

CHAPTER ONE

THE MEANING, OBJECTIVES AND CONTENT OF CORPORATE ANNUAL REPORTS

At the end of this lecture, students must be able to understand the meaning, objectives and content of corporate annual reports. Specifically, students should be able to:

- 1.1 Explain the meaning and objectives of corporate annual reports;
- 1.2 Identify the various components of a standard “Annual Report”;
- 1.3 Differentiate between a standard annual report and an abridged one;
- 1.4 Identify items normally included in the Chairman’s statement;
- 1.5 Identify items normally included in directors’ report;
- 1.6 Explain the importance of the Report of the Auditors to the Annual Report;
- 1.7 Explain the importance of the Report of the Audit Committee to the Annual Report.

1.1 The meaning and Objectives of Corporate Annual Reports (CARs).

Generally, reports refer to statements and opinions which convey information from one party to the other. Corporate annual reports thus means communication of information about the performance of an entity for a given period of time by directors of the entity to members of the company and to other intended users so as to assist them in making decisions relative to the entity. Other objectives of corporate annual reports include:

- (i) Compliance with statutory requirement.
Corporate entities are required by the Companies and Allied Matters Act (CAMA) 1990 to publish annual reports a copy of which must be filed with the Corporate Affairs Commission (CAC). For companies quoted on an Exchange, such reports must also be filed with the stock exchange. Consequently, a company quoted on the Nigerian Stock Exchange (NSE) is also required to file its annual corporate reports to the Exchange. In Nigeria for example, the reports must be filed with the Nigerian Stock Exchange (NSE).
- (ii) Promotion of efficient allocation of resources in the capital market
Capital markets thrive on information especially from published annual reports.

According to NSA 1, financial statements are a structured representation of the financial information which ordinarily includes accompanying notes derived from accounting records and intended to communicate the entity's economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term may refer to a complete set of financial statements, but it may also refer to a single financial statement, such as a balance sheet, or a statement of revenues and expenditures, and related explanatory notes.

From the above, financial statements are:

- Structured presentation of information;
- Obtained from accounting records; and
- Communicating same to interested parties.

Also, it may refer to:

- (i) Complete set of financial statements; or
- (ii) A single set of financial statements such as balance sheet (statement of financial position).

Objective

The main objective of financial statements is communication of economic data to intended parties, especially members of the company and members of the audit committee in case of companies quoted on the stock exchange. By so doing, users of financial statements are informed about the financial status of the company and its progress towards achieving its established goals. Such are the primary or general

purpose- showing how a business is faring as well as where its future lies. With reference to section 60 subsection 2(c) of the Investment and Securities Act (ISA) 2007, annual reports also aims at showing that the financial condition and results of operations of the entity for the period being reported, were presented fairly,

Classes of Corporate Annual Reports

There are two classes of corporate annual reports. These are the standard 'Annual Report' and the 'Abridged Report.'

1.2 The various components of a standard "Annual Report"

Contents of corporate annual reports (CAR) are usually defined by regulatory and reporting frameworks. Regulatory framework include pronouncement by the government through institutions such as the:

- (i) Corporate Affairs Commission – implementing the provisions of the Companies and Allied Matters Act (CAMA)1990 as amended to date;
- (ii) Securities and Exchange Commission – implementing the provisions of the Investment and Securities Act (ISA) 2007;
- (iii) Central bank of Nigeria (CBN) – implementing the provisions of the Banking and Other Financial Institutions' Act (BOFIA) 2002;
- (iv) Nigerian Insurance Commission (NICOM) - implementing the provisions of the Nigerian Insurance Act;
- (v) Pensions Commission (PENCOM)- implementing the provisions of the Nigerian Pensions Act; and
- (vi) Financial Reporting Council of Nigeria. Oblige

Reporting frameworks include pronouncements by professional associations, especially associations of professional accountants locally and internationally. Most of these are codified in accounting standards which must be followed in the documentation, disclosure and presentation of financial statements. The standards in Nigeria are the International financial Reporting Standards (IFRS) and the Statement of Accounting Standards ((SAS) which complies substantially with IFRS.

