CONSIDERATIONS REGARDING THE CONCEPT OF INTEGRATED REPORTING AND ITS IMPORTANCE FOR THE ORGANIZATION'S MANAGEMENT

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ABSTRACT: *The integrated reporting represents an ensemble of processes and activities which offer a periodic result regarding the strategy, performance and value created by the entity. The integrated reporting is composed of capitals, business models and the process of creation and value maintaining with time. Therefore, we report to six types of capital respectively natural, social, intellectual, human, productive and financial. An economic entity's business model is also a system of inputs and results which create added value and it maintains it for a short, medium or long term. The integrated reporting implies a process based on six guiding principles considered to be basic elements. The role the financial officers have in the process of integrated reporting is an essential one.*

KEY WORDS: *integrated reporting, financial reporting, capital, auditor.*

JEL CLASSIFICATIONS: *M14, M41, M42.*

1. INTRODUCTION

The active economic entities on the market use numerous financial information in order to obtain advantages or benefits in front of the competitors. More than that, over time, there have been formed groups interested in the information the economic entities provide. Due to the development and the complexity of the business environment, a reporting system that brings together financial and non-financial information has been created under the name of integrated reporting. This model is meant to bring a new image to businesses having a common language at an international level. Characterized as being a comprehensive system of reporting, with the help of this model the way the activity of the big economic entities is headed towards the environment and society and not just the aspects of financial order, is being presented (Dima & Man, 2015). The debates regarding the integrated reporting

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are not new in the domain, because authors like Elkington, known in the domain of responsibility and sustainable development, created the concept of Triple Bottom Line (Elkington, 2004). This concept also has the name of “3P”, which stands for people, planet and profit. Therefore, Triple Bottom Line has been the starting point of sustainability in the economic entities because those interested in reports of sustainability used this model and brought together financial and non-financial information defining the entity’s performance (Elkington, 2004). This sustainable development’s reporting model has been further adopted by The Netherlands in 1997, through the energy group Royal Dutch Shell being the first country the concept has ever been applied in (Shell, 2019).

The company of professional services PricewatwerhouseCoopers (PwC) created in 1999 a reporting framework “Corporate Reporting Framework” with the help of which information coming from the big companies was selected. This emphasizes on the introduction to the market and the management, on creating values and performance (PwC, 2019). The year 2002 mentioned for the first time an integrated report coming from Denmark, created after Novozymes entity’s initiative, entity which activates in the domain of biotechnology. During the same year, numerous intense debates took place regarding the sustainable development. Only in 2009 they refer to the companies listed in Johannesburg Stock Exchange (JSE) with the entities being directed towards publishing integrated reports (Botez, 2013).

Developing a conceptual framework regarding the integrated reporting is the desire of a United Kingdom organization which created in 2007 the “Connected Reporting Framework”. This framework wishes to highlight the management’s and investors’ needs. In 2009, they organized a gathering formed of organisms of regulation, UN representatives, entities and professionals and they established the International Integrated Reporting Committee (IIRC). This became a Council and it represents an important leader of the institutions, financial market, economic entities, academic environment, accounting professionals etc. The IIRC’s mission is to conceive, for the integrated reporting, a conceptual framework which would provide important information regarding the entities’ strategy, performance and foresights. Through IIRC the foundations of reporting are being laid, highlighting the developments of financial reporting, management and the sustainable development in order to evolve (Botez, 2013).

2. RESEARCH METHODOLOGY

This paper highlights the approach of the integrated reporting regarding the entities’ adaptation to the integrated system of reporting. Appreciating how the professional practitioners approach and adapt to these changes is being highlighted. Thus, this paper used the method of documentation by appealing to information published on specialty websites, respectively on the website of the International Integrated Reporting Council (IIRC), documents published by professional organisms and articles published in specialty magazines. During the making of this paper the following stages have undergone: planification, data collection, data analysis and finally, the actual writing of the article.

