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INTEGRATED FINANCIAL REPORTING – STEP FORWARD IN SATISFYING THE INFORMATION NEEDS OF STAKEHOLDERS?!

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Abstract: The turbulent beginning of the 21st century, characterized by, among other things, financial scandals related to the operations of several well-known corporations, as well as the world economic crisis imposed the need for companies to provide stakeholders (external and/or internal), and especially current and potential investors, with additional information related to broader social and environmental aspects of their business. For this purpose, the concept of corporate social responsibility and integrated reporting has been developing for the last thirty years, as a tool that should meet the growing needs for financial and non-financial information. The most important accounting authorities (Financial Accounting Standards Board – FASB and International Accounting Standards Board – IASB), as well as the corresponding bodies within the European Union, are trying to regulate this matter with documents (codes, initiatives, directives, recommendations, etc.) with the aim of defining rules that will help the management of corporations to meet the growing information needs of stakeholders. Through a critical analysis of the positive and negative sides of the mentioned documents, comparing them with the existing regulations in the Republic of Serbia, we determined that the proponents of the concept of integrated reporting face challenges similar to those that characterize the process of standardization, harmonization and convergence of international accounting regulative (IAS/IFRS). Namely, there is an evident need for integrated reporting to be part of the annual financial report, but the structure and information that should be contained in those reports differ, which reduces their usability. Even Directive 2014/95/EU, which represent the only document on which the expert public agreed, failed to overcome the mentioned problems, so the need to revise this document is a confirmation that additional efforts are needed to increase the comparability, reliability and relevance of these reports. On the other hand, the adoption of IAS/IFRS that would deal exclusively with integrated reporting could contribute to the further development of this concept, because the inclusion of environmental accounting in the provisions of several current IAS/IFRS represents a solid basis for the creation of quality information on business sustainability, but their further shaping and publication depends on the degree of corporate awareness in that field, specific regulatory requirements of individual countries, as well as the level of accounting culture, which in our conditions is not at an enviable level. There is also a fear that too long harmonization, similar to IAS/IFRS, will create a kind of "vicious circle" in which the possibility or need to revise one of the related documents or possibly an accounting standard will be practically impossible due to their interdependence and intertwining with the provisions of other regulations.

Keywords: integrated reporting, corporate social responsibility, directive 2014/95/EU, accounting.
Field: Social sciences.

1. INTRODUCTION

The turbulent beginning of the 21 century, characterized by financial scandals, the world economic crisis, war conflicts (Iraq, Libya, Syria, Ukraine, the Gaza Strip,...), the COVID-19 pandemic, announcements of new conflicts and pandemics, impose the need for company managers to include in financial reports the part related to "information about the company's social responsibility, about its sustainable development, about the company's corporate management and about the company's impact on environmental protection and society" (Vićentijević, 2016, 62). While in the countries of the European Union, such an obligation prescribed by Directive 2014/95/EU can be performed either by including a non-financial report in the annual business report or by compiling a separate report, Article 37 paragraph 3 of the current Law on Accounting in the Republic of Serbia stipulates that the non-financial report includes in the annual business report. The essence of the aforementioned regulations aims to develop a report that would contain "comprehensive and understandable information about overall performance, prospective and retrospective, in order to satisfy the information needs of stakeholders," (Knežević, Pavlović, 2019), i.e. information related to the company's mission, its strategy and future corporate goals (Gogić, 2022, 93).

The starting assumptions of our research are as follows:

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H1 - current and potential investors, as the most important stakeholders of corporate companies, are not satisfied only with the information presented in financial reports, but also seek information about the social and environmental aspects of business;

H2 - the relevant international accounting regulative (current IAS/IFRS) allow the inclusion of non-financial information in financial statements and

H3 - integrated reporting should be formally regulated in a way that will prevent subjectivity and manipulations and enable the transition of corporate companies to a "safe, climate-neutral and circular economy" (Damnjanović, 2021, 119).

2. MATERIALS AND METHODS

The research is based on a critical analysis and comparison of the most important regulations that, in the form of directives, initiatives, recommendations, codes and/or legal regulations, attempt to regulate the matter of integrated reporting, starting with King's codes on corporate governance from 1994 and 2002 (Knežević, Pavlović, 2019), through the Recommendation on recognition, measurement and disclosure of environmental impact in financial statements of companies (2001/453EC) published by the European Commission in May 2001, the Global Reporting Initiative, up to Directive 2014/95/ EU from 2014 for the countries of the European Union, i.e. the current Accounting Law from 2019 in our conditions. The comparison method is the basic method used in this article.

