INVOLVEMENT OF ACCOUNTING PROFESSION IN QUALITY OF NON-FINANCIAL REPORTING

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Abstract: *This paper presents issues related to non-financial reporting, focusing on sustainability reports. In recent years, corporate social responsibility (CSR) has been asserted as a new form of business governance, CSR being recognized in a global context. Companies have a significant impact on social development in the areas where they operate. Therefore, these companies have a responsibility that extends beyond a simple algorithm that refers to profit. There are a multitude of companies that are profitable in financial terms but have activities that harm their own employees and the community. There are major differences in CSR approach; these differences appear in the literature, where authors perceive differently the responsibilities of a company towards society, but also the way EU member countries implement the Directive 2014/95/EU of the European Parliament and the Council in the national legislation. CSR reporting shows how companies choose to behave in relationships with suppliers, employees, customers, investments, the environment, the company, and people who influence their financial results. Non-financial reporting is related to corporate social responsibility policy, but also to management of the risk and business strategy. By reporting CSR, investors, customers, employees and the company can make a pertinent comparison between companies performance. Approximately half of the EU countries have chosen to include the provisions of the Directive in the accounting legislation and the other countries have chosen to include provisions in other categories of legislation, which shows that not all EU countries attach great importance to the accounting profession in terms of reporting responsibility kind. Most EU countries choose to submit CSR information in a management report or a separate non-financial report, but there are a few countries that choose to report CSR activities in the annual report.*

Keywords: sustainability, non-financial reporting, transparency, credibility, Europe, accounting profession.

JEL classification: M14, M40, M49.

1. Introduction

Corporate Social Responsibility (CSR) can't be considered only a philosophical and practically inappropriate subject for the accounting profession because social responsibility is an effective way of supporting medium- and long-term financial interests of companies. When social responsibility action is thought to be a long-term corporate action plan, then society benefits both in social and economic terms.

CSR reporting shows how companies choose to behave in relationships with suppliers, employees, customers, investments, the environment, the company, and people who influence their financial results.

In Romania, according to the Directive 2014/95/EU, companies with more than 500 employees were required to produce a sustainability report to show the impact of the company on the economy, which is its responsibility for its own employees, for society and for the environment. In our country, this Directive has been transposed by a minister's order that has restricted its scope. The companies that are targeted are state-owned or listed companies. In this way, the other hundreds of companies are not required to report, but only if they so wish.

The EU has adopted this directive for several reasons. First, transparency engenders confidence, both among investors as among consumers and other stakeholders. In addition, investors can better assess the opportunities and risks of their future investment if they are provided with insight into the policies and performance of non-financial aspects of the business.

In the context of the current global economy through the complexity of economic operations, the increasing competition imposed by the market economy and at the same time by the phenomenon of globalization, the quality, transparency and credibility of information are important factors in making decisions.

According to IAASB, users of financial statements are always in a position to receive information that is both incomplete or partly incomplete or partly inaccurate and incomplete due to the reporting framework currently in place, partly because companies choose to deliver an economic performance that positively influence the decisions of investors and creditors.

We can see that multiple changes are needed, both in terms of regulation and supervision of accounting reporting. These changes should aim to eliminate the discrepancies between transnational economic and financial information and provide a bridge to their comparability.

The paper is organized as follows. The first section presents the theoretical aspects of the concept of CSR and the importance of reporting non-financial information. In the second section I describe the research methodology. The third section of the paper presents how the European Directive is adopted by the EU and European Economic Area (EEA) countries and the involvement of the accounting profession in quality of non-financial situations. The conclusion are outlined in the fourth section highlighting the idea that Directive 2014/95/EU serves as a vital instrument to progress the EU's agenda for CSR

The objective of the paper is to analyze how the directive is implemented in the EU countries, this being transposed by the country's accounting legislation or by separate legislation, in this way we have highlighted the importance of the accounting profession in terms of non-financial reporting.

