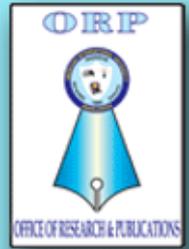


AIUB BUSINESS AND ECONOMICS WORKING PAPER SERIES



Corporate Financial Reporting on Internet: Global Developments and an Appraisal of Practices in Bangladesh

**Md. Abid Hossain Khan, Ahmed Taneem Muzaffar and Abdul Kader
Nazmul**

Office of Research and Publications (ORP)
American International University-Bangladesh (AIUB)

Working Paper No. AIUB-BUS-ECON-2008-25

Citation

Md. Abid Hossain Khan, Ahmed Taneem Muzaffar and Abdul Kader Nazmul (2008).
Corporate Financial Reporting on Internet: Global Developments and an Appraisal of
Practices in Bangladesh. AIUB Bus Econ Working Paper Series, No 2008-25,
<http://orp.aiub.edu/WorkingPaper/WorkingPaper.aspx?year=2008>



June 2008

Copyright © 2008 American International University-Bangladesh
(AIUB)

**CORPORATE FINANCIAL REPORTING ON INTERNET:
GLOBAL DEVELOPMENTS AND AN APPRAISAL OF
PRACTICES IN BANGLADESH**

Authors

Md. Abid Hossain Khan, ACA
Senior Lecturer in Accounting
School of Business
Independent University Bangladesh (IUB)
Chittagong Campus
12, Jamal Khan Road
Chittagong, Bangladesh.
Tel: 88 031 611262 EXT 132
Fax: 88 031 611263
Email: abid9khan@yahoo.com

Ahmed Taneem Muzaffar
Senior Lecturer
Department of Economics
East West University (EWU)
43 Mohakhali C/A, Dhaka 1212
Bangladesh.
Tel: 88 02 9882308, 9887989, Ext 126
Fax: 88 02 8812336
Email: taneemm@yahoo.com

Abdul Kader Nazmul
Assistant Professor
School of Business
American International University-Bangladesh
Tel: 88 02 8815386-7 Ext. 119
Cell:88 0155 2312191
Fax: 88 02 8813233
Email: aknazmul@aiub.edu

ABSTRACT

The use of internet technology for corporate reporting is currently a well-established practice in many countries that have developed securities market. Investors find corporate web sites as a convenient way of collecting financial information of companies.

Corporations also find the internet to be the most prompt and economical means of information dissemination. The practice of corporate reporting on the internet is relatively new in Bangladesh. However, the fast development of securities market in Bangladesh has caused expansion of this practice day by day. The paper investigates the emerging issues of online corporate financial reporting in the global context. It then makes an attempt to provide an appraisal of the current practice of corporate financial reporting on the internet by Bangladeshi companies and tries to provide recommendations in the light of global developments. The research reveals that although many of the issues relating to online financial reporting have been addressed by different standard setters worldwide, they have been overlooked in Bangladesh and some of these issues need particular attention for continued development and further guidance in this area.

Keywords: Financial reporting on internet, Accounting Standards, Institutional Pronouncements, Users expectations, Information dissemination.

INTRODUCTION

The commercial use of the internet has grown at a tremendous pace over the last twelve years throughout the world. “World Wide Web” is recognized as one of the most rapidly growing areas of internet which offers the users the facility to access documents containing text, graphics, sound, and video. The technology is used successfully for various forms of business communication and information dissemination, for instance for the purpose of marketing. In recent years another potential area where it is used is corporate reporting. Lymer (2003) reports that a large number of companies worldwide adopted internet for corporate reporting. This practice is well established in many countries which have developed securities market. Investors find corporate web sites a convenient way of collecting information of companies such as periodic and annual financial statements, press releases, speeches, and product information. Regulators of securities in different countries have permitted the use of internet for corporate performance reporting. The paper makes an attempt to investigate issues relating to corporate financial reporting (CFR) on internet with a special reference to Bangladesh. The aim is to review the global scenario of CFR on the web and explore the proclamations made by different experts and regulatory institutions worldwide in respect of internet based CFR. It then tries to provide an appraisal of the internet based CFR practices in Bangladesh.

Corporate financial reporting on internet is potentially useful for a number of reasons. Both users and producers can access corporate data by using an established network structure at a low cost. Unlike paper versions, an instant access to data at convenient times for users is possible (ICAEW, 1997). Internet provides for a broadcast medium for corporate reports (Parker, 1982). Its presentation flexibility is less constrained

compared to the traditional paper versions (Green and Spaul, 1997). It also enables users to export data for manipulation.

Standard setting bodies across the world are concerned with the issue of global reach of corporate reporting and of jurisdictions of accounting regulations. The Internet offers a potential delivery mechanism to enable standards to operate on a global scale in a way not possible before.

Research Method

Secondary research

In order to examine the present status of the global developments with reference to financial reporting on internet (FRI) we conducted a secondary research by going through relevant articles, working papers, white papers and pronouncements by different professional and regulatory bodies. The information, then, was used to evaluate the Bangladesh scenario with respect to FRI.

