

Views on the Credibility of the Nonfinancial Information – New approaches

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Abstract. *The purpose of the study is the method of presentation of non-financial information and information on diversity by certain businesses and large groups, in accordance with amendments made by Directive 2014/95/EU. The study was carried out under public poll organized by U.E. (DIGIT-EUSURVEY@NOMAIL.EC. EUROPA. EU) in relation to the guide of presentation of financial information currently under development at EU. The result is represented by the test the usefulness of non-financial information depending on a number of qualitative characteristics such as: avoid undue administrative tasks, comprehensiveness, fairness and balance, comparability, understandability, reliability, usefulness and materiality or relevance of the information. This test was to identify those characteristics and results of non-financial information that are most significant for different users of financial and non-financial information, depending on the type and issuer of such information. The study will be continued by developing, based on testing, of a standard model report including non-financial information, as well as models of such reports specific to different types of issuers and / or users, depending of the area of specific interest.*

Keywords: Directive 2014/95 / EU, Directive 2013/34 / EU, financial audit, insurance services, non-financial information

JEL Classification: M41, M42, M48

1. Introduction

The concept of globalization requires relatively recent, the need to create and apply a common global language for financial reporting to include a series of non-financial essential information. It resulted in drafting Directive 2014/95/EU amending Directive 2013/34/EU regarding disclosure of non-financial information and information on diversity by certain businesses and large groups (published in the OJEU no. L330 of 15.11.2014) - with transposition deadline December 6 2016. The relatively new theme, increasingly arouses the interest of international accounting regulatory bodies especially following the recent global financial crisis. Information asymmetries in financial reporting domain with respect to non-financial information were generated by the differences between the two types of regulation reference in the field - European Directives and International Financial Reporting Standards. The study aims to identify and analyze qualitative aspects specific to Romania, following the implementation of Directive 2014/95/EU. It presents theoretical parts of studied theme, based on the study of literature in the field and specific national and international legislation, along with qualitative and quantitative analysis of the types of non-financial information intended to be submitted, as they resulted from the public survey organized by EU (DIGIT-EUSURVEY@NOMAIL.EC.EUROPA.EU) in relation to the guide of presentation of financial information currently under development at EU. From the methodological point of view it started from the hypothesis that the degree of interest shown by respondents in the referred survey in relation to the method of presentation of financial information (using weighted score method) is defining, by inference, for all

types of non-financial information to be presented, the paper proposing in the end a modelling of the type of report of non-financial information.

2. Theoretical Background

In Romania, the study of legislative aspects of financial reporting specific to groups in Romania during 1990-2015, allowed us the synoptic delimitation of the following main ways of financial reporting specific to groups:

- The period 1990-2000, characterized by the absence of national legal provisions relating to financial reporting groups. European provisions on strengthening the annual accounts (Directive VII) were not transposed into national law;

- The year 2000, when the Ministry of Public Finance issued a technical regulation relating to consolidation of group accounts (Order of Ministry of Public Finances no. 772/2000 approving the Norms on consolidated accounts);

- The period 2000-2010, characterized by the adoption of legal regulations in the domain of consolidated accounts of groups in an attempt to harmonize with European Directives (Directive VII of the European Economic Communities on consolidated accounts) and the International Accounting Standards or International Standards of Financial Reporting. The last amendment of Directive VII of the European Economic Communities took place the same time with Directive 2003/51 / EEC of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660 / EEC, 83/349 / EEC, 86/635 / EEC and 91/674 / EEC on the annual consolidated accounts of certain types of companies, banks and other financial institutions and insurance companies regarding modernization and updating accounting rules (OJEU no. L 178 of 17 July 2003);

- Order of Ministry of Public Finances no. 1752 of 17 November 2005 approving accounting regulations compliant with European directives mentioned in art. 7,a paragraph (1) the consolidated annual financial statements are prepared in accordance with accounting regulations compliant with Directive VII of European Economic Communities;

