CHAPTER-VIII

SUMMARY OF FINDINGS AND SUGGESTIONS

Accounting is primarily concerned with the recording of economic data of a business enterprise and communicating the same to the interested parties. The various interested parties have different types of stakes and interests which give rise to their informational needs with varying degrees, and the purpose of accounting is to satisfy the informational needs of all the parties interested. Disclosure can be defined as a process through which a business enterprise communicates with the external parties. It is the movement of information from internal parties to the external parties. The purpose of financial report, the users of the financial report, the quality and quantity of the information disclosed, the mode of reporting and timeliness in reporting etc.; are some of the factors which affect the disclosure of information in financial statements. Besides these, the qualitative characteristics of financial reporting which include relevance, materiality, understandability, comparability, consistency and reliability also affect the usefulness of financial reporting.

The stakeholders need financial information for making sound economic decisions. Disclosure of financial activity helps an enterprise gain public confidence and investors normally prefer to invest in a company, which makes fair and adequate disclosure than in a company that does not do so. The employees of the organization, the lenders, the suppliers, the creditors, the customers, the financial analysts, the brokers, the underwriters, the stock exchange authorities, the government, the financial press and reporting agencies, the labour unions, the trade associates, etc., also get benefited by these reports.

Public Sector Undertakings (PSUs) have attained the commanding heights of the economy and are influencing the economy to great extent. Public are very much interested to know how the resources are utilized for providing
quality services to all the sections of the society. Therefore, it is the responsibility of the PSUs to give a true and fair view of financial activities of the business to their stakeholders.

The Bureau of Public Enterprises (BPE) and the Institute of Chartered Accountants of India (ICAI) have made a commendable contribution in the field of financial reporting by issuing specific guidelines and accounting standards for the presentation of accounts. The Companies Act, 1956 and other Acts also have made a contribution in the field of reporting and disclosure practices to make the information more reliable.

Against this background, the present study entitled “Financial Disclosure Practices by selected Public Sector Undertakings in India” is a humble effort to provide historical, structural, and quantitative and qualitative analysis of the disclosure practices of selected public sector undertakings in India. For this purpose, the study selected five public sector undertakings viz. HAL, HMT, BEL, BEMIL, and ITI. Using the annual reports of sample units, an attempt is made in the study to evaluate the disclosure practices and their compliance with financial disclosure pronouncements in India.

**Main Findings:**

The major findings of the study are as follows:

**(A) Analysis of Degree of Compliance with Accounting Standards:**

1. Analysis of overall degree of compliance with the financial disclosure practices as pronounced under various ASs by the PSUs reveals that they have complied with the mandatory ASs by 80 percent on an average. However, it is also found that there has been marginal improvement in the degree of compliance by the sample units over the period.

2. Analysis of degree of compliance with the AS-1 reveals that all the PSUs under study have disclosed accounting policies adopted for preparation and presentation of financial statements in their annual reports. But areas
in which accounting policies disclosed vary from one sample PSU to another over the study period. Similarly, the sample PSUs failed to disclose the changes in accounting policy, its effect on financial performance and the changed accounting treatment during study period.

3. Analysis of degree of compliance with the AS-2 reveals that the PSUs under study have made the disclosure of requisite contents like method of valuation, cost formula used, revaluation of inventory etc., which is evident from the numerical value of degree of compliance of 100 percent throughout the study period.

4. It is found in the study that all sample PSUs except HAL, have disclosed the cash flow statement for all years of study and fulfilled the disclosure requirements of AS-3. But HAL failed to disclose in the initial years of study.

5. All sample PSUs under study have made disclosure of information as required by AS-4. But the degree of compliance by HMT and BEML is 50 percent and in case of other sample units, it is 100 percent.

6. All sample PSUs have disclosed information as required by AS-6 and AS-7 and the degree of compliance by all the sample PSUs is 100 percent over the study period.

7. According to AS-9, all sample PSUs under study have disclosed the basis of revenue recognition from sale of goods for all years of study; while other disclosures like basis of revenue recognition for royalty, interest and dividend have not received much attention.

