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Content of Disclosures Concerning Control over Financial Reporting: The Perspective of Polish Listed Companies

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Abstract

Purpose: The aim of this study was to identify the content of disclosures presented by public companies listed on the Warsaw Stock Exchange on the internal control and risk management systems in relation to financial reporting.

Methodology: The study contents were formulated with the use of literature studies. Content analysis studies and disclosure index studies were used for the study of narrative disclosures. The research was of a qualitative nature.

Results: The results showed that the companies listed on the Polish capital market are still at the stage of formulating reporting practices in the area of control systems over financial reporting. It should be noted that the diversity in information presented within disclosures about control systems over financial reporting is considerable. For some companies, the disclosures are formulated at such a high level of generality that no firm conclusions can be drawn. Detailed items of disclosures presented by particular companies can be identified in the reporting practices. The findings may provide the basis for constructing an index of disclosures about control systems over financial reporting.

Scope of research: The study examined disclosures about internal control and risk management systems in relation to financial reporting presented by public companies listed on the Warsaw Stock Exchange.

Originality: Disclosures about internal control and risk management systems in relation to financial reporting are a relatively new issue in Polish practice. The literature studies carried out as part of the research indicate that this issue is a research gap.

Keywords: financial reporting, control over financial reporting, management report

JEL: G34, M41, M40

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Introduction

As a consequence of the financial scandals of the early twenty-first century, more attention is being paid to the mechanisms of corporate governance. The bankruptcy of Enron revealed that every component of the infrastructure of American capitalism was dysfunctional. Through their actions, accountants misled users of financial data, the auditors connived, lawyers conspired with accountants, rating agencies did not respond and lawmakers acted inadequately (U.S. Crisis of Confidence, 2002, p. 24).

As noted in the literature, financial scandals may be associated with the poor quality of corporate governance. This concerns mainly the low quality of supervision over financial reporting (Agrawal and Chadha, 2005). The results indicate that effective corporate governance reduces the information asymmetry between management and owners (Kanagaretnam, Lobo and Whalen, 2007) and improves the level of corporate disclosures (Lang and Lundholm, 1993). This seems extremely important since in the case of public companies, disclosures in the financial and non-financial statements are crucial for shareholders and stakeholders. These users have limited access to information from the accounting systems due to company reporting methods. Internal control and risk management systems in relation to financial reporting are tools that seek to ensure its credibility. As indicated in the literature, reliable internal control and risk management systems are essential for strengthening corporate governance and should be integrated with structures of this supervision (IFAC, 2012, p. 11).

The aim of this study was to identify the content of disclosures presented by public companies listed on the Warsaw Stock Exchange on the internal control and risk management systems in relation to financial reporting. The developed list of related disclosures indicated how the components of these systems were functioning in practice. This list also provided a basis for assessing the quality of disclosures in the area of corporate governance.

The study examined disclosures about internal control and risk management systems in relation to financial reporting (defined as control systems over financial reporting) presented in reports on activities (management board reports) by public companies listed on the Warsaw Stock Exchange (WSE).

Previous studies concerning reports on the activities of public companies listed on the WSE examined the following issues: 1) contents of the reports on activities (Krasodomska, 2014, 2015); 2) changes in national and international legislation on reporting non-financial information (Krasodomska, 2011; Szczepankiewicz, 2012; Gad, 2015);

and 3) place of reports on activities in annual reports (Marcinkowska, 2004; Mućko, 2012; Gad, 2015). Analysis of reports on activities (management board reports) from the point of view of disclosures about control systems over financial reporting has not so far been comprehensively described in the literature.

The contents presented in this study were formulated using literature studies and textual analyses of annual reports of public companies. To examine narrative disclosures of public companies listed on the WSE, content analysis was used as well as disclosure index studies.

Non-Financial Reporting as a Tool to Communicate with the Environment

Providing consistent non-financial reports accompanying financial statements is crucial to ensure the usefulness and transparency of corporate reporting (Zeini, 2011, p. 28). A report on activities (management report) facilitates an understanding of the financial information included in financial statements. Financial reporting provides "raw" numbers. In turn, reports on activities (management reports) provide these numbers with a specific context through the presentation of the board's point of view on issues such as company achievements, its competitive position and development (IFAC, 2011, p. 29). As noted by D. Tweedie, "accounting doesn't do things too well sometimes and that is why the narrative statement is going to be so important in addition to the raw facts" (IFAC, 2011, p. 29).

