



# New Frontiers in Corporate Reporting

Mr. Abdul Rahim Suriya, FCA, FCMA

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

The Organization of 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 served through corporate reporting.

Transparency is also encouraged by the IMF. It requires that information must be given promptly unless there are

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## Other Article

compelling reasons against such disclosure. It believes that by being open and clear accountability becomes easy. Increased accountability 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 report not only focus on the immediate past but should also endeavour to be forward-looking.

**Ms. Sandra Peters, Head of Financial reporting team at CFA Institute said:**

“The desire and need for data is 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 analyse this information”

(Source: “The future of corporate reporting (kpmg.com)

It is interesting to note that there is no definition of Annual Report in the law nor is there any specific requirement for an entity to produce and publish Annual Report. According to the 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, joined hands in the year 2000 to launch the Best Corporate Report Awards. This is a prominent example of the unity of the two professional institutions for the last 23 years. This type of competition is organized at the SAFA level (since 1997) as well as in many countries around the world like in Canada, Singapore, Australia, Malaysia etc.

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

The awards are given to companies as an acknowledgement for voluntarily providing relevant and timely information to the stakeholders to help them make economic decisions. An elaborate ‘Criteria’ which has evolved over the years, is used as a basis to evaluate best reports. The criteria for 2024 includes certain voluntary disclosures /information in addition to the disclosures required by various laws in Pakistan.

Some additions in 2023 BCR criteria are disclosures on ‘IT Governance & Cyber Security and ‘Enterprise Resource Planning; and specific disclosures related to Banks, Insurance, Exploration, and Production companies.

### Additions in 2024 BCR criteria are:

- Brief disclosure for sustainability related risk and opportunities including climate disclosure, as required in IFRS S1 and S2.
- Disclosures for SOEs which include
  - o Business Plan for three financial years,
  - o a ‘Statement of Corporate Intent’ including:
- Main Business of SOE
- Business goals business plan
- Performance measures and benchmarks against business goals/targets and its primary objective
- Strategies for achieving its business goals and primary objective:
- Summary of key risks identified in the achievement of the business goals
  - o Summary of the annual report on the SOE website,
  - o Board declaration about the liquidity position of SOE and Integrity of SOE’s internal control system and processes etc.

The competition has brought a tremendous improvement in the overall presentation of annual reports of the companies in Pakistan. I am pleased to observe that the disclosures made in the annual reports of Pakistan are at par and in some cases even better than disclosures made by companies in the developed world.

It is also my pleasure to acknowledge that increasing number of Pakistani companies’ awards each year in the SAFA Best



Presented Awards also shows our companies' commitment to strive for best corporate reporting in line with best practices.

We have been arranging consultative sessions with research heads of Banks/DFIs, analysts, and CFOs to improve transparency through the BCR Evaluation Criteria.

### Basis of BCR Criteria:

Following are considered for developing the BCR Criteria:

- Content Elements' (disclosures) of the International Integrated Reporting Framework <IR>.
- ISA 720 "The Auditor's Responsibilities Relating to Other Information".
- IFRS Practice Statement Management Commentary IASB
- Best practices around the world for Corporate Reporting.
- Experiences of BCR Committee Members

### Sustainability Reporting

The Sustainability Reporting Award was introduced in Pakistan by the BCR committee in 2011.

The International Sustainability Standards Board (ISSB) has recently issued two Sustainability Standards in June 2023:

- o IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
- o IFRS S2 Climate-related Disclosures

These are now undergoing the SECP approval process ICAP has given its recommendations to SECP for the phased out approach of adoption of ISSB's Sustainability Disclosure Standards IFRS S1 and S2 in Pakistan.