3. UNDERSTANDING THE CONCEPT OF INTEGRATED REPORTING

The integrated reporting is a complete set of processes and activities which have a transparent and concise result found within periodic reporting. It offers information about the strategy, management, performance and the entity's business model, allowing the creation of values on the long term (IIRC, 2019). The integrated reporting promotes the efficient approach of the economic entity's objectives in order to improve the quality of the available information. The reporting sees a vision on the long term which considers facilitating the business environment's communication with the exterior. The objectives of the integrated reporting can be found in a simplistic form in table 1.

Table no. 1 Objectives, actions and effects of integrated reporting

Objec-tives	Actions	Effects
1	Changing the organizational behavior	Creating value on the short, medium and long term
2	Permanent informing of the interested parties regarding resources allocation	Creating value on the short, medium and long term
3	Unitary approach regarding the entity's management	Permanent communication and maintaining the created value in time
4	Promoting responsibility and optimal utilization of every capital and understanding the interdependencies between them	Creating value on the short, medium and long term

Source: The author's projection based on IIRC, available at: https://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-the-international-ir-framework-2-1.pdf

The information which the integrated reporting offers has as main purpose supporting the investors' decisions on the long term regarding the financial capital and its allocation. Satisfying the public interest is being pursued on the long term while on the short and medium term creating and maintaining the created value is wanted. The strategies and the activities which the entity has are headed towards financial performances and their optimization because they could jeopardize the entity and its capacity of making investments on the long term, or the contrary, allocations for investments could be made. The investments the entity will make are to satisfy the pylons of sustainable development referring to the environmental, social or economic pylon. In table 2 the existent differences between the financial and integrated reporting are being presented.

The integrated reporting is composed of three essential elements, those being the capital, the business model and the creation of the value respectively its maintenance. In this concept, the capital has an important role and in the economic theory it also occupies a leading place being found between the three factors of production. Its importance is given by its capacity of producing other goods. The economic entities depend on a series of forms of capital to have success on the market.

Table 2. Financial reporting vs. integrated reporting

Characteristics	**Financial reporting**	**Integrated reporting**
Trust	Limited transparency	Increased transparency
Administration	Financial	Every capital
Approach	Limited	Whole
Focus	Past	Past and future
Time	Short term	Short, medium and long term
Adaptability	Constrained to rules	Adapted to individual requirements
Conciseness	Long and complex	Concise and significant
Technology	Paper based	Usage of technology

Source: The author's projection based on KPMG, available at: https://home.kpmg/content/dam/kpmg/pdf/2013/04/introducing-integrated-reporting-v2.pdf, p.3

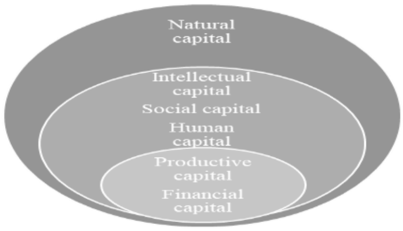

Fig. 1. Structuring the six types of capital
Source: IIRC, available at: https://integrated reporting.org/wp-content/upload s/2015/03/ 13-12-08-the-inter national-ir-fr amewor k-2-1.pdf

These capitals represent for the business model inputs of the economic entity as well as outputs because these transform through consumption or exhaustion or other methods which influence every activity of creation of the added value of the entity. With time, the total of the capital resources is not fixed, being always on the move, transforming through growth or decrease. The way the entities manage their capitals through growth or decrease affect the availability, capacity and quality of procuring limited or nonregenerative resources. This aspect influences the viability of the entity's business model on the long term and implicitly the entity's capacity of creating value in time. An entity utilizes mainly six types of capital graphically represented in figure no. 1 and detailed in table 3.