- By Order of Ministry of Public Finances no. 1802 of 29 December 2014 approving the Accounting Regulations on individual annual financial statements and annual financial statements partially transposes the provisions of Directive 2013/34 / EU of the European Parliament and of the Council on the annual consolidated financial statements and related reports of certain types of enterprises, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Directives 78/660 / EEC and 83/349 / EEC (OJEU no. L 182 of 29 June 2013);

- Directive 2014/95/EU amending Directive 2013/34/EU concerning disclosure of non-financial information and information on diversity by certain businesses and large groups (OJEU no. L330 of 15.11.2014) is not implemented in Romanian law, having transposition term on December 6, 2016.

Directive 2013/34 / EU on the annual financial statements, consolidated financial statements and related reports of certain types of companies was implemented by Accounting Regulations on the annual financial statements and consolidated financial statements, approved by Order of Ministry of Public Finance no.1802 / 2014 as amended and supplemented. For entities that have the obligation to apply IFRS, certain provisions applicable to them were introduced in Accounting Regulations compliant with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, approved

by Order vice prime minister, Minister of Public Finance no. 1.286 / 2012, as amended and supplemented.

According to Directive 2013/34 / EU, in order to comply with the group of large enterprises 2 of 3 size criteria described in art. 3 of Directive 2013/34 / EU have to be met:

- balance total: 20.000.000 EUR;
- net turnover: 40.000.000 EUR;
- average number of employees during the financial year: 250.

Accordingly, the area of applicability of Directive 2013/34 / EU at national level is: economic operators (responsibility of Ministry of Public Finances); credit institutions (NBR liability) insurance-reinsurance companies/ capital market (responsibility ASF).

According to Order of Ministry of Public Finances no.1802 / 2014 "public interest entities" are national companies / societies, companies with integral or majority state capital and autonomous institutions. Besides these, economic operators applying IFRS accounting regulations represent to subject to regulation. This applies to listed entities which have more than 500 employees (Peter, 2016).

From the overall analysis of mentioned legal regulations, although the association of European Directives with International Financial Reporting Standards is ascertained, as a desideratum for the compatibility of national legislation in the domain of consolidated accounts, however this set of regulations does not provide only a minimum framework, insufficient from the qualitative point of view for the presentation of non-financial information.

Therefore, in accordance with the mentioned applicable law, in practice of consolidation specific to companies active in Romania, consolidated annual financial statements can be prepared either according to accounting regulations compliant with Directive VII of the European Economic Community, or based on International Financial Reporting Standards (according to art. 14 of the Order of MPF no. 3055 of 29 October 2009). Elaboration of annual consolidated financial statements in accordance with two accounting references involves substantially different comprising spheres and level of detail. Such a situation currently creates *important differences in the development of an important part of the consolidated annual financial statements – explanatory notes*. It is essential that in what concerns our research theme, the "technical solution" on any deviation from the requirements for the provision of a true and fair view, is the adequate disclosure in the explanatory notes, the solution so far including non-financial information too.

After 1990, national speciality literature recorded the need of elaboration and implementation of a methodology for establishing and presentation of the consolidated accounts for the patrimonial units which presented functional features of group of companies (V. Munteanu, *Accountability and consolidation of annual accounts at group companies*, Publisher Lucman Serv Bucharest, 1997, p. 41). The need to configure the consolidated accounts, the goals and objectives of consolidated accounts, as well as examples of consolidation of the annual accounts are issues addressed by academic representatives (Bărbăcioru V., Iacob C., *Advanced Accounting*, Sitech Publishing House, Craiova, 1996, p. 117. A. Tudor Tiron, *Consolidation of accounts*, Tribuna Economica Publishing House, Bucharest, 2000, p. 37. N. Feleagă, Malciu L., *Accounting policies and options* Economic Publishing House, Bucharest, 2002, p. 296. D. Matis, *Accountability of special operations* Intelcredo Publishing House, Deva, 2003, p. 305. M. Ristea, Dumitru C.G., *Advanced Accounting*, University Publishing House, Bucharest, 2004, p. 298. Săcărin M., *Advanced Accounting*, Economic Publishing House, Bucharest, 2004, p. 219). More recent studies analyze aspects of international regulatory convergence of consolidated accounts, so financial information. Under the

