THE NON-FINANCIAL REPORTING-THE STORY BEHIND THE NUMBERS

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Abstract

Reporting is a part of the life of companies, an essential business management tool. In a free market system, in order to make rational rational and informed decisions, the organisations must provide information as per stakeholders need. The disclosure must be public, accurate, timely, understandable, complete and objective. Annual reports are used by the companies in order to communicate information your stakeholders. These reports contain information specified by the relevant company's legislation, most often based on financial information which cannot to provide sufficient information to potential investors in order to make a correct investment decision.

Because shareholders want clearer information and "right to know" takes precedence over risk to the corporation, cost and inconvenience, a new form of corporate reporting is emerging to overcome the limitations of today's reporting model. A new form of corporate reporting is emerging to assist organisations to tell their story. The next step in the journey is to incorporate key performance indicators and the forward-looking informations.

The journey to better business reporting is continuing with new directive adopted The EU Parliament.

The aim of this discussion paper is to describe this new directive, European Directive 2014/95/EU on disclosure of non-financial and diversity information in order to ensure that large public interest entities in Europe provide a comprehensive and meaningful view of their position and performance, its scope of application and also analyses the likely impact of the Directive, what should be disclosed according this.

Cuvinte cheie: *Corporate reporting, non-financial reporting, financial reporting, integrated reporting*

Clasificare JEL: *M40, M41*

1. Introduction

Currently, non-financial reporting is the most important trend in corporate reporting development regarding the improvement of annual report information content based of increasing stakeholders' needs. In a highly competitive economy, driven by globalization, the information and communication facilities is the most important thing, is central to business growth.

The financial crisis along with environmental disasters has already shown just how important trust is, and how easily it can be damaged. In last years, trust in business has lost so much and the investors and other stakeholders have been affected. Accoding to Arvidsson, the globalization, technological evolutions, and the transition towards a knowledger economy increase the usefulness of non-financial information in judging firm value in addition to financial information. (Arvidsson, 2012). Also, according to, Lev and Zarowin, the decline in relevance of financial information in explaining a firm's value leads to the recognition that fi nancial statement information is insufficient to satisfy the information needs of stakeholders to assess firms' performance. (Lev&Zarowin, 1999)

Annual reports based on financial information, prepared under generally accepted accounting principles cannot to provide an accurate picture of the present and future performance of companies. Corporate reporting's answer in order to answer their challenge issue is represented by the integrated reporting. Integrated reporting has been developed by the International Integrated Reporting Council (IIRC). International Integrated Reporting Council is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about businesses' value creation should be the next step in the evolution of corporate reporting (International Integrated Reporting Framework - IIRC, 2013).

According to Robert Eccles, "good companies will see integrated reporting as an opportunity to communicate on and implement a sustainable strategy, […] one that creates value for shareholders over the long term while contributing to a sustainable society. However, accomplishing this at a global scale means that integrated reporting needs to be mandatory, not voluntary exercise. It also needs to be done to a set of standards". According to Krzus (2010), "the core concept underlying the term "integrated reporting" is providing one report that fully integrates a company's financial and non-financial (including environmental, social, governance, and intangible) information. However, integrated reporting is far more than simply combining a financial report and a sustainability report into a single document". (Eccles and Krzus, 2010)

The purpose of this article is to describe the scope and significance of modern reporting for companies, based on financial and non-financial dimensions, as well as identifying mutual relationships between the dimensions.

The article presents in both the scientific and practical perspective the literature review and the author's considerations regarding the non-financial reporting based on new European Directive, using the deduction method.

2. From financial reporting to non-financial reporting

The history regarding reporting is long. Based on literature overview, the evolution of reporting allows distinguishing stages in the development of reporting: financial reporting, sustainability reporting and now integrated reporting.

The history of financial reporting began with history of business, the diversity of forms and new reports is based on extension from financial reporting to non-financial reporting, which is reacting to the stakeholders' needs and the informational needs of company environment. Based on literature review analysis of company reporting development we can delimitate the following main stages in the evolution, presented in table 1.

Table nr.1 **The important stages of reporting**

Financial statement
Financial report – financial statement supplemented by additional information and reports: management decisions, governance and remuneration, environment reporting
Business report – financial statement extended with additional reports, focused on a business model: · Report on corporate social responsibility · Report on intellectual capital · Other reports
Integrated report – statement providing financial and non-financial information, in order to create and sustain value over time

Source: Author's compilation

Financial information was always being one of the cornerstones of a company reporting. Financial reporting involves the disclosure of financial information regarding to income statement (profit/ loss), balance sheet-statement of financial position and statement of cash flows. Financial reports are usually developed monthly, quarterly and annually. The financial reporting model was developed for an industrial world. However, it continues to play a valuable role although are a record of the past w it nonetheless focuses on a relatively narrow account of historical financial performance and of the value creation process for the companies. According to Marcinkowska, "the changes observed in reporting can be divided into four aspects financial information is supplemented by the non-financial ones, numerical information is supported by descriptions, information disclosures are not only obligatory, but also voluntary, information is both retrospective and prospective ". (Marcinkowska, 2004)

Because the gaps in traditional reporting have become prominen and business has become more complex the reporting must to be based on two basic reporting: financial and a non-financial. Disclosure non-financial information together financial statements can help shareholders (investors, customers, employees etc) to understand a company's overall health and allows investment decisions and for more informed business. Table 2 describes financial reporting versus non-financial reporting based on the most important criteria for companies.

