to disclose diverse information for the users of the annual reports.

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