

**AN OVERVIEW OF THE NON-FINANCIAL REPORTING  
PRACTICES OF THE ROMANIAN PUBLIC-INTEREST ENTITIES  
LISTED ON BUCHAREST STOCK EXCHANGE**

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**Abstract**

*The goal of this article is to present the main non-financial reporting practices of the Romanian public-interest entities (PIEs) listed on Bucharest Stock Exchange (BVB) for financial years 2017 and 2018.*

*Based on the exhaustive analysis of the documentation processed, in this article is highlighted the interest in the extent to which the Romanian PIE listed on BVB follow the European Union (EU) law regarding disclosure of non-financial and diversity information.*

*The Romanian's PIEs listed on BVB follow the rules of the EU regarding non-financial. The results show a practice of reporting mostly issues related to employees, environmental, risks and business model.*

**Keywords:** *Non-Financial Reporting, Corporate Reporting, Social Responsibility, Sustainability, Environmental Protection*

**JEL classification:** *M14, M40, M41, M42, M48*

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**1. Introduction**

The world economy is in a continuous change and the companies are facing with global competition, technological innovations and tightened regulations in response to financial and governance crisis. The accounting

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profession is put to the test as the old and traditional corporate reporting model does not satisfy information's user needs in order to evaluate the past and future performances of the companies (Flower, 2015). Some authors consider the traditional corporate reporting model as being limited (Reverte, 