PRACE NAUKOWE UNIWERSYTETU EKONOMICZNEGO WE WROCŁAWIU
RESEARCH PAPERS OF WROCŁAW UNIVERSITY OF ECONOMICS nr 503 • 2018

Współczesne problemy w nauce, dydaktyce i praktyce rachunkowości ISSN 1899-3192
e-ISSN 2392-0041

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THE RELIABILITY OF INTEGRATED REPORTING

WIARYGODNOŚĆ SPRAWOZDAWCZOŚCI ZINTEGROWANEJ

DOI: 10.15611/pn.2018.503.44
JEL Classification: G32, M40, M41, M42, M49

Summary: This paper presents the conclusions from analyzing the reliability of integrated reporting in the light of the strategic and information-related paradigm of accounting. The study demonstrates the reliability in the light of international standards that standardize integrated reporting, according to which there is a need for the improvement of credibility. As a key form of improving the reliability of integrated reporting the author indicates an internal and external verification of financial data and non-financial disclosure, both based on accountability account related to a company's responsibility. The purpose of the study was achieved by employing pertinent research methods, including in particular a critical analysis of scholarly literature and the method of analogy. The study is axiomatic in nature, based on fundamental accounting theory assumptions.

Keywords: social responsibility accounting, integrated reporting, attestation, verification.

Streszczenie: W artykule przedstawiono wnioski z analizy wiarygodności danych niefinansowych, stanowiących kluczowe narzędzie sprawozdawczości zintegrowanej w świetle strategiczno-informacyjnego paradygmatu rachunkowości. Opracowanie ukazuje cechę wiarygodności z perspektywy międzynarodowych standardów normalizujących raportowanie zintegrowane. Wskazuje potrzebę jej zwiększania wobec identyfikowanego w praktyce ryzyka prezentacji danych niewiarygodnych w sprawozdawczości zintegrowanej. Za kluczową formę uwiarygodniania danych niefinansowych raportowania zintegrowanego autor przyjmuje wewnętrzną i zewnętrzną weryfikację danych finansowych i ujawnień pozafinansowych, opartą na rachunku odpowiedzialności. W realizacji celów opracowania wykorzystano adekwatne metody badawcze, w tym w szczególności krytyczną analizę piśmiennictwa naukowego oraz metodę analogii. Opracowanie ma charakter aksjomatyczny w zakresie wykorzystania podstawowych założeń teorii rachunkowości.

Słowa kluczowe: rachunkowość odpowiedzialności społecznej, sprawozdawczość zintegrowana, atestacja, weryfikacja.

1. Introduction

In general, reliability stands for credibility, truthfulness, confidence, responsibility, and authenticity. Reliability is the fundamental quality feature of any usable information. The reliability of information depends on credible sources of information which, in turn, determine the features of the information's truthfulness. The credibility of a company influences the level of stakeholders' trust, and also the amount and time of invested capital, and represents the business maturity of the company. Especially today, in the age of corporate social responsibility, company's credibility formed primarily by the company's activities aiming at aligning economic goals with social and ecological ones, requires conscious communication of credible information with all users.

Integrated reporting is a key form of satisfying corporate stakeholders' information needs related to the creation of company value, and its anticipation, from a financial and economic perspective, as well as a socio-environmental outlook [Zyznarska-Dworczak 2015, p. 193]. Thus, it fulfills the strategy and information requirements of the accounting paradigm identified by Mattessich, by providing information to many recipients (company owners, management, employees, banks, business partners, customers, representatives of the state, and the general public) in order to meet different information purposes. This approach is in line with the maxim in the business world that "stakeholders want credible information they can trust" [ICAEW 2008, p. 17]. Successful communication is only possible, however, with "guaranteed reliability of information enabling the assessment of each internal or external economic agent which is obliged to account for its actions" [Szychta 1996, p. 201]. This remains a constant task of accounting systems which are so important for socially responsible companies.

2. Stakeholders' expectations towards the reliability of integrated reporting

Nowadays, "questions about whether a financial report presents a 'true and fair view' of a company cannot be adequately answered, because the reports do not contain information on nonfinancial performance that can determine a company's long-term financial picture" [Eccles, Saltzman 2011, p. 58]. Considering the increasing complexity and diversity of business, it is becoming clear that "traditional financially oriented management and corporate reporting does not help investors understand and feel confident in their understanding of a company's full range of current activities and future direction", including both its financial and non-financial aspects [WBCSD 2013, p. 2].