Table 3. Detailing the six types of capital specific to the economic entity

Financial capital	Every economic entity's available funds used to develop its activity.
Productive capital	Found within the entity as the production of goods or provision of services.
Human capital	Found as the professional capacity and experience of the hired personnel of the entity. The capital supports ethical and moral values.
Intellectual capital	Every intangible element which offers competitive advantages as capacity and intellectual property. This capital is often associated with the entity's reputation.
Natural capital	Given by entity inputs which influence every activity of the entity, including the natural resources, the ecosystem, the biodiversity etc.
Social capital	It represents the relationships created within the internal environment of the community, of the groups in order to increase the general and individual well-being and the business' development.

Source: The author's projection based on IIRC, available at: https://integratedreporting.org /wp-content/uploads/2015/03/13-12-08-the-international-ir-framework-2-1.pdf

All these types of capital are not applicable to every entity and are not relevant to every entity, so much so that every entity has their capitals adapted to its specific. Within the entity the business model is defined as being an input system, a system of added value creation and an output system which has as purpose creating and maintaining the added value in time. The business model is the one that influences as well as the one which is influenced by the elements specific to the entity. Regarding the integrated reporting of the entity, considering the business model, an entity needs to present at least the following elements:

- ✓ A short description of the business model;
- ✓ A description of the relevant particularities for the economic entity;
- ✓ Detailing key elements of the business model;
- ✓ Identifying important external factors;
- ✓ Placing the entity in the position of value creation;
- ✓ Link in reporting of the strategy, risks and financial elements aspects.

The investors monitor the creation of value through the business. The integrated reporting respects the principle of public interest and it promotes the investments which target a longer time as well as created value within this time frame in the entity. Within the economic entity the integrated reporting is the value created for the investors. It stores capitals and it is harnessed or not as a result of the internal games of capitals, followed by the entity's activity (Botez, 2013). The economic entities can create and maximize value by satisfying every interest of the interested individuals, including employees, clients, providers, creditors or local community. The value the entity creates this way reflects in the future cashflow as well as in returns regarding the environment, society or economy (Man & Măcriș, 2015). In other words, the value is influenced and conditioned by a whole activity and interaction network, or by relationships of cause-effect type which appear within the entity. All of these complete the elements associated directly with the financial part referring to the incomes and the growth of the financial capital (Botez, 2013). The value the integrated reporting creates is addressed to the long term investors. Of course the information given by the integrated reporting brings joy to the providers, clients, employees or regulation organisms, but particularly the needs of informing they have been offered by different forms of communication, for example the development or conformity reports (Păun & Isac, 2018).

The integrated reporting highlights relevant information regarding the evaluation of the value on the long term from the point of view of the investors in order to establish decisions and financial resources allocation to support the creation of value and the accomplishment of the society's expectations (Man & Ciurea, 2016). The long term investors do not have as main interest the change which undergoes the participation price, being more interested in the growth of the result and the capital appreciation on the long run. The latter is taken into consideration when in comes to the initial evaluation as well as the permanent interaction with their investments. Traditionally, the value has a significance associated to a present value of the cashflow in the future. The created value is associated with the economic entity's performance.

Even though those who invest in the long run monitor the information regarding the risks or dividends, as well as the future cash flow (Botez, 2013).

It is a critical point for them from the perspective of understanding which of the active economic entities is a value creator. The multitude of factors which contribute to the creation of value are not traditionally exposed accordingly in the entity's reporting or highlighted in the evaluation models such as the "discounted cashflows model". When we are talking about value from the point of view of the integrated reporting, we are referring to much more than a financial value. Each one of the capitals represent a way of storing value which has been created or lost as a result of consumption, as well as the resulted effects because the capitals are influenced by the activities which the economic entity develops (Botez, 2013). Referring to a conceptual framework, a few principles which lie at the base of the integrated reporting process are extracted, those being presented in table 4.

