SOME ASPECTS REGRADING THE FUTURE OF FINANCIAL REPORTING

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Abstract
The financial reporting process is a standardized process by which an entity provides information about its business, which is not considered confidential, in the environment in which it operates, for the purpose of supporting and developing the society in general. For several years, this process has been undergoing a period of transformation that involves including in the reporting process, in addition to financial information, non-financial information that presents aspects of the resources used, the business model and the new value created by entity. Thus arose the concept of integrated reporting. In European Union, several European directives have been issued setting out the obligation to provide information on the environment, social issues, and personnel. Recently, a European Union project intended to amend the reporting directives by introducing a new concept, reporting for sustainability. These attitudes pose challenges for professional accountants as the reports need to be audited to express an opinion on the level of assurance in relation to the information provided.

Keywords
financial reporting; integrated reporting; sustainability reporting; integrated reporting assurance

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Introduction
For several years, the business environment has been discussing how financial reporting meets the information needs of stakeholders, called users of financial statements. Thus, the term stakeholder was introduced, which designates an interested person regarding the financial information published by a company other than its investors.
As a result of these concerns, the term integrated reporting emerged, which quickly became a concept and led to the establishment of the International Integrated Reporting Council - IIRC, in 2009.
The first integrated report was prepared and published in 2002 by the Danish company Novozymes.
The development of a conceptual framework for corporate reporting has been and is one of the aims of the British organization "The Prince of Wales` Accounting for Sustainability Project", which developed in 2007 "Connected Reporting Framework", a new approach in corporate reporting that focuses on information needs of long-term investors and executive management.
2012 was the first year in which the International Council for Integrated Reporting implemented a Pilot Program.

Since then, more and more companies are becoming part of this system of information and protection of investors, first, but also of the business environment and society in general.
In recent years, there has been a concern among international and regional bodies about changes in corporate reporting, leading to the supplementation of information provided with non-financial and climate-related information. They are already the subject of European directives that change the financial reporting requirements.
Finally, the increase in the volume and quality of information presented in the corporate reporting process, as well as its different nature, produce changes in the way professional accountants intervene on this information to give users more confidence through insurance missions. which he exercises.

What is integrated reporting?

Integrated Reporting is a set of processes and activities that result in a visible and concise result in regular reporting on how the organization's strategy, management, performance, and forecasting allow for long-term value creation and maintenance.
A key concept of integrated reporting is, in the long run, a world where integrated thinking is dominant in business practice, both in the public and private sectors, and is supported by integrated reporting as a basis for corporate reporting.
“Integrated reporting aims to:

- Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital;
- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time;
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies;
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium, and long term.”[1]

The conceptual approach of Integrated Reporting is based on three essential elements: capital, business model and the process of creating and maintaining value.
Why is capital important? Economic theories show that capital is one of the three essential factors of production. This is a factor of production which is not important but in its ability to produce other goods.
All organizations depend on a variety of forms of capital to ensure their success. These capitals represent inputs in the business model of the organization and represent, at the same time, outputs, because they are transformed consumed, increased, used (exhausted), modified or other ways that affect all the activities of the value-added organization.
An organization uses, in principle, six types of capital:

1. Financial capital, which is the total funds available to an organization to be used in the production of goods or services, obtained through financing such as debt, equity or grants, or generated by investment operations;

[1]https://integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReportingFramework.pdf

2. Productive capital, available in the organization for use in the production of goods or the provision of services, in the form of constructions, equipment and infrastructure;
3. Human capital, represented by the skills and experience of people and their capacity for innovation, which align and support the conceptual framework of leadership and ethical values, loyalty and motivation;
4. Intellectual capital, represented by intangible aspects that provide competitive advantages in the form of intellectual property (patents, copyrights, software, systems, procedures and organizational protocols) or that are associated with the brand and reputation,
5. Natural capital, which usually represents inputs to the system and affects all activities of the organization, such as water, land, mineral resources and forests, biodiversity and ecosystem health;
6. Social capital, represented by institutions and relationships established within and between each community, interest group and others, to increase collective and individual well-being, in the form of common values and behaviors, "key" relationships, trust and loyalty organization builds, develops and protects them together with business partners.

