Accountant's and Auditor's roles in disclosing and reviewing more information required by Stock Exchange Market

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Abstract

The disclosures in Corporate Governance Report, Sustainability Report and Management Discussion & Analysis (MD&A) Report are more common requirement of many stock exchange markets requirements of other organization. However, IFRS requires many disclosures but financial standards do not cover all information. Therefore, Stock Exchange market and other organizations require additional and more concise information that should be disclosed on frequently basis to provide the readers of annual report more adequate and comprehensive view of Companies.

Keywords: Management Discussion & Analysis Report, MD&A, Corporate Governance, Sustainability, Corporate Social Responsibility, listing Companies.

Accountant's and auditor's role does not end in preparing the financial reporting and auditing it for information users. In fact, their awareness and roles go further and beyond such limit. Firstly accountant should arrange and conduct with other specialists to provide all the necessary additional requirements of stock markets and ensure the Company's system can provide such requirements on time and auditor should develop their assurance procedures to verify the correctness of information required by stock market.

Company's accountant or Corporate Governance Department should have answers for the below questions to enable them to prepare and submit the information that is required by stock exchange or other organization:

1) Why do some companies seek to be publicly traded Companies?
2) What are the main requirements for becoming publicly traded Companies?
3) What are the reports other than financial reports included in the Annual or Interim Report for publicly traded Companies?
4) Who does request the additional information?
5) What are the benefits of those reports?
6) What are the required disclosures in those reports?
7) How are those reports prepared and when are they submitted?
8) Who does prepare those reports?
9) How should the disclosures in such reports be audited?

To answer the above questions, we divided this paper into eight headings as follow:

Cost and benefit for going public?

Company that intends to make its shares publicly traded, it should have very long-term strategic goals to grow, create market value for itself. Therefore, the owners that are decided to take such decision, need to know that are the benefit and costs of such decision.

The benefit of going public

1- The Company which has an opportunity to grow and expand needs to finance such decision through having an access to capital through the stock exchange market.
2- The publicly traded Companies have chance to improve the equity leverage and get lower debt to equity ratio which enable them to get more loans
3- The Companies that its shares are not publicly traded become less attractive for talent employees and managements because such employees and management can be compensated more through stock-options.
4- Companies that are registered in stock market can be valued easily rather than other Companies that may need complicated computation to know how much does the company worth.

Cost of going public

1- Publicly traded Companies become more accountable toward their stakeholders (investors, employees, creditors, government, community) Therefore , they cannot keep their privacy and they are requested to become more transparent and disclose more information through several reports (e.g. Corporate governance, Management's Discussion & Analysis MD&A and others) that are not included in the financial statements and notes and they are required by Stock Exchange (SE) Market.
2- The more information and reports that are required to be disclosed by the SE market consume time and costs to be prepared and submitted on time and needs to establish appropriate and costly management and accounting system to enable them to prepare such reports reliably and accurately.
3- The original owners of the Company loss their solely control of the Company and other stakeholders participate in controlling the Company. Also, the Company will be imposed to more strict and complicated internal controls which mitigate the decision making by one party.
4- The tax credit can be a benefit of not being publicly traded Companies may, publicly traded companies may pay tax than non-publicly traded companies, this depends on the Countries tax regulations.
5- Publicly traded companies pay commissions and fees for their stock subscription and traded which increase the cost of equity and increase the required rate of return too. And any Company that get return less than required rate of return or cost of equity can reduce its market value or achieve loss. Additionally, costs of auditing fees and legal fees and many other costs will increase too.

After browsing the main cost and benefit of becoming publicly traded company, Company should have clear and long-term view of what they want to be, should ensure if they can submit all the required information to SE Market on time and at lower costs, should have high experienced management and team to achieve Company's goals and to achieve the requirements of registered Company, and consult with concerning advisor how much their stock price should be for subscription.

Main accounting and financial requirements for listing Companies

Any Companies that plans to go public, it should hire professional advisor to make appropriate steps for registering the Company in Stock Exchange and select the appropriate market. Company should have legal advise from lawyer, financial and accounting advise from auditor or other financial advisor. The below table 1 show the main requirements for listing oil and gas companies in Toronto Stock Exchange (TSX), London Stock Exchange (LSE) and New York Stock Exchange (NYSE). However, the most complicated SE market is US Stock Exchange. We are providing the source of guidance for listing Companies in the stock exchange for more detailed and accurate information and to show our readers how the requirements of listing Companies are complicated and needs more serious decision for implementing any plan of going public.