It should be noted that the financial crisis that occurred at the end of the first decade of the twenty-first century acted as a catalyst and brought non-financial reporting onto the agenda of politicians, lawmakers, investors and other stakeholders. With renewed force, they began to wonder if the relevant information was appropriately presented in annual reports (Cearns and Shah, 2013, p. 27). As shown by the results of research conducted in the United States, Britain and Canada, more than 50% of those surveyed after the financial crisis perused the annual reports more closely than before the crisis (ACCA, 2012).

In 2010, the International Accounting Standards Board (IASB) published an international standard on non-financial reporting, i.e., *IFRS Practice Statement. Management Commentary. A framework for presentation*. Moreover in 2014, the Polish Accounting Standards Committee published a National Accounting Standard No. 9 *Report on the activities*.

As noted in the literature, creating non-financial reporting standards is not the best solution. A key role in this respect should be played by reporting practices based on disclosures relating to specific sectors. Such an approach encourages companies to disclose data that allow users to make economic decisions (Noll and Weygandt, 1997, p. 60).

Stakeholders expect clear messages in non-financial reporting that are not obscured by irrelevant details (Cearns and Shah, 2013, p. 32). Continuous improvement of non-financial disclosures helps to reduce the asymmetry of information referred to in the agency theory (Jensen and Meckling, 1976) and is critical in building and strengthening investor confidence (Zeini, 2011, p. 29).

Disclosures about Control Systems over Financial Reporting

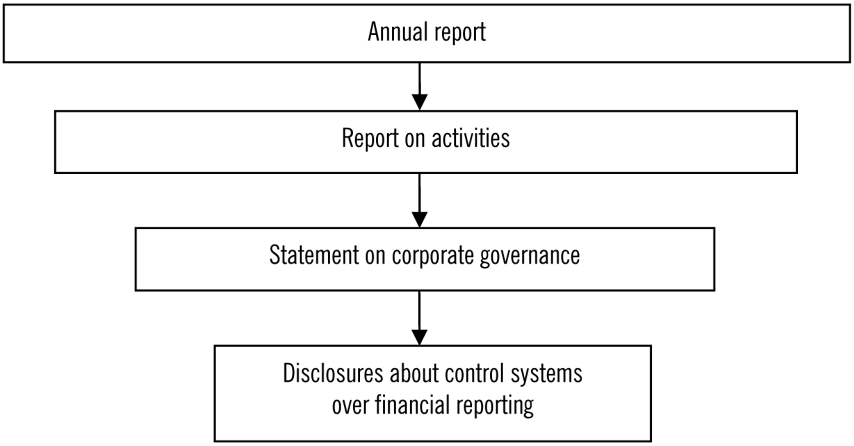
Beginning in 2009, companies listed on the WSE have been obliged to publish information on control systems over financial reporting. These disclosures are, to some extent, the European response to the guidelines of the American Sarbanes-Oxley Act, which was created as a response to financial scandals.

Under Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006, member states were required to implement legal solutions related to control over financial reporting. In 2009, the provisions of Directive 2006/46/EC of the European Parliament and of the Council in regard to control systems over reporting were implemented into Polish law.

In accordance with the provisions of the Polish Regulation of the Minister of Finance dated 19 February 2009 *on current and periodic information,* in reports on the activities of all issuers of securities, reports should include (in a separate part) a statement on corporate governance. This includes, inter alia, information on the description of the main features of the issuer's internal control and risk management systems in relation to the process of preparing financial statements (cf. Figure 2). The entities were therefore obliged to identify areas of internal control and risk management systems responsible for the reliability of the information system of accounting.

It should be noted that neither the EU directives nor Polish regulations provide guidance as to the scope of information that should be included in the disclosures about control systems over financial reporting. Therefore, it seems that empirical research in this area would be particularly relevant.

Figure 1. Disclosures about control systems over financial reporting in annual reports



Source: author's own compilation.

Disclosures on Control Systems in Light of Scientific Research

Due to the numerous financial scandals, the principles of good practices of corporate governance began to emphasize that the control systems over financial reporting play a key role in corporate governance.

