Chapter- IX

Summary of Findings and Suggestions

Financial reporting has the objective of keeping the various stakeholders informed of the happenings of a business. This effective reporting reduces the information gap between the providers of information and the users of information. A user should have all the understanding of events and transactions happening presently and expected to happen in the future. Such transparent financial reporting practices can bring rich dividends to both the parties. From providers’ point of view, since reporting is accurate and relevant all uncertainties are reduced and eliminated. This will bring the cost of mobilizing the funds from users. The reduced cost of capital increases the basket of profitable investment opportunities and thus ensures the growth, development, and profitability of the enterprise. The users will have advantage of having more accurate information, thus reducing the agency cost involved in inaccurate financial reporting. The accurate reporting practices bring investors to market and lead to wider acceptance of corporate securities as alternative means of investment. The growth of capital market contributes to capital formation and economic growth of the nation.

Realizing this significance of quality of financial reporting and economic development, various organisations at corporate level like CII and FICCI, at accountants’ level like ICAI, IASC, etc., at government level like SEBI, SEC, etc., have all given highest importance to development of transparent disclosure models. The models are either encouraged for adoption among the corporations or are enforced through acts and listing agreements.
Adequate and comprehensive disclosure practices are essential in all forms of business, be it manufacturing sector unit or financial service sector unit. Banks, term-lending agencies and other institutions of financial intermediaries depend on the level of confidence of their stakeholders for survival. Good reporting improves this confidence level and brings much desired impetus for future growth. Many changes have been incorporated at banking institutions level to improve standards of reporting practices.

State level lending agencies, popularly called as State Financial Corporations, were established as agencies concerned with the shouldering development responsibilities of sponsored state. These agencies were promoted by the State to extend a helping hand to small and medium scale enterprises that are denied of the access to capital markets. Further, capital markets are skeptical of the investment plans of technocrats, new venture promoters, etc., thus denying the much needed financial assistance. These SFCs have to extend financial assistance to such units, thus ensuring that development is continuous and economic-oriented. They mobilize resources of State Government, Central term-lending agencies and from general public in the form of share capital, debt capital and fixed deposits. The responsibilities are onerous and demanding. The limited resources must be channelled into competing uses by keeping the economic and social considerations in mind. However, these agencies have over the period become centres of corruption, inefficiency, nepotism, employment-centres, etc. The good practices of financial reporting are hardly followed. Though SFCs function like banks, bank-like reporting practices are seldom imposed and followed.

The poor reporting practices by SFCs have made SFCs to suffer from all limitations. The waves of liberalization are yet to blow
among SFCs. The MNCs and FDI are wary of SFC. Thus, SFCs have all disadvantages. Their cost of capital is higher, making them to lend only at higher rates or governments to subsidize their lending policies. Even borrowers are skeptical of the SFCs ability to lend on regular basis. They are more preferred to resort to commercial bank borrowing or borrowing from money-lenders than from SFCs. Many committees were established to improve the reporting standards of SFCs. The committees recommendations are accumulating dust over the periods as authorities lack necessary political will and interest to improve reporting standards of SFCs.

Against this pitiable reporting practices of SFCs, a need was felt to analyse the policies, practices and difficulties of reporting practices of SFCs in India. The objective was to analyse the resulting reasons for the existence of sub-standard reporting methods and improve them over a period. For this purpose, four sample SFCs, based on regional existence and working were selected. They are GSFC, RFC, APSFC and KSFC. The annual reports of these SFCs were collected for 8 years period ending 2005 -2006 period and results were analysed with the help of financial and statistical tools and techniques. The comparative financial tool method is extensively used under the study for achievement of objectives.

The chapter provides a summary of these findings:

**Summary of Findings**

(1) 'Timeliness' is an essential attribute of corporate reporting. It emphasizes on the publication of the financial as well as non-financial information, as rapid as possible, to assure the
availability of current information in the hands of the investors and other interested parties. Delay in financial reporting may make lenders, financial analysts and even regulatory agencies to generate hypotheses regarding impounding distress and the need for additional information search.