Table 1: Main requirements for listing Oil and Gas Companies

	US Stock Exchange (NYSE)	**TSX**	**LSE**
Issuers' classification/Listing Category	NYSE establishes certain minimum numerical standards that are has different requirements of threshold based on whether company is domestic, foreign private if they have affiliated companies.	Classify the issuers into tiers and they are interlisted on U.S and European Stock Exchange	Listing is categorized to premium and standard
Oil and gas Property disclosures	• Reserves should be classified into proved, probable and possible and each class should be further broken down into Developed and undeveloped	differ based on tier and exemption • 50% minimum interests of property should be owned by Company • Three years proven and probable reserves should be independently estimated • Reserves should be classified into proved, probable and possible and each class should be further broken down into Developed and undeveloped	The disclosure of reserves that is covered by SORP and by geographical area and based on AIM note for Mining and Oil & gas Companies that is issued in June 2009 that require to classify the reserves to proved, probable, and even the contingent. And disclose the depth of zone test, and liquid/gas recovered.
Required Reports and information	Many reports and information should be provided	Financial and Technical Reports	Expert Report of oil and gas reserves is required
Audited Financial Statements of previous period	Requirements can be differ and from last five-year to two-year financial statements should be audited	The last period financial statements should be audited	Previous financial period Between three years and shorter period should be audited.
Are there test for IPO and what are the main Financial Threshold	Yes, there is test. And the financial threshold differs based on numberic standards and other factors. • Minimum stockholder's equity is $4mm • Minimum Pre-tax operating income is ranged between $500k and $2mm for each last two fiscal year • Minimum Aggregate Market Cap is ranged between $2mm and $40mm • Valuation/Revenue with cash flow ranged between $25m to $500m during most recent period range between 12 month period to 3 years. • Assets and equity is ranged between $50mm to $150mm	Yes, there is test. There are financial threshold determined and they are differ based on tier and exemption • The recommended work program is valued between $200k to $750k and bring the resource to commercial production • Net Tangible Assets is ranged from 0 to $7,500,000 • Working Capital and Financial Resource should be sufficient to cover work program between 12-18 months, and minimum unallocated fund is ranged between $100k to $200. And other requirements indicate to cover capital structure	Yes there is test. There are financial threshold determined and are different based on premium or standard listing. • Company should meet the minimum of 75% of its business which must be supported by revenue-earning track record for three-year period. • Premium listed companies should be subject to "Class Test" based on financial measurements. Class tests cover the following: o Gross Assets o Profit before Tax o Gross Capital o Market Cap
Are there other Criteria?	Yes	Yes	Yes
Management and Board of Directors	Should have adequate relevant experience and technical expertise in	Should have adequate relevant experience and	Corporate Governance Code requires at least 50% of BOD

Table 1: Main requirements for listing Oil and Gas Companies

	US Stock Exchange (NYSE)	TSX	LSE
	Company's business and industry and public company experience. Majority of directors must be independent	technical expertise in Company's business and industry and public company experience. Two independent directors are required	excluding chairman is comprised of independent non-executive directors except for small companies
Public Float	Public equity float is ranged between $75mm to over $700mm	It sever depends on tier and exemption. • Between 500k to 1mm free trading public shares	Free Float should be 25% for companies are incorporated in UK. Otherwise, the free float will be 50%
Sponsorship is Required	May be required	May be Required	May be Required
Source	For more information, please read NTSE Listed Company Manual at website: https://usequities.nyx.com/markets/nyse-mkt-equities or www.nyse.com	For more information, please read A Guide to Listing on London Stock Exchange at website: www.tsx.com	For more information, please read A Guide to Listing on London Stock Exchange at website: www.londonstockexchange.com

Common reports other than financial reports included in the Annual or Interim Report for publicly traded Companies

In addition to the financial reports, Stock Exchange Market such as NYSE, TSX and LSE require more transparent disclosure for financial and non-financial information that is not covered by their local GAAP or IFRS. The main common reports required by SE are as follow