3. RESULTS

The relatively long period of time in which the focus was placed on the adoption of regulations that would make integral financial reporting uniform and comparable indicates the seriousness of the approach to solving the problem of the lack of complete information with which their users can evaluate not only retrospective, but also prospective performance of the observed corporate enterprise. Significant results were achieved in the harmonization of various documents, while Directive 2014/95/EU, which were adopted on 22 October 2014, considered "the only European codified minimum of non-financial disclosure on which the professional public has agreed" (Dolamić, 2016, 16). Of course, there is a fear that a relatively long period of time for the harmonization of regulations may affect the fact that, analogously to the problems related to the standardization, harmonization and convergence of IAS/IFRS, problems also appear with the regulations that regulate the matter of integrated reporting. Finally, the reports should be transparent, without the intention to manipulate the perception of stakeholders, i.e. not to implement a strategy of blurring failures and/or a strategy of exaggerating successes (improving the image) (Martinez-Ferrero et al., 2019. 477). For this reason, the best solution is to adopt a harmonized standard that would require a multidisciplinary approach, so that problems related to comparability, reliability and comparability of information from integrated reports could be eliminated or, at least, reduced to an acceptable level.

4. DEVELOPMENT OF INTEGRATED REPORTING REGULATIVE

Integrated reporting emerged as a "response" to the growing demands of users of information from financial statements to disclose information about financial performance, corporate governance and sustainable development of the corporation. First, in the Republic of South Africa, in 1994, the Code on Corporate Governance was published, authored by Supreme Court Judge Mervin King (King I), while integrated reporting as a concept was contained in the revised King II Code, which was based on the Global Reporting Initiative (GRI), founded in 1997 in the USA, (Boston, Massachusetts) (Knežević, Pavlović, 2019). Recommendations on recognition, measurement and disclosure of environmental impact in financial reports of companies (2001/453EC) published by the European Commission in May 2001 formed the basis for the non-binding reports on corporate social responsibility. The aim of these recommendations was to encourage European companies to improve "the quality, transparency and comparability of information on the effects of negative environmental impacts and efforts to mitigate and eliminate them, in order to enable investors and other stakeholders to easily and clearly see the impact of the aforementioned factors on corporate performance" (Sekerez, 2016. 64-5), but "the lack of harmonized guidelines resulted in the impossibility of comparing or adequately assessing environmental risks that affect financial position of the company." (Elliott & Elliott, 2003, 829).

The aforementioned shortcomings of the recommendations are being corrected by adopting three key regulations within the European Union (Damnjanović, 2021, 22-9):

- Non-financial Reporting Directive – NFRD, Directive 2014/95/EU;

- Sustainable Finance Disclosure Regulation – SFDR, Regulation (EU/2019/2088) i
- EU Taxonomy, ((EU) 2020/852).

The European Union directive on non-financial reporting from 2014 obliges large companies (balance sheet of more than 20 million Euros or net turnover of more than 40 million Euros; an average of more than 500 employees during the observed period and entities of public interest) to have in their non-financial reports information about the environment, impact on society and employees, respect for human rights and prevention of corruption and bribery. Non-financial reports can be included in the company's annual report or can be a separate publication with the business report (Damnjanović, 2021, 23). Its goals are: to strengthen transparency and accountability of companies, whereby non-financial information is vital for managing changes towards a sustainable global economy combining long-term profitability with social justice and environmental protection; identify sustainability risks and increase investor and consumer confidence in the EU single market and raise to a uniform, high level the transparency of social and environmental information of companies in all sectors in all EU member states (Dolamić, 2016, 5). In June 2020, the need for revision of the Directive was confirmed, in order to, first of all, ensure an increase in the quality of published information in terms of its comparability, reliability and relevance (Damnjanović, 2021, 26).

The regulation on reporting on sustainable financing entered into force in March 2021 and its focus is on all actors in the financial market. It aims to support investments in a sustainable economy. The regulation automatically became valid in the member states of the Union and does not require transposition into national legislation in order to become binding (Damnjanović, 2021, 27).

Finally, the EU Taxonomy, which came into effect in July 2020, defines a list of economic activities that are sustainable in the context of environmental protection, although it is planned to expand Regulation to include "activities that do not have a significant impact on sustainability, economic activities that significantly damage to sustainability, as well as the inclusion of social goals in the taxonomy" (Damnjanović, 2021, 29).

The increase in interest in integrated reporting and the beginning of procedures for the adoption of accounting standards almost coincide, but the above-mentioned accounting authorities have not paid adequate attention to this problem, nor have they developed standard(s) (IAS/IFRS) that would focus on CSR reporting. The fact that some fifteen standards also deal with environmental accounting issues for many, nevertheless, represents "a significant starting point for the creation of quality information on business sustainability, the further shaping and publication, which depends on the degree of corporate awareness in that field and the specific regulatory requirements of individual countries" (Sekerez, 2016, 62).

When it comes to the Republic of Serbia, the previously mentioned obligation to prepare non-financial reports (Article 37) as well as consolidated non-financial reports (Article 38) according to the Accounting Law should raise awareness among us about the need to harmonize the activities of business companies with the requirements to preserves and protects the environment, respects human rights, and works to prevent corruption and bribery.