Table nr.2 **Financial reporting versus non-financial reporting**

CRITERIA	**FINANCIAL REPORTING**	**NON-FINANCIAL REPORTING**
Basis for preparation	Obligatory -according to national and international law (IAS/IFRS)	Mainly voluntary-according to the principles specified by organizations/bodies and stakeholder's requirements.
Type and nature of information	Basic information/retrospective: numerical, financial	Basic information/ retrospective/ prospective and non-financial information
Relationship with accounting	Accounting princi-ples/methods	Not applicable
Focus on	Financial information and results	Brand, image and creating market value and reputation
Orientation on	Management	Stakeholders
Financial statement scope (basic form)	Profit/loss account Balance sheet	None
Financial statement scope (extended form)	Profit and loss account Balance sheet Cash flow statement	Additional information regarding to environment, customers, suppliers, human resoures etc
Integrated report scope	Financial report – financial statement	Financial report –business model, strategy and

		allocation of resources, non-financiarl information in order to crate the value

Source: Author's compilation

Now, the most important example of legislation in support of the disclosure of non-financial information is Directive 2014/95/EU ("CSR Reporting Directive") of 22 October 2014. The Directive 2014/95/EU amend the Directive 2013/34/EU regarding the disclosure of non-financial and diversity information by certain large undertakings and groups (European Council, 2014). So, a first step in regulating non-financial reporting was Directive 2013/34 / EU on the annual consolidated financial statements and reports for non-financial disclosures. Directive 2013/34/EU, called Accounting Directive, on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, was published on 26 June 2013 and entered into force on 20 July 2013. It replaces Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.

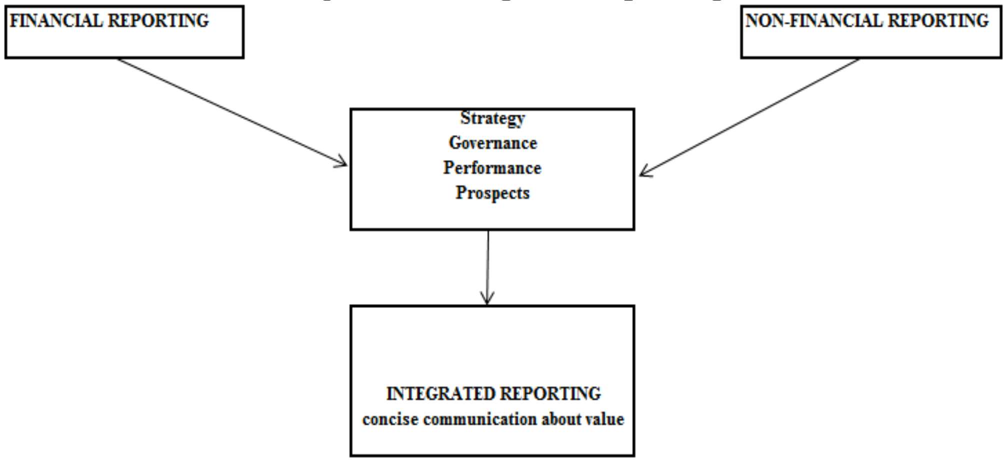
3. From non-financial reporting to integrated reporting

Over the last few years, financial reporting has been criticized for not providing value relevant information. The financial reporting is based on some rules and policies: directives, international financial reporting and accounting standards.Traditional annual reports are based on financial information which presents the financial position and performance of the company. The researches argued that only financial information is not adequate to provide the accurate picture of the present and future performance of companies. As a response to these corporate reporting drawbacks, non-financial information reporting has attracted a great interest in order to ensure fairness, transparency, accountability and relationship of company with stakeholders. While traditional financial information is relevant to present the performance, non-financial information is fundamental to understanding the performance. The non-financial reporting goes beyond traditional financial dimension with other dimensions, e.g. social and environmental.

Integrated reporting is new form of reporting which can helps investors and other stakeholders to understand how an organization is really performing. The main result of integrated reporting is the integrated report. Integrated report includes financial and non-financial information in order to avoid any disconnect between these. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term. (IIRC, 2011)

The aim of integrated reporting is to responding to the stakeholders' needs with concise, clear, comparable and consistent reporting. The integrated report integrates both financial and non-financial information and is structured around the organisation's strategic objectives, performance, its governance, performance, prospects and business model, as we can see in the figure number 1.