8. The PSUs under study have disclosed the information of gross and net book value of fixed assets, construction expenses and valuation method used for fixed assets. But they have failed to disclose the method and index used to compute the revalued amount of fixed assets. However, the degree of compliance with AS-10 by all sample PSUs during study period is 75 percent.
9. Disclosure of information relating to the effect of changes in foreign exchange rates in accordance with AS-11 has varied among the PSUs under study. Degree of compliance with AS-11 by HMT and BEL is 100 percent, whereas it is 66.67 percent in case other units.

10. Analysis of degree of compliance with the AS-12 reveals that HAL, BEL, BEML, and ITI have disclosed information of government grants; while HMT failed to disclose the same. The degree of compliance with AS-12 by four sample PSUs is 100 percent but, in case of HMT, it is zero.

11. Only two sample PSUs (HMT and BEL) have disclosed information relating to Accounting for Investments as per AS-13. However, the degree of compliance with this standard by these two units has been only 25 percent and 75 percent respectively. But other sample units have failed to disclose the information as required by the standard, which is, manifested by zero degree of compliance throughout the study period.

12. Analysis of degree of compliance with the AS-12 reveals that all the sample PSUs under study have disclosed the information of accounting method and cost method used for retirement benefits as required by the standard. But have failed to disclose the actuary report and actuarial report during study period.

13. BEL and BEML have made disclosure of accounting policy adopted in respect of borrowing cost as per AS-16 and HMT and ITI have disclosed the accounting policy adopted and the amount of borrowing cost capitalized during later years of study (i.e. for 2001-02 and 2002-03). But HAL has failed to disclose information in accordance with AS-16.

14. As far as AS-17 is concerned, only two PSUs (i.e. and BEML) have disclosed segment information. But BEML made disclosure for 2001-02 and 2002-03; while HMT for the year 2002-03 only.

15. Related party disclosure as per the AS-18 is made by all sample PSUs except ITI, for last two years of study i.e. for 2001-02 and 2002-03; while ITI has made disclosure for the year 2002-03. None of the sample PSUs has made disclosure for initial years of study.
16. AS-19 i.e., Accounting for Leases is adopted by HAL and BEL from the year 2001-02 and by ITI and HMT from the initial years of study. But BEML has not adopted this AS. And the degree of compliance by HAL and BEL is 100 percent; while by ITI and HMT, it is 50 percent.

17. Four PSUs under study have adopted the AS-29 from the year 2001-02 except HAL. Similarly, the degree of compliance with AS-20 by BEL and ITI is 100 percent for 2001-02 and 2002-03 and by HMT and BEML for 2002-03 is also 100 percent.

18. Three PSUs (i.e., BEL, BEML and HMT) have disclosed information in accordance with AS-21, but the degree of compliance has varied from one unit to another. HMT disclosed full information as required by the AS for two years of study i.e. for 2001-02 and 2002-03 and BEL for 2002-03; while BEML disclosed only the list of subsidiaries during study period.

19. AS-22, i.e., Accounting for Taxes on Income, is adopted and disclosed by all the PSUs during the last two years of study and, the degree of compliance by HAL and BEL is 100 percent, but in case of others, it is 50 percent.

20. Information on Accounting for Investments in Associates in Consolidated Financial Statements as per the AS-23 is disclosed by HMT only for the year 2002-03. Other PSUs have not made any disclosure over the study period.

(B) Analysis of Degree of Compliance the Financial Disclosure Pronouncements made by the Companies Act, 1956, and other Statutory Bodies:

21. The PSUs under study have been scrupulously adhering to the format of Profit and Loss account as spelt out under section 211 of the Companies Act, 1956 for preparing their profit and loss account during study period.

22. Analysis of information contents in the Profit and Loss Account also reveals that the PSUs under study have complied with the legal provisions as enumerated under section 211 relating to the disclosure of different items in the Profit and Loss account.
23. Analysis of adherence to the format of Balance Sheet as provided under section 210 of the Companies Act, 1956, indicates that the units under study have complied with this provision without any departure.

24. Analysis of disclosure of different items in the Balance Sheet as spelt out in the format of the Balance Sheet with the help of ANOVA manifests that there is no significant variation between the groups, though there is significant variation within the groups over the period.