Questionnaire survey and focus group discussion

The research attempts to analyze the issues relating to FRI in Bangladesh through focus group discussions (FGD) with different stakeholders and the responses on a structured questionnaire. Initially the research involved FGD with different stakeholders of FRI in order to identify the problems and weaknesses as well as to find possible solutions to the same. The stakeholders include representatives of investors, Securities and Exchange Commissions (SEC), Chittagong Stock Exchange (CSE), Dhaka Stock Exchange (DSE), stockbrokers, IT experts, members of Institute of Chartered Accountants of Bangladesh (ICAB) and Institute of Cost and Management Accountants of Bangladesh (ICMAB). Subsequently a questionnaire was developed and we carried out the questionnaire survey on investors---the regular users of FRI--- with a view to identifying and measuring the extent of the problems. Using 5 point Bi- polar Scale System we measured the opinions expressed. In this scale +3 denotes full agreement, +2 medium agreement, 0 no comment and on the contrary “-“signs indicate the reverse situations on the same scale.

FINANCIAL REPORTING AND ITS USERS

Financial reporting is regarded as an important and effectual means of dissemination of financial information. It is useful because it assists people to answer questions and make better decisions. Financial information is better provided by means of financial reporting other than formal financial statements. Examples include the president’s letter, supplementary schedules in the corporate annual report, prospectus, news releases and management’s forecasts. The demand for information in financial reports regarding business enterprises comes from both outside and inside (Eskew and Jensen, 1996). The users of financial reporting outside the business usually want summarized information in standardized forms and reported at certain intervals. On the contrary, the inside users look for tailored information to help them taking specific decisions and reported at frequent intervals and sometimes produced on the basis of request.

Outside Demand

The principal demand for accounting information comes from outsiders of the business especially capital market participants, governments and to some extent from special-interest groups.

Capital Markets

Capital market plays a vital role in the economy by arranging the investment in business activities. The investors in capital markets need information for the sake of different inspections in which financial reporting has the most importance. Based on this, investors decide whether to invest in a business; in the case of investment made in the past, whether to keep it or sell it.

Government

The regulatory bodies of a country authorized to collect tax need financial reports of companies to determine taxes owed by businesses as well as to implement a variety of regulatory objectives. Sometimes government uses it as a macro planning in formulating economic policy of the country.

Special-Interest Groups

Special-interest groups include labor unions, consumer action groups, consumers, competing businesses, financial advisors and the general public. These outsiders seek information presented in financial reports of businesses as a basis for furthering their own interests. The union uses financial information from financial reports made public by the company in order to support its argument for increased employee wages and benefits. In the same way other groups exploit financial reporting information for serving their own interests.

Inside Demand

The insiders also need accounting information for decision making. The insiders represent two groups – managers and employees.

Managers

Managers need accounting information to control both human and material resources of business and to direct resources to the most promising outcomes of the enterprise. They also use financial reporting information to evaluate the state of affairs of the business and make important decisions relating to different aspects of business having both long-term and short-term impacts.

Employees

Employees, the work force of an enterprise, are simultaneously held responsible for making contribution to the employer's business and plans for their careers. Employees use financial information received from various sources to determine the extent of their input required for the improvement of the business and thereby strengthening their own positions. Moreover sometimes they are found assessing the security of their current position and the potentiality based on the scenario depicted by financial reporting.

MODES OF FINANCIAL REPORTING ON INTERNET

Companies throughout the world use different computer software for financial reporting purposes. Amongst the technologies are Microsoft Word and Microsoft Excel which were previously used to distribute and exhibit financial as well as other forms of information through Internet. The major technologies currently employed in internet financial reporting are HTML (Hypertext Markup Language) and Adobe Acrobat. Very recently, an exclusively new technology, XBRL (extensible Business Reporting Language) has appeared to be most effective and has gained acceptance as a unique computing language with seamless fashion in developed countries of the world.

MS Word and MS Excel

Microsoft Word and Microsoft Excel are two widely used application software developed and marketed by Microsoft. Some companies structure their financial information on their websites in Microsoft Excel spreadsheets or comma-delimited text files. These types of files can be imported into the database of the receiver's system for further processing. These formats imply great potential benefits especially for financial analysts by transferring financial data to their own financial indicators. However, common attributes that characterize information on the websites like hypertext and user friendly visualization of data are neglected. Moreover, credibility and authenticity of financial information is quite impossible to ensure because the downloaded files can be manipulated before use and digital signature of concerned authority is not possible.

HTML

Most of financial information dispersed through websites of corporations is presented using the Hypertext Markup Language (HTML). HTML documents consist of text, graphics, and formatting information. There are also hyperlinks that point to other documents for further and detailed information. Although hypertext structure of HTML derives great advantages, it has deficiency concerning the exchange of structured data. The data is not at all structured or indexed by specifying semantic elements so as to enabling the receiver's computer processing data automatically (Westarp, Ordelleide, Stubenrath, Buxmann and Konig, 1999).