Disclosures on control systems over financial reporting included in the Management Board's report can mitigate the information asymmetry problem. These disclosures reduce the uncertainty of users of financial statements regarding the quality of financial reporting (Bronson, Carcello and Raghunandan 2006, p. 27). They also strengthen the protection of investors' interests by providing the assurance regarding the reliability of financial reporting (Michelon, Beretta and Bozzolan, 2009, p. 3). It should be noted that the control systems over financial reporting cannot be directly observed by external users of accounting system. In this context, the disclosures on control systems over financial reporting are crucial for investors and other stakeholders who can, based on them, make their own assessment of their efficiency (Michelon, Beretta and Bozzolan, 2009, p. 10).

Disclosures on control systems over financial reporting are the subject of prior research conducted in the United States. The research conducted so far covers both the period when the disclosures were voluntary (before the enactment of the Sarbanes-Oxley

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Act) as well as the period when they became mandatory (Bronson, Carcello and Raghunandan, 2006; Hoitash, Hoitash and Bedard, 2009; Wang, 2012). Research on control systems over financial reporting was also conducted in Europe (Bauwhede and Willekens, 2008; Michelon, Beretta and Bozzolan, 2009; Russo, Herdan and Neri, 2015).

From the point of view of this study, of particular importance is the research on the quality of disclosures in the area of corporate governance, including the quality of disclosures on control systems over financial reporting. The level of quality of disclosures in the area of corporate governance is used as one of the variables in quantitative research (Deumes and Knechel, 2008, p. 48). One of the basic problems concerning the assessment of the quality of disclosures on control systems over financial reporting is to provide an instrument intended to measure it. The literature presents different disclosure indices for measuring this quality. These indices take into account various areas of corporate governance that are not always directly related to financial reporting (Deumes and Knechel, 2008, p. 48; Bauwhede and Willekens, 2008, p. 106; Russo, Herdan and Neri, 2015, p. 382). As indicated in the literature, constructing indicators for assessing the quality of disclosures on control systems over financial reporting could help test the research questions regarding narrative disclosures. It could also make it possible to monitor changes in reporting practices as well as enable the implementation of international comparative research (Beattie, McInnes and Fearnley, 2004, p. 207).

The research findings presented in this study complement previous research in the area of corporate governance. The detailed content of disclosures on control systems over financial reporting presented by public companies in Poland seems to be especially important. Therefore, as there are no precise guidelines on what information should be disclosed, the scope of disclosures is at the discretion of the Management Board. It seems that these disclosures are in some sense a “litmus test” of the quality of disclosures in the area of corporate governance.

Content of Disclosures on Control Systems – Research Results

The aim of this research was to identify the detailed content of disclosures concerning control systems over financial reporting in public companies listed on the WSE. To analyse narrative disclosures, the study used the methodology used by other authors (Beattie, McInnes and Fearnley, 2004; Hassan and Marston, 2010). Disclosures of control systems over financial reporting are mandatory (although their scope is dependent on the Management Board). The disclosures were presented by companies in their annual reports (the Management Board reports), which constituted official disclosure vehicles. Disclosures were examined using content analysis studies and disclosure index studies.[2] The disclosures in annual reports were analysed in a zero-one scoring system (1 – there is a given category of disclosures, 0 – there is a lack of a given category of disclosures).

Because this study was very laborious (the data was collected manually), it was decided to examine only part of the community. The study examined the annual reports of 220 companies listed on the WSE, which accounted for over 50% of all listed companies. The companies were assigned for the sample at random (using a random number generator). In cases where the company's website did not work or the annual reports did not open, another company was drawn. The study examined the annual reports of public companies prepared for 2011. It was assumed that after two years of the regulations concerning the obligation to disclose information about control systems over financial reporting, the specific form of presentation of this information had been developed in the practice of reporting.

Eight of the surveyed companies did not disclose information on internal control and risk management systems in relation to financial reporting in their reports for 2011 (although they did not indicate that they did not have such a system).[3] As many as 12 companies, representing 5.45%, indicated that they did not have a formalized system of internal control and risk management in relation to financial reporting.

It should be noted that in recent years, the vast majority of companies did not change their disclosures about control systems over financial reporting. Among all listed companies that functioned in 2011-2013 and disclosed information about control systems over financial reporting, changes in those disclosures (mostly small) were made at the turn of 2011/2012, by approximately 12% of companies, and at the turn of 2012/2013 by approximately 12.5% of companies.

