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**ONLINE ELECTRONIC
FINANCIAL REPORTING:
PRACTICES AND ISSUES**

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Abstract

Paper-based (hard copy) annual reports have been the traditional instrument for the distribution of corporate financial information. The development of the Internet, providing electronic and online reporting, allows for the improvement of corporate communication with shareholders and other stakeholders. It also raises many issues, which challenge regulators and the accounting profession.

This paper examines the extent of online financial reporting by New Zealand companies and analyses the content of such reporting with the aim of identifying strengths and weaknesses. Many New Zealand listed companies make use of the web for the dissemination of their financial information, although such usage is relatively lower in comparison with other countries, suggesting that the use of such medium is likely to increase in the future.

The quality of display and use of contemporary electronic features are found to be of comparable standard to those of companies in other countries. However, many companies are not utilising the opportunities of the electronic format by merely providing an electronic version of their paper based annual reports.

Furthermore, the paper examines the advantages and issues in relation to providing financial information on the Internet. The advantages of online in comparison with hard copy financial reporting include: lower production and distribution costs, flexible access to information, ability to provide relevant information to users, and ability to provide real-time information. The issues associated with online reporting include: blurring the distinction between audited and unaudited information, access is limited to individuals with costly equipment and service and computer skills, and the possible introduction of errors in re-keying information. Some of the issues pose a challenge to standard-setters and regulators such as whether all online financial reporting should comply with GAAP, whether all online financial reporting should be audited and if not a disclaimer should be provided, and whether there should be a compulsory filing system for financial reports on a regulator-controlled server to ensure access to the information and its integrity.

The paper identifies a number of research opportunities. There is a need to reexamine many of the research issues addressed for hard copy financial reporting under the new reporting medium, such as content, timing and the determinants of voluntary online financial reporting. There are additional research issues that are unique to online reporting, such as, whether online financial reporting enhances the understanding of corporate reporting, and whether users find online reporting an acceptable substitute for hard copy financial reports. Online reporting is likely to extend to real-time financial reporting that provides further research opportunities.

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1. Introduction

Since the development of modern financial reporting, hard copies (paper) have been the primary means for distributing such information to shareholders and other interested parties. Hard copy financial reports impose significant costs in printing and distribution and are often associated with timing delays.

The development of the Internet provides opportunities for online (on demand) and low cost distribution of financial information. However, the use of the Internet for the distribution of financial information challenges the traditional involvement of the accounting profession in the preparation and auditing of such information and presents many other issues.

A number of studies in the US, Canada, UK, Ireland and Finland examine corporate financial reporting on the Internet [Pettravick and Gillett, 1996; Flynn and Galthorpe, 1997; Koreto, 1997; Lymer, 1997; Lymer and Tallberg, 1997; Wildstrom, 1997; Brennan and Hourigan, 1998; Marston and Leow, 1998]. They report that increasing numbers of companies are using the Internet for communicating financial information. However, these studies report little improvement in the provision of such information where online corporate reports consist mainly of displaying hard copy annual reports in an electronic format. This paper examines online reporting by New Zealand companies to assess the extent of such practice. It identifies trends, strengths and weaknesses.

The remainder of the paper is structured as follows. The following section provides a review of literature with an emphasis on identifying the advantages of online reporting and the professional issues this reporting medium poses. Section three provides an analysis of the extent of online reporting by New Zealand companies and their strengths and weaknesses. The final section provides a summary and discusses the implications of the results.

2. Advantages and Issues Relating to Online Financial Reporting

The literature examining online financial reporting takes primarily a professional focus. A number of studies discuss the benefits of providing financial information on the Internet [e.g., McCafferty, 1995; Louwers, Pasewark and Typpo, 1996; Green and Spaul, 1997; Trites and Sheehy, 1997]. The benefits of online financial reporting on the Internet include:

- The reduction of production and distribution costs associated with paper-based annual reports.
- Allows flexible non-sequential access to information through the use of hyperlinks.
- The ability to provide specific information to users that meets their specific information needs.
- The reduction of incidental requests from non-shareholder financial statement users.
- Allows for the opportunity for providing more information than available in the annual report.
- Allows the provision of real-time information.
- The ability to provide the information in an interactive manner with the ability to search the content of the reports by using key words.
- Improve the accessibility of information that results in more equitable information dissemination.