pressure from investors, FASB and IASB initiated the convergence between IFRS and USGAAP, through standards published by the end of 2007 (FAS 141 Revised) and early 2008 (IFRS 3 and IAS 27 revised) (Săcărin M., M. Minu, *Analysis of the main amendments and supplements brought to International Financial Reporting Standards on enterprise groups and consolidation of accounts*, Financial Audit Magazine, no. 7/2009, p. 22-28). There are also recent fewer approaches treating the sphere of non-financial information, or even emphasizes the link between financial and non-financial information. Thus the following approaches retain attention:

- lack of transparency of banking institutions - considered one of the triggers of the financial crisis that started in 2007 – *brought the valences of audit of banking institutions to the attention of the regulators and the financial markets*. The phenomenon of questioning – comparable to public debate on audit in early 2000, amid the collapse of Enron and its auditor, Arthur Andersen: it is not surprising, nor unfounded. And the financial statements of credit institutions are in the center of the debate, which should be considered in light of the way in contributing to the social function of credit institutions (Socol, 2015);
- adopting IFRS at the level of credit institutions in Romania since 2012 has affected the perception of users of information contained in the financial statements and hence the audit and the social function of credit institutions, faced with a new accounting reporting framework. (Socol, 2012);
- the existence of a correlation between the activity sector of the audited entity and the benchmark chosen to determine the level of materiality has been identified (Irimie et al, 2013);
- from a public perspective of transparency, banks live real confusing times, when oscillating between discretion with regard to financial or accounting practices and disclosure of financial information. Less informed bank shareholders might be a hidden objective for bank managers, who might try to manipulate financial information in order to create an "optimal" level for stakeholders. Of course, "optimal" in the conception of bank managers, which suggests an attitude that leads to a discrepancy, an informational asymmetry between banks interested shareholders and the in information disclosed by banks (Tamaş and Socol, 2015).

The analysis of even newer relied works, representative for national speciality in the field literature, results in the concern of academic environment in studying the processes of consolidation of accounts of groups of companies. But we found no consistent analysis on methods to prepare the explanatory notes to the consolidated financial statements containing non-financial information on: environmental, social and personal aspects, observance of human rights; fighting corruption and bribery. Such approaches have obviously emerged after the appearance of Directive 2014/95/EU, but in a non-routine way, such as the article "The mandatory non-financial reporting of companies of the Member States of the European Union" (<http://www.juridice.ro/> - of 15/06/2015), according to which the "Directive 2014/95 / EU arises in the context of the European Parliament invited the Commission to present a legislative proposal on disclosure of non-financial information by companies, enabling a high level of operational flexibility to take into account the multidimensional nature of social responsibility of enterprises and diversity of policies on corporate social responsibility. "

It is even more evident that in terms of manifestations of global financial crisis still present, the need for non-financial information of users of financial statements of companies and groups of companies in general increases. And explanatory notes or reports of administrators are likely to provide desirable information for users interested in the current situation and prospects of groups of companies from the perspective of non-financial information.

3. Research Methodology

Before qualitative and quantitative analysis of the types of persons and entities who participated in the public poll organized by the EU (DIGIT-EUSURVEY@NOMAIL.EC.EUROPA.EU) in April 2016 related to the guide of disclosure of non-financial information under development at EU level, the following work hypotheses have been developed:

➤ *Hypothesis 1*: The most important users of non-financial information are organizations and companies and to a lesser extent individuals and to a lesser extent authorities;

➤ *Hypothesis 2*: the main types of organizations and companies interested in non-financial information are, in order: industry associations, Nongovernmental organisations, companies (large, SMEs, individual entrepreneurs), financial advisers and legal services advisers, various trade organizations and others;

➤ *Hypothesis 3*: public authorities are less interested in non-financial information;

➤ *Hypothesis 4*: however among public authorities, especially European and international authorities, ministries, supervisors and regulators of financial and other are interested in this information;

From the methodological point of view it started from the hypothesis that the degree of interest shown by respondents in referred the survey regarding the presentation of non-financial information (using the method of weighted score) is defining, by inference, for all types of non-financial information to be presented in accordance with Directive 2014/95/EU, the paper proposing a modelling of the type of report of non-financial information.