Adobe Acrobat

Many companies offer financial information in downloadable format known as Portable Document Format (PDF). PDF documents are independent formats written by Adobe's Acrobat software, which retain original fonts, colors, formatting and images on multiple computer platforms. To view, navigate, and print a PDF document the Adobe Acrobat Reader is necessary. Adobe Acrobat has many advantages in presentation of accounting information. The information comes as a package, and is identical to the printed version since fonts, colors and images are embedded. Further, it provides technical solutions for signing the reports electronically and new versions of PDF allow hyper linking of text. The advent of Acrobat provides solutions to some of the problems that exist in earlier modes of FRI.

It can, however, be argued that a long-term solution to Internet financial reporting cannot be made by Acrobat. Some important plausible fundamental advantages of Internet based information distribution are missing in PDF documents. Downloadable files are generally too large and automated extraction of semantic meaning from the reports is impossible (Westarp, Ordelheide, Stubenrath, Buxmann, and Konig, 1999). Furthermore, and even more important, PDF does not enable further automated data processing.

XML and XBRL

XBRL is a freely available electronic language for financial reporting. It is an XML (eXtensible Markup Languages)-based framework that provides the financial community with a standard-based method to prepare and publish financial statements in a variety of formats and automatically exchange the information they contain (Richards and Smith, 2004). XBRL is not about establishing new accounting standards but enhancing the usability of the ones that we have through the digital language of business. XBRL will not require additional disclosure from companies to outside audiences.

The official website of XBRL states that it, at least at first, will be used to digitally published financial statements of companies that are issued to external users. An XBRL-based financial statement is a digitally enhanced version of paper-based financial statements, which include the balance sheet, income statement, statement of equity, statement of cash flows, and the notes to the financial statements as well as the accountant's report. "XBRL for Financial Statements" enables a dramatic improvement in the processing of financial reports. XBRL documents can be prepared efficiently, exchanged reliably, published more easily, analyzed quickly, retrieved easily by investors, and enables smarter investments

XBRL solves two significant problems through efficient preparation of financial statements in many forms and reliable extraction of specific detailed information from the different forms of financial statements (Debreceeny and Gray, 2001).

The first problem is that preparing a financial statement for printing, for a Web site, and for filing today means that a company could typically enter information three times. With XBRL, information will be entered once and the same information will be "rendered" as a printed financial statement, an HTML document for a Web site, an EDGAR filing file, a raw XML file, or a specialized reporting format such as periodic banking and other regulatory reports (Richards and Smith, 2004).

The second problem is that today, extracting specified detailed information from an electronic financial statement is a manual process. For example, a company cannot tell a computer program to "Get the depreciation expense for 1999" from an electronic financial statement. If a financial statement is prepared using XBRL, computer programs can easily extract every piece of information in that statement. This also includes Web browsers on the Internet.

XBRL and XML can derive optimal benefit to various participants in the financial information supply chain, such as companies who prepare financial statements,

analysts, investors, regulators, financial publishers, data aggregators, Independent Software Vendors etc.

TABLE 1: BENEFITS OF DATA PRESENTATION FORMATS

	Hypertext	Information retrieval	Further automated processing
PDF	•		
Excel		•	•
HTML	•	•	
XBRL and XML	•	•	•

Source: Westarp, Ordelheide, Stubenrath, Buxmann, and Konig (1999)

The table 1 shows that all the benefits can be derived only from XBRL and XML.

ASPECTS OF FINANCIAL REPORTING ON INTERNET

Financial reporting on internet has evolved facing difficulties since the use of internet for commercial purposes. Different aspects have been found in the course of development of financial reporting on internet through out the globe. The following major issues have been brought to focus.

The Extent of Information on Internet

Generally three stages of corporate reporting are observed on Internet used by the corporations. In the first stage, through Internet, corporations distribute their printed reports, in most of the cases annual reports only in HTML (Hyper Text Markup Language) or Adobe Acrobat Format. In the second stage, the information of the corporations is found in such a form so that it can be promptly interacted by web search. In the third and most effective stage, the corporations provide enhanced and complete information in such a way that it involves least cost and creates opportunity to analyze data, which is not possible in printed form (Ettredge, Richardson. Scholz, 2000). HTML and Adobe Acrobat are the main two technologies, which are being used in developing FRI. When the proportion is considered, reporting in Acrobat format is being practiced to a larger extent in comparison to HTML. The contents of information found in FRI through Acrobat is identical to the printed reports where as the presentation of financial reports in HTML, XML or XBRL is made to a greater extent.

Many corporations are found to develop web sites to facilitate existing and potential investors with wide and useful corporate information. Low cost involvement and wide spectrum of information made the corporations intended to build investors sites containing different types of updated information, such as, annual reports, quarterly reports, press releases, product information, stock/share position, management information and many others.