Louwers, Pasewark and Typpo (1996) note that the future of online financial reporting may involve:

- Extending disclosure beyond the reproduction of a hard copy annual report.
- Improving timeliness, expanding scope, and permitting a high degree of interactivity.
- Providing financial data to the public as soon as possible by disclosing annual report data on the Internet before it is available in hard copy.
- Using multimedia, such as sound, animation and video, to potentially increase the understanding of information.

However, the advantages of online financial reporting give rise to a number of issues, which include:

- Online, real-time reporting will blur the distinction between current financial information used by management and the historical (and audited) information made available to the public (Green and Spaul, 1997). This reporting may supersede the historically audited information currently made available to shareholders and the company's broader constituencies by providing financial information used by management (Laine, 1997). This may place greater demands on auditors to provide opinion on this data (Trites and Sheehy, 1997).
- Access to online information is still limited to those with costly equipment and services and computer skills. To ensure equity and efficiency, there is a need to make sure that the information provided online has been disclosed previously or simultaneously by using other forms of communication (McCafferty, 1995).
- Companies that choose to extract or re-key data from annual reports may introduce errors, which affects the integrity of the information. Placing a disclaimer concerning the completeness of the information would alert the users of the information (Hussey and Sowinska, 1999).
- It is the responsibility of companies to ensure the security and integrity of financial information they place on the Internet. However, regulators should address the issue of compulsory filing system for financial reporting on a government-controlled server (Hussey and Sowinska, 1999).
- Does providing financial information on the Internet enhance the understanding of corporate financial information?
- Should Generally Accepted Accounting Practice (GAAP) be extended to cover all electronic financial information?
- Would users regard Internet reporting an acceptable substitute for hard copy annual reports?
- Companies use their websites for many purposes and therefore financial information may become difficult to locate.

3. Corporate Online Financial Reporting in New Zealand

3.1 Identifying company websites

In August 1999, two websites, <<http://www.globalregister.co.nz>> and <<http://www.knowledge-basket.co.nz/datex/free/webs.htm>>, providing lists of companies and their website addresses were used to identify the web addresses of New Zealand listed companies. For companies which we could not identify their websites, their managers were contacted by telephone to find out whether they have websites and if so their web addresses. Out of a total of 230 listed companies, 84 (36.5%) have websites on the Internet. It appears that the proportion of listed companies with websites in New Zealand is lower than in other countries.

3.2 Content of information on companies' websites

Companies' websites are used for providing various types of information. Table (1) provides an analysis of the content of the websites of New Zealand companies. The analysis indicates that websites provide four types of information: product/service information, company history and profile, news and announcements, and financial information. Other less frequent information includes links to other sites on the web, conducting transactions on the web (E-commerce), and employment opportunities. Approximately half the companies with websites provide company financial information.

Table 1
Type of Information Published at Listed Companies' Website (n =84)

<i>Main types of information published</i>	<i>Companies</i>	<i>%</i>
Product or service information	78	92.9
Company history or background	74	88.1
News and announcements	52	61.9
Financial information	40	47.6
<i>Other types of information published</i>		
Reference Information (articles/links to other useful sites)	25	29.8
E-Commerce (uses some form of e-commerce, e.g., online booking, shopping, tracking, etc)	14	16.7
Social (environmental and/or community information)	14	16.7
Employment (info. on employment opportunities)	10	11.9

3.3 An analysis of financial information on the web

We examined the extent to which the websites provide an archive for financial information displaying information for previous years. Table (2) shows the number of years for which financial information is made available on the websites. The table indicates that many companies are using the web as a depository for financial information. This archive or depository assists the users easily accessing historical information and therefore facilitates the comparison of such financial information.