Several measures have been taken by IDBI and SIDBI to improve reporting practices of SFCs. The SFCs Act 1951 was amended several times. Committees have been established to improve the performance of SFCs. However, the results are not encouraging.

The financial reports of SFCs are still found to be deficient and lacking in valuable information. The ICAI is yet to extend accounting standards to SFCs.

(2) At present there are 18 SFCs in the country. These SFCs provide assistance to small and medium scale industries in their respective states through a variety of schemes such as term loans, composite loan scheme, special capital and seed capital assistance schemes for women entrepreneurs, schemes for assistance to hospitals, hotels and other tourism related projects. SFCs are also expected to provide technical and managerial guidance to prospective entrepreneurs.

The authorized capital of the corporation shall be fixed by the State Government and shall not be less than Rs. 50 lakhs and not more than Rs. 500 crores. The State Government may increase it upto Rs. 1000 crores.

The shares shall consist of equity shares and redeemable preference shares. The shares are allowed to be issued to the public also upto 49% of the issued capital. The State Government,
the SIDBI, LIC, insurance companies and other institutions owned or controlled by the Central Government or the State Government shall be the major share holders having atleast 51% of the shares.

The SIDBI in consultation with the State Government shall appoint the chairman of the board of directors. The managing director shall be appointed in consultation with the SIDBI by the State Government.

During the period from 1991-2000, SFCs had suffered heavily in their business operations and were virtually struggling for their survival. On account of their financial instability, most of the corporations were not able to mobilize resources from the market on their own by way of floatation of bonds, debentures, equity shares or public deposits since none would like to invest on the strength of their weak balance sheet.

An analysis of financial performance of 18 SFCs in India revealed that the APSFC emerged as the well-managed SFC in India with low-capital base. The unit reported an above average performance and held the lead position among all the 18 State Financial Corporations in the country in sanctions, disbursements and recoveries. The Corporation was able to reduce its NPAs and increase the profits per employee by its improved recoveries, higher disbursements and the One Time Settlement Scheme.

The KFC and the KSFC have invested large amount of paid up capital, and have always provided higher amounts of sanctions but have shown poor recoveries and thus have been suffering heavy losses at the end of every year.
Sample SFCs are selected from 4 different regions of our country. GSFC and RFC are selected from North region and KSFC and APSFC from South region. Since these four SFCs were on the top in terms of absolute sanctions, according to the IDBI Report 2000-2001, they are selected for the present study.

APSFC was established under the provisions of the SFCs Act 1951. The APSFC was started with a paid-up equity capital of Rs. 1.50 crores in 1956 which now stands at Rs. 92.22 crores against an authorized capital of Rs. 500 crores. APSFC became the lead SFC among the 18 SFCs in the country in 2001-2002 in respect of sanctions, disbursements and recovery percentage.

The Rajasthan Financial Corporation [RFC] was constituted on 17th January, 1955 under the SFCs Act, 1951. The Government of Rajasthan holds 66.207% of share capital and IDBI holds 33.145% of share capital of the unit.

GSFC was established in 1960, under the SFCs Act 1951. The issued, subscribed and paid-up capital of the corporation stood at Rs. 91.51 crores (excluding special share capital of Rs. 2.5 crores). The Government of Gujarat holds 55.09% of shares capital, IDBI holds 28.41%, scheduled banks, co-operative banks and insurance companies hold 0.45% and others 16.05% of the total share capital.

The GSFC had to suffer a lot due to devastating earthquake in 2001-02, in respect of the industries of manufacturing sector. However, there was an improvement in the performance of service sector industries such as heritage hotel, tourism, doctors etc.

GSFC has discontinued sanctions and disbursements, due to discontinuance of sanction and disbursements, GSFC is solely
dependent on recovery of dues. In the prevailing scenario, it is unable to raise resources at competitive rates and to start business afresh.

The Karnataka State Financial Corporation (KSFC) was established in 1958. KSFC has been attempting to improve upon its organizational efficiency for better delivery of its services to the community. The KSFC is a dynamic and professional organization and has exhibited remarkable achievements over the last ten to fifteen years.