Integrated reporting addresses stakeholders' information needs. It is a way to communicate a clear, concise, integrated story that explains how all of their resources are creating value. It is helping businesses to think holistically about their strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance [Assurance on <IR> 2015, p. 2]. An integrated report combines financial information with non-financial information, so as to document, in the most credible way, the implementation of a company's corporate social responsibility guidelines, primarily connected with:

- ecology and environment protection,
- community needs, in the form of different sponsorship or charity activities, or actions supporting social initiatives,
- company's responsibility towards the state, and region, like abiding the law, or supporting regional development,
- employee and customer needs.

By identifying key sources and factors of creating long-term company value, integrated reporting adds reliability to a company's corporate social responsibility strategy that is both in implementation, and in the pipeline. Both internal and external stakeholders of a socially responsible company, generally expect information about broadly understood reasonable business, with aligned economic, social, ethical, and environmental goals. However, the degree to which these information needs are met largely depends on the reliability of data the company presents in its report.

Integrated reporting reliability depends on a number of factors, including the social responsibility strategy adopted by the company, its implementation, goals set by authors of the information presented in the report, company stakeholders' goals, regulations, and integrated reporting requirements. The reliability of data in an integrated report depends on the nature of data, as well as ability to verify the data, since it is harder to lend reliability to the truthfulness and fairness of non-financial data, than to the truthfulness and fairness of financial data. Thus, when laying down the foundations for the reliability of integrated report information one should make sure there are no factual errors, that events are presented truthfully, that there is neutrality understood as lack of bias or purposeful presentation aimed at desirable user decisions and evaluations, and that there is prudence in value estimation, and that information is complete.

In addition, a credible integrated report is also a report which is understandable by company stakeholders, and which in a transparent and clear way presents current and planned economic, environmental, ethical, and social potential of a company in the aspect of the company's long-term contribution to sustainable development. Such a multidimensional presentation of results is easier to understand if reporting is made according to the, so called, triple bottom line, or TBL, presented by J. Elkington [1998, pp. 18-22], which assumes, that enterprise value is created by economic value, social values, and environmental values. The presentation of values helps to bridge the gap between a company's market value, and its intrinsic value, i.e. the gap perceived by stakeholders as the information gap, reporting gap, gap in the understanding, and gap in perception, as well as expectation gap [Eccles et al. 2001, pp. 68-88].

Regardless of why companies publish them, the presentation of results requires an ethical and transparent justification. “The need for accountability will remain as long as we do not become angels” [Mattessich 1994, p. 366], consequently there is the need for a guardian of order and reliability, i.e. need for accounting. The role of social responsibility accounting set forth in a company’s social responsibility policy largely depends on the reliability of information presented in its integrated report.

3. Reliability of an integrated report in the light of integrated reporting standards

Reliability is one of key assumptions of the international integrated reporting standards [The International… 2013], as well as many other corporate social responsibility standards like GRI guidelines, AA 1000 standards, and other regulations used in the process of reporting social responsibility comprising of the SA (Social Accountability) 8000 standard, Global Compact principles, ISO, and EMAS standards of drawing environmental management, CERE (Coalition for Environmentally Responsible Economics) principles, OECD guidelines, the guidelines on the treatment of employees from the International Confederation of Free Trade Unions, and Global Sullivan Principles. Any corporate social responsibility norm, standard, or initiative assumes reliability as the key principle governing the presentation of data. Activities undertaken by entities which create standards relating to sustainable development activities, like Global Compact, OECD, AccountAbility, Global Reporting Initiative, and other organizations, aspire to ensure top quality of disclosure. Out of many regulations some set down exactly the scope and way of presentation of a given issue in the social report, while others have a merely ancillary nature, serving only to assist the process of preparing such information. Consequently, information credibility largely depends on the moral and social maturity of the company itself, because social results are reported on a voluntary basis.