Figure nr.1 **Integrated reporting**



Source: Author's compilation

4. European Directive 2014/95/EU

On 15 April 2014, the European Parliament adopted the European Directive 2014/95/EU on the disclosure of non-financial and diversity information by certain large companies and groups. The Directive was published in the European Official Journal on 22 October 2014.

The new Directive on non-financial reporting (Directive 2014/95/EU), amending Directive 2013/34/EU regrading to non-financial and diversity information by certain large undertakings and groups and introduction of rules on the disclosure of non-financial and diversity information.

This new Directive the European Union establishes new mandatory environmental, social and governance reporting requirements covering all areas of Corporate Social Responsibity. The aim is to promote transparency of companies and to enhance the relevance, consistency and comparability of current disclosure of non-financial information.

The Directive contains seven sections. Section 1 describes your role. Section 2 explains the background of the amending directive. Section 3 analyses which undertakings will be required to make disclosures according to the new requirement, and section 4 analyses what should be disclosed and how. Section 5 analyses the exceptions from the duty to disclose, and section 6 analyses the different ways that ensure compliance with the duty to disclose. Section 7 contains the concluders.

4.1. European Directive 2014/95/Eu-application

The Directive will apply to large public-interest entities with more than 500 employees. According to Directive 2013/34/EU, public interest entitites are stockmarket listed companies, credit institutions and insurance companies as well as any other organisations designated by an EU member state as such due to the nature of their business or size.

The European Commission believes that approximately 6,000 companies incorporated within the European Union will be directly affected by the new directive. Depending on national implementation, this may potentially include both local companies based in the EU and foreign companies traded at EU stock markets that have a balance sheet total of at least €20 million or a net turnover of at least € 40 million. Regarding the reporting of group organisations, the parent company is required to disclose non-financial information at the consolidated level, while the subsidiary companies are exempt from the reporting obligation.

The directive will 500 employees, companies which are public interest organisations, exchange-listed companies and companies which be applying companies which have more than have a balance sheet of at least €20 million or a net turnover of at least €40 million. Therefore, the companies covered by the Directive are companies of EU Member States.

4.2. European Directive 2014/95/Eu-what means and what to be reported

Starting with 2017 year, the directive requires companies affected to disclose an annual non-financial statement in their management report. This statement shall at least contain information on environmental, social and governance matters which should allow stakeholders to understand the company's performance including a brief description of:

-Short description of the business model

-Information on their policies for the areas listed above including any implemented due diligence processes

-The outcome of these policies

-The principal risks related to these matters linked to the company's operations, including, where relevant and proportionate, its business relationships, products and services which are likely to cause adverse impacts in those areas and how the company manages these risks

-Presentation of the most important non-financial key performance indicators

The companies will apply the new Directive will must to provide a non-financial statement containing information relating to social and employee-related matters and anti-corruption and bribery matters, environmental matters, respect for human rights. Starting with 6 December 2016, the EU Commission will publish on-binding guidelines on methodology for reporting nonfinancial information, including non-financial key performance indicators, general and sectoral.

4.3 European Directive 2014/95/Eu- date for implemented at national level

Figure nr.2 **The stages of European Directive 2014/95/Eu**

Source: Author's compilation

The EU Directive obliges Member States to incorporate the contents of the Directive into law by December 6, 2016. Regarding this, specific penalties for failure to comply have not yet been determined. However, the directive sets aspects that must be adopted into national law some provisions are optional and will be maintained in the transposition into national law. Also, the directive does instruct Member States to "ensure that adequate and effective means exist to guarantee disclosure of non-financial information . . ." and to that end that "effective national procedures are in place to enforce compliance with the obligations laid down by this Directive." (European Commission, 2014). From 2017 onwards, companies affected must to report their human rights, social and environmental impacts, and anti-corruption and to report on their CSR activities andin order to track their performance on social and sustainability metrics, not just financial ones.

5. Conclusions

Since the main purpose of this article and also the literature review analysis, presentation of non-financial information helps to identify issues important to a given entity and the associated risks. This is non-financial information, not clearly visible in financial reports since, in accordance with the principle of significance, only events with significant impact on operations and financial standing of an enterprise should be disclosed.

We believe that non-financial information is increasingly important due to the transition towards a knowledge economy, the globalization or the intensified competition. Non-financial information should hence complement the financial information that is reported on a mandatory basis in order to go beyond financial metrics, even as this information should be related to financial performance.

The literature review and empirical research regarding trends in reporting of non-financial information and also adopting and implementing the provisions of European Directive 2014/95 / EU on non-financial reporting, can to ensure greater transparency and non-financial responsibility among companies concerned.

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