- Management Discussion and Analysis (MD&A)
- Corporate Governance
- Additional Information to Stakeholders

And the required disclosures for those report sever depends on the size and industry of Company that is listed. Most likely, the larger listed Company is the more disclosure is required. Also, there is voluntary reporting such as "Sustainability Report" which is encouraged by Global Oil and Gas Industry association for environmental and social issues, American Petroleum Institute, International Association of Oil & gas Producers to be published along with annual Report and along with financial statements to show how the management's performance in compliance with ISO 14000 series, ISO 26000, Occupational Health & Safety Advisory Services (OHSAS) 18001, International Transparency requirements, and OECD requirements which disclose several indicators and explain how far Oil and Gas Companies are in compliance with those requirements. The voluntary disclosures in sustainability Report can include the information of the following topic:

- Community and Society
- Local Content
- Human rights
- Business ethics and transparency
- Labor practices
- Health, Safety
- Environmental Protection and Carbon emission

Requestor of additional information

MD&A and Corporate Governance Reports are required by SE. MD&A is main information requested in annual Report on Form 10-K and Quarterly Report on Form 10-Q US Stock Exchange

In addition to financial and non-financial disclosures required by Stock Exchange (SE) Market, SE may require HSE disclosure too. Also, there are many international organizations that coordinate with local enactors, stock market regulator, world-recognized certificate granter in order to impose on Oil and Gas Companies to disclose more information on several issues such as ISO 14000 series, ISO 26000, Occupational Health & Safety Advisory Services (OHSAS) 18001, International Transparency requirements, and OECD requirements.

The Advantage of those reports

The disclosed information in MD&A, Corporate governance, sustainability, and additional information to shareholders reports enable the readers to see and understand Company's performance briefly and comprehensively in management's view. Also, to provide adequate information about how reliability of information presented and disclosed through strong internal controls that are adopted by Company.

Sustainability Report provides good information of Corporate Social Responsibility (CSR) which has positive correlation with Company's stock price. The long-term or ethical investors consider such performance and encourage them to invest more in such Companies. However, the short-term investors may not consider such CSR disclosures, not merely, they may consider the more payments for CSR performance sacrifice the current profit in short term.

Required disclosures in MD&A and Corporate Governance Reports

However, there are no many differences in disclosures that need to be included in MD&A between SEC requirements and TMX requirements, it is good to compare the key factors of preparing MD&A between different SE market. The below table show compare in brief, the frequency of preparing report, the required information that needs to be disclosed in such reports.

Table 2: Summary of brief Comparison between U.S, Canadian and London Stock Exchange Market

	U.S Stock Exchange	**TMX**	**LSE**
Frequency of MD&A Report submission	Quarterly and Annually	Quarterly and annually except for small issuers are exempted from quarter fourth.	

Key required Disclosures in MD&A/Corporate Governance Report	SEC requires listed companies to disclose the below information in MD&A report based on Corporate governance concept
	- Application of Critical accounting policies
	- Results of operations
	- Liquidity
	- Capital Resources
	- Off-Balance Sheet Arrangement
	- Contractual Obligation
	- Certain Contracts & Related Party Transactions
	- Special Topics with Broad Effects
	- Foreign Private Issuers
	- Future prospects, results of outlook and Forward-looking Information
		TSX requires Listed Companies to disclose the below information in MD&A report based on Corporate Governance Concept
		- Entity's Core Business and Strategy that include the following as an example
		  - Quality of management
		- Key Performance Drivers for example as follow:
		  - Summarized Financial Results
		  - Financial Position and Liquidity
		  - Fair Value of Financial Instruments
		  - Outstanding Share Data
		  - Off Balance Sheet Arrangements
		  - HSE performance
			LSE requires listed companies to disclose the informationin Corporate governance report based on the corporate governance code which is custody by Financial Reporting Council and disclosure standards.
			Listed Companies should disclose information to show and explain how far they are in compliance with Corporate Governance code including transparency.
			However there is no disclosures of Corporate Governance for private companies, Quoted Companies Alliance (QCA) provide general guidance of best practices, most of oil

Table 2: Summary of brief Comparison between U.S, Canadian and London Stock Exchange Market