25. Analysis of disclosure of the different items in the annual report by the PSUs with the help of ANOVA points out that there is no significant variation in the disclosure of different items of information in the annual report between the groups, though there is significant variation within the groups over the period.

26. Analysis of the contents of Directors' Report as per section 217 of the Companies Act, 1956, with the help of ANOVA technique reveals that:

   (a) there is significant variation in the disclosure of items relating to the financial review and dividend in the Directors' Report not only between the groups but also within the groups;

   (b) there is no significant variation in the disclosure of items relating to capital structure in the Directors' Report between the groups, though there is significant variation within the groups over the period;

   (c) there is no significant variation in the disclosure of items relating to human resource management in the Directors' Report between the groups, though there is significant variation within the groups over the period;

   (d) there is no significant variation in the disclosure of items relating to subsidiary company, auditors report and company policies in the Directors' Report between the groups, though there is significant variation within the groups over the period; and
(e) there is no significant variation in the disclosure of items relating to other information in the Directors' Report between the groups, though there is significant variation within the groups over the period.

27. Analysis of disclosure of different items of information in the Chairman's speech of the different PSUs under study with the help of ANOVA technique reveals that there is no significant variation in the disclosure of information in the Chairman's speech between the groups though there is significant variation within the groups over the period.

28. Analysis of disclosure of operating and financial information through the statistical devices by the PSUs with the help of ANOVA technique reveals that:

(a) there is no significant variation in the disclosure of items relating to operational review through statistical devices between the groups though there is significant variation within the groups over the period;

(b) there is no significant variation in the disclosure of items relating to assets through statistical devices between the groups, though there is significant variation within the groups over the period.

29. Analysis of disclosure of information through the statement of highlights by the PSUs with the help of ANOVA technique reveals that:

(a) there is no significant variation in the disclosure of items relating to financial and operational performance in statement of highlights between the groups, though there is significant variation within the groups over the period;

(b) there is no significant variation in the disclosure of items relating to assets and other related information in statement of highlights between the groups, though there is significant variation within the groups over the period; and
(c) there is no significant variation in the disclosure of items relating to accounting ratios in statement of highlights between the groups, though there is significant variation within the groups over the period.

30. Analysis of disclosure of information in accordance with disclosure pronouncements by the CBDT, with the help of ANOVA technique, reveals that there is no significant variation in the disclosure of information by the PSUs in accordance with disclosure pronouncements by the CBDT between the groups, though there is significant variation within the groups over the period.

31. Analysis of disclosure of information in accordance with disclosure pronouncements by the BPE, with the help of ANOVA technique, reveals that there is no significant variation in the disclosure of information by the PSUs in accordance with disclosure pronouncements by the BPE between the groups, though there is significant variation within the groups over the period.

32. Though it is obligatory to PSUs, three sample PSUs under study have disclosed the information of social overheads during study period. And all the three have disclosed the information of social overheads as required by the BPE guidelines.

33. Analysis of the disclosure of information in accordance with disclosure pronouncements by the SEBI, with the help of ANOVA technique, reveals that there is significant variation in the disclosure of information in accordance with financial disclosure pronouncements by the SEBI not only between the groups but also within the groups.

34. None of the sample PSUs has adopted social accounting practice and has prepared social income statement and social balance sheet during study period. But, as far as inflation accounting is concerned, only one sample PSU (i.e. HAL) has adopted CCA method for preparation and
presentation of financial statements to depict the true value of the unit to the stakeholders during study period. Similarly, it is the only one unit that has reported value added statement in its annual report during study period. But other sample PSUs have failed to adopt these two methods of accounting during study period. And none of the sample PSUs has followed environmental accounting during study period.

(C) Corporate Governance and Public Sector Undertakings:

35. Four PSUs (except HAL) under study are providing report on corporate governance as it is made compulsory for all listed companies. Among four sample PSUs, HMT is giving report from 1999-00, BEML and ITI from 2000-01 and BEL from 2001-02 in their annual reports during study period.

36. Four PSUs have met the requirements of Clause 49 of listing agreement of SEBI guidelines in relation to composition of board of directors during the year. It was also found in the study that all sample PSUs held not less than 4 Board Meetings during each year of study and ensured that the gap between two Board Meetings was less than four months.