In recent years, corporate social responsibility has been asserted as a new form of business governance, CSR being recognized in a global context. There are major differences in the CSR approach; these differences appear in the literature, where authors perceive differently the responsibilities of a company towards society.

2. Theoretical considerations

Lemus (2016) discussed about companies that its reporting their CSR results to the public because they want through these reports investors, employees, suppliers, and customers to see the company's involvement in social activities. Managers want to lead a profitable business in the long run and need information about indicators that can lead to risks. It is very important for management and shareholders to have access at one clear, transparent, and credible information.

According to Elkington (2004), RSC reporting describes how companies choose to behave in relation to suppliers, employees, customers, investors, the environment, the company, and the people who influence their financial results.

Haţegan et al. (2018) believe that non-financial reporting was related to CSR policy, but also to risk management and business strategy. Through CSR reporting, investors, customers, employees and the company can make a pertinent comparison between company performances.

Leitoniene and Šapkauskiene (2016) mentioned about the fact that there were arguments for and against the concept of CSR, the anti-responsibility followers regard companies strictly as a profit-generating eco-entity, responsible only in relation to its shareholders; on the other hand, the followers of the concept consider the company as part of an economic and social framework, the company being held accountable both to shareholders and to different interest groups.

It goes without saying that any socially responsible corporation is interested in performing a profitable activity, but it must be assessed simultaneously with an analysis of the positive and negative effects posed by social, economic and environmental impacts on society in general. Garriga and Melé (2004) shows that the CSR refers to how business affects their own profitability, but also on the behavior and expectations of those involved: employees, shareholders, customers, authorities etc.

Antolin-Lopez et al.. (2016) consider that managers increasingly pay attention to corporate performance in terms of sustainability, assessment and reporting. if this type of reporting is consistent over time.

The main organization working in the field of CSR is the Global Reporting Initiative (GRI). GRI is an independent organization that encourages companies and other governmental and non-governmental organizations to perceive the importance of critical issues related to sustainability such as climate change, human rights, and corruption.

GRI has been working successfully since the 1990s, playing an important role in determining transnational companies in adopting sustainable reporting standards for the common benefit of the world economy, citizens and governments to substantiate decisions on relevant information.

Another important organization in Europe is CSR Europe, which in collaboration with GRI was a key element of support for companies and organizations in order to understand the non-financial reporting practice.

Better transparency as a result of the need to increase disclosure of qualitative information would reduce financial conflicts between information users, as this is also found among the principles of corporate governance; there is a correlation between the principles of corporate governance and the quality and accuracy of financial information.

Integrated Reporting is considered to be a process based on integrated thinking that returns a regularly integrated report on value creation over time in order to create an integrated international reporting framework through which companies communicate information to investors and interested third parties, for this reason, the International Integrated Reporting Council (IIRC) was established.

The International Integrated Reporting Council (IIRC) therefore defines the integrated report as "a concise communication on an organization's governance, strategies, results, and outlooks in the context of its external environment that indirectly lead to the creation of short, medium and long-term value ".

Observing the evolution of integrated reports ahead of IIRC initiatives, looking back when large companies began to publish information on sustainability and social responsibility, we can delineate three main stages in reporting progress: financial reporting, sustainability reporting, and more integrated reporting; therefore the latter was a natural and necessary development of business performance.

Jensen (2001) considers that although the efficiency of the information system and the quality of information should be traits determined by the competition created within the free market, regulators work with the various professional bodies to establish a harmonized conceptual framework for reporting with the main purpose improving the quality and accuracy of financial information.