	U.S Stock Exchange	TMX	LSE
	- Risk Factors and Uncertainties	- Reputation - Future prospects, results of outlook and Forward-looking Information - Related Party Transactions - Subsequent Events - Alternative Performance Measures - Significant Accounting Policies and Estimates - Controls and Procedures and Accounting Policies to be Implemented. - Quality of IFRS transition - Risk Factors and Uncertainties - Cautionary Note In Respect of Minerals or Oil and Gas Resources	Companies that are registered in LSE cover the following main topics in their Corporate Governance Statements - The efficiency and effectiveness of Board and management - Company Performance and strategy - Internal Control and risk management - Code of Ethics and Transparency - Audit Committee, board and management - Memorandum and articles of association
Should such disclosures be examined by external auditor?	Yes	No	No

Preparation of MD&A reports and timing of submission

Some companies may prefer accountant to prepare such report, others may prefer to establish new department to be responsible for Corporate Governance of Company and report to either CEO or CFO of company. Anyway, MD&A report is not very difficult to be prepared for accountant or authorized person but it is not easily prepared at the same time. The person who prepared such report should have accounting, financial and auditing qualification, several years of experience in such areas too and has good skills in writing, good understanding in SE market requirements, and has comprehensive and integrated view of several informations.

Understand the Principles for MD&A

After knowing the purpose and benefits of MD&A, the accountant or MD&A preparer should be aware of the general principles of MD&A for general disclosures.

1- The Company should write narrative explanation of the company's historical performance and the future prospects in view of management and try to disclose the information that stakeholders has already access in order to mitigate to disclose any confidential information that could be useful for competitors or offend customers or suppliers or hold any advancement back with government.

2- MD&A should contain qualitative and quantitative information that is used as complementary and supplementary tool for financial statements to make the financial performance more understandable through analysis of historical data and presentation potential information of future performance

3- MD&A must be complete, reliable, balanced with other information disclosed or presented in other reports, free from material misstatements and provide material information that can influence stakeholder's decisions. Means, to enable the investor to either continue to invest or stop investing in the Company.

4- The MD&A should contain useful information that explain the management's strategy, future events, decisions, circumstances, opportunities, risks and risks management.
5- MD&A should be prepared to provide the reasonable investor with information to enable the investor to create value investment decision over time by integrating the information and discussing the performance against milestones to show the progress of achieving strategic goals.
6- MD&A should be away from exaggeration and jargon languages, the main contents of disclosures should be clear, understandable, concise, meaningful, most relevant, comparable, and consistent.

For communicating the MD&A information that help the stakeholders to understand the historical and future performance and the progress towards the achievement of strategic goals. The MD&A preparer should know that the disclosures should be presented as integrated information and within the following framework;

- Core business and strategy
- Key performance results
- Capability to explain the results
- Historical results and future performance
- Risk and risk management

If we go back to what we pointed out for required disclosures in MD&A report above, we can know what the specific required disclosures those are within the above framework. And Company can add other voluntary disclosures of their internal and external performance drivers.

MD&A Disclosure Checklists and MD&A template

Start early by either preparing MD&A Disclosure checklists or try to get such check list in the internet or from the related stock exchange market to enable you to go step-by-step for preparing the report.

Either you prepare your own MD&A template with all necessary disclosures or obtain MD&A report of any other company that is similar to your company in size and business nature, than you revise it based on the requirements you have and on the information that you can provide appropriately to enable you to prepare the MD&A report on time and effectively. MD&A template can be significantly changed from the final draft of the report, but it helps you to prepare the report appropriately without spending a lot of time for expressing or explaining that results.

Read the notes and survey for the MD&A reports that are issued by stock market or any trusted firm to mitigate the mistakes in preparing MD&A or to know how to prepare effective MD&A report.

When you are arranging for your own template and check list, try to remember the following

- Purpose, benefits and principles of MD&A
- Use clear, understandable and simple expression and don's use jargon and long sentences. And don't repeat the information that is disclosed in the financial statements.
- Try to put yourself in Investor's or analyst's place and explain any possible why questions that may be occurred in their minds.
- Address the good and bad news/results, for bad news/results try explain your plan for correcting or responding to the bad results.
- Use and explain graphics, tables and trends for data you will disclose.