Table 2
Number of Years and Nature of Published Financial Information

Type of information	No of Years				Total	
	1	2	3	4	No. of companies	%
Financial highlights only	1	4	3	-	8	20
Annual Reports only	4	2	1	-	7	17.5
Both annual reports and financial highlights	4	6	9	6	25	62.5
Total	9	12	13	6	40	100

Financial information on the web includes complete annual reports and/or additional financial highlights. Panel A of Appendix (1) identifies the companies and website addresses of companies in each category while Panel B of the appendix identifies companies with websites but provide no financial information. Table (2) shows that eight companies provide financial highlights only and 25 companies provide financial highlights in addition to the complete annual reports. The content of the financial highlights provided by these companies is shown in Table (3). It appears that the financial highlights include: extracts from annual reports, further analyses of financial data, non-financial performance measures, and/or corporate communication.

Table 3
Financial Highlights Published at Websites (n = 33)

Type of information	No of companies	%
Director's report	30	90.9
Non-financial performance measures	30	90.9
Chairman's statement	29	87.9
Financial ratios	29	87.9
Balance sheet	26	78.8
Profit and loss statement	26	78.8
Chief Executives review	25	75.8
Cash flow statement	24	72.7
Notes to the accounts	24	72.7
Information on corporate governance	20	60.6
Segmental analysis	19	57.6
Five or ten year summary	14	42.4
Multiple financial summaries	2	6.1

3.4 The display of financial information

Financial information on the web can be provided in a number of formats such as Hypertext Markup Language (filename.htm) (HTML) and Portable Document File (filename.pdf) (PDF). Table (4) describes the types of online company financial information provided and the electronic format in which the information is displayed for the 40 companies with financial information on their websites. Eighty percent of the companies providing company financial information make the annual report available on their websites. Most companies provide annual reports in PDF format. Messenger (1999) notes that PDF format in document delivery on the web has a number of advantages in comparison with HTML, such as:

- complete visual integrity of the document (layout, fonts, color, pagination),
- platform and application independent,
- optimized file compression,
- exact on-screen and printed material, and
- ability to recreate paper documents into searchable viewable electronic files.

Table 4
Type and Format of Financial Information Published at the Website

Type	Format			Total	
	Pdf.	HTML	Others	No of companies	%
Financial highlights only	-	8	-	8	20
Annual Reports only	4	3	-	7	17.5
Both annual reports and financial highlights	16	7	2*	25	62.5
Total	20	18	2	40	100

* Infrastructure & Utilities NZ Limited (www.infratil.co.nz) also publishes annual reports in Microsoft Excel format while Revesco Limited (www.revesco.com.au) publishes reports in Microsoft Word and Excel formats.

There are many electronic features that enhance the display, readability and understanding of financial information on the web. For example, hyperlinks allow the users to move within and among documents to view related information. A screen layout in comparison with a page layout allows the user to easily view the information without the need to scroll down the document. Table (5) outlines the electronic features and the extent of their use by companies providing financial information on their websites. The table indicates that a number of features are frequently used in the display of financial information.

Table 5
Electronic Features Used in Providing Financial Information

Electronic Features	No of companies	%
Graphics, video or audio	30	75.0
Hyperlinks	24	60.0
Appropriate screen layout for data view	23	57.5
Options available for viewing data in frame/noframe	10	25.0

The web provides opportunities for companies to improve its direct communication with its stakeholders and consumers. Thirty-eight (95%) of the companies providing financial information make available their contact information using features such as email and/or a signup page for weekly news.

4. Summary and Conclusion

The article examines the content of New Zealand listed companies websites and assesses the extent and quality of online financial reporting at the sites. It identifies the advantages of, and professional issues posed by this reporting medium.