It follows, hence, that the components of a standard 'Annual Report' are often defined by statute as well as professional standards. Where there is any conflict, the legal provisions take precedence. In Nigeria, the supreme statutory source of the contents of a standard 'Annual Report' is the Companies and Allied Matters Act (CAMA) 1990 as amended to date. Section 334 on 'Director's Duty to prepare Annual Accounts,' indicates in subsection 2 that financial statements thus prepared should include:

- (i) Statement of the accounting policies;
- (ii) The balance sheet as at the last date of the year;
- (iii) A profit and loss account or, in the case of a company not trading for profit, an income and expenditure account for the year;

- (iv) Notes to the account;
- (v) The auditors' reports;
- (vi) The directors' reports;
- (vii) A statement of the source and application of fund;
- (viii) A value added statement for the year;
- (ix) A five-year financial summary; and
- (x) In the case of a holding company, the group financial statements.

With regard to a private company, subsection 3 excludes items (i), (vii), (viii) and (ix).

Further to the above, the 1991 amendment to CAMA 1990 introduced the audit committee. Public limited liability companies are required to include a report of the audit committee in their annual reports.

It follows from the above that a standard 'Annual Report' is a combination of statements and opinions presented by directors of a company which includes all statutory items such as the income statement, statement of financial position, notes to the accounts, statement of source and application of funds, auditors' reports, directors' reports, report of the audit committee, value added statement for the year and five-year financial summary.

A standard 'Annual Report' fully complies with all statutory and professional presentation and disclosure requirements. It is a document required by the CAMA 1990 (as amended) in section 345 to be laid by the directors before a company in general meeting. By virtue of section 342 of the Act, it contains:

- (a) A fair view of development of the business of the company as well as its position at the end of the year;
- (b) Recommendation by the directors (if any) for payment as dividend and the amount proposed for retention;
- (c) Names of directors during the year;
- (d) Financial activities of the company during the year;
- (e) Any significant changes in the financial activities of the company during the year ;
- (f) Statement of the particulars and matters required by:
 - Part I of Schedule 5 to the Act- matters of general nature;
 - Part II of Schedule 5 to the Act – disclosure required by company acquiring its own shares etc.;
 - Part III of schedule 5 to the Act – employment and employees.

1.3 Differentiation between a standard annual report and an abridged one

As explained in 1.2 above, a standard annual report is a collection of statements and opinions for a given year incorporating all statutory and professional requirements. Such report usually complies fully with the provisions of the Companies and Allied Matters Act (CAMA) 1990 and provisions of the relevant Statement of Accounting standards (SAS). In practice, it includes:

- (i) Statement of the chairman;
- (ii) Financial statements – balance sheet, profit and loss account, cash flow statement, changes in equity, notes to the account, value added statement and five – year
- (iii) Directors' reports;
- (iv) Auditors' reports; and
- (v) Audit committee report.

An abridged annual report on the other hand is any annual report other than a standard annual report. Such report may include one or more elements of a standard annual report. For example, an abridged annual report may include only the balance sheet, or profit and loss account or cash flow statement. Often, an abridged annual report is made up of:

- (i) Balance sheet;
- (ii) Profit and loss account; and
- (iii) Auditors' report.

Going by section 350 of the Companies and Allied Matters Act (CAMA) 1990, an abridged annual report is a modified report and is akin to the returns of a small company.

"Abridged" is more condensed, while "detailed" is just as it implies - detailed, with all financial details, facts and figures included.

[http://wiki.answers.com/Q/What is the difference between abridged financial statements and detailed financial statements](http://wiki.answers.com/Q/What_is_the_difference_between_abridged_financial_statements_and_detailed_financial_statements).