Of course, not all of these capitals are equally relevant or applicable in all organizations. The business model is defined in the conceptual framework as "a system of inputs, value-added activities, and outputs, which aim to create and maintain value in the short, medium, and long term."[2]

The business model is the heart of an organization that influences and is affected by other elements of the organization. About business-related reporting, an organization should address one or more of the following:

- A simple diagram highlighting the elements of the business model together with a clear explanation of their relevance;
- A description of all significant and particular aspects of the organization;
- Explicit identification of the "key" elements of the business;
- Identification of important external factors;
- Positioning the organization in the value creation chain;
- Link to other aspects of reporting, including strategy, risk and financial considerations.

Value, in the sense of Integrated Reporting, is the value created for investors, for long-term investors. It is stored in capital and is created or lost because of the internal game of capital, caused by the activities of the organization. Organizations can create and maximize value by serving the interests of all stakeholders, including employees, customers, suppliers, creditors, consultants, and the environment. The value created in this way manifests itself in the return to investors through the future cash flow and returns in the economy, environment and society.

Non-financial reporting requirements

Discussions on the need for entities to disclose non-financial information to the public, through or separately from the financial reporting process, are not recent. They started when in the economic environment and in society in general, there was a need-to-know information about how entities influence the environment in which they operate, of

[2] https://integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReportingFramework.pdf

major interest being those related to environmental protection, but also other issues such as how which the activity of the entities influences the local economy.

The obligation to report such matters at EU level was established by Directive 2014/95 / EU introducing in the framework of Directive 2013/34 / EU on annual financial statements, consolidated annual financial statements and reports relating to certain types of undertakings. of the following article:

“Article 19a Non-financial statement 1. Large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year shall include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including:

(a) a brief description of the undertaking's business model;
(b) a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;
(c) the outcome of those policies;
(d) the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;
(e) non-financial key performance indicators relevant to the particular business.

Where the undertaking does not pursue policies in relation to one or more of those matters, the non-financial statement shall provide a clear and reasoned explanation for not doing so.

The non-financial statement referred to in the first subparagraph shall also, where appropriate, include references to, and additional explanations of, amounts reported in the annual financial statements.”[3]

Article 20 also introduces the entity's obligation to prepare and publish a Corporate Governance Statement in the directors' report.

New attitude

In April 2021, a draft Directive was published which intends to amend the directives on the reporting of financial and non-financial information, as well as the one on statutory audit and Regulation no. 537/2014 on the audit of public interest entities, introducing the expression “sustainability reporting”.

Thus, Directive 2013/34 / EU is amended as follows:

“Article 19a Sustainability Reporting

1. Large undertakings and, as of 1 January 2026, small and medium-sized undertakings which are undertakings referred to in Article 2, point (1), point (a), shall include in the management report information necessary to understand the undertaking’s impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking’s development, performance and position.
2. The information referred to in paragraph 1 shall contain in particular:

(a) a brief description of the undertaking's business model and strategy, including:
(i) the resilience of the undertaking's business model and strategy to risks related to sustainability matters;
(ii) the opportunities for the undertaking related to sustainability matters;

[3] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095&qid=1625159385907

(iii) the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement;
(iv) how the undertaking's business model and strategy take account of the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters;
(v) how the undertaking's strategy has been implemented with regard to sustainability matters;

(b) a description of the targets related to sustainability matters set by the undertaking and of the progress the undertaking has made towards achieving those targets;
(c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;
(d) a description of the undertaking's policies in relation to sustainability matters;
(e) a description of:
(i) the due diligence process implemented with regard to sustainability matters;
(ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
(iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;

(f) a description of the principal risks to the undertaking related to sustainability matters, including the undertaking's principal dependencies on such matters, and how the undertaking manages those risks;
(g) indicators relevant to the disclosures referred to in points (a) to (f). Undertakings shall also disclose information on intangibles, including information on intellectual, human, and social and relationship capital. Undertakings shall report the process carried out to identify the information that they have included in the management report in accordance with paragraph 1 and in this process they shall take account of short, medium and long-term horizons."[4]

IIRC-IFAC relationship on accelerating integrated reporting missions in support of the public interest. Involvement of the accounting profession[5]

A comprehensive resolution on expanding integrated reporting missions requires measures to develop baselines for both integrated reporting and global standards for corporate reporting and professional procedures for issuing an assurance on the degree of assurance related to it. IIRC and IFAC initiated a discussion with professional accountants and users of integrated reports, on increasing confidence in integrated reporting and integrated thinking, and finally, business continuity and sustainable development.