37. Information about Audit Committee is disclosed by HMT from the year 1999-00, by BEML and ITI from 2000-01 and by BEL from 2001-02. They also ensured that all have fulfilled the minimum requirement of non-executive directors for constituting the Audit Committee. But Audit Committee meetings held during each year of study ranging from one to six.

38. All sample PSUs are government undertakings and fixation of terms and conditions of appointment of directors is made by the Government of India. As such, no Remuneration Committee is constituted by the sample PSUs during study period. But the information relating to remuneration of directors is provided by three sample PSUs (HMT, BEL and BEML) during the last two years of study.
39. Four sample PSUs have disclosed information relating to Shareholders’ Grievance Committee in their report on corporate governance. HMT has disclosed from the year 1999-00, and ITI from 2001-01, BEL and BEML have disclosed from the year 2001-02.

40. Certificate of Compliance of the conditions of corporate governance as per the Clause 49 of the listing agreement is annexed by four PSUs during the last two years of study in the report on corporate governance.

41. Management Discussion and Analysis Report is disclosed by four PSUs in the report on corporate governance during last two years of study. And they also ensured that the report contains the discussion on the aspects as per Clause 49 of listing agreement.

SUGGESTIONS:

1. Scrupulous Adherence to the Guidelines Issued by the ICAI:

   The Guidelines issued by the ICAI, should be followed in letter and spirit. These guidelines may or may not be the mandatory ones but these are definitely useful for the better presentation of accounts. At present, all sample PSUs do follow the mandatory guidelines but overlook the non-mandatory ones, which is not a good practice.

2. Specification of Composition of the Directors’ Report:

   The Directors’ Report is a very useful instrument of information. But the Companies Act, 1956 is vague about the things to be included in the Directors’ Report and as a result, great variation is found in the items disclosed through Directors’ Report. Therefore, it is suggested that the act should be more precise and specific about the things to be included in it.

3. Disclosure of Full Rather Partial Picture of Emerging Issues in Accounting:

   The emerging issues in accounting like HRA, Inflation Accounting, Social Accounting and Environmental Accounting have not been met by all the sample
PSUs during study period. Hence, it is suggested that the sample PSUs should not only disclose these items in their annual reports but also make the stakeholders aware of their importance.

4. Disclosure of Cumulative and Integrated view of ASs Applicable and Complied with over the Period:

The ICAI releasing ASs for the purpose of adoption by the relevant corporate entities from time to time so as to make the financial statements more stakeholder-friendly. In order to provide the full picture of different ASs applicable and complied with right from the year(s) of its/their issuance, the PSUs have to disclose the synoptic view of the following matters in the annual report:

(a) number of ASs applicable to the particular corporate entity,
(b) overall degree of compliance, and
(c) reasons for the degree of compliance being less than 100 percent.

This would help the stakeholders to assess the consistency or otherwise in financial disclosure practices.

5. Penalty Clause for Non-compliance:

After perusal of contents of all the ASs issued by the ICAI, it is found that there is no stipulation as to the course of action to be initiated by the issuing authority, if a particular corporate entity does not comply with such AS. In the absence of such a Clause in the respective AS, the corporate entities are likely to be non-responsive, though the compliance is mandatory. Hence, it is suggested that either a penalty clause is to be inserted in the ASs to be issued henceforth or to bring such clause into effect by way of addendum to the ASs already issued. Further, the same clause may also be inserted by the SEBI, the BPE, and the CBDT for non-compliance with their guidelines.
6. Widening the Scope of Operational and Financial Highlights:

No doubt, corporate entities are providing synoptic view of information relating to operating and financial operations in the form of statement of highlights. Still, there is need for increasing the quality of information contained in such highlights by increasing the quantity i.e. the number of items to be highlighted. In this connection, it is suggested that trend in capacity utilization and its impact on cost and stock levels or sales, percentage change in capacity utilization vis-à-vis, percentage change in production volume vis-à-vis, percentage change in production cost, percentage change in profit, percentage change in gross profit vis-à-vis, percentage change in operating cost, percentage change in operating profit vis-a-vis, percentage change in sale, percentage change in EPS vis-à-vis, percentage change in EBIT, calculated effect of percentage change in sales etc. Such information would go a long way in manifesting the realities relating to value creation process adopted by the corporate entities.

