The hidden value of financial reports

By Benon Ojiambo

As an employee, are you reluctant to read and understand your company's financial reports? If yes, think otherwise.

Derrick Nkajja, the chief executive officer of the Institute of Certified Public Accountants of Uganda (ICPAU), said a number of times, employees in various organisations always learn with shock the decisions taken regarding, for example, their jobs.

"Many times, employees get shocked when they learn that their line of jobs is being phased out yet they could predict this through financial reports where that story was being mapped over time," Nkajja explained during an interview with the *New Vision* at the institute's office in Kamwokya, a Kampala suburb.

"If you read financial reports, you will get more insights into the company's future," he said.

Behind the numbers

Nkajja's statement is informed by the choice of the theme of the recent financial reporting (FiRe) awards that were held under the theme: "*Moving beyond numbers: Unlocking value through reporting.*"

He explained that the choice of the theme was aimed at the need to make people appreciate that numbers in the financial reports say a lot about the company.

"If used coherently, those numbers paint a picture of a company," Nkajja said.

"Our people take long to appreciate and use financial reports. We want people to start reading and understanding them beyond just numbers. Our aim was to promote the reading and usage of financial statements by the general public," he added.

CPA Ben Patrick Kagoro, Derrick Nkajja and Sam Ntulume attending the FiRe awards ceremony

Frederick Kibbedi, the chairperson of the FiRe awards, underscored the need to look at corporate reporting that embraces integrated reporting of an organisation's performance in terms of both financial and non-financial results.

He added that such integrated reporting provides a better context for evaluating performance data and may help embed sustainability into an organisation's decision making process.

"As a result, annual reports will demonstrate the linkages between an organisation's strategy, governance, financial performance and the social, environmental and economic context within which the organisation operates," Kibbedi said.

"It is not just about the numbers but the value from those numbers. The value of the accountancy profession is well articulated within financial reporting bringing value addition within business processes," Protazio Begumisa, the ICPAU president, said.

Nkajja said over the last three years, they have been pushing for integrated reporting that looks beyond just the financial report but adds integrated reporting.

The impact

Nkajja added that getting value from the financial statement is for everyone, ranging from the consumer of the company's products to investors and the general public.

"If you are an investor in a company, you get to understand why you for example didn't get a return or why you should be demanding more return on investments," he said.

"If you are a consumer of goods or services provided by a company, you are able to know whether in the long or short term the company shall continue providing the same products, whether the company is still or has scaled down its investment towards production of that product," Nkajja explained.

"Consistent financial reports that have been duly audited is a good basis for you to start approaching the financial markets because capital markets authority considers other things such as composition of the board and management team."

How an organisation gets value

Nkajja said through the financial reports, an organisation is able to re-align itself with the trends.

"If management takes time to read and compare past years' financial reports, they are able to appreciate the trend and pave way for driving the company into the future," he added.

As financial analysts, he also explained that they look at financial reporting as the driver that helps map the parameters within which a company operates and on which management bases to make future decisions regarding what segment needs to be re-enforced in order to increase output.

Signs of improvement

Since the awards inception, there has been improvement in the financial reports submitted as well as entry of new participants annually.

In this, the biggest beneficiaries are the first-time participants who receive a feedback report developed by specialists in financial reporting scoring and alerting you how you are performing on the usage of financial standards.

"For the very first time, you get to know your accountant is helping you to streamline your operations basing on the standards," Nkajja said.

He explained that this is important because for anything to improve there must be a basis on which you are measuring

It helps a participant to reflect and understand that these reports can stand scrutiny.

Financial reporting standards for those who have been participating have tremendously improved. After the third year of awards, we introduced a new category for the 'most improved report'.

Through this category, Nkajja said companies have come to learn how to use the standards and they are able to showcase what they have done.

The effect of missing out

Financial reporting standards have improved for those who have embraced financial reporting.

Those that are yet to use the reporting standards are missing out on being able to properly know their story. For example, most people believe that if you have cash, you are doing well, which is not true.

He further highlighted the importance of adhering to financial reporting standards as they help a company to map out its operations and be sure of what it is doing.