- The MD&A template need include all the expected explanation of possible bad and good results.

Steps for preparing effective MD&A

Many accountant or MD&A preparer who prepares such report from the first time, may feel confusion or may not feel enough self-confident. We are trying to help the new accountant in such Report to show the steps of preparing MD&A.

Step 1: Early plan to preparation of MD&A

The preparer should have check lists to follow the steps and to ensure all the process of preparation MD&A disclosures are properly completed. Preparer should depend on the MD&A template as preliminary preparation or first draft with considering the purpose, benefit, principles of MD&A

Step 2: Prepare the first draft

The preparer should read the regulatory notes of the MD&A reports of similar companies, and try to find way to improve Company's previous MD&A. The preparer can preliminary draft the report by using estimated figures and make the report in compliance with the purpose and principles of MD&A and on key view of CEO through designation of the preliminary input, analysis, explanation for pro forma MD&A

Step 3: appropriate involvement of management and other department

The preparer should know that all the actual qualitative and quantitative information and risks that needs to be disclosed and explained could not be found and explained by one person or department. The information and the explanations are collected from several departments (e.g. accounting/finance, legal, Materials and Logistics, drilling and exploration, commercial, marketing) and level of management and CEO to identify the key massages or hints for MD&A.

After the preparer drafted MD&A, he/she should arrange several meeting with several level of management and department to get more accurate and confirmed qualitative and quantitative information to frequently update the MD&A. Also, preparer should obtain supporting documents from system or other reports for such information.

Preparer should be flexible for redesigning MD&A. Therefore, prepare should ensure CEO and other managements involve in preparing the report from the beginning stage till final stage.

Preparer should prepare schedule plan and allow sufficient time for determining start date and finish date each activity of MD&A report process to enable the preparer to submit the necessary report on time.

Step 4: Review MD&A report and process

Preparer should frequently review the MD&A report and process, re-read draft report again to ensure all the principles, purpose and benefits of MD&A are achieved and understood through eyes of management, to avoid any misstatements or not integrated and non-balanced information and to develop the report and its process.

Step 5: Follow up the checklist

Preparer should follow the predesigned checklist to ensure that he/she include all the necessary disclosures appropriately

Re-submitting the final draft to the senior management and revise it as necessary

Step 6: Sending MD&A report steps

Firstly, The MD&A should be sent to CEO/CFO for approval

Secondly, the MD&A should be sent to audit committee for their review and necessary revision

Thirdly, MD&A should be sent to Board of directors for their approval and filing purpose

Finally, the MD&A should be filed with securities commission.

Examining MD&A and Corporate Governance Report

However, they might be direction of some stock exchange market to involve external auditors in review MD&A and Corporate Governance Report but it has not been finalized and currently U.S is the most famous country that include external auditor's role in Corporate Governance and MD&A.

In U.S the auditor's opinion on the internal Controls and MD&A are required. PCAOB Attestation Standard Section 701, paragraph 29-110 requires practitioners to plan and examine MD&A to obtain reasonable assurance in detecting both intentional and unintentional material misstatements in MD&A Report. Therefore, the auditor performs the following main attestation procedures:

- Assess the inherent, control and detection risk for each assertion of occurrence, consistency with financial statements, completeness, presentation and disclosures
- Using Work Specialists' report for none--financial and accounting information, such as reserves quantities, Community and Social indicators, and others
- Consider and testing the internal controls that involved in preparation of such information in MD&A
- Applying analytical procedures and inquiries
- Considering the subsequent events that can effect on the information in MD&A
- Obtaining Sufficient Evidence
- Obtaining written representation letter from management
- Forming opinion
- Communicating with audit committee of the Company
- Dating and issuing the opinion report on MD&A

The introductory and scope paragraphs in audit report should indicate to the following points

1- The preparation of MD&A is under the responsibility of Management and pursuant to the rules and regulations adopted by the Securities and Exchange Commission .
2- Auditor's responsibility is to express opinion on the presentation based on the examination performed and in accordance with Generally Accepted Auditing Standards GAAS in USA and attestation standards established by AICPA

The opinion paragraph in audit report should indicate to whether the MD&A is either presented fair or not which it depends on the type of opinion. The previous audit opinion can be modified in the explanatory paragraph of current report.

Reference

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