(4) All the four sample SFCs under study have provided information on the pattern of share holding, the amount of sub-ordinate debt raised, risk weighted assets and details of bonds issued and redeemed. Details relating to a director, that is the director’s report, addresses of boards of directors and the chairman’s report, have been furnished by all the SFCs in the annual reports for all the 8 years.

The APSFC is the only sample unit which provides, on an average, 100 pages annual report. The unit has continuously increased the number of pages of annual report. The KSFC, on an average, provides only 36 pages annual report. This clearly means APSFC has more transparent disclosure practices than any other sample SFCs.

As far as “Notes to Accounts”, KSFC stands apart. The APSFC has brought out impressive, attractive and informative annual reports for all the years of the study. The items of profit and loss accounts and the balance sheets of SFCs show the operating results and the disposition of the resources at the beginning and at the end of year.
The study shows that the disclosures with regard to income items are more significantly shown by GSFC followed by KSFC, RFC and APSFC. The items of expenditure are shown in detail by APSFC followed by GSFC, KSFC and RFC.

APSFC is the only SFC which has awarded initiatives to entrepreneurs and reported the success stories of entrepreneurs-borrowers in the annual reports in a very appealing way along with their photographs. This has acted as an encouragement to other entrepreneurs and has persuaded the prospective borrowers. It has taken steps for counselling of the entrepreneurs through seminars.

APSFC has highest percent of disclosure in the item wise financial data. The number of report pages used to provide disclosures is also highest in APSFC. In the same way, the highest percentage of disclosures is found with regard to graphs and diagrams, colour, expenditure items, asset items, equity shares, NPAs to loans, etc., in APSFC only.

The recommendations of Gupta Committee are reported by APSFC and KSFC for all the 8 years whereas GSFC and RFC have not reported this.

All the sample units have provided equal percentage of disclosures with regard to sanctions, disbursements, recovery, performance and movement of NPAs along with comparative figures of information.

The study also reveals that RFC has made the disclosures without using colour and photographs. Graphs, diagrams, operating profit per employee, etc., are not at all disclosed by RFC.
Hypotheses formulated in the study also reveal vast difference among sample SFCs. There is a vast difference in quantitative and qualitative reporting practices among sample SFCs.

All the SFCs under study have made an attempt to present the financial disclosures relating to activities that produce revenue. Scheme-wise, purpose-wise, class-wise, area-wise and industry-wise items of sanctions and disbursements are disclosed by APSFC, KSFC and RFC as per the AICPA requirements, but GSFC has provided only the details of scheme-wise sanctions and disbursements.

Details of interest on loans, interest rates, rent recovered from employees, income from investments, bad debts recovered, etc., relating to total income are highlighted by all the SFCs in the annual reports. In the same way, staff welfare expenses, administrative expenses, interest and other financial expenses etc. are very clearly shown by all the SFCs.

Employee productivity, return on average assets, operating profit per employee or net loss per employee etc., are the main items relating to the activities of productivity.

As regards the disclosure of super entrepreneurs' schemes, to motivate to maintain quality of assets, no information is given by GSFC for the entire period under study but a successful effort has been made by KSFC and RFC for all the 8 years followed by APSFC.

As per AICPA requirements, the financial statements of SFC provide higher quality information to predict and to reduce investor uncertainty and to lower the information risk. Liquidity-
maturity pattern statistics are not given by APSFC and GSFC during the years 1998-1999 and 1999-2000, that is, the beginning years of study but RFC and KSFC have given these details for all the 8 years.

The disclosed information consists of 6 items. All the selected four SFCs under study have provided information on the pattern of share holding, the amount of sub-ordinate debt raised, risk weighted assets, composition of share capital and supplementary capital, risk and weighted adequacy ratio except GSFC which has not given details of risk-weighted assets, amount of sub-ordinates debt raised, etc. Risk indicators are essential attributes of good financial reporting. They convey information on risk assumed and risk management practices.