Many New Zealand listed companies make use of the web for the dissemination of their financial information. However, the level of usage of the Internet for financial reporting in New Zealand is relatively low compared with other countries, suggesting that the use of such medium is likely to increase in the future.

The quality of display and use of contemporary electronic features are found to be of comparable standard to those of companies in other countries. However, many companies are not utilising the opportunities of the electronic format by merely providing an electronic version of their paper-based annual reports.

One of the key concerns for the accounting profession is the use of the Internet for providing unaudited financial information in association with audited information without clear distinction between the two types of information. Such unaudited financial information may not be in compliance with GAAP and susceptible to errors and misstatement.

The use of the Internet for the distribution of financial information provides opportunities for academic research. For example, the comparatively low level of usage of the Internet for financial reporting by New Zealand companies merits further investigation. Such research may help in identifying the determinants of using the Internet for providing financial reports, such as size, industry and multi-nationality. Future research may examine the demand for online financial reporting by assessing the needs of shareholders and other users of financial information.

Although the quality of reporting by New Zealand companies was found to be generally satisfactory, there are a number of issues, which relevant regulatory bodies may need to consider, such as setting guidelines for online financial reporting to ensure the quality of such reporting. Closely aligned to the issue of quality, is the speed and ease of accessibility of online financial reporting by interested parties. Financial information is often difficult to locate on websites since such websites are used for many purposes.

We expect both the level of usage and quality of online financial reporting to continue to improve in the near future. Furthermore, the professional issues that this form of reporting engenders are likely to expand. These issues need to be assessed and addressed.

The International Accounting Standards Committee (IASC) has commissioned a special exploratory research project on the subject. In the US, the Financial Accounting Standards Board (FASB) on its website provides an interesting model of an integrated web-based annual report. The model annual report can be found at <http://www.rutgers.edu/Accounting/raw/fasb/fauxcom/default.html>.

Professional accounting bodies, standard-setters, and regulators with an interest in financial reporting need to consider developing standards for online reporting to ensure the integrity and quality of such reporting.

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APPENDIX (1)- NZ Listed Companies and Website addresses

Panel A: Company websites *with* financial Information

(1) Financial Highlights only

Company	Website
1. Fisher & Paykel Industries Limited	www.fp.co.nz
2. National Property Trust	www.npt.co.nz
3. Ports of Auckland Limited (NS)	www.poal.co.nz
4. Port of Tauranga Limited	www.port-tauranga.co.nz
5. Restaurant Brands New Zealand Limited	www.restaurantbrands.co.nz
6. TrustPower Limited	www.trustpower.co.nz
7. Tranz Rail Holdings Limited	www.tranzrail.co.nz
8. Williams and Kettle Limited	www.wilket.co.nz

(2) Annual Reports only

1. Hallenstein Glasson Holdings Limited	www.hallensteins.co.nz
2. Michael Hill International Limited	www.michaelhill.co.nz
3. National Mutual Holdings Limited	www.nm.com.au
4. Property for Industry Limited	www.pfi.co.nz
5. Renaissance Limited	www.renaissance.co.nz
6. Milburn New Zealand Limited	www.milburn.co.nz
7. Sanford Limited	www.sanford.co.nz