4. Analysis of Results of Public Consultation Realised by U.E. Run Until 15.04.2016 According To Site: Digit-Eusurvey@Nomail.Ec.Europa.Eu

4.1 Summary of requirements of Directive 2014/95 / EU

In terms of Directive 2014/95/EU the two methods of disclosure of non-financial information without the use of explanatory notes, refer to:

- non-financial statement;
- separate report with similar content.

Disclosure requirements for annual financial statements (individual) under Directive 2014/95 / EU concern the inclusion of a non-financial statement in the management report containing information on at least the following (Peter G., 2016): environmental issues; social issues; personnel issues; observance of the human rights; combating corruption and bribery. Non-financial statement includes, where appropriate, references and additional explanations of amounts reported in the annual financial statements.

If the enterprise does not implement policies regarding one or more of these issues, non-financial statement provides a clear and reasoned explanation on this option. A subsidiary enterprise is exempted from the elaboration of the non-financial statement if the enterprise and its subsidiaries are included in the consolidated management report prepared in accordance with the requirements of Accounting Directive 2013 / 34 / EU.

If a company prepares a separate report corresponding to the same financial year which includes information of nonfinancial statement, Member States may exempt the enterprise of the obligation to elaborate the nonfinancial statement, provided that separate report to be published together with the directors' report in accordance with

Directive 2013 / 34 / EU, or to be made public within a reasonable time not exceeding six months from the balance sheet date on the website of the company, and to be mentioned in the directors' report. Member States must ensure that the statutory auditor or audit firm checks whether the nonfinancial statement or report were separately provided. Member States may require that the information in the non-financial statement or in a separate report to be verified by an independent provider of insurance services.

There are some additional information required in the corporate governance statement included in the directors' report (statement required only to entities listed under Article 20 of Directive 2013/34 / EU). Thus, a description of the diversity policy applied in respect to administrative, management and supervisory bodies of the company on issues such as age, gender or education and professional experience, objectives of this diversity policy, the method it was implemented and results during the reporting period is requested.

Public interest entities that are parent -enterprise of a large group which, at the balance sheet date on a consolidated basis, exceed the criterion of having an average of 500 employees during the financial year, include a consolidated nonfinancial statement in the consolidated management report.

4.2 Results

Verification of Accomplishment of hypotheses revealed the following assumptions:

➤ *Hypothesis 1*: according to Table 1 below, the most important users of non-financial information are organizations and companies and to a lesser extent individuals and to a lesser extent authorities:

Table no. 1

Users of non-financial information

Category	Presentation	Answers	Ratio
a private individual		23	8.55%
an organisation or a company		229	85.13%
a public authority or an international organisation		17	6.32%
no Answer		0	0%

Source: DIGIT-EUSURVEY@NOMAIL.EC.EUROPA.EU

➤ *Hypothesis 2*: According to table no. 2 below, the main types of organizations and companies interested in non-financial information are, in order: industry associations, Nongovernmental organisations, companies (large, SMEs, individual entrepreneurs), financial advisers and legal services advisers, various trade organizations and others:

Table no. 2

Types of organizations and companies

Types of organizations and companies	Presentation	Answers	Ratio
Academic institution		2	0.74%
Company, SME, micro-enterprise, sole trader		48	17.84%
Consultancy, law firm		16	5.95%
Consumer organisation		4	1.49%