The surveyed companies represented 27 sectors. Due to the small number of companies in individual sectors,[4] they were aggregated and the following 9 sectors were identified: light industry (19 companies),[5] heavy industry (57 companies),[6] construction

[2] Disclosure indices are extensive list of selected items, which may be disclosed in company report (Marston and Shrives, 1991, p. 195).

[3] This constitutes 3.63% of the surveyed companies (Lubawa, Interferi, Integerpl, Grajewo, Duda, Dragowski, Dębica, and Alterco). It should be noted that the lack of disclosures on internal control and risk management systems does not necessarily mean that these systems are not operational in an enterprise.

[4] For example, only 4 companies from the chemical industry were examined.

[5] Including: food, plastics and pharmaceuticals.

[6] Including: chemicals, automotive, raw materials, fuel, wood and paper, electromechanical, metal and energy.

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(32 companies), trade (28 companies),[7] computing and telecommunications (23 companies), finance (19 companies), services (18 companies),[8] the media (9 companies), and the capital market (3 companies)[9].

The following main research question related to disclosures about internal control and risk management systems in relation to financial reporting was formulated: *What is the content of disclosures on control systems over financial reporting presented by public companies listed on the WSE?*

This study had consecutive stage of research on control systems over financial reporting. The first stage examined disclosures presented in 2011 by the 16 banks listed on the WSE. The first part of the study created a detailed list of disclosures related to control systems over financial reporting presented by banks.[10] Based on this list, main categories of disclosures were then identified (Gad, 2015a). The second stage identified (using the list of disclosures presented by banks) the main categories of disclosures on control systems over financial reporting presented by 220 public companies listed on the WSE (Gad, 2015c). The study identified 13 main categories of disclosures concerning control over financial reporting. Most frequently, the companies presented information within the framework of two main categories of disclosures: 1) characteristics of internal control and risk management and 2) external audit. Most companies also presented disclosures on regulations and preparation of financial statements (see Table 1).

This section presents the third phase of the study consisting of identifying (within the previously defined main categories of disclosures) the detailed items of disclosures on control systems over financial reporting presented by public companies selected in the previous stage of the investigation. The third stage of the study also determined the share of companies presenting detailed items of disclosures.

In the first disclosure category, Characteristics of Internal Control and Risk Management, more than half of companies (50.45%) indicated the units responsible for the operation of the system. Approximately one-third of the companies identified elements of internal control and risk management systems (30.91%) and their benefits (35.45%) (see Table 2).

7 Including: wholesale and retail trade.

8 Including: other services, healthcare, hotels and restaurants.

9 The median of revenue earned by the surveyed companies amounted to PLN 176,575 thousand in 2011.

10 Banks are unique capital market participants due to their activities and because more stakeholders are involved in their operation than is the case of other joint stock companies. Moreover, the problem of information asymmetry in banks is more exposed than in non-financial entities (Marcinkowska, 2013, p. 53).

Table 1. Identified categories of disclosures describing internal control over financial reporting (presented by surveyed companies)

No.	Categories of disclosures regarding internal control and risk management in relation to financial reporting	Percentage of companies*
1.	Characteristics of internal control and risk management	83.17%
2.	External audit	83.17%
3.	Regulations	68.75%
4.	Preparation of financial statements	68.27%
5.	IT tools	44.71%
6.	Supervisory board	39.90%
7.	Managerial accounting	33.65%
8.	Risk	31.25%
9.	Security and data protection	27.88%
10.	Quality Management	9.13%
11.	Internal audit	8.65%
12.	Explanations for the lack of internal control and risk management	8.65%
13.	Other disclosures	7.69%

* Percentage share of companies presenting a given category of disclosures

Source: Gad (2015c, p. 169).

Table 2. Disclosure Category: Characteristics of internal control and risk management systems (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	The unit responsible for internal control (companies indicated the management board or chief accountant or accounting department)	50.45%
2.	The benefits resulting from internal control and risk management (principles of an effective system)**	35.45%
3.	Elements of internal control and risk management***	30.91%
4.	Information on the procedures of internal control and risk management	7.27%