Users Access to FRI

Presentation of financial reports in any format must ensure the user access effectively so that it enables them to retrieve required information in convenient means. Users

access the online reports in different ways. Sometimes they are found entering directly the corporation's web site and follow the link towards Internet financial reporting or they just follow the link titled 'investor relations' that allows the access of variety of information through interlinks. Other times, using search engine such as Google.com or Yahoo.com, the users navigate directly to one of the pages of the corporate web site that contains useful information for the user. In other cases the users take access to the required information on third-party web sites when the third-party web sites work as information intermediaries for cost free or on subscription to corporate database. Now, it has become inevitable to find the realistic solution for prompt and safe access considering the ways in which users take access to the desired information in the web sites relating to FRI by search engines (Ashbaugh, Johnstone, Warfield, 1999). Assurance is required to be provided to the users as to not only the completeness of information but also on the status and authenticity of the reporting.

Extraction of Information

Another important aspect is the extraction of information by the users from the Internet financial reporting. With Adobe Acrobat when information is extracted, it is not found in the way as it is in the traditional print format. Moreover, the information after printed out needs to be entered into the system for further process for analysis. Most of the cases when the audit report is provided, it is kept in a separate place in the database rather than forming an integral part of the information. Ettredge, Richardson, and Scholz (2000) states that a further complexity may arise when the corporations increasingly provide alternatives or supplements to the information using dynamic interaction with the web sites rather than static presentation of information.

The abovementioned problems cause the users interrupted, inaccurate and high-priced transmission of information in financial reporting on Internet. It is required to be eliminated as far as possible since financial information plays a key role in analysis for various purposes by diversified users and reporting on different aspects of corporations. Currently XBRL based Internet financial reporting has been recognized as the ultimate means to the solution of the existing problems. Some possible solutions to the issues of user's access to the reporting web sites and the extraction of information from the database by using XBRL have been discussed in section 5.4.

Scope of Audit

Lymer (2003) states that since the reporting activity diverts from paper-based to online reporting, the role of external auditors needs to be changed. In a paper based reporting environment the extent to which auditors are required to specifically examine other information is limited to that produced as a part of the package of the annual report (Debreceeny and Gray, 1999). As financial reports deliver only a small part of the corporate web site, manipulated presentation of information may take place for which the auditors may be held liable primarily. Therefore, determination of external auditor's responsibilities becomes difficult.

The corporations should use some indications in their web sites to remind the users regarding the audited information they are viewing. In addition it has become imperative to broaden the range of information to be audited by the auditors where the corporation distributes financial and performance reflecting information through reporting on Internet, such as Director's Report and Operating and Financial Review (OFR). It will make the companies confident to release more detailed useful information as these would be audited and the ultimate benefit would certainly go to the users. The more the practice of Internet-based financial reporting grows up, the more is the increase in the auditor's responsibility. It is necessary to redefine the extent and depth of information to be reviewed by the auditor in the context of internet reporting.

INSTITUTIONAL PRONOUNCEMENTS ON FINANCIAL REPORTING ON INTERNET

In spite of rapid expansion of financial reporting, web sites show wide variations both in terms of the amount of content and style of presentation. The variations in web based financial reporting between companies are so extensive that it creates an impression of absence of rules for financial reporting on the web. Necessary experimentation is desirable in this stage for ensuring the harmonized shape of FRI for future. Following is a review of recommended guidelines issued by different organizations at different times in respect of FRI with a view to finding solutions to the relevant problems in the context of Bangladesh.

International Accounting Standards Committee (IASC)

The International Accounting Standard Committee commenced the progress of this subject by issuing an extensive discussion paper titling 'Business Reporting on the Internet' in November 1999 (IASC, 1999). This paper involves a survey of some 660 company web sites in 22 different countries. It also sets out a recommended standard for the presentation of financial reporting based on recommendations issued by Toronto Stock Exchange and the French securities market regulator. Recommendations cover subjects such as referencing multiple online files. Multiple GAAP reports, the completeness of data, the use of International Accounting Standards (IASs), the presentation of extracts from financial statements, the presentation of financial statement components, currency conversions, language translations, accessibility, security and errors. Moreover, a long term project to meet the need for more specific accounting standards and amendments to existing standards related to release of reporting information electronically is taken.

The proposed code inevitably included the elements relating to the audit of Internet Financial Reporting. The coherent roles of the auditors have been established in the proposal in making clear on which information reported in the web site they take responsibility for ensuring the web site, outlining areas where the reporting entity has deviated from the code of conduct and monitoring the changes and developments in the corporate web site. Such monitoring role of the auditors would enhance the quality of the web site and ensure the credibility of the information disseminated to the investors.

Institute of Chartered Secretaries and Administrators (ICSA), UK

A consultative document (ICSA, 2000) on electronic communication has been produced by the Institute of Chartered Secretaries and Administrators of United Kingdom works as guidance for companies. This paper discussed extensively the procedure to develop a full-fledged electronic communication system for the companies so as to distribute data to their shareholders. It asserted some alternatives which suited better to online presentation of corporate financial information.