Needless to say, the future success of SFCs depends heavily on the disclosures relating to innovation. An attempt has been made to study the financial disclosures relating to innovation.

(8) An attempt is made to take feedback from customers to make necessary changes in operations by APSFC and KSFC for 8 years, but GSFC and RFC have not made any attempt in this respect. Encouraging the successful entrepreneurs to become mentors to guide new entrants to the business is done only by APSFC whereas other SFCs under study have not made any effort in this regard.

(9) Relating to confidence building, an item of simplification of procedures of sanctions and disbursements, is given by APSFC for all 8 years, by RFC for 6years, but GSFC and KSFC have not given any information in this regard. Completion of legal
formalities and monitoring is given by APSFC and KSFC regularly but RFC has given only for 6 years and again GSFC has not disclosed this information.

(10) Details of rewards for prompt repayments from entrepreneurs are given only by APSFC. Measures of employee involvement and fulfillment disclosure are again given only by APSFC whereas RFC gave only for 2 years of the study period and KSFC and GSFC have not presented these details in their annual reports. Items of encouraging awardees to avail increased facilities relating to confidence building are again given only by APSFC.

(11) An attempt is made by all sample SFCs under study to provide the disclosures as per AICPA norms. Details of increase in per employee productivity due to VRS scheme is given by APSFC for 5 years, by RFC for 1 year whereas GSFC and KSFC have not given any detail regarding this. Remarkable growth and achievement effect in changing the performance is given by APSFC and KSFC for 8 years, by GSFC for 7 years and by RFC for 4 years.

(12) Forward-looking information is not a requirement of the reporting model for cost benefit reasons but to meet the minimum statistics of AICPA all the SFCs have given the disclosure about opportunities and risks for the whole period of study.

(13) Critical success factors are those which influence the outcome of business results. These are the fundamentals which decide the future outcome. They may be internal or external. A disclosure of
these factors will help in enabling the users in understanding the basic factors on which the success of the firm depends. The Jenkins report views these factors as part of “forward looking information.”

(14) Disclosures with regard to management plans including critical success factors are given by KSFC for all the 8 years, by APSFC for 5 years but GSFC and RFC have not made significant efforts.

(15) Disclosures relating to management have been mandated by codes of governance of several countries including India. The users should have a clear understanding about the quality and composition of the team that runs the affairs of the firm. Details relating to age, experience, qualification, remuneration package, share holding, stock options granted, exercised and pending, succession plans, relationship with other companies and others, etc., need to be disclosed to ensure greater transparency levels.

(16) A disclosure relating to Directors is, nowadays, regarded as part of good governance practices. Directors are the persons entrusted with monitoring responsibilities. In the supervision of an entity, directors are required to take a proactive role.

(17) Information about management and shareholders is given in an impressive manner covering different items like occupation, address, nomination, remuneration, meeting fees, percentage of holding etc. by APSFC and GSFC for all the years, but RFC has not furnished the details of percentage of holding, occupation, address etc. for all the years. In the same way, KSFC has not
given the information about remuneration of directors, percentage of holding, number of shares of special share capital and date of nomination of directors. The details of the number of shares owned by directors as a group, management as a group and employees as a group are not given by RFC and KSFC for the entire period of study but APSFC and GSFC have successfully and regularly covered this information. Details of attendance are not stated by APSFC, RFC and KSFC but GSFC has made an attempt in this regard.

(18) Information regarding qualitative nature indicating the background of SFC is covered in the name of broad objectives of business strategies followed and is given by all the SFCs for all the 8 years.

(19) Major events of bankruptcy and changes in model of conducting business, services rendered, principal market served, schemes used to render services, performance indicators through graphs etc. are given by all the SFCs under study.

(20) The related disclosure covering the items of number and names of major competitors is given by RFC for 8 years, by APSFC for 7 years, KSFC for 6 years and GSFC for 3 years. Information about the number of borrowers who switch from competitors to the business and vice- versa is not given by any SFC under study for the sample period.