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No.	Detailed items	Percentage of companies*
5.	Principles of risk management associated with preparing financial statements	4.55%
6.	Internal control tools (e.g., the organizational rules of a company, accounting policy, an integrated ERP system)	4.55%
7.	Forms of control (e.g., self-assessment of accuracy of own work; substantive control and formal and accounting control; functional and institutional control)	4.09%
8.	Division of competencies for decision-making and recording of decisions	2.73%
9.	The definition of internal control and risk management in relation to the financial reporting process	2.73%
10.	The tasks of individual units operating within a company related to the functioning of internal control and risk management	2.73%
11.	General information on the scope of internal control	1.82%
12.	Links between internal control and the risk management system	0.45%
13.	Indication that the control system comprises: controlling, bookkeeping and reporting, forecasting, and financial analyses	0.45%
14.	Use of the COSO model for the construction and development of internal control	0.45%
15.	The management board has the company periodically assessed by an external entity for the operation of internal control and the risk of fraud	0.45%
16.	The functioning of the audit and control team whose task is to evaluate the control system in other organizational units of a company	0.45%
17.	Independent audits of financial and accounting processes	0.45%
18.	Characteristics of internal control	0.45%

* Percentage share of companies presenting a given category of disclosures.

** E.g., the system ensures the effectiveness, reliability, completeness, and timeliness of financial and management information and involves supervision and monitoring of a company's liabilities, costs, and results on a day-to-day basis.

*** One of the companies revealed that it employed the concept of the three lines related to internal control and risk management systems.

Source: authors' own compilation.

In the disclosure category of External Audit, most disclosures identified were concerned *inter alia* the use of information from the external audit process and the appointment of an auditor and the tasks performed by them. More than 76% of the surveyed companies felt that from the point of view of the functioning of internal control and risk management systems in relation to financial reporting, an important disclosure was to indicate that their financial statements had been audited by an auditor, and almost 40% of companies disclosed information about the auditor selection process (see Table 3).

Table 3. Disclosure Category: External audit (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	Information on auditing (reviewing) financial statements by an external auditor	76.36%
2.	The auditor selection process**	39.55%
3.	The conclusions of the external audit are submitted to the supervisory board (the audit committee)	11.36%
4.	Tasks performed by an auditor (the outside audit of financial statements) and information on the organization of the audit***	6.82%
5.	Information on the use of the auditor's recommendations for improving internal control and risk management	5.00%
6.	Remuneration of an external auditor	0.91%
7.	The method of recognizing and presenting unusual events in financial statements is consulted on a continuous basis with an auditor	0.45%
8.	Audit Life Cycle – the schedule of mutual communication between the management, an auditor, and the audit committee	0.45%

* Percentage of companies presenting an item
** In almost all surveyed companies an auditor was selected by the supervisory board.
*** Outside the audit of financial statements, the other tasks performed by auditors involved assessment of the effectiveness of control, indicated by the surveyed companies.

Source: authors' own compilation.

In the disclosure category of Regulations, the surveyed companies presented information relating to external regulations (e.g., International Accounting Standards) and internal regulations (e.g., instructions, procedures, etc.) (see Table 4). It is worth noting that two companies, within disclosures about control over financial reporting, directly referred to the Sarbanes-Oxley Act.

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Table 4. Disclosure Category: Regulations (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	Information on internal regulations relating to financial reporting (e.g., a code of ethics, rules, accounting policy documentation, manuals, procedures)	43.64%
2.	Information on external regulations on financial reporting (The Accounting Act, International Accounting Standards, stock exchange regulations, etc.)	42.27%
3.	Information about tracking legislative amendments to financial statements and periodical reports	16.82%

* Percentage of companies presenting an item

Source: authors' own compilation.

In the disclosure category of Preparation of Financial Statements, companies revealed as many as 17 detailed items, which indicates that they presented a great deal of detailed information on the preparation of financial statements. Most companies revealed information about the entity responsible for the preparation of financial statements (see Table 5).

Table 5. Disclosure Category: Preparation of financial statements (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	The entities responsible for the preparation of financial statements and supervision over these statements	59.09%
2.	General information on the preparation of financial statements	12.27%
3.	Information on the compliance of financial statements with accounting policy	10.00%
4.	The process of preparing financial statements includes the control mechanisms of a technical (numerical and logical control formulas) and substantive (analysis of control reports) nature. Information on control activities during preparation of financial statements**	1.36%
5.	Statements by the management board concerning the reliability and consistency of financial statements and management reports with the principles of accounting	0.91%
6.	A systematized model of financial reporting for internal and external needs	0.91%