According to the International Integrated Reporting Standards, issued on 9 December 2013 by the International Integrated Reporting Council (IIRC), presented in The International Integrated Reporting Framework [2013], “reliability”, together with the feature of “completeness”, means that an integrated report should comprise all material issues, both positive and negative, in a balanced way, and without material errors (par. 3.39). According to paragraph 3.40 of International Integrated Reporting Standards the reliability of information is affected by its balance and freedom from material error. According to paragraph 4.46, practical issues might limit the nature and extent of information that can be presented in an integrated report. Then it may be appropriate to disclose such limitations, and actions being taken to overcome them, in an integrated report. In the case of the unavailability of reliable information an integrated report should indicate the nature of the information that has been omitted and the reason why it has been omitted (par. 1.18).

Reliability is often referred to as faithful representation. The key in lending credence to the legitimacy of actions and their outcomes is the presentation, in the integrated report, dependencies among capitals available within the organization – financial, manufactured, intellectual, human, social and relationship capital, as well as natural capital. According to IIRC standards (paragraph 2.3) a company specifies how an increase of one type of capital influences other capitals, which mainly applies to the decrease of financial capital, that is provided by investors, that is used to increase other capitals. Such a presentation of a strategy of a socially responsible company makes it easier to understand non-financial information about activities driving sustainable development that lay down foundations for the future economic, social, and environmental potential of a company. The purpose of integrated reporting standards is to ensure top quality of published information, understandable in particular as credibility, which can and should be increased and is verifiable.

Empirical research relating to the corporate ability to present information of high quality indicates the difficulty in meeting the expected level of reliability of the data, especially non-financial disclosure, presented in the integrated reports [Krzus 2011; Eccles, Krzus Watson, 2012; Jensen, Berg 2012; Cheng et al. 2014; Sierra-García, Zorio-Grima, García-Benau, 2015; Flower 2015; ACCA 2015; Simnett, Zhou, Hoang 2016]. The debate is complicated by the extant lack of convergence in the accounting literature on how to define and empirically disentangle disclosure quantity and quality. In the face of absence of a generally agreed model for disclosure quality, as well as relevant and reliable techniques to measure it, prior studies tend to use disclosure quantity as a proxy for disclosure quality. Moreover, researchers suggest that investigating only the volume of disclosure could be misleading. Provided that high quality reports should be concise and focused making "quantity" a proxy of disclosure quality becomes questionable [Melloni, Caglio, Perego 2017, p. 221]. For example the research conducted by Wild and van Staden [2013] based on the integrated reports published by 58 organizations from 20 countries showed that "conciseness and reliability of information was achieved by 55% of the companies". However, according to this research "reliable information is material to assess organization's ability to create and sustain value in the short, medium and long term". According to WBCSD it does not matter if "any company report accurate, material and useful non-financial information according to any standard, whether it be regulatory or voluntary, global, regional or otherwise, it must first have confidence in the quality of its non-financial information, which is a function of the quality of its non-financial internal control environment" [WBCSD 2013, p. 3].

IIRC is aware of the risk of presenting unreliable data in an integrated report. Therefore for reliability of disclosure in integrated reporting the Council recommends in its standards "mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit or similar functions, and independent, external assurance" (par. 3.40). Those charged with governance have ultimate responsibility for how the organization's strategy, governance, performance and prospects lead to value creation over time. It can be stated that reliability is connected with the company's responsibility for presented value. The international integrated reporting standards, by striving to improve the reliability of published reports, assume that value creation should be shown both from the point of view of inputs into activities, activity outputs, as well as activity outcomes.

4. The role of social responsibility accounting in lending credence to integrated reporting

Unlike financial reporting, where information technology systems and organizational processes have been developed and fine-tuned over many years, the systems and processes for producing an integrated report and disseminating its content are still being developed [IMA 2016, p. 26]. Integrated reporting will require following developments in professional and university accounting curricula [Owen 2013, p. 340]:

- a strategic rather than operational or transactional focus,
- longer rather than short-term outlook,
- prospective rather than retrospective analysis,
- qualitative commentary as well as quantitative information, and
- reports on wider business performance metrics rather than on narrower external financial reporting data or audit compliance.