The development and evolution of integrated reporting assurance missions is needed to make a significant contribution to the trust and credibility of integrated reporting.

[4]https://www.europeansources.info/record/proposal-for-a-directive-amending-directive-2013-34-eu-directive-2004-109-ec-directive-2006-43-ec-and-regulation-eu-no-537-2014-as-regards-corporate-sustainability-reporting/

[5] Based on https://www.ifac.org/system/files/publications/files/IFAC-IIRC-Integrated-Reporting-Assurance.pdf

An integrated report, prepared in accordance with the integrated reporting framework developed by the IIRC, links all relevant information about the business and its value creation process, including financial, operational, fixed assets, sustainable development (sustainability), environmental issues, social and leadership, in the context of self-management, resource allocation and relationships with management, business model, performance and its perspectives.

Integrated reporting assurance engagements increase the credibility of the entity's integrated reporting and progress information and develop the regulatory environment for investors. Finally, integrated reporting opinions increase the credibility of corporate business reporting, providing a more robust basis for trust in the financial market and society.

There is a need for a different approach to professional procedures for issuing an opinion on integrated reporting. The recent emergence of limited assurance missions on integrated reports of some organizations, as well as the IAASB Project called Extended External Reporting (EER) Assurance is a good start. However, a better understanding and guidance is needed, on the transition from limited to reasonable insurance, which requires assurance and evidence collection procedures on integrated reporting and other key business processes, including the value creation process.

Financial auditors and independent practitioners work in professional firms, are well placed to provide high quality assurance assignments on integrated reporting, showcasing their skills in assurance assignments, experience in financial auditing, skepticism, and professional judgment. Integrated reporting missions are also a critical element of the future role of professional accountants, opening a career path in which they apply their professional expertise beyond financial information from corporate reporting to information on how to create value in the entity. This involves working in multidisciplinary teams and calling on experts in various subjects. However, integrated reporting has direct implications for the knowledge, skills, and experience of financial auditors, as these commitments will require a wide range of business and information activities.

The initiative aims to accelerate the process of ensuring integrated reporting by clearly establishing what this entails for organizations, auditors, and others. Progress requires that all actors involved in the corporate reporting system play a role in determining functional assurance.

This means that there is a lot to be done by organizations and auditors. The development of integrated reporting insurance depends on the availability of insurance in organizations, on the quality of their financial reporting, processes, and documentation. The planned move to a comprehensive reporting solution, in which the IFRS Foundation has an important role to play in developing standards that lead to consistent, comparable, reliable, and reliable information, will in the future ensure that integrated reporting functions. However, to gain a high degree of confidence in integrated reporting, ensuring integrated reporting needs to progress more rapidly and steadily in different jurisdictions.

Integrated reporting missions have been based for a decade on the International Standard on Insurance Commitments 3000 (ISAE 3000), which provides a high degree of assurance for all insurance organizations and commitments. It is especially important that ISAE 3000 contains requirements on quality management and professional ethics both within audit firms and at the commitment level, designed to ensure the quality of missions and the protection of the public interest. In support of the use of ISAE 3000, the IAASB Project on Ensuring Extended External Reporting (EER) is developing additional guidelines. Integrated reporting is an example of extended external reporting, and guidelines for this process are a starting point for aligning integrated reporting with developments in the integrated reporting process.

In some jurisdictions, such as Germany, auditors are already required to obtain reasonable assurance about much of the information in the administrator's report as part of the audit of financial statements, which are called non-financial information and are currently subject to specific verification. In South Africa, a combined insurance model has evolved with integrated reporting, which helps coordinate the insurance process between internal and external insurance providers. It involves harmonizing the assurance procedure between different functions such as internal audit, compliance, and risk, with independent external assurance, providing the administration and senior management with a broad (extended) view of insurance and risk management activities on integrated reporting.