Table 4. The principles of integrated reporting

Stakeholders' importance
Relationships built with the individuals the entity interacts with are extremely important and due to that the interests of the third parties are basic elements in the reporting's development.
Strategical objectives
The integrated reporting offers information based on the strategical objectives' presentation and the way these strategical objectives reflect the capacity of creation and value maintaining on the short, medium or long term as well as capital usage and the effects produced on them.
Correct information
The information represents an important role in creating value respectively, creating relationships and connections between significant components for the entity in order to maintain created value in time.
Significant and concise information
Significant values mean concise information for the entity to run without process interruption on the short, medium and long term.
Comparison and coherence
The information the entity provides need to be exposed in a manner which would allow comparing the entity with other economic entities.
Relevance and reliability
An economic entity needs to supply reliable and relevant information. Their relevance is influenced by the lack of errors, neutrality and integrality.

Source: The author's projection based on IIRC, available at: https://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-the-international-ir-framework-2-1.pdf

Being presented as having more flexibility in approach than the financial reporting, the integrated reporting contains a multitude of relevant aspects for good user informing.

4. THE CONCEPT OF INTEGRATED REPORTING IN THE VIEW OF THE INTERNATIONAL INTEGRATED REPORTING COUNCIL

The conceptual framework from the point of view of the IIRC is composed of a series of components which have as discussion base questions the integrated report made by the entity should answer. Developing the report takes into account a description of the business model considering the mission and the economic entity's vision, the values, ethic and activity. The capitals which the entity uses and how these create value for the entity are also detailed (IIRC, 2019).

The operational context, element specific to the economic entity, is essential for the users to understand the way the economic entity acts including the risks the entity meets as well as the opportunities it has. The strategies and the objectives the entity has need to be mentioned in the content of the integrated reports (IIRC, 2019). More exactly, presenting the intentions of the entity regarding the business model is wanted. Accomplishing objectives and leading structure are elements whose appearance within the report is supported and to these, the managerial risk and the way renumeration is approached is added. The aspects regarding the performance are not to be neglected when making the integrated report. Thus, the entity carefully mentions the performance it has towards the established strategical objectives.

An important thing the integrated reporting accomplishes refers to forecasts, meaning opportunities, risks and uncertainties the entity could face which could prevent the accomplishment of strategies and performances the entity proposed for the future. The forecasts are a novelty element, for they did not use to be included in the financial reporting (IIRC, 2019). Those responsible with the making of the integrated reporting are subject to changes and modifications and due to that reason, a series of questions regarding the reporting process could appear. To clarify them, the conceptual framework has made a series of possible questions, as follows:

1. What is the frequency of the reports?
2. What is the dimension of the reports?
3. What is the time period included in the report?
4. What is the contribution of the corporative governance?
5. What is the aggregation degree of the information?
6. What is the technology used?

The first question, regarding the frequency of the reports, one could say it will be annual, according to the legislative framework in force. Another reason the annual integrated reporting is adopted is to include this information in the entity's financial situations. The annual making of the report does not limit the entities' possibility of permanently communicating the changes in the business environment, in forecasts or other domains when they appear. The second question, referring to the dimension of the developed reports, it is up to the entity because it depends on the purposes, risks and opportunities is having. All these elements need to be mentioned because they have a significant effect on the economic entity. The third question referring to the time period included in the report, it is an element which is also up to the economic entity because each entity has a different investment cycle. The chosen time period needs to be justified through arguments because the chosen decision referring to the reporting period needs to be motivated.

The fourth question referring to the contribution of the corporative governance, refers to the responsibility the entity's administrators have regarding the strategical objectives and the entity's performance. They are also responsible of decision taking, respecting the principles of integrated reporting with individuals in executive functions being actively involved. Other individuals than administrators can contribute to the identification and data collection and their transmission for reporting significant aspects. The fifth question referring to the information aggregation degree, each entity determines its own level of information aggregation and to present those, the entity has the responsibility of establishing particularities, respectively creating an equilibrium. Out of an aggregated information a large volume of it could be lost, attracting a distorted presentation of some particular aspects which consist of performance. The sixth question referring to the technology used, the entities are guided to choose advanced technological components which improve and contribute to the link of the external information with the information that needs to be integrated within the report and moreover, the programs which would allow the possibility of making comparisons. Not just the advanced programs are encouraged to be used, but also the entities could use classic methods used up until that point by the economic entity.