7.	A document control system which is the basis of financial reporting (formal and accounting control)	0.45%
8.	Information about the solutions, compliant with the IFRS, adopted to avoid incorrect estimates	0.45%
9.	Accuracy of data entered into the financial and accounting system is additionally verified by a financial analyst, who is subject to the management board	0.45%
10.	Distribution of periodic reports for the management and supervisory boards, including financial reports	0.45%
11.	Indication that the process of the preparation of financial statements is described in the internal regulations and by the order of the chairman of the management board	0.45%
12.	Indication that the process of the preparation of financial statements involves the use of information from the management reporting system	0.45%
13.	Indication of the requirements imposed by a company on financial statements (reliability, compliance with IAS and the Accounting Act, compliance with the law and the articles of association)	0.45%
14.	Information that there were no changes in accounting policy in the reporting period	0.45%
15.	Information about the responsibility of the disclosure committee for the accuracy of the data contained in financial statements and their compliance with laws and regulations	0.45%
16.	Internal division of responsibilities for preparing financial statements	0.45%
17.	Experience and knowledge of the staff preparing financial statements	0.45%

* Percentage of companies presenting an item
** 1) An assessment of significant and unusual transactions in terms of their impact on financial performance and the method of presentation; 2) Verification of the adequacy of valuation principles to accounting estimates; 3) Comparative and substantive analysis of financial data; 4) Verification of arithmetic correctness and data consistency; and 5) Analysis of the completeness of disclosures.

Source: authors' own compilation.

In the disclosure category of IT Tools, more than 43% of companies surveyed indicated that they used IT tools for internal control and risk management in relation to financial reporting (see Table 6). It should be emphasized that the surveyed companies did not disclose detailed information about their IT tools.

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Table 6. Disclosure Category: IT tools (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	Information on the use of IT tools for internal control and risk management	43.18%
2.	Certified software for financial and operational management (e.g., Certificate of the Instytut Studiów Podatkowych [Tax Studies Institute])	0.45%

* Percentage of companies presenting an item

Source: authors' own compilation.

In the disclosure category of Supervisory Board, the surveyed companies revealed 16 detailed items, which indicates that the information on the supervisory board was very diverse. In this disclosure category, the surveyed companies showed, among others, the tasks of the supervisory board (audit committee) relating to internal control and risk management or information about communications between the management board and the supervisory board (see Table 7). It should be noted that the number of companies presenting detailed information on the supervisory board was relatively small.

Table 7. Disclosure Category: Supervisory board (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	The tasks of the audit committee (the supervisory board) related to internal control and risk management	15.91%
2.	Information on the evaluation of financial statements for compliance with ledgers and documents, as well as with the true situation, conducted by the supervisory board	14.55%
3.	Information related to the implementation by the supervisory board of obligations under Article 4a of the Accounting Act (members of supervisory boards are responsible for the compliance of financial statements with the Accounting Act)	5.45%
4.	Information about the publication of the report prepared by the supervisory board on the evaluation of financial statements and company performance	2.27%
5.	Information on the meetings of the supervisory board and the management board on a quarterly basis during which the management board provides information on key financial and operational indicators	1.82%

6.	General information on the evaluation of financial statements by the supervisory board	1.36%
7.	Evaluation of the operating and financial review by the supervisory board	1.36%
8.	Indications that financial statements are examined by the supervisory board during regular meetings	1.36%
9.	The management board provides the supervisory board with information about financial results and a company's current operations	1.36%
10.	Indication that if financial statements were audited then the auditors were invited to the meetings of the audit committee	0.91%
11.	The financial statements are made available to the audit committee prior to approval	0.91%
12.	The supervisory board supervises the financial reporting process	0.45%
13.	Information on the use of external experts by the audit committee	0.45%
14.	Representatives of the audit committee analyse the results of the audit with the auditor	0.45%
15.	On completion of the audit, the management board submits financial statements to the supervisory board for review	0.45%
16.	Information on the evaluation of the activities of the management board carried out by the supervisory board	0.45%

* Percentage of companies presenting an item

Source: authors' own compilation.

The disclosure category of Managerial Accounting is related to control systems over financial reporting. In this category, companies indicated that within the framework of control and risk management systems in relation to financial reporting, they use management accounting tools, including budgeting and a management (business) reporting system (see Table 8).