Ensuring reliability in each of these changes is a challenge for the world of science and practice. There are ample research opportunities in relation to the reliability enhancement of integrated reports [Simnett, Zhou, Hoang 2016, p. 282]. On the basis of empirical research, academics [Adams 2014; Cheng et al. 2014; de Villiers, Rinaldi, Unerman 2014; Simnett, Huggins 2015; Zyznarska-Dworczak 2016] press for in depth scientific research to determine the needs and benefits of introducing a mechanism improving the reliability of integrated reports. This is a response to the gap shown in part 3 of this paper – regulatory provisions point to the need of external verification to be performed by third parties, however, due to the features of non-financial information, like inability to measure it, its subjectivity, and forward-looking nature, it is not specified how to perform such verification. According to IIRC representatives "relative to the hundreds of years that financial statement auditing has been evolving, we are now only at the beginning of the <IR> assurance journey" [Assurance on <IR> 2015, p. 2]. The current lack of tools and procedures verifying reliability of data presented in integrated reporting poses a special challenge for the science of accounting.

In integrated reporting, the role of accounting can be perceived from Mattessich paradigms' perspective: value paradigm, management-trust paradigm, and strategic-information paradigm. Each of them assigns different tasks to accounting, however, given the enveloping economic, technological, and behavioral changes of the current economic world, the strategic-information paradigm gains paramount importance. The fundamental premise of accounting's strategic-information paradigm is to meet information expectations of the users of corporate reports, given the assumption that accounting describes solely and exclusively an economic reality. Mattessich is of the opinion, that next to physical reality, it is the social reality that plays a fundamental role in accounting, since social reality's logical structure is composed of ownership relations, liabilities, and issues of valuation [Szychta 1996, p. 211]. In the age of corporate social responsibility the need of reporting social reality is particularly strong.

The author of this paper is of the opinion that by meeting accounting strategic-information paradigm's premises one can eliminate the gap visible in practice that applies to the fundamentals of generating reliable information presented in integrated reports. In order to do that, it must be assumed that a major function of integrated reporting is to provide all stakeholders with the information which they require to understand the dependencies between financial and non-financial performance. Each socially responsible company, striving to meet the stakeholders` information needs is forced to draw an accountability account, which enables to define its relationship between financial and non-financial performance, that in turn allows more effective monitoring and review controls. At the same time, such an approach that guarantees internal verifiability will enable reliable external assurance.

The relationships between financial and non-financial performance should result from multidimensional analyses of the relationship between company needs, as defined in its social responsibility strategy, and its resources in the form of manufactured, financial, IT, human, social, and environmental capital. A credible accountability account related to economic, social, and environmental responsibility necessitates the measurement and presentation of how a company influences the environment, according to the aforementioned triple bottom line, showing the eco-effectiveness. The drawing of an accountability account related to a company's responsibility means that the accounting system must generate not only social responsibility information, supplementing a financial statement, but it must also be incorporated within a multidimensional model showing the pros and cons of the performance of the company's social responsibility policy.

Recapitulating, in the age of CSR, in view of growing diverse information needs, it is expected that a social responsibility accounting system, by proper organization of the measurement of the value of assets, capital, and performance of activities, taking into account ethical norms, and at the same time company needs, will help perform a credible internal and external reconciliation on account of economic, social, and environmental responsibility. One of the key conditions of the development of integrated reporting, by increasing reliability of social responsibility reporting is, therefore, the development of the accountability account system and its adaptation to the needs of measuring activities promoting sustainable development.

5. Conclusions

The reliability of an integrated report depends on the social responsibility strategy adopted by a company, as well as its implementation, on the goals of company stakeholders, on the ability to use integrated reporting standards, as well as the way of lending credence to information. The paper shows that meeting accounting strategic-information paradigm's premises can eliminate the gap visible in practice relating to reliable integrated reports. Providing the stakeholders with the information about the dependencies between financial and non-financial performance required the drawing of an accountability account, which allows more effective monitoring and review controls, especially of non-financial disclosure. The relationships between financial and non-financial performance should result from multidimensional analyses of the relationship between company needs, as defined in its social responsibility strategy, and its resources in the form of different form of capitals. A reliable accountability account guarantees internal verifiability, which helps for external assurance, the fundamentals of generating reliable information in integrated report.

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