More and more companies are reporting on sustainability, including reporting on their social and environmental impacts, not just as a reporting tool but to support a sustainable strategy with new sources of return. Major significance also presents the tendency of regulatory organizations to develop reporting standards that include the social side.
According to the authors Hörisch, J., Freeman, R.E. and Schaltegger, S. (2014), information transparency and the quality of the corporate governance system are two closely interconnected concepts, with a high level of transparency being associated with high-quality corporate governance practices; this concept being an evolution of corporate reporting, a way of creating interdependence between elements and financial issues and management decisions, governance, and last but not least of sustainability.
The authors Schüler T., Arp A., Kirschner C. and Pleşea D, (2018) believe that materiality for decision-making is an international accounting principle. In practice, much of the information on the financial market is considered useful to investors because this information can use them to draw conclusions about the value, the temporal progress and the degree of security or the risk of future cash flows.
Auditing the annual financial statements is intended to ensure their quality, is an information tool for the company's external parts. The main function of an annual audit is to provide beneficiaries with an accurate picture of the annual financial statements. However, providing information is not only the responsibility of the auditor, but also the responsibility and duty of the management of the company or board of directors.
The expected earnings are mostly based on the available information obtained from the data provided by the annual financial statements. Therefore, if the investor is provided with financial information that is not transparent or that information is negatively evaluated, all of which have negative monetary consequences.
The results of the sustainability audit must be clearly distinguished from the audit of the financial statements. There are substantial differences in both regulation and content. Regardless of the audit standard used, the confidence level of the sustainability report can be individually set between the company and the audit services.

3. Research methodology

The research methodology of this paper starts with a first stage of scientific documentation. The research sample comprises a total of 30 countries in the EU and European Economic Area (EEA). The methodology approached involves analysis and synthesis appeal. Data was processed on the basis of a study by "CSR Europe and GRI" which shows the process of Member State actions to translate the Directive 2014/95/EU into national-level laws.

4. Analysis of the implementation the European Directive in EU countries and European Economic Area (EEA) countries

European Directives can be fully implemented in the legislation of each country or can be adapted by each country. The Table 1 outlines the main requirements of the Directive and how these have been implemented. Data was processed on the basis of a study by "CSR Europe and GRI".
It can be noticed that with regard to the implementation of the European Directive 2014/95/EU in national legislation, about half of the EU countries have chosen to include provisions in the accounting legislation and the other countries have chosen to include provisions in other categories of legislation. This shows that some countries do not give much importance to the accounting profession as regards the responsibility to prepare non-financial reports.

In the above table were presented the two countries with a limit of 250 employees in terms of CSR reporting: Sweden and Iceland. This shows us a greater interest in the two countries for what transparency and credibility means for companies. Other countries have to report a non-financial report if they exceed 500 employees.
Most countries prepare non-financial reports if they have net turnover over EUR 40 million or balance sheet total over EUR 20 million. There were also countries with different limits in terms of these indicators and countries for which there were no threshold for net turnover and balance sheet total.
It can be noticed that some countries have to report non-financial information to public interest companies such as listed companies, credit institutions and insurance companies, but most of these three categories also include others such as investment firms, factoring companies, health insurance companies, etc. which shows the interest of those countries for non-financial reporting.

Table 1: Countries classification depending on how the European Directive has been implemented

Indicators	Version 1	Version 2	Version 3
Implementation of Directive	**Accounting law**	**Separate law**	**--**
Countries	Bulgaria, Croatia, Czech, Bulgaria, Czech Republic, Estonia, Finland, France, Hungary, Poland, Romania, Slovakia, United Kingdom (UK), Norway	Austria, Belgium, Cyprus, Denmark, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Portugal, Slovenia, Spain, Sweden, Iceland	**--**
Employees:	**Over 500**	**Over 250**	
Countries	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, UK, Norway	Sweden, Iceland	--
Net turnover or Balance sheet total	**over EUR 40 million or over EUR 20 million**	**Other limits**	**No limits**
Countries	Austria, Cyprus, Finland, France, Germany, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Slovakia, Slovenia, Spain, Norway	Belgium, Bulgaria, Croatia, Czech Republic, Hungary, Poland, Sweden, Iceland	Denmark, Estonia, Greece, Portugal, Romania, UK
Public Interest Entities (PIE)	**Listed companies Credit institutions Insurance undertakings**	**PIE from version 1 and other categories**	**All types of companies or legal entities**
	Cyprus, Estonia, Finland, France, Ireland, Italy, Latvia, Luxembourg, Malta,	Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Germany, Greece,	Sweden