(21) Percentage of disclosure with regard to details of ownership structure and measures of risks and also relating to liquidity and
assets quality are equal in respect of APSFC and KSFC. But RFC and GSFC have occupied a back seat in this regard.

The study also reveals that more number of disclosures with regard to profit and loss account and balance sheet is made by GSFC followed by APSFC, KSFC and RFC in descending order.

Overall disclosure of management’s analysis is made almost equally by APSFC and KSFC as the percentage is 29.72 and 29.17 followed by GSFC and RFC.

Overall disclosures of management’s analysis are made by all SFCs except APSFC which has the lowest percentage in this regard. Disclosures of non-financial data is made by KSFC and GSFC equally followed by APSFC and RFC.

On considering disclosure relating to management’s analysis of financial and non-financial data it is showing an association of disclosures between the sample units.

On considering disclosures about the management and shareholders, there is an association of relationship between sample units and the variables selected.

All sample units have disclosed financial and non-financial data as per AICPA requirements, but the percentage of disclosure by APSFC is more superior.

(22) An interesting finding revealed by the study is the disclosure of equal number of items by all the four sample units with regard to activities of productivity and income. All the sample units except GSFC, have disclosed equal percentage of financial and non-financial data, as per AICPA recommendations, related to recoveries and outstandings, activities of operating results, asset
quality and core capital. Percentage of disclosure of GSFC, in this regard is very low.

(23) An attempt was made to understand the association of relationship between disclosures and sample units by applying ‘chi square test’. Chi square values are significant at both 5% and 1% which shows an association of relationship between disclosures and the sample units. The study revealed that KSFC and APSFC deserve almost equal rank. Among all the sample units, APSFC showed maximum information on changes in financial performance and GSFC has showed the lowest amount of information in this regard.

Overall disclosure of forward looking information is shown equally by APSFC and KSFC followed by RFC and GSFC. GSFC has put more effort in providing the disclosure of information on management and shareholders followed by APSFC.

(24) Maximum overall disclosure, as recommended by AICPA, is made by APSFC according to Table 7.08 followed by RFC, KSFC and GSFC. Disclosure of the items of objectives and strategies of qualitative nature is made equally by all sample units. Disclosure of scope and description of business and properties, items of qualitative nature, are also made equally, with little variation, by all sample units. There is no association of relationship between the sample units and the extent of disclosures.

(25) It is very heartening and surprising also that sample SFCs by default comply with AICPA norms than SFC Act. In other words, they disclose all that is required by SFCs Act plus additional
disclosures as required by AICPA norms. The total items of disclosures as per AICPA norms are almost two and half times higher than the SFCs Act. As far as category-wise disclosures are considered it indicates that total items as per AICPA requirements exceed in all the categories except with regard to information about management and shareholders by only two items.

(26) The older the SFC, the greater would be the scope for disclosures. Larger SFCs may be hypothesized to disclose more information in the annual report.

SFCs having higher RONW (Return on Net Worth) may disclose more information in annual report. The general view is SFCs that have higher level of leverage disclose more information. The general view is that higher transparency and increased disclosure of information can be expected when more number of directors are from outside organisations. The SFCs provide more reliable information when they become older.

(27) All sample units are not providing required reliable information. The sample units are not maintaining consistency in providing the disclosures.

(28) The items providing ‘futuristic information’ to the users, such as, profits and sales forecasts, cash flow projections, research and development for future period and major factors affecting next year’s performance etc., have not been disclosed by any SFC.
A glance at the annual reports of SFCs indicates that a large number of items of information are not presented in them. Such items are various namely:

A) Efficiency and liquidity ratios, dividend ratios, profitability ratios.
B) Rates of return on investments.
C) Net worth.
D) Capital investments such as capital expenditure budgeted for the next year.
E) Data about performance budgeting.
F) Human Resource Accounting and information on number of employees.
G) Turnover performance, inflation adjusted accounts.
H) Cash budget forecasts.

The study analysed the perceptions of the various users and preparers of financial reporting of sample SFCs. They included management, employees, investors, lenders and borrowers. The data was collected from primary source. The analysis shows that most of the needs of shareholders, identified in the corporate report, appear to have been met by the present annual reports of SFCs although often voluntarily than by legal or professional compulsion.