The document suggests that the home page of company's web site should include a direct link to the package of statutory and financial information that is required to make open for public. Thus, it suggests the best practice through which the corporations can make financial information easily available to the shareholders and other interested parties through Internet.

The IASC recommends that in order to avoid confusion in the information presented, hyper-linking of information should be done carefully. The links should be placed in the web site to reduce the risk. The paper also suggests that by applying any method audited information and verified data are required to be differentiated from un-audited information.

Accounting Standards Board (ASB), UK

As a part of its 'Year-end Financial Reporting Project' Accounting Standard Board (ASB) of UK published a discussion paper in February 2000. This paper emphasized on release of summary data after year-end and before production of full form of annual reports. Complete and audited statements will appear on the web site at a later date.

The ASB paper recommended for further regulation to regulate the releases of the data online by the corporations. The paper also addressed critical issues regarding inconsistency and misunderstanding and asked for special consideration of auditors to ensure the reliance and credibility of the information received by the users.

The work of the discussion paper was being carried out by the ASB at the same time when review of UK Company Law was in process and the ASB released to the working group the consequential amendments of Company Law in detail in conjunction with its discussion in the paper. Inserting the references, the white paper on Company Law review acknowledged the significance of developments in Internet based financial reporting for future financial reporting framework.

Financial Accounting Standard Board (FASB), US

In the progress of the project undertaken on Business Reporting, FASB made statements on different aspects of Internet based corporate reporting. The first report issued under this project, *Electronic Distribution of Business Information* (FASB, 2000), emphasized on the integration of disclosed information on Internet with information issued in other formats. This report also addressed the issue of timeliness and completeness of the information disclosed in electronic means.

This report shows concern for the risks that may arise due to inappropriate hyper-linking of information from different sources of which the auditors should be aware. It argues that, since it is not possible to insert information in Internet financial reporting in the same way it is found in the printed annual reports, natural contextual link between the information may not be appropriate.

Institute of Certified Public Accountants of Singapore (ICPAS)

In 2001 the ICPAS has published a discussion paper (ICPAS 2001) on electronic filing and reporting of business information. In this paper, web-based financial reporting has been regarded as cheaper and easier than financial reporting on paper. They have necessarily addressed the importance for adoption of a framework for electronic filing and of business financial information to the public and other mandated disclosure and filing to government agencies. The paper stressed that all elements of the financial reporting supply chain, such as corporations, the government, accountants, auditors, information intermediaries and the general investors would be able to exploit the reusability of reports. The paper envisaged that XBRL based on XML would be used for a range of regulatory and information filings as well as required and voluntary financial disclosures by corporations.

Securities Market Regulators

In many countries the security market regulators issue the primary regulations related to release of corporate reporting data by the companies listed with stock exchanges. In fact these regulatory bodies are the first to show concern and create regulations directly to control distribution of corporate data through Internet. The French Securities Regulator, Commission des Operations de Bourse (COB) and Toronto Stock Exchange (TSE) were first to make important announcements regarding web based corporate reporting. Subsequently after realization of the magnitude, other stock exchanges and security market regulatory bodies of different countries commenced to follow them. COB and TSE released proclamations on general issues of information quality, credibility and availability. The COB also expressed the necessity of the development of specific audit guidelines for Internet financial reporting (COB, 2000). They are found concerned about the distribution of false information via web sites and other electronic means.

EVALUATION OF INTERNET BASED FINANCIAL REPORTING IN BANGLADESH

Bangladesh is a developing country where the use of internet has evolved for the last twelve years at large. Initially the internet was used mainly for the purpose of sending and receiving emails but the use has been diversified in areas such as dissemination of information and e-commerce. The practice of corporate reporting on the net is rather new in Bangladesh dating back to about five years. However this practice by the corporations has been expanding day by day, partly due to the fast development of the securities market in Bangladesh. In terms of compliance of standards and appropriate technology implementation in corporate reporting, Bangladesh is yet to become fully developed and to offer a well-defined structure.

Among the companies using the net for corporate reporting purpose, the pioneers are the companies under Beximco Group. Corporate reporting was initially confined to mostly non financial information such as product and marketing related issues while financial information has become an integral part of the contents of the companies' websites in recent years.

We performed a search on the World Wide Web using a combination of knowledge of websites and search tools to discover the homepages (main web sites) of the top 30 companies on the Chittagong Stock Exchange (CSE) out of A and B categories. A and B categories include first and second class companies, the segregation of which is made by CSE considering the performance in terms of dividend percentage, compliance of securities related rules and other capital market parameters. The research reveals that 12 (40%) of the top 30 companies in Bangladesh at present have websites for the purpose of promoting their businesses. The question arises whether the practice is efficient enough to be characterized as a new kind, to support the needs of different groups of participants. In the following the research attempts to analyze in detail the current content, security, and presentation standards of FRI in Bangladesh.