7. Disclosure of Actions Initiated in Respect of Shareholders' Grievances on Corporate Governance:

Corporate Governance stipulates the philosophy about modus operandi of the companies in the larger interests of the stakeholders. Besides disclosing the Shareholders' Grievance Committee Report, it is fair if the actions initiated for the redressal of shareholders' grievances are also disclosed in the form of compliance report.

8. Extension of SEBI Guidelines to Non-listed Companies:

The study reveals that the SEBI's guidelines relating Corporate Governance Report are mandatory only in case of listed companies. Such guidelines are not applicable to non-listed companies. As a result of this, Corporate Governance practices and their disclosures will not be available to the society at large. Hence, it is suggested that even non-listed PSUs must be brought within coverage of the units which are governed the SEBI guidelines.
9. Issue of Additional ASs or Provisions for Emerging Issues in Accounting:

(a) In India, HRA has not been introduced as a system. So far as the statutory requirement is concerned, the Companies Act, 1956, does not require furnishing of any significant information about human resources in financial statements of companies. The ICAI too, has not issued an accounting standard for measurement and reporting of cost and value of human resources of an organization. In the absence of regulatory requirements, none of the sample PSUs has adopted HRA practices. The non-disclosure of the cost and value of human resources in financial statements does not reveal any quantitative information on human resources and the state of affairs is improperly reported to different authorities. Therefore, it is suggested that the regulatory bodies like ICAI and Companies Act, 1956 should make it compulsory on the PSUs to disclose the value of human resources to reveal the true and fair view of state of affairs of the company.

(b) Value Added Statement is a very important document from which stakeholders can know and assess the performance track record over the previous years. But, only one sample PSU has used and disclosed VAS in its report and sufficient recognition in PSUs of India has not yet reached. Therefore, VAS should be considered for mandatory disclosure in addition to income and cash flow statement. Accordingly, the relevant Laws and Acts should be amended. And for listing purposes, stock exchanges in the national as well as regional level should make companies to submit VAS.

(c) A PSU functions in the society and it should be aware of its responsibilities towards its members, government and society in general. To survive in the changing socio-economic and political environment, it should identify the social needs to be satisfied by it as a management concept and the same should be presented in the form of social reporting. In India, there is no legal obligation on PSUs to provide information on social income statement and social balance.
sheet in their annual reports and the guidelines issued by BPE are not
efficient for social accounting practices. Hence, it is suggested that
Government should make it compulsory for PSUs to publish their
social income statement and social balance sheet in a prescribed
proforma along with the annual reports.

10. Due Weightage to Guidance Note:

Although a guidance note is issued on Inflation Accounting by ICAI, it is
recommendatory in nature and does not have much impact on PSUs or users of
financial statements. Hence, a Board of Committee is to be set up by the
Government in which members should be academicians, professional
accountants, representatives of CBDT, Company Law Board, Trade Unions,
Stock Exchanges and Chamber of Commerce, Shareholders, Associations,
Bankers and financers and it should issue a simple CCA method to reveal the
current cost information.

Adequate measures may be taken for the publication of specific indices to
determine the current cost of individual items in the balance sheet. Stock
Exchanges should recommend (amend their existing requirements) that all listed
companies should publish supplementary inflation adjusted data. The BPE
should also give directives for the same. A final standard on inflation accounting
containing a comprehensive system of CCA should be issued. To make inflation
accounting popular, it is recommended that the government should amend the
Companies Act to make presentations and audit of supplementary accounts
compulsory. Finally, the PSUs should also initiative in adoption of inflation
accounting practices as an obligatory requirement.

Hence, it may be concluded by stating that total compliance, in terms of
quantity and quality, with all the ASs already issued or to be issued and also
with the guidelines issued or to be issued by any related statutory bodies or
agencies would go a long way in toning-up the operating and financial health of
corporate entities; which in turn, is quite essential for healthy growth of capital
market in the country.