Finally, the position that is increasingly advocated in academic circles is also important for accounting, and it contains the opinion that wider recognition of risks, costs and obligations related to the sustainability of business would imply the introduction of a completely new binding report within the annual calculation or at least the prescription of a minimum set of necessary information about business sustainability within the existing framework of financial reporting, which would be a more correct solution in the short term (Sekerez, 2016, 66).

5. CONVENTIONAL ACCOUNTING AND INTEGRATED REPORTING

Accounting is one of the most important information systems in a business, so it is logical that it is almost impossible to compile a business report of any kind without the greater or lesser involvement of an accountant. It is generally known that the basic purpose of organizing the accounting function is to monitor the relationship between the company and the environment that took place in the previous accounting period. On the other hand, the reports that companies should prepare, which pertain socially responsible operations, refer, to the greatest extent, to future accounting periods, so the question arises as to whether and to what extent conventional accounting can be useful in compiling the so-called reports on non-financial business or sustainable development, that is, when assessing the risks and benefits that such business entails?

Corporate social responsibility assumes influence and satisfaction of needs and requires numerous and more heterogeneous groups of (financial and non-financial) stakeholders, both within and outside the company. When compiling financial statements, conventional accounting is focused on meeting the informational needs of investors (current and/or potential) as the most important stakeholders. An additional problem is represented by accounting principles (materiality, causality, prudence, truthfulness, completeness, etc.) that create a closed system that is not capable of flexibly reacting to increasing environmental challenges. The recipe for improving the quality of integrated reporting should be "the inclusion of non-financial performance information in the field of business sustainability and its integration with traditional financial information" (Sekerez, 2016, 61).

Providing non-financial information on corporate social responsibility cannot be the sole task of the accounting function. Namely, we have already noted that accounting is organized in a way that allows it to monitor the effects of business transactions from previous accounting periods on the financial position and earning capacity of the company, and therefore it is almost impossible to monitor the effects that the company's activities have on the living and social environment. However, most reports contain financial and non-financial information that is primarily a product of management accounting, such as total environmental protection costs, total amount of generated waste, total amount of recycled waste, total electricity consumption, etc.

The quality of information from integrated reports should be influenced by the further approximation of the concepts of traditional financial reporting and reporting on socially responsible business, the symbiosis of which should improve the quality of information from conventional accounting and offer ways to integrate information (financial and non-financial) about future business within the annual accounting . In this regard, it is necessary at the global level, with the participation of the aforementioned accounting authorities (IASB and FASB), to define global guidelines for identifying, measuring and publishing information in integrated reports, in order to prevent excessive detailing leading to the publication of information that has no impact to raise the quality level of reporting on retrospective and prospective performance of corporate enterprises.

In the Republic of Serbia, compiling reports on sustainable development is a relatively new practice. The first report on corporate social responsibility was published in 2007 by the company Holcim, which produces cement (Marinović, 2019). For example, NIS company started reporting on environmental protection in 2010, and serious investments that were supposed to reduce environmental pollution began in 2011 (Škarić-Jovanović, 2013, 102). This company's report on sustainable development for 2014, which was made in accordance with the GRI guidelines, was verified by an independent auditor. It is indicative that an increasing number of companies in the financial services sector are compiling a report on corporate social responsibility, which includes a segment related to environmental protection, even though their operations do not directly have many common grounds with the impact on the environment, but that impact can be observed indirectly in cases of financing investment projects of other companies, the implementation of which may negatively affect it.

Finally, some ambiguities in the mentioned documents result in many companies publishing only affirmative information in integrated reports as a means of propaganda and corporate image building, before they really want to take responsibility for the consequences of business activity (Gray, 2006, 798).

6. CONCLUSION

The need to publish information related to socially responsible business is a reality in modern business conditions. For this reason, the obligation of non-financial reporting for the entire European Union starting from 2017 has been prescribed. In this way, the hypothesis that information from official financial reports represents only part of the information needed by current and future investors, as well as other stakeholders in the decision-making process, was confirmed. For this reason, steps are being taken to formalize the practice and standardize the procedures for compiling reports on non-financial operations. In the last ten years, the European Union has adopted a set of directives and regulations that stipulate the obligation to compile the aforementioned reports for entities of public interest. Reporting on sustainable development is also included in the provisions of several IAS/IFRS. We believe that adopting a standard that would exclusively deal with socially responsible business would be a step forward in the unification of rules and procedures that would raise the quality of these reports to a higher level and prevent subjectivity and manipulation of stakeholder perceptions, thus confirming the remaining two starting hypotheses of our research.

In the process of compiling reports on non-financial operations, the role of the accounting function is also important. However, accounting is an inflexible system whose role in compiling the aforementioned report can be significant, but not decisive. The paper mentions some of the limitations of conventional accounting that prevent this, probably the most important information system of a company, from taking full responsibility for the content of this report. We believe that prescribing a minimum set of necessary information on sustainable business within the existing framework of financial reporting would contribute to meeting the informational needs not only of investors, but also of other financial and non-financial stakeholders, both external and internal.

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