Industry association		52	19.33%
Media		0	0%
Non-governmental organisation		51	18.96%
Think tank		8	2.97%
Trade union		12	4.46%
Other		36	13.38%
No Answer		40	14.87%

Source: DIGIT-EUSURVEY@NOMAIL.EC.EUROPA.EU

➤ *Hypothesis 3:* According to table no. 3 below, public authorities are less interested in non-financial information:

Table no. 3

Types of public authorities

Types of public authorities	Presentation	Answers	Ratio
International or European organisation		6	2.23%
Regional or local authority		2	0.74%
Government or Ministry		4	1.49%
Regulatory authority, Supervisory authority or Central bank		3	1.12%
Other public authority		2	0.74%
No Answer		252	93.68%

Source: DIGIT-EUSURVEY@NOMAIL.EC.EUROPA.EU

➤ *Hypothesis 4:* According to table no. 3 above among public authorities, especially European and international authorities, ministries, supervisors and regulators of financial and other are interested in this information.

4.3 Modelling

The proposed modelling is based on three sets of requirements, namely:

- requirements regarding the qualitative aspects of non-financial information that will be presented;
- requirements arising from the specific nature of user of non-financial information;
- directions for use of non-financial information.

For the three sets of quality requirements scores of importance calculated as follows was realized:

$$P_i = G_i / G_{\text{imax}} \times \% \text{ positive, where:}$$

P_i - importance score,

G_i - the degree of importance given in the survey,

G_{imax} - maximum importance degree,

$\% \text{ positive}$ - the percentage of positive vote in the survey result,

For each of the categories of non-financial information, a score resulted from the application of each of the three listed requirements is given, depending on answers to questions Q1, Q2 and Q3, detailed below, as follows:

$$P_{\text{ic}} = P_{\text{iQ1}} + P_{\text{iQ2}} + P_{\text{iQ3}} \text{ where,}$$

P_{ic} - score of the importance of the category of analyzed non- financial information,
 P_{iQ1} , P_{iQ2} , P_{iQ3} - score of the importance resulted after answering to Q1, Q2 and Q3,

For each of these requirements, there are answers, according to information published on DIGIT-EUSURVEY@NOMAIL.EC.EUROPA.EU, următoarele :

1. From answers to question Q1 - "What aspects of disclosure of non-financial information do you think that should be addressed by the Guidelines?" resulted the following answers:

Table no. 4

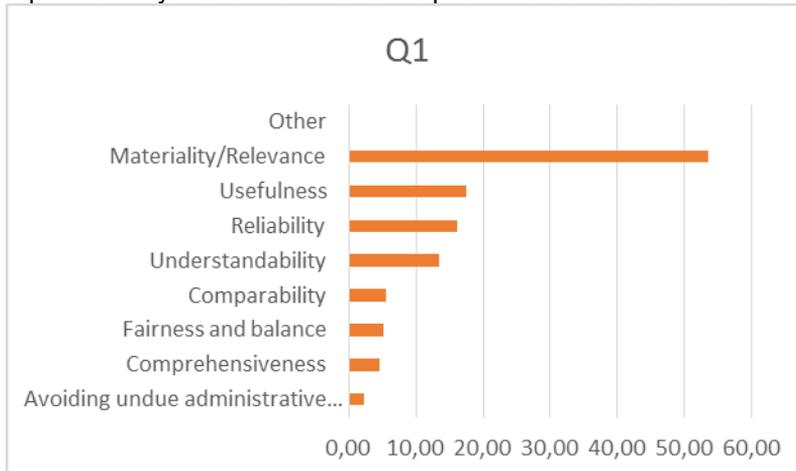
Statistic answers to question Q1

What aspects of disclosure of non-financial information do you think that should be addressed by the GUIDELINES?	Index*	Importance score **
Avoiding undue administrative burden	0.0219	2.19
Comprehensiveness	0.0454	4.54
Fairness and balance	0.0520	5.20
Comparability	0.0558	5.58
Understandability	0.1342	13.42
Reliability	0.1619	16.19
Usefulness	0.1751	17.51
Materiality/Relevance	0.5353	53.53
Other	0.0000	0.00