Review of Content

Typically financial reporting is performed by the companies through publication of annual reports. The content of printed annual reports is nationally standardized by the accounting standard setters which are Securities and Exchange Commission (SEC) and The Institute of Chartered Accountants of Bangladesh (ICAB). But the content of digital annual report is not yet nationally standardized by the concerned bodies. Therefore, the contents of digital annual reports are not similar for all companies. Table 2 shows the contents of reports of sample companies presented on their websites.

Table 2: Attributes of Financial Reporting Websties of Bangladeshi Companies.

Attributes	No.	%
Chairman's Message	10	83
Corporate Information	12	100
Board of directors and officers	9	75
Customer Profile	7	58
Employee profile	1	8
Corporate Citizenship -		
None	4	33
Social	7	58
Environmental	0	0
Social and environmental	1	8
Financial highlight summary	10	83
Auditor's report -		
None	6	50
Signed	6	50
Not signed	0	0
Management report or MD&A	7	58
Balance Sheet	9	75
Income Statement	9	75
Cash Flow Statement	8	67
Statement of Shareholders' equity	6	50
Notes to the financial statements	6	50
Segment report	5	42
Proxy statement	5	42
Financial ratios -		
None	7	58
In context only	0	0
tables and in context only	5	42
Vision statement	11	92
Consolidated statement of operations	5	42
Quarterly statement	0	0

Source: *Internet Survey*

The above table shows that 75% of the companies having website disclose financial statements on internet. The remaining 25% companies have their websites but they do not disclose major financial information through the websites. It is also observed that the contents of digital annual report of the companies often differ from the contents of the printed report.

Review of Security

Since authenticity and integrity problems arise in the case of digital documents, a digital copy of a financial report with full information cannot be considered as equivalent to the printed report. Paper is a static medium. The printed version of an annual report with an auditor's signature guarantees the authenticity and integrity of the information which is found absent in the digital documents. The practice shows that auditors' reports and signatures are copied to the corporations' websites. It is also found impossible to be sure that digital version of any annual report found on the web is identical to the printed version of the same. Since in accordance of security status of the corporate websites changing the document is allowed, it is arguable that

the manipulation of digital information is possible and even the homepage and the “www” address could be provided by another entity. Digital financial reports encrypted with the auditor’s digital signature could not be found on any of the sample homepages.

Review of Presentation

A digitally distributed annual report can meet the same acceptance of its printed version when the authenticity and integrity of the information are secured. The presentation mode can derive importance if it can provide added advantages like easy and swift access to the data via Internet, facilitation of information retrieval and further processing. These finally result in reduction in cost and time both for the corporations and the users. Table 3 shows the mode of presentation used by Bangladeshi companies for web-based financial reporting.

TABLE 3: PRESENTATION MODES OF FINANCIAL INFORMATION ON BANGLADESHI COMPANIES’ WEBPAGES

Mode of Presentation Format	Percentage
Processable Format e.g. MS Word or MS Excel	0%
PDF (Adobe Acrobat Format)	80%
HTML	20%
XML or XBRL	0%

Source: *Internet Survey*

From the above table it is understood that most of the companies having websites (80%) present financial information in PDF format. On the web pages examined none of the PDF formatted annual reports were found hyper-linked. Further PDF does not allow automated processing of information.

The table further shows that only 20% of the companies having website present financial information by using HTML. These HTML documents consist of text, graphics and hyperlink to other documents for more detailed information. But the data included are not encoded to be processed automatically by the user’s computer. Lastly the table shows, XBRL which has reached its growth stage worldwide as a technology product in FRI, has not been initiated yet in Bangladesh.

PROBLEMS AND RECOMMENDATIONS

The pattern of FRI has become a topic of debate in many countries. Globalization and growth of multinational enterprises have led to increased importance of international debate as well. While continuous discussion and research are carried out to define the possible role of internet in the financial reporting domain, adequate awareness is not observed nationally in Bangladesh.

Based on the analysis performed in the preceding section regarding the present scenario of the financial reporting practices of Bangladeshi companies on internet, it is evident that a number of problems prevail in it and demands significant consciousness and timely solutions to the problems. The paper attempts to uncover

the prevailing problems by critical scrutiny of responses made in questionnaire survey and focus group discussion (FGD).

Users Expectation Gaps

The questionnaire survey finds that almost all the respondents who are the regular users of financial information, visualize internet as one of the flourishing means of corporate financial reporting. 73% of the respondents have Internet access considering both permanent and casual types and around forty percent of the same seldom browse corporate websites for financial information. Against this backdrop, the research interest was to identify the problems through learning the attitudes of the respondents towards FRI in Bangladesh. Table 4 shows the opinion expressed by the respondents regarding the factors relating to FRI.