**SECP's notification is expected to be announced soon.**

Once the SECP notifies the adoption of these Standard in Pakistan, the BCR committee will consider

revamping its Best Sustainability Report evaluation criteria gradually 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 PSX Rule Book do not provide any guidelines for the contents of the Annual Report.
- We have been recommending SECP to direct all listed companies to follow our BCR criteria for developing annual reports.
- Interestingly, the State-Owned Enterprises (Governance and Operations) Act, 2023 recently passed (in January 2023) by the National Assembly provides guidelines for contents of the Annual Report and statement of corporate intent.

### Recommendation to PSX:

- While announcing top companies' awards, PSX does not give much consideration to transparent corporate reporting. PSX's recognition of transparent reporting builds trust amongst investors. Our committee members met the former CEO of the Pakistan Stock Exchange (PSX) Richard Morin in 2018. He was convinced but so far, no action has been taken by PSX.
- It is suggested that PSX being a regulator of the Capital Market should also follow the BCR criteria for transparent reporting while 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 terms of Zakat and Donations. However, generally, these NPOs lack transparency and do not publish proper annual reports.
- NPOs need to be transparent and should disclose to providers of funds how they use charity funds, particularly Zakat funds.
- A separate criterion for NPOs is available to encourage Trustees to be transparent but, regrettably, the response from this sector is very poor.
- It is noted that the financial reporting standards as applicable in Pakistan (including Accounting Standards for Not-for-Profit Organizations) do not provide specific disclosures for zakat utilized by an entity. Although some NPOs get Sharia certification, without transparency these certifications are not of much use.
- However, I am pleased to note that recently the Accounting



## “The two most important things in any company do not appear in its balance sheet: its reputation and its people.” – Henry Ford

Standards Board of ICAP which includes representatives of SECP, PSX, and the Ministry of Finance, has issued an Accounting Standard for transparency of Zakat usage which is also approved by SECP. The Objective no 3 of the Exposure draft states that “Financial Reporting standards in Pakistan do not provide specific disclosures regarding Zakat received and utilized by an entity.”

### Highlights of Speeches at Award Ceremony 2023

In Oct 2023 an Award Ceremony was organized. The following are few highlights of speeches at the occasion

The role of Master of Ceremony was performed by Mr Ahmad Saeed FCA, Former President ICAP.

#### He said that:

- We must also acknowledge the change of venue from a rented hotel to our own premises. This symbolic gesture sends a strong message. Our nation is facing a severe financial crunch. We should act as role models. Every rupee that can be saved must be saved. In our case, the money saved would be utilized for the professional development of our students and members, and for the benefit of our profession  
Accounting literature is full of criticism about accounting and accounting reports. Warren Buffet states, “Accounting is the language of business and it is imperfect language.”
- Charles Scott claims that “creativity is great but not in accounting.”
- Henry Ford said that “the two most important things in any company do not appear in its balance sheet: its reputation and its people.”
- Abraham Briloff, said that “Financial statements are like a fine perfume – to be sniffed but not swallowed.” Mr. Briloff would be pleased to know that Mr. Abdul Rahim Suriya and his team not only swallow but also digest the corporate reports.
- To those who could not make it, I quote Julia Child: “The measure of achievement is not winning awards. It’s doing something that you appreciate, something you believe is worthwhile.”

### Mr. Ali Latif, FCA, President ICAP

- In a dynamic global economy, investors are demanding an integrated and sustainable approach to performance and value creation in reporting. This in turn is shaping the reporting landscape from corporate to sustainability reporting. Stakeholders now want to know about an organization's sustainability and how it is accurately reporting on its corporate activities.
- The recent issuance of International Sustainability Standards Board (ISSB's) two Sustainability Disclosure Standards, IFRS S1 and IFRS S2, demonstrate the widespread demand of the investors for a consistent understanding of how sustainability factors affect companies' prospects. ICAP in partnership with SECP has been organizing stakeholders' consultative sessions for creating awareness about these standards and also to improve capacity building of the preparers (entities), so that we can adopt these standards in Pakistan sooner.
- I am pleased to share that, the Joint Evaluation Committee of ICAP and Institute of Cost and Management Accountants (ICMA International), with the objective to promote sustainability reporting in Pakistan, took the initiative well in advance and launched the Best Sustainability Report (BSR) Awards in 2021
- In addition, it is also heartening to see that over the period, the BCR competition has brought tremendous improvement in the overall presentation, reporting and disclosure of the annual reports of the companies