* method of calculating: the degree of importance given in the survey / maximum degree of importance *percentage of positive voting resulted in the survey;
 ** Method of calculation: Index x 100

Source: information processing on DIGIT-EUSURVEY@NOMAIL.EC.EUROPA.EU

Graphical analysis of answers to the question Q1 above looks like this:



Graphic no. 1 Statistic answers to questions Q1 (own processing)

Interpretation: As it can be seen from the above chart, the following aspects of disclosure of non-financial basic information ascending in importance result: 1. avoiding undue administrative tasks, 2. Understanding 3. fairness and balance 4.

comparability, 5. understandability, 6. reliability, 7. usefulness 8. materiality / relevance, 9.others.

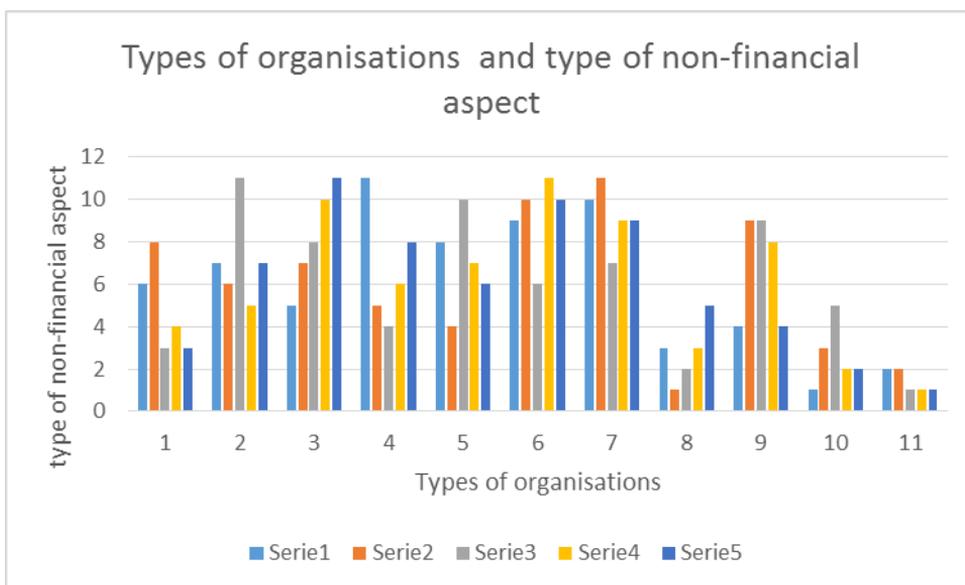
In identifying quality requirements for non-financial information we started from the premise that "The usefulness of financial information published in the financial statements of listed companies is assured when a series of quality standards are met in their reporting. To do so, the Conceptual Framework of the IASB (issued on 01.01.2013, found in Part A of IFRS) proposes a series of qualitative characteristics of financial information, such as: relevance, reliability, comparability, verifiability, timeliness and understandability (IASB, 2013). The first two features are considered to be fundamental and the following four come to complete quality assurance of financial information". (Ioan Bogdan ROBU *Qualitative characteristics of financial information reported by publicly traded companies*, EconomiaOnline.ro, no.48, April 2016). The starting point was used to identify the quality of non-financial information, taking into account the outcome of the survey conducted by U.E. according to DIGIT-EUSURVEY@NOMAIL.EC.EUROPA.EU.