TABLE 4
OPINIONS OF SAMPLE RESPONDENTS REGARDING FINANCIAL REPORTING ON INTERNET

Variables Considered	Average Scores	Remarks (T-test Result)
In current era Internet can be an effective vehicle of financial information dissemination	2.19	Insignificant
Information of financial reporting on corporate websites is not reliable and credible	2.15	Insignificant
Contents of corporate financial reports on Internet found on web are not sufficient to meet the quest	2.10	Insignificant
Information presented in financial reports on Internet does not include all that found in its printed version thereby undermine usefulness	1.93	Insignificant
Companies do not post financial information on their websites maintaining punctuality	1.90	Insignificant
Retrieval of financial data from corporate websites is not always cost effective	1.76	Insignificant
The listed companies do not disclose the market position of their securities on regular basis	1.82	Insignificant
Layouts followed by the companies in Internet based financial reporting are not homogeneous and consistent	1.90	Insignificant
Forecasting on financial position and managements future plan are not the integral parts of information contained in corporate websites	2.12	Insignificant
Total	1.98	Insignificant

Source: *Field Survey*

Table 4 reveals that the aggregate overall score of the opinions of the sample respondents regarding inaptness of FRI in fulfilling the contentment of the users of

financial reporting is 1.98 and the range of score is from 1.76 to 2.19. From table 4, it is evident that FRI presently practiced in Bangladesh is not apposite. The issues that are felt responsible for expectation gaps have been addressed below.

Reliability

Financial information is reliable to the extent that it is verifiable, is a faithful representation and is reliably free from error and bias (Keiso, Weygandt, Warfield 2002). Due to lack of certification of official authority on whom responsibility are conferred, corporate websites in Bangladesh cannot be regarded a reliable source of financial information. Trustworthiness of FRI can be met when it is accompanied by digital signature of responsible authorities. For example auditors' report should include auditors' digital signature and directors' report should comprise digital signatures of representative directors.

Contents of Report

Financial reports on website of all the sample companies are found to have smaller contents than their printed form which makes it of little use for the investors. FRI should contain full set of information with predictive value and feedback value so as to be relevant for decision making by users. FRI is required to be formatted in such a way that any user is allowed to explore distinct information in database through hyperlink.

Usefulness of data

Investors require financial data from financial reports with a view to analyzing them and thus facilitating investment decisions. That is why investors like to be acquainted with such format of FRI that will allow them to retrieve information readily useable for further analysis. This facility is not provided at present because all companies use Acrobat and HTML in FRI. This problem can be solved by inducing business enterprises to adopt most modern technology, XBRL which allows to download any precise information with adequate details.

Timeliness

Timeliness is a primary ingredient of financial information. For financial information to be relevant it must be presented on a timely basis, otherwise it would be much less useful for decision-making purposes. It is obvious that user's expectation encompasses prompt release of financial reports, especially all types of price sensitive information on corporate websites.

Cost Effectiveness

Too often, users assume that information is a cost free commodity. They weigh cost of providing the information against the benefits that can be derived from using the information. In order to justify, the benefit perceived to be derived from using the required information must exceed the costs perceived to be associated with it. Companies should provide financial information on their web in various useful formats considering expectations of different user groups.

Market Position

In Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE), the companies enlisted their securities are graded based on a number of criteria. Such market positioning is not found in a corporate web site when the company suffers with its position. The users demand fair information on the position of corporate securities in the capital market. This expectation can be fulfilled by making own security positioning disclosure in FRI of the listed companies mandatory.

Comparability and Consistency

The user's expectation reveals that information about an enterprise is more useful if it can be compared with similar information about another enterprise and with similar information about the same enterprise at other points in time. Such attribute on FRI is absent because companies do not follow a uniform presentation of financial data on the web. To ensure comparability and consistency of FRI, corporations must adhere to "Bangladesh Accounting Standard (BAS) 1: Presentation of Financial Statements".

Forecasting and Future Plan Projection

Most of the investors want companies to post their future plan and other such projections on the FRI thus helping them in making investment decision. However the experience of the investors suggests that there is a gap between forecasting and its implementation by a limited number of companies which exhibit related information on the web. In order to aid the decision making process of the investors, forecasting by the listed companies may be made mandatory on a regular basis subject to disclosure of implementation of preceding projections.

Inadequate Technology

The technology applied in Bangladesh by the companies for FRI is not adequate and pragmatic. Since XBRL is able to optimize the utility of FRI, it has been globally recognized as the most effective technology to report financial data on the net (Poon and Li, 2003). Therefore it may be suggested that Bangladeshi companies should adopt this technology in order to keep pace with the global developments.

Lack of Professional Apprehension

In the developed countries, such as The United States, professional bodies release pronouncements regarding FRI that contributes to the development in the internet based financial reporting. Such practice is not a part of activities of the local professional bodies namely The Institute of Chartered Accountants of Bangladesh (ICAB) and The Institute of Cost and Management Accountants of Bangladesh (ICMAB).