(3) Both Financial Highlights and Annual Reports

1. Auckland Interntaional Airport Limited	www.auckland-airport.co.nz
2. Air New Zealand Limited	www.airnz.co.nz
3. Boral Limited	www.boral.com.au
4. Brierley Investments Limited	www.bil.co.nz
5. Contact Energy Limited	www.contactenergy.co.nz
6. Colonial Limited	www.colonial.com.nz
7. Comalco Limited	www.comalco.com.au
8. CSR Limited	www.csr.com.au
9. Evergreen Forests Limited	www.evergreen.co.nz
10. Flecther Challenge Industries Limited	www.fcl.co.nz
11. Fletcher Challenge Limited Forests	www.fcl.co.nz/forests
12. Fletcher Challenge Limited Building	www.fcl.co.nz/building
13. Fletcher Challenge Limited Energy	www.fcl.co.nz/energy
14. Goodman Fielder Limited	www.goodmanfielder.com.au
15. Infratil Australia Limited	www.infratil.com.au
16. Infrastructure & Utilities NZ Limited	www.infratil.co.nz
17. Independent Newspapers Limited	www.inl.co.nz
18. Infratil Internationai Limited	www.infratil.co.nz
19. Lion Nathan Limited	www.lion-nathan.co.nz
20. Natural Gas Corporation Holdings Limited	www.natgas.co.nz
21. New Zealand Oil and Gas Limited	www.nzog.com.au
22. Fletcher Challenge Limited Paper	www.fcl.co.nz
23. Otter Gold Mines Limited	www.ottergold.com.au
24. Revesco Limited	www.revesco.com.au
25. Summit Resources NL	www.summitresources.com.au

Panel B: Company websites *without* financial Information

1. The Bankers Investment Trust PLC	www.deutshbank.co.nz
2. Cavalier Corporation Limited	www.cavcorp.co.co.nz
3. Horizon Energy Distribution Limited	www.bopelec.co.nz
4. IT Capital Limited	www.itcaptial.co.nz
5. Sky Network Television Limited	www.skytelevision.co.nz
6. St Lukes Group Limited	www.stlukesgroup.co.nz
7. Telstra Corporation Limited	www2.telstra.com.au
8. Advantage Group Limited	www.advantagegroup.co.nz
9. AMP Limited	www.amp.com.au
10. Baycorp Holdings Limited	www.baycorp.co.nz
11. Capral Aluminium Limited	www.capral.co.nz
12. Carter Holt Harvey Limited	www.laserframe.co.nz
13. CDL Investments New Zealand Limited	www.cdlhotels.co.nz
14. CDL Hotels New Zealand Limited	www.cdlhotels.co.nz
15. Cedenco Foods Limited	www.cedenco.co.nz
16. Ceramco Corporation Limited	www.ceramco.co.nz
17. DB Group Limited	www.dbbreweries.co.nz
18. Damba Holdings Limited	www.damba.co.nz
19. Dorchester Pacific Limited	www.dorchester.co.nz
20. Electricity Corporation of NZ Ltd	www.ecnz.co.nz
21. Fernz Corporation Limited	www.fernz.co.nz
22. Force Corporation Limited	www.village.co.nz
23. Kingsgate International Corporation Limited	www.cdlhotels.co.nz
24. Lyttelton Port Company Limited (NS)	www.lpc.co.nz
25. LWR Industries Limited	www.lwr.co.nz
26. Metlifecare Limited	www.lifecare.co.nz
27. Mainfreight Limited	www.mainfreight.co.nz
28. New Zealand Petroleum Company Limited	www.dfmainland.co.nz
29. Nuhaka Farm Forestry Fund	www.perpetual.co.nz
30. Owens Group Limited	www.owens.co.nz
31. PDL Holdings Limited	www.pdl.co.nz
32. Pacific Retail Group Limited	www.computercity.co.nz
33. Richina Pacific Limited	www.richinapacific.co.nz
34. Radio Otago Limited	www.radiootago.co.nz
35. Scott Technology Limited	www.scottech.co.nz
36. Shotover Jet Limited	www.shotoverjet.co.nz
37. Sky City Limited	www.skycity.co.nz
38. Telecom Corporation of New Zealand Limited	www.telecom.co.nz
39. Transalta New Zealand Limited	www.transalta.co.nz
40. UDC Finance Limited	www.udc.co.nz
41. UnitedNetworks Limited	www.powernz.co.nz
42. The Warehouse Group Limited	http://thewarehouse.co.nz
43. AMP Investments' World Index Fund (NS)	www.amp.co.nz
44. Wrightson Limited	www.wrightson.co.nz