The provision of integrated reports is progressively developing with the participation of numerous instances of limited insurance on the components of integrated reports, including the selection of references on sustainable development, such as standards issued by SSAB -Sustainability Accounting Standards Board or GRI-Global Reporting Initiative.

As part of the audit of financial statements, statutory auditors are already responsible for the application of ISA 720 - Auditor's Responsibilities for Other Information. These responsibilities require the auditor to read and consider the information accompanying the financial statements, such as the administrator's report, and to determine whether there are any discrepancies between the financial statements and this information.

The ideal goal is to finally achieve a broad adoption of integrated reporting and reasonable assurance of integrated reporting.

To promote the relevance and integrity of information in integrated reporting, used by users in decision-making, a consistent global approach must be developed to build confidence in integrated reporting by ensuring it is based on ISA 3000, which is in line with integrated reporting developments.

Ensuring integrated reporting differs from insuring over other forms of extended reporting (EER) by giving integrated reports a broader future-oriented approach to all elements of a business, such as the core capital built into the resources used and the relationships and support of integrated thinking that ensure best practices.

Business references play a key role, such as purpose, strategy, risks and opportunities in the operational environment, value creation, resources used and the relationships between them, their own competitive advantages in resource use and value creation and conservation, integrated thinking.

The provision of integrated reports may be limited or reasonable, or a combination of them on various aspects of the integrated report. The differences between these two types of insurance are based on the nature and extent of the practitioner's work on the risk of material misstatement of the reporting information, in relation to integrated reporting and other key business processes.

Both limited and reasonable assurance commitments involve observation, inspection, recalculation, confirmation, use of analytical procedures and questionnaires, management documentation on management, strategy, resource allocation and management relationship with users, business model, risk management and opportunities, performance, and evaluation of their presentation in the integrated report.

In the case of limited insurance, evidence is largely obtained by reviewing management documents, questionnaires, observations, and analytical procedures. In the case of this mission, the practitioner obtains an understanding of the integrated reporting process and other key business processes that lead to value creation, to perform procedures to identify the parts of the integrated report where significant misstatements may occur. The practitioner will obtain sufficient and adequate evidence to conclude that he has not identified issues that call into question (have not attracted his attention) the fact that the integrated report is prepared in accordance with the integrated reporting framework.

In the case of reasonable assurance, the practitioner's activity includes obtaining sufficient and adequate evidence of the operational effectiveness of the relevant controls, including management controls performed in the integrated reporting process. Thus, the practitioner evaluates the design of internal controls and their degree of implementation and operation, with direct reference to the integrated reporting process and other key business processes that lead to value creation. The practitioner will perform procedures to identify and assess the risks of material misstatement in the integrated report and the efficiency of operations and other key business processes, as set out in the integrated report. The practitioner will obtain sufficient and appropriate evidence to conclude whether, in his opinion, the integrated report is prepared correctly, in all material respects, in accordance with the integrated reporting framework.
Other services may also be provided using SSRI Standard 4400 - Commitments Based on Agreed Procedures, which are not insurance commitments and do not express an opinion. However, a report is prepared to management on the actual findings and recommendations, so that they can draw conclusions and make decisions. These commitments can be made to support the accountability of those responsible for the governance provided for in the integrated reporting framework.
Ensuring integrated reporting is a vital part of corporate reporting and the reporting ecosystem. It is essential that it be seen (addressed) as a component of the system and not as something that is added later. A correct approach leads to improved quality of integrated reporting and business practices.

Conclusions

The process of reporting information of public interest by entities has been constantly changing for several years. Since financial reporting, a concept still widely used today, with certain features of corporate reporting, the trend is for all entities to issue integrated reports, to increase the volume and quality of information, to inform how their activity influences the environment in which it operates.
This process, which is changing today, creates many and different challenges for all actors involved in the economic and social environment. Some, especially important, are addressed to professional accountants. They need to receive them and develop their skills, how to continue their training, reasoning, and attitude in general.

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