### Mr. Shehzad Ahmed Malik, FCMA President ICMA Pakistan

- BCSR Awards are considered a symbol of pride and honor for the corporate sector. These Awards have developed healthy competition among the companies.
- Chartered Management Accountants or CMAs are professionals who by virtue of their specialized knowledge and expertise can help the business and industry to become cost-competitive. They can play a strategic role to help organizations in overcoming internal weaknesses and bring efficiency to their operations; improve overall processes and production techniques and ensure better utilization of resources.
- My message to the manufacturing and corporate sectors would be to take the Management and Professional accountants on board. As it is said, “be different to make the difference” so CMAs can really make the difference in your organizations.

### Chief Guest, Mr. Akif Saeed, Chairman SECP

- He reaffirmed SECP's commitment to creating an enabling environment that fosters transparency and accountability. Akif lauded ICAP and ICMAP for continuing their legacy of



honoring excellence in corporate reporting and promoting best governance practices. He congratulated the winners and participants for their commitment to higher standards of responsible business practices.

- Mr Akif said that SECP is actively collaborating with relevant stakeholders under its ESG roadmap to integrate sustainability risks and opportunities in view of global best practices and an evolving sustainability reporting framework.

#### **Guest of Honor, Mr Ehsan A. Malik CEO, The Pakistan Business Council**

- “I am going to focus primarily on sustainability and can’t help observing the number of trees that go to make up the weighty annual reports and the amount of time and money that is spent – I believe as much as Rs. 25,000 a copy. Reports should be weighty in content, not in physical weight!”
- Listed companies have significant footprint on the economy, so their responsibility for accountability is wider than just to shareholders. In businesses we use the concept of materiality to report. The most material change in the world currently is climate change.
- It is surprising that only few companies entered their Sustainability Reports for this year’s awards. Also, I believe less than 10% of the over 500 companies listed on the PSX publish detailed Sustainability Reports. The majority cover sustainability in the main Annual Report, mostly from a CSR angle rather than the full ESG or SDG spectrum.
- CSR is admirable. But the need is to evolve to more comprehensive ESG formats. In India, like Pakistan, ESG Reporting commenced with voluntary guidelines on CSR. The Securities & Exchange Board of India has now mandated that the top 1000 listed companies start publishing more detailed Business Responsibility and Sustainability Reports. Gradually this will be cascaded to

smaller companies. ICAP and SECP are set to roll out IFRS S1 and IFRS S2 reporting prescribed by the International Sustainability Standards Board from next year. The Pakistan Business Council’s Centre of Excellence in Responsible Business works to uplift capability of business to adopt responsible practices. It is compiling a national database of sustainability which will be useful guide on best practices.

- Adopting ESG practices attracts investment. Blackrock became the world’s largest asset manager by offering investors exposure to companies with favorable environmental and social practices. It is estimated that over \$45 Trillion is currently invested globally on the ESG platform. Hence, scope to attract ESG-led investment to Pakistan.

#### **The Chairman BCR Sub Committee Abdul Rahim Suriya FCA, FMCA:**

- Award and Reward: Denzel Washington, winner of numerous awards very well explained difference between award and reward: “Man gives you Awards but God [Allah] gives you the reward.”
- He acknowledged Mr. Akif Saeed’s positive attitude in not only promoting corporate governance in Pakistan but also for supporting both of our Professional Accounting Institutes. While saying this I will go back to 2012 when he approved our Directors’ Training Program.



The writer is a fellow member of ICAP and ICMAP, former President of ICAP and the current Chairman, Sub Committee of the ICAP and ICMAP Joint Committee for Best Corporate and Sustainability Report Award.