Unregulated Environment

FRI in Bangladesh is emerging in such an environment which is not being regulated by SEC. Being the supreme regulatory authority and preserving the power to enact laws, SEC should promulgate a separate Rules to make FRI mandatory for listed companies and to regulate Internet based financial reporting of the same. The responsibility may be conferred to DSE and CSE to ensure the compliances of such Rules by the companies listed with them. In this connection, reconciliation between DSE and CSE is obvious when any listed company is found in default in compliance of the relevant Rules. In addition, a permanent consultative committee under SEC may be formed to monitor FRI practice by the listed companies of Bangladesh and suggest necessary alterations in the Rules of FRI in order to make it pragmatic.

Undefined Auditor's Role

Various auditing standards bodies of countries around the world have recognized the need for precise guidance to auditors on the implications of FRI. They have made pronouncements that felt considerably short as a response to the challenges that arise from current Internet reporting technologies (Debreceeny & Gray 1999). On the contrary, current FRI practices has failed to draw attention of ICAB that is generally recognized as the local auditing standards body of the country. In addition to conventional responsibilities, ICAB ought to move forward to clearly determine the role of auditors in respect of reporting and attesting financial information on corporate websites.

CONCLUSION

Since existing financial reporting rules apply equally to the financial reporting on the web, the wide range of variation observed in web based financial reporting in Bangladesh would probably draw one to conclude that some companies are violating the existing financial reporting regulations. Companies however, should not be discouraged from web based reporting. The research shows that albeit many of the issues relating to online financial reporting have been addressed by different standard setters world wide, they have been overlooked in Bangladesh and some of these issues need particular attention for continued development and further guidance in this area. Regulatory authorities and professional bodies have a public responsibility to ensure most effective and efficient distribution of financial data through Internet.

REFERENCES

Ashbaugh, H., Johnstone, K. M., and Warfield, T.D., (1999), "Corporate Reporting on the Internet", *Accounting Horizons*, Vol 13, No. 3, pp 241-257.

COB, (2000), *La COB lance une consultation publique sur un projet de recommandation Internet*. Paris: Commission des Operations de Bourse.

Debreceeny and Gray, (2001), "The Production and Use of Semantically Rich Accounting Reports on the Internet: XML and XBRL", *International Journal of Accounting Information Systems*, vol 2, no 1, pp 47-74.

Debreceny, R. and Gray, (1999), 'Financial Reporting on the Internet and the External Audit', *European Accounting Review*, 8, 2, pp: 335-350.

Eskew, Robert K. and Jensen, Daniel L., (1996), *Financial Accounting*; 5th Edition, McGraw-Hill, New York, pp: 4

Ettredge, M., Richardson, V. J., and Scholz, S., (2000), "The Presentation of Financial Information at Corporate Web Sites", *International Journal of Accounting Information Systems*, Vol. 2, No. 1, pp 1-21.

FASB, (2000), *Business Reporting Research Project: Electronic Distribution of Business Information*. Norwalk: Financial Accounting Standard Board.

Gray, L., (2004), "Financial Reporting on the Internet – Instant, Economical, Global Communication", <http://www.ifac.org/Library/SpeechArticle.tmpl>

Green, G. and Spaul, B., (1997), "Digital Accountability", *Accountancy*, May, p.p. 64-65.

IASC, (1999), *Business Reporting on the Internet*. London: International Accounting Standards Committee.

ICAEW (1997), "Added-value Professionals – Chartered Accountants in 2005", *Consultation Document*.

ICPAS, (2001), *A proposal for Electronic Filing and Reporting of Business Performance Information*. Singapore: Institute of Certified Public Accountants of Singapore.

ICSA, (2000), *Electronic Communications with Shareholders: A Guide to Recommended Best Practice*. London: Institute of Chartered Secretaries and Administrators

Keiso, D. E., Weygandt, Jerry J., and Warfield, Terry D., (2001), *Intermediate Accounting*, John Wiley & Sons Inc. , New York, Tenth Edition, pp:38.

Lymer, A., (2003), "The Auditor and Corporate Reporting on the Internet: Challenges and Institutional Responses", *International Journal of Auditing*, Volume 7, p.p. 103-120.

Parker, L., (1982), "Corporate Annual Reporting: A Mass Communication Perspective", *Accounting and Business Research*, Autumn, p.p. 279-286.

Poon, Pak-Lok., and Li, David, (2003), "Internet Financial Reporting", *Information Systems Control Journal*, Volume 1, pp: 16-29.

Richards, J., and Smith, B., (2004), "An Introduction to XBRL", *Working Paper*, pp: 2.

Westarp, W., Ordelheide, D., Stubenrath, M., Buxmann, P., and Konig, W., (1999), "Internet-Based Corporate Reporting-Filling the Standardization Gap", *Proceedings of the 32nd Hawaii International Conference on System Sciences*.

Web sites:

Chittagong Stock Exchange - www.csebd.com

Dhaka Stock Exchange - dsebd.org

Securities and Exchange Commission, Bangladesh - www.secbd.org