1.4 Items normally included in the Chairman's statement

The Chairman of a company is a director of the company elected by the directors to preside over their meetings (s.8) for a specified period of time (Section 263 (4) of CAMA 1990). The items to be included in the Chairman's statement, hence, are derivatives of items to be included in directors' report. Consequently, chairman's statement is usually a brief summary of directors' report. In the standard annual report for the year ended 31 May, 2014 for example, PZ Cussons Nigeria Plc., included the following items in the 'Chairman's statement.'

- (i) Introduction
- (ii) Overview of the business environment – micro and macro.- and effects on corporate performance.
- (iii) Corporate performance in terms of profitability and dividend payout for the year.
- (iv) The board of directors, highlighting changes where necessary.

- (v) Staff – including training as well as employment of physically challenged persons.
- (vi) Corporate social responsibility.
- (vii) Future prospects.
- (viii) Conclusion.

For the year ended 31 December, 2015, The Okomu Oil palm Company Plc., showed the following items in the chairman's statement:

- (i) Introduction.
- (ii) The operating and economic environment in 015.
- (iii) The company's operational performance for 2015.
- (iv) Consolidated financial results.
- (v) Environment, health and safety.
- (vi) Future expansion and development plans.
- (vii) Conclusion.

For the year ended 31 December, 2010, the chairman's statement of Guaranty Trust Bank Plc., had the following items:

- (i) Introduction.
- (ii) Macroeconomic review.
- (iii) Subsidiaries.
- (iv) Board of directors.
- (v) Staff
- (vi) Economic outlook.
- (vii) Group outlook.

From the above, it is clear that chairman's statements may vary from company to company but normally include items relating to:

- (i) Global economic performance.
- (ii) Corporate performance.
- (iii) Future plans.
- (iv) Conclusion.

More detailed information is provided in the directors' reports.

1.5 Items normally included in directors' report

Sections 334, 335 and 342 relate to directors' duty to prepare annual accounts, form and contents of individual financial statements as well as the nature of the accounts so prepared.

The items, as noted in 1.2 above, normally include:

- (i) Statement of the accounting policies;
- (ii) The balance sheet as at the last date of the year;
- (iii) A profit and loss account or, in the case of a company not trading for profit, an income and expenditure account for the year;
- (iv) Notes to the account;
- (v) The auditors' reports;
- (vi) The directors' reports;
- (vii) A statement of the source and application of fund;
- (viii) A value added statement for the year;
- (ix) A five-year financial summary; and
- (x) In the case of a holding company, the group financial statements.

Compliance with Schedule 2 to the Act and Statement of Accounting Standards is mandatory.

Schedule 2 in Part 1 section A paragraph 2, requires the financial statements of a company to state:

- (i) The name of the company.
- (ii) The period of time covered.
- (iii) A brief description of its activities.
- (iv) Its legal form.
- (v) Its relationship with important suppliers – local and overseas.

Other items required by virtue of section 342 of the Act, include:

- (g) A fair view of development of the business of the company as well as its position at the end of the year;
- (h) Recommendation by the directors (if any) for payment as dividend and the amount proposed for retention;
- (i) Names of directors during the year;
- (j) Financial activities of the company during the year;
- (k) Any significant changes in the financial activities of the company during the year ;
- (l) Statement of the particulars and matters required by:
 - Part I of Schedule 5 to the Act- matters of general nature;
 - Part II of Schedule 5 to the Act – disclosure required by company acquiring its own shares etc.;
 - Part III of schedule 5 to the Act – employment and employees.

More detailed items are therefore, incorporated into the reports of the directors in order to help users of financial information evaluate the financial liquidity, profitability and viability of a business entity (second Schedule Part 1 section A s. 1)

1.6 Explain the importance of the Report of the Auditors to the Annual Report

The importance of the report of the auditors to the annual report is that it lends credibility to the annual report. This is because in the process of preparing the report, auditors by reason of section 359 of the Act, have examined records of the company and the accounts prepared therefrom to form an opinion, per section 360 of the Act, on whether or not the records were properly kept, whether the financial statements were in agreement with the records also correspond with information provided in the directors' reports for the year.

