Chapter 7

The Role and Importance of Independent Audit and Annual Integrated Reports as Corporate Tools in Communication With Stakeholders From the Investor Relations Perspectives: An Examination Upon Turkish Banks

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ABSTRACT

Although there are globalization and digitalization trends affecting all companies, some things can never be changed. Similarly, when speaking about investor relations, although there are new tools, annual reports are the main communication tools with the stakeholders. One of the most important issues with them is independent assurance and timely sharing with stakeholders. Also, there is a new trend named as integrated report regarding annual reports. So, in this study, it is aimed at evaluating the role and importance of independent audit and annual integrated reports as corporate communication tools from the point of view of investor relations. It is concluded that annual reports are still main corporate communication tools with the stakeholders for companies although there are other instruments like website, social media and investor presentations. Integrated report trend is intensifying this role. Therefore, independent audit has a substantially important role in providing assurance to stakeholders regarding integrity of information in annual (integrated) reports.

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INTRODUCTION

In business life, it is known by everybody that the world is becoming much more globalized than it has ever been. So, it is inevitable that business environment would be more complex and competitive for all operating actors in the market. Depending on this condition, structure of sectors has been changing, so some of new entries and exits to the sectors have been seen. This shows us that responding to environmental changes completely is important.

While business environment changes, countries try to respond quickly in order to sustain their economic growth and financial stability. However, the same speediness may not be valid for companies. In such a case, companies began to lose their competitive power and market share. Unfortunately, if the companies did not start transformation process and renew themselves, this would result in failure and bankruptcy. Starting the process immediately and sharing information with all related stakeholders has key role in responding environmental changes.

With the globalization of the world, investments and flow of funds have also become global. This means that there are not only national investors and issues but there are also international investors, criteria and requirements. Although national investors demand a little information about companies, however, international investors requires as much as information possible about companies’ strategic plans, business plans, and investment plans, capital budgeting, capital management, human resource plans, corporate governance practices, structure of the board of directors (the board) and committees of the board, sustainability and things like those. For this reason, if it is a company which demands investments from international investors, it is compulsory to meet demands requested by international investors. Some of these demands require special efforts and works while the others could be met by following usual practices such as corporate governance reporting, IR functions and etc.

Although there are so many things demanded by investors, this is not the only important subject. It is known commonly that there are so many crucial points, areas and subjects to be taken into consideration in communication by companies like investment analysis, financial announcement, public disclosure and usage of Public Disclosure Platform (PDP), become a publicly traded company, corporate actions, corporate scandals, speculation and manipulation, corporate governance and transparency. However, it is possible to say that one of the important of them is IR due to its key function in communicating with external stakeholders. Besides, financial reporting, annual reports and audit are the main components and tools to enable good corporate communication with stakeholders in IR and its management.

IR has been gaining much more importance in terms of corporate communication with the stakeholders recently. Even in some important and critical sectors and companies like publicly traded companies, regulatory authorities like Capital Market Board (CMB) requires establishing an IR department directly reporting to a C level executive who is a member of Corporate Governance Committee member (CMB, 2014). This condition is valid also for publicly traded companies in Turkey. So, it can be seen that there are IR functions in companies in Turkey.

In practices, IR departments could use many different tools in communicating with stakeholders, mainly shareholders. The most known tool is annual general meetings. In these, information is shared with shareholders in the broadest framework. However, there are also other stakeholders like employees, creditors, rating agencies, regulatory agencies, non-governmental organizations etc. Some of these could not be participated to annual general meetings and they also need and wonder information about companies. In this context, IR departments have been using annual reports for information sharing with these stakeholders. Another important point in this context is independent audit. That is why annual reports are
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