Countries	Slovenia, United Kingdom, Norway	Hungary, The Netherlands, Poland, Portugal, Romania, Lithuania, Slovakia, Spain, Iceland	
Disclosure Format	**Requirements were the same as in the Directive**	**Requirements have been adapted**	**--**
Countries	Cyprus, Finland, Ireland, Luxembourg, Poland, Portugal, Romania	Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Malta, The Netherlands, Norway, Slovakia, Slovenia, Spain, Sweden, United Kingdom	**--**
Auditor's involvement	**Requirements are the same as in the Directive**	**Requirements have been adapted**	**Requirements have been omitted**
Countries	Austria, Croatia, Cyprus, Czech Republic, Estonia, Finland, Germany, Greece, Hungary, Ireland, Lithuania, Luxembourg, Malta, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden	Belgium, Bulgaria, Denmark, France, Iceland, Italy, Latvia, The Netherlands, Romania, United Kingdom	**--**
Information shall be presented in:	**Management report** OR	**Separate non-financial report** OR	**The annual report**
Countries	Austria,Belgium, Bulgaria, Cyprus, Denmark, <u>Estonia,</u> Germany, Ireland, Italy, Latvia, Luxembourg, <u>Malta, The Netherlands,</u> Poland, Portugal, Romania, Slovenia, Spain, <u>Iceland, Norway</u>	Austria,Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, Germany, Ireland, Italy, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovenia, Spain, <u>United Kingdom</u>	Croatia, Czech Republic, Finland, France, Greece, Hungary, Lithuania, Slovakia, Sweden

Source: own representation based on the article “Member State Implementation of Directive 2014/95/EU”, published by CSR Europe and GRI in 2017

In terms of disclosure format, only a few countries, including Romania, chose to present non-financial reports as in the EU Directive, and most countries were adapting the information presented by the Directive.
According to the table above, most EU countries transpose into national legislation the same requirements as are outlined in the directive. Directive 2014/95 / EU proposes that Member States ensure that the auditor verifies whether the non-financial statement has been drawn up. Member States should provide for the obligation to verify the information contained in the non-financial statement by the auditor.
Member States have the possibility to exempt undertakings which exceed 500 employees from the obligation to draw up a non-financial statement in cases where they submit a

separate report corresponding to the same financial year and with content covering the same topics.
Most countries choose to submit CSR information in a management report or a separate non-financial report. France, Greece, Hungary, Lithuania, Slovakia, Sweden are the countries that present this information only in the annual report. The only country that chooses to submit CSR information only in a separate non-financial report is the United Kingdom. Malta, The Netherlands, Estonia, Iceland and Norway have adapted in their national legislation that data on the involvement of enterprises in CSR actions are only presented in the management report.

5. Conclusion

The study shows that most countries have adapted European Directive, which means that each country had different approaches to the regulation and implementation of the Directive's objectives. The Directive opened the way for Member States and EAA countries towards a new beginning of CSR and a sustainable global economy.
The European Commission (EC) encourages Member States to work towards further improvements to the transparency of undertakings' non-financial information. Directive 2014/95/EU serves as a vital instrument to progress the EU's agenda for CSR.
Each EU country could choose to implement the Directive 2014/95/EU into national law through accounting legislation or separate legislation. In Romania, the Directive was implemented in the accounting legislation because the lawyer considered it necessary for both financial and non-financial information to be in charge of the accounting profession.
In my opinion, non-financial reports should be within the scope of the accounting profession and should accompany the financial reporting to present a transparent and credible image from the company. I believe the future of reporting in Europe is bright.
This article is a theoretical one, but the research will be continued with practical applications by critically analyzing sustainability reports and identifying factors that lead to better reporting.

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Bio-note

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