As regards the items of reducing overall risk of operations, the respondents expressed that the significance of disclosure practices of SFCs was less whereas in accessing funds from lenders and general public they supported the role of disclosure practices as very significant.

Information regarding higher paid employees is to be provided in annual reports. Details about training programmes, seminars etc., should also be included in annual reports. Employees may be interested
in knowing how secure their employment is and what level of remuneration to seek, etc.

Workers participation in the management and quality circles give the opportunity to workers to participate in management of their organisations and hence improve their performance.

High profile borrowers find no difficulties in availing the financial help and benefits from SFCs. But the borrowers whose financial capabilities are low find their positions, in the eyes of SFCs, as weak.

The efficiency and promptness of the SFCs is revealed by disclosing information relating to time taken for disposal of loan applications, number of applications rejected, etc.

The financial reporting has improved tremendously since the turn of this century. All the SFCs have successfully disclosed the information required by law. It is found that still there is a need for application of accounting standards. Improvements in reporting practices came principally as a result of continuing pressure from individuals outside the management group for improved corporate publicity.

SFCs need to make adequate and comprehensive disclosures. The disclosures must be timely, relevant, reliable, comprehensive, analytical and both historical and future oriented. Against these norms of good financial reporting, the reporting practices of SFCs falls short by miles. The important conclusions are:

- The SFCs Act 1951 is not amended to incorporate all contemporary reporting practices.
- Various committees’ recommendations, established for improving reporting practices, are yet to find their due place in the Act.
• The Accounting Standards of ICAI are not mandatory. As a result, the following are not significantly disclosed:
  1. accounting policies and their changes
  2. prior period items and extraordinary items
  3. events occurring after the balance sheet dates
  4. cash flow statements
  5. segment-wise reports
  6. changes in earnings per share
  7. deferred tax credits/debits
  8. related party transactions
  9. intangibles
  10. discontinuing operations
  11. employees benefits
  12. schedules relating depreciation
  13. Prudential norms relating to asset classification, provisioning requirements, CAR, etc.

• There is no format for financial statements as per SFCs Act.
• There is wide divergence in reporting practices among sample SFCs.
• There is no monitoring agency commenting on the relevance of financial data generated by SFCs.
• Bank-like reporting practices are yet to arrive in SFCs though SFCs have all the characteristics of banks.
• There is no uniformity in disclosure relating to risk factors.
• Age-wise classification of debts due is not done by sample SFCs.
• Classification of loans and advances as per region-wise, purpose-wise and entrepreneur-wise are seldom practised by SFCs.
• The progress in various schemes for technology upgradation, women entrepreneurs development, seed capital, etc., is revealed in an half-hearted manner. As a result, these schemes evaluation by users become all the more difficult.

• The changes in capital stock is disclosed inadequately.

• The change in reserves position is done in an incomprehensible manner.

• The movement in gross NPAs, net NPAs, provisions created and causes for changes in their amounts are seldom reported in a standard manner. No efforts are made to identify causes for NPAs.

• The contemporary reporting practices are also grossly missing in SFCs reporting. An SFC is a State - owned enterprise and is also social institution. It is expected to follow ‘social welfare’ as a doctrine in its accounting and financial reporting. This principle of social welfare does not mean lower cost loans and advances or non collection of loans, etc. The social welfare concept indicates the usefulness or contribution by SFCs to social development. The ‘Corporate Social Responsibility Statement’ is the most popular statement in corporate world. The Corporate Social Responsibility evaluates the social performance and contribution of a business. An SFC has to reveal more information to evaluate its social performance. The achievement of social goals must be given top priority. Such approach is not followed by any SFC. Even the preparation of ‘value added statement’ is not done by any SFC. A value added statement is an indicator of value added by the organisation. No SFC prepares this statement.
• Other contemporary reporting practices like valuation of intangibles, brand valuation, human resource accounting, inflation adjusted financial statements, segment reporting are not followed by any sample SFC.