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Table 8. Disclosure Category: Managerial accounting (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	Information on how the management board uses (also for the preparation of financial statements) the periodic reports with information on key financial and operational indicators of business segments	22.27%
2.	Information on the budget control system**	19.09%
3.	Information on reviews of financial performance, implementation of strategy and operational (economic and financial) plans	6.82%
4.	The use of management accounting systems in the control system	3.64%
5.	The use of accounting policy in the process of budgeting, forecasting, and management (business) reporting	1.82%
6.	Information on units involved in detailed planning	0.91%
7.	The functioning of the management information system, implemented to improve monitoring of operations and improve profit margins on different types of business of an entity, sales forecasts, customer profitability, etc.	0.45%

* Percentage of companies presenting an item
** The surveyed companies indicated that budgetary control systems should be consistent with the strategic plan.

Source: authors' own compilation.

The study also distinguished a separate category of disclosures dedicated to Risk. It should be noted that companies presented information both on the risks specific to the accounting information system and on the risks associated with the operation of the entire entity (see Table 9). Given the number of companies that disclosed information on risk, one should note that the surveyed companies relatively rarely presented this issue.

Table 9. Disclosure Category: Risk (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	Information on the implementation of the risk management process in relation to financial reporting (identification and assessment of risk areas and determination of any actions necessary to reduce or eliminate risks). Indications that the risk management system consists in separating the units responsible for different types of transactions on the market (possibly exposed to various types of risk)	19.09%

2.	Risks associated with the operation of the entity	9.09%
3.	Units responsible for risk management associated with the preparation of financial statements	6.82%
4.	The company regularly monitors important tax, legal, economic, and operational risk factors	1.82%
5.	Information on the creation of risk maps	1.82%
6.	Information about the creation of provisions for risks	1.82%
7.	Types of risks associated with the preparation of financial statements	1.82%
8.	Market risk management policy (exchange rate risk management)	0.91%
9.	Sources of exchange rate risk	0.45%

* Percentage of companies presenting an item

Source: authors' own compilation.

Another category of disclosures, Security and Data Protection, is particularly important from the point of view of control over financial reporting. Within this disclosure category, companies indicated (without giving details) that they have procedures which ensure the protection of accounting data and control access to the data (see Table 10).

Table 10. Disclosure Category: Security and data protection (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	Information on the safety and security of financial reporting data	20.00%
2.	Control of access to financial data	19.55%
3.	Information on the use of the instructions regarding control of the flow of confidential information in relation to control of financial statements	1.36%
4.	Regulations on the protection of confidential information	0.45%

* Percentage of companies presenting an item

Source: authors' own compilation.

The disclosure category of Quality Management was identified as part of the disclosures concerning control systems over financial reporting. Information on quality management was presented by a small number of companies. The information concerned existing ISO systems and a general statement that companies regularly assess

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the quality of control and risk management systems in relation to financial reporting (see Table 11).

Table 11. Disclosure Category: Quality management (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	Information on the implemented ISO systems (integrated quality management system ISO 9001: 2000; ISO 9001: 2008, Information security management systems ISO 27001)	5.45%
2.	The company regularly assesses the quality of internal control and risk management in relation to the process of preparing financial statements	3.18%

* Percentage of companies presenting an item

Source: authors' own compilation.

A small number of companies (mainly banks) disclosed information on Internal Audit. Usually these disclosures were confirmations that companies applied an internal audit (see Table 12).

Table 12. Disclosure Category: Internal audit (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	Operations of the internal audit which are involved in risk identification and evaluation of control mechanisms (institutional internal controls performed by the internal auditor)	5.45%

* Percentage of companies presenting an item

Source: authors' own compilation.

The disclosure category of Explanations about the Lack of a System, included disclosures within the framework of which companies recognized that they did not have individual components of the system, or even the very system itself, of internal control and risk management systems in relation to financial reporting (see Table 13).

The disclosure category of Other Disclosures comprised such issues as inventory, information on working capital management and the principles of substituting a member of the management board, but generally such information was incidental (see Table 14).

Table 13. Disclosure Category: Explanations about the lack of a system (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	Information that a company does not have a formalized system of internal control and risk management	5.45%
2.	The company does not have a separate internal audit unit	2.27%
3.	Information on not having identified significant risks associated with the preparation of financial statements	0.45%

* Percentage of companies presenting an item

Source: authors' own compilation.