5. THE ROLE OF THE ACCOUNTING PROFESSION WHEN MAKING REPORTS

When it comes to making integrated reports, the professionals, mostly financial auditors, are the individuals targeted by the conceptual framework which ensures that the entities have an insurance of the reports individually made by an external auditor. This insurance is motivated by the fact that the degree of credibility of the reports grows when accomplishing this condition (IIRC, 2019).

Assuring the reports is imposed to be offered by independent practitioners which have professional skills in the domain of insurance and can make in a systematic and documentary manner the integrated reports. Based on the samples and procedures defined by the regulation standards, the external auditors need to be defined by control of quality and independence. Like practicing the mission of audit, governed by the International Standards of Audit, the new requirements of the integrated report need to be adapted. There is the need of adaptation in the process of qualifying from the professional point of view of the auditors as well. Initially it is recommended the making within a team formed of professionals in various domains, not just financial auditors in order to assure the audit an integrated report (IIRC, 2019). This step represents the existence of a well organized management and a precise coordination of the activities within a context which could assure a mission of interdisciplinary communication.

The external assurance of the integrated report brings its credibility, even though its challenges have limitations, which explains why the subject of external assurance is debated. To encourage discussions on this subject, IIRC has launched an initiative in which a group of technical collaboration has identified problems regarding the assurance of the integrated report, most often the problem of losing information collected and sent to be published in the report being found. With the help of their position in the economic entity, the internal auditors have an important role in the domain of integrated reporting. The Association of Internal Auditors of Romania (AAIR, 2019) has highlighted how "the role and position of the internal auditor are tied to the objectives of the integrated reporting" through:

- The holistic understanding of the organization's strategy and performance;
- Commitments regarding different types of capitals;
- Close interactions with a large range of internal or external interested parties;
- Information reliablity and connectivity.

In other words, the internal auditors are those who have a strategical position through which they can contribute to the evaluation of the mentalities and risks imposed by the integrated reporting. Moreover, at an operational and strategical level regarding the development of the integrated reporting systems, they play a main role. The internal auditors have at an operational level the power of assuring that the report contains every necessary internal checking and that the offered non-financial information is as important as the financial one.

Regarding the strategical level, the internal auditors are holistic, they consider that the entity should contribute to the assurance of the integrated reporting system substantiation. The internal auditors are also in measure to evaluate the reliability of the information included in the integrated report (Răvaș, 2018). The importance of involving the accounting profession within the integrated reports has been supported by international events on this subject. IIRC has made considerable efforts towards this direction and has made and implemented the conceptual framework regarding the integrated reports.

6. CONCLUSIONS

In conclusion, the integrated reporting is considering completing the measures referring to the information comparison the entities provide. The complexity of the business models and their functional structures influence on the long term the global interests and the society significantly affects the general public interest.

The integrated reporting also contributes to the decisive process regarding the way of allocating resources in order to create value on the long term. The novelty aspects the integrated report bring in the entity's business model are highlighted, as well as the arguments referring to the long term benefits brought by the transition made by adopting the integrated reporting. Through reference to the capitals, a high deal of attention is given to the nonregenerative or limited resources, because through the principles of integrated reporting elements specific to the sustainable development are supported. Considering the way of making the integrated report, a great deal of focus is put on forecasts, including the opportunities, risks or uncertainties the entity could face and which could prevent the accomplishment of the future strategies and performances of the entity.

The role of accounting practitioners when making integrated reports is a direct one which significantly contributes to this process. Even if we are talking about those who deal with making the actual reports, or those who assure the reports independently and externally, it is a challenge if we refer to the process of adaptation to the entity's specific and their given responsibility. The effort given by the auditors to be able to meet the requirements of the integrated reporting is a considerable one, but they consider themselves to be in measure when it comes to making reports as well as assuring them.

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