Summary of Suggestions:

Despite all these shortcomings it cannot be said that the SFCs reporting is grossly inadequate. Though efforts are made in recent years to provide qualitative reports, the efforts are not adequate. There has to be a change in mindset among management and directors as far as financial reports are concerned. The financial reports are to be considered as a mechanism of establishing relationship with investors, employees, creditors, lenders and society at large. They speak of the minds of the managers. The users' needs must be kept in view in drafting financial statements. The users are worried about their investment of resources. Inadequate financial reporting increases worries of investors and managers are expected to alleviate all these fears by providing timely, reliable, relevant and adequate disclosure. A report is like a bridge between providers and users. A proper and strong reports bring these people together while inaccurate reports take these people away from each other, to the detriment of all and to the economy, and society as a whole.

What has been said above also applies to SFCs. SFCs being instruments of economic development should leave no stone unturned in improving the reporting practices. The half-hearted measures undertaken so far do not yield the required results. The all-out efforts must be made to adopt transparent reporting practices.
Therefore, the study offers a few of the important, practical and user-friendly suggestions. The suggestions are given as per what has been found in the study. The suggestions include:

- The SFCs Act must be amended comprehensively. This is because what is legalized is being followed seriously. Therefore, the reporting practices of SFCs can be improved by bringing various provisions under the SFCs Act. The changes expected are:
  1. The SFCs Act must prescribe forms and minimum disclosure requirements.
  3. Composition of management.
  5. Loan procedure and recovery process.
  7. Preparations of cash flow statements.
  8. Opening of website and disclosure.
  9. Investors' grievances redressal system.
  10. Information relating to branch profitability, productivity, etc.

- The accounting standards of ICAI are not mandatory for SFCs in India. Even for banks also the RBI has given exemptions from many difficult accounting standards by constituting the Sri. N. D. Gupta Committee. Atleast, the standards that are applicable to banks should be made applicable to SFCs also.

- The prudential norms of banks have brought about a sea-change in their outlook. The asset-classification, provisioning requirements,
CAR, etc., must be made applicable to SFCs to make their bottom-line more reliable and predictive.

- Establishment of regulating agency: The SFCs are state-owned and lack a regulator, though IDBI and SIDBI exercise some significant influence. The IDBI or SIDBI should be made a regulator with wide powers, like SEBI or RBI, over the functioning of SFCs. Such a step can bring the much required seriousness among SFCs. The filing of accounts with the regulators should be made mandatory. This mandatory filing improves disclosure practices.

- Liberalization in SFC sector: SFCs have been kept away from the waves of liberalization. The entry of foreign capital into SFCs can bring much needed change in SFCs reporting. The foreign institutional investors are highly insistent and unforgiving in nature as far as financial reporting. They could pressurize the management to adopt the disclosure practices as adopted by the agencies in the western world.

- Since public access of capital is not permitted to SFCs, the SFCs are following less than user-friendly reporting practices. The listing requirements, as in case of banks, can bring a big change in reporting practices. The stock exchanges and SEBI could exercise significant control over these SFCs. Moreover, capital access from public can increase the availability of funds among SFCs. The increased funds could increase the turnover of SFCs. Improved turnover or business would improve profitability of SFCs. A profitable-company always follows a better reporting than a loss-making unit. Many studies found this correlation between the extent of reporting and profitability levels of corporates. Therefore, capital access from capital markets could play a big role in changing the perception of managers as far-as reporting practices are concerned.
Since significant relation is found between profitability and levels of disclosures, the measures which will improve the profitability could also improve the disclosures. Some such measures are:

1. branch restructuring
2. employees’ training and development practices
3. induction of professional managers
4. timely sanctions and disbursements
5. speedier collection of dues
6. reduction in operating expenses

The study also found significant correlation between the composition of directors and extent of disclosures. The changes in the composition of directors include inducting the professional directors, independent-directors, changing age and qualification, etc. A well qualified and young, independent directors could insist on adoption of sound reporting practices. The State-controlled approach, presently followed in SFCs in India, is responsible for poor disclosure practices. The directors, majority among them, bureaucrats, are nominated by State Governments. Since they are handpicked by Governments, their obedience to State is considered as more important than to investors.