Where a clean report is issued by the auditors, third parties are encouraged to rely on the financial statements for taking economic decisions regarding the financial instruments of the company. Moreover, investors and other participants in the capital market seldom rely on unaudited financial statements. The report of the auditors therefore, makes the annual report a viable instrument in the efficient allocation of resources in the financial markets.

Also important is the indirect role which the report of the auditors plays in promoting sound corporate governance. This is because the report is sent to members of the company as well as to members of the audit committee while it is read to members in a general meeting, usually in the annual general meeting. This implies that directors of the company may not be able to influence the presentation of the report at the general meeting where it is being read. It also gives the audit committee the opportunity to carry out their functions on the audit report without interference from the board of directors or other power clusters in the company.

1.7 The Importance of the Report of the Audit Committee to the Annual Report.

The Audit Committee (AC) is a committee of a business entity listed on the stock exchange. Established by section 359 (3) of the CAMA 1990 as amended in 1991, the committee is made up of equal member of directors and shareholders, subject to a maximum of six.

Subject to additional functions and powers conferred on the committee by the articles of association of a company, the statutory functions of the audit committee as listed by CAMA 1990 in section 359(5) include:

- (i) Ascertaining if the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices.
- (ii) Reviewing the scope and planning of audit requirements.
- (iii) Reviewing the findings on management matters together with the external auditors as well

- as departmental responses there on.
- (iv) Keeping under review, the effectiveness of the quality of the company's accounting system and internal control.
 - (v) Making recommendations to the Board regarding the appointment, removal and remuneration of the company's external auditors .
 - (vi) Authorizing the internal auditor to conduct investigation into any activities of the company with internal control interest to the committee.

It is evident from the above that the significance or the report of the audit committee to the financial statements is to enhance good corporate government.

In practice, many reports of the Audit Committee are usually brief. The report of the audit committee of The Okomu Oil Palm company Plc., for the year ended 31 December, 2015 is presented below;

Report of the Audit committee

In accordance with the provisions of section 359 (6) of the Companies and Allied Matters Act, 1990, we, the members of the Audit committee of Okomu Oil Palm Company Plc., having carried out our functions under the Act , confirm that the accounting and reporting policies of the company as contained in the audited financial statements for the year ended 31 December, 2015 are in accordance with legal requirements and agreed ethical practices.

We confirm that the external auditors, Messrs. HorwathDafinone, Chartered Accountants have issued an unqualified opinion on the company's financial statements for the year ended 31 December, 2015.

In our opinion, the scope of the audit for the year ended 31 December, 2015 were adequate and we confirm that the responses by the management to the External auditors' findings on management matters were satisfactory.

Rev. Amadu

Chairman, Audit Committee

Dated this 24th March, 2016

QUIZZES

1. Generally, reports refer to statements and which convey information from one party to the other.
2. Corporate annual reports thus means communication of information about the performance of an entity for a given period of time by directors of the entity to of the company and to other intended users so as to assist them in makingrelative to the entity.
3. Other objectives of corporate annual reports includeand
4. financial statements are presentation of information obtained from accounting records and communicated toparties such as
5. An indirect role which the report of the auditors plays is promoting sound

TESTS

1. . (a) Briefly differentiate between a standard annual report and an abridged annual report.

(b) List four elements of a standard annual report.

(c) Explain the need for corporate annual reports in the management of a limited liability company.
2. Briefly distinguish between the report of an auditor and the report of an Audit Committee in corporate annual reports.

ASSIGNMENTS

1. Obtain corporate annual reports from the following industries:
(a) Banking;
(b) Manufacturing; and
(c) Agriculture.

Compare and contrast statements of the Chairman in the reports submitted by you.

2. (a) What are corporate annual reports?
(b) Using Dangote cement Plc.,

(i) List one statement and two reports contained in an annual corporate report;

(ii) Tabulate the profit performance of the company in the last ten years.