Table 14. Disclosure Category: Other disclosures (detailed disclosures)

No.	Detailed items	Percentage of companies*
1.	Inventory	1.82%
2.	Identification of control areas: obtaining revenue, generating costs, management of fixed assets and working capital, administration, acceptance and verification of cost documents, monitoring of liabilities, the level of costs and outcomes, and others	1.36%
3.	Isolation of specialized departments in the organizational structure	0.91%
4.	Isolated positions in the organizational structure for the analysis of the level of liabilities and receivables and debt collection or management of inventory levels	0.91%
5.	The principles of handing over the duties of management board members, employees, or substituting them etc.	0.45%
6.	The use of independent consultants and real estate appraisers by the management board	0.45%
7.	Outsourcing of accounting services	0.45%
8.	Entities included in the consolidated financial statement, together with an indication of the sources of regulation	0.45%
9.	Information on the management of company capital	0.45%
10.	Document workflow system	0.45%

* Percentage of companies presenting an item

Source: authors' own compilation.

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The surveyed companies presented both general and very detailed information. It should be noted that the diversity of information presented within disclosures about control over financial reporting is considerable. In the reporting practices, it is possible to identify numerous disclosure items presented by particular companies. In the case of certain companies, the disclosures are formulated at such a high level of generality that no firm conclusions can be drawn.

In companies from all groups of sectors, the average number of main categories of disclosures on control systems over financial reporting was higher than four. It should be noted that in the four groups of sectors, there were companies that presented one main category of disclosures on control systems over financial reporting. In all groups of sectors, the average number of detailed items of disclosures on control systems over financial reporting was on average more than six. Importantly, there were companies that presented in their disclosures on control over financial reporting merely two items of detailed disclosures (see Table 15). Companies with the largest maximum number of main categories of disclosures and the highest maximum number of detailed items of disclosures are among the group of heavy industry sectors.

Table 15. Number of main categories of disclosures and detailed disclosures in individual groups of sectors

Group of sectors	Number of main categories of disclosures			Number of detailed items of disclosures		
	Average number	Minimum number	Maximum number	Average number	Minimum number	Maximum number
Heavy industry	5.6	2	11	9.0	3	21
Light industry	5.2	2	9	7.9	3	17
Services	5.1	2	7	7.1	2	11
Capital market	5.0	3	7	10.7	4	18
Construction	4.9	1	8	7.5	2	14
Trade	4.9	1	8	7.8	2	16
Finance	4.7	2	8	7.2	4	12
Computing and telecommunications	4.5	2	9	6.6	4	12
Media	4.3	1	7	6.7	2	13

Source: authors' own compilation.

An analysis of the number of disclosures in the investigated companies showed that in certain companies, the disclosures on control systems over financial reporting were very limited. A small scope of disclosures could be because the companies do not have complex systems of control over financial reporting. A small scope of disclosures could also result from the lack of the developed reporting practices among the Polish public companies.

Conclusions

A professionally organized system of control over financial reporting can help to increase the credibility of financial statements by increasing the reliability of the accounting information system. Properly prepared disclosures about control systems over financial reporting for the user of an annual report could be confirmation that the company is working to enhance the credibility of disclosures. These disclosures could play a key role in the process of building trust between the company and providers of capital and other stakeholders. According to Tapscott and Ticoll (2003, p. 73), open companies are able to achieve better financial results compared to traditional businesses as they create value by building trust. Trust leads to the strengthening of relations that bind the company with the shareholders and other stakeholders.

Analysis of the detailed items that were revealed by at least 30% of the surveyed companies made it possible to prepare a set of disclosure characteristics of the Polish capital market. The set includes information on:

1) Elements of internal control and risk management,
2) Entities responsible for the operation of internal control,
3) Benefits associated with the operation of internal control and risk management systems,
4) An audit (review) of the financial statement by an auditor,
5) Auditor selection,
6) Internal regulations relating to the preparation of financial statements (e.g., a code of ethics, rules, documentation of accounting policy, instructions, and procedures),
7) External regulations on financial reporting (the Accounting Act, International Accounting Standards, and stock exchange regulations),
8) Entities responsible for the preparation of and supervision over financial statements,
9) The use of IT tools for internal controls and risk management.

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The identified areas of detailed disclosures may also provide a basis for constructing an index of disclosures that can be used for further empirical research.

The survey results indicated that companies listed on the Polish capital market are still at the stage of formulating reporting practices in the area of control over financial reporting.

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