Training - brain storming the mind set of managers and accountants of SFCs can be given a serious thought. It is said poor reporting in SFCs is because managers do not understand what the financial reports are supposed to convey, the needs of the users, etc. This particular mind set has to be changed. This can be done by extending training facilities to managers and accountants of SFCs. This training can be done by ICAI or by SEBI or by a group of big commercial banks. Of course, just one training may not adequate enough. It is
series of sessions that can coax managers of SFCs to understand the significance of reporting practices.

- Governance Code - Corporate governance is the most talked-after thing in corporate world. It speaks of ways and means by which companies are administered and controlled. The transparent financial reporting practices constitute a part of good governance. By using transparent disclosure practices a firm improves its public image. INFOSYS AND WIPRO are hugely popular companies for their reporting practices. The governance code may be made applicable to SFCs. To begin with this code may be made applicable to profitable SFCs or to SFCs with long history of existence. The enforcement of governance among SFCs may be entrusted to a regulator proposed earlier in these pages.

- If amendments to SFCs Act 1951 are difficult, atleast the SFCs Act can be scrapped. This measure seems to be a better option. The SFCs may be converted into companies as per Companies Act, 1956. The conversion will be to the advantage of all. The companies are required to comply with all the provisions of Companies Act, 1956 relating to management, accounts, audit, reporting, filing of documents, governance code, etc. This can be to the advantage of SFCs only.

- Constitution of Audit Committee - Under the governance code adopted in several countries and in several companies, the constitution and role of audit committees have assumed significance. These are the committees with the responsibility of supervising and controlling accounts and audit related aspects. Even the financial reports have to be reviewed by the audit committee before being published or filed. In SFCs, an implementation of this measure,
though less expensive can be a good weapon for the overall improvement of quality of financial reports.

- It is suggested that the guidelines issued by the Accounting Standard Board and the various regulatory bodies should be followed by the companies.
- It is also suggested that companies should make available various annual reports on their web and disclose material information through them. The disclosure of information and the preparation of annual reports should be timely and reliable and ensure transparency.
- All significant accounting policies should be disclosed at one place in the financial statements.
- Changes in financial position should be published.
- Legal status should be given to accounting standards.

  The auditors should disclose the departures from standards, if any, in the audit report.

The presentation of corporate financial reports has undergone vital changes from time to time. It is suggested that in order to make the corporate report more useful to its users, it should include inflation accounting, human resource accounting, social accounting, environmental accounting, value added accounting and the extent of conformity to the accounting standards. (Journal of Accounting and Finance Vol 18 No 1, Oct – March, 2004)

The following table spreads light upon the changes required to design annual report:
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<tr>
<th>Present Annual Report</th>
<th>Future Annual Report</th>
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<tr>
<td><strong>Presentation</strong></td>
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<tr>
<td>1) Over complex and detailed</td>
<td>1) Diversified and focused</td>
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<td>2) Paper based</td>
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<td>3) Standard information</td>
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<td>4) Company controlled information on performance and prospects</td>
<td>4) Information available from a range of sources</td>
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<td>5) Periodic Reporting</td>
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<td>1) Stakeholder focus</td>
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<td>2) Tangibles only</td>
<td>2) Both tangibles &amp; intangibles reported</td>
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<td>3) Financial measures</td>
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<td>5) Company-led reporting</td>
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There are three main challenges to today’s annual report. Firstly, the complexity of financial accounting has made transparency difficult to achieve. Secondly, it has no clear target audience. Thirdly, it fails to cover the true drivers of future value of the company.

The above suggestions if adopted and implemented on timely manner, the quality of financial reporting in state level financial corporations can be improved. An improved financial reporting of SFCs can be a sure bet against all future inadequacies in the management of SFCs and ensure their sustained role in economic development of the concerned State in particular and the nation in general.