Information quality requirements, as included in the table above, are understood as follows:

- *avoiding undue administrative tasks*: understood through the continuous collection of systematized information, facile in terms of resources;
- *comprehensiveness*: comprehension, acumen and skill;
- *fairness and balance*, meaning: fairness - fair behaviour dealing for the purposes of conscientious and scrupulous presentation of aspects; balance - meaning that not all isolated cases should be submitted;
- *comparability*: understood in its temporal, spatial and structural dimension of the presented information;
- *intelligibility*: related to the content of presented information, content that should be understood and perceived by all users;
- *reliability*: the purpose of presenting non-financial information in a timely manner from their discovery, enabling the timely correction of decisions;
- *use*: in the purpose of usefulness of information;
- *materiality / Relevance*: companies must define the (relevant) material aspects reflecting the impact of economic, environmental and social impact, throughout the value chain in the presentation of non-financial information.

2. From answers to question Q2 - "In your opinion, who are the main users of non financial information included in financial statements?" resulted the answers included in Table no. 1 above: Types of organizations and companies.

Graphic analysis of the above answers to question Q2 looks as follows:



Graphic no. 2 Statistic answers to question Q2 (own processing)

Where:

- 1,2,,11 represent the type of organisation according to Table no. 2: Types of organisations and companies;
- series1 ,..., series 5 represent the type of non-financial aspects (environmental, social, personnel aspect, observance of human rights, fighting corruption and bribery);
- Interpretation: for example, user type 3. Consulting and law firms are primarily interested in ascending order, on the following aspects: environment (with the lowest interest), social, personnel, observance of human rights, fighting corruption and bribery (with the highest interest);

3. From answers to question Q3 “In your opinion, what features make a piece of information relevant (or material) for the purposes of the non-financial statement?”, resulted the following answers:

Table no. 5

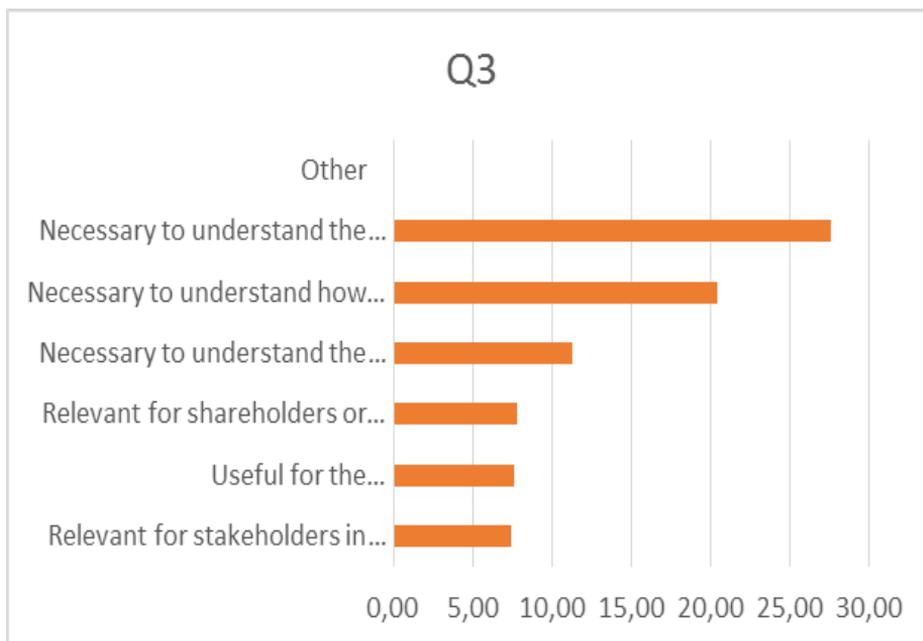
Statistic answers to question Q3

In your opinion, what features make a piece of information relevant (or material) for the purposes of the non-financial statement?	Index*	Importance score **
Relevant for stakeholders in general	0.0743	7.43
Useful for the management/directors of the company	0.0765	7.65
Relevant for shareholders or investors' decision-making	0.0781	7.81
Necessary to understand the company's development, performance and position	0.1126	11.26
Necessary to understand how the company manages non-financial risks	0.2044	20.44
Necessary to understand the impacts of the	0.2751	27.51

company's activity		
Other	0.0000	0.00
* method of calculating: the degree of importance given in the survey / maximum degree of importance *percentage of positive voting resulted in the survey; ** Method of calculation: Index x 100		

Source: information processing on DIGIT-EUSURVEY@NOMAIL.EC.EUROPA.EU

Graphical analysis of answers to the question Q3 above looks like this:

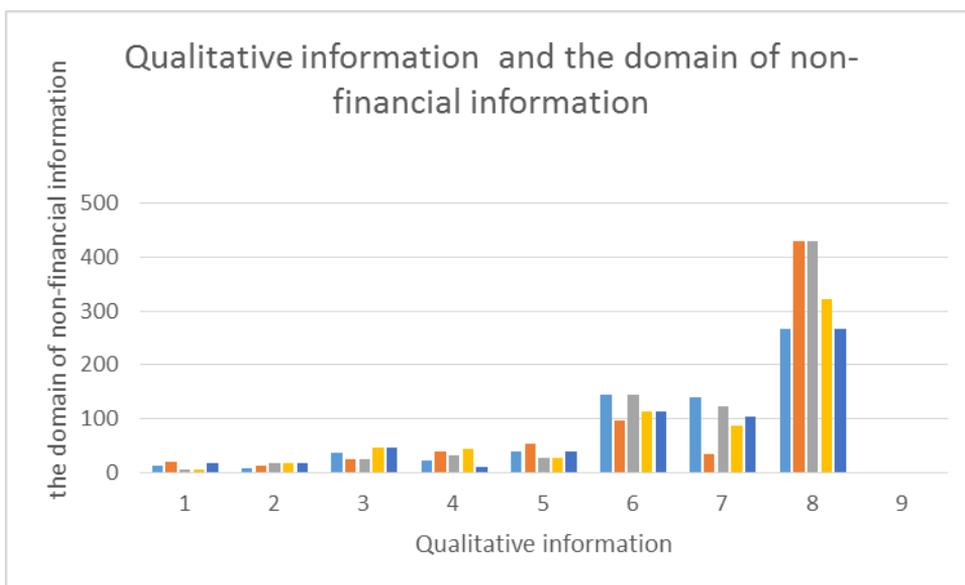


Graphic no. 3 Statistic answers to question Q3 (own processing)

Interpretation: in terms of the directions of use of non-financial information, the greatest interest is shown to the following directions (downward): the need to understand the impact on the activity of the company, the need to understand how the company will manage risk, general needs of information of investors.

Following the public consultation carried out by EU, it will issue non-binding guidelines on the methodology for reporting non-financial information, to facilitate the relevant, useful and comparable presentation of information.

Assigning scores for each area of non-financial reporting is as follows:



Graphic no. 4 Qualitative information and the domain of non-financial information (own processing)

Where:

- The domain of non-financial information refers, in order, to environmental, social, personnel aspects, observance of human rights, fighting corruption and bribery;
- Qualitative information requirement relates, in order to: 1.avoiding undue administrative tasks, 2. Understanding 3. fairness and balance 4. comparability, 5. understandability, 6. reliability 7. usefulness 8. materiality / relevance, 9.others;
- Interpretation: the materiality and relevance to the greatest extent characterizes all non-financial aspects still with weight on social and personnel aspects (equally);

We also stress the fact that according to the graphic no. 2 above, foreground qualitative requirements of financial information on each type of user are revealed.

5. Conclusions

The overall pattern for the content of reporting non-financial information include, as a result of our research, the following information:

- the qualitative requirements of non-financial information reported specifically to each of the five reporting areas (environment, social, personnel, observance of human rights, fighting corruption and bribery);
- priority qualitative requirements of non-financial information on each type of user in the 11 identified categories (according to table no. 2).

On the basis of this general algorithm follows, in a further step to achieve one specific algorithm for each type of user of non-financial information, taking into account each of the five areas of report, both quality specific requirements of non-financial information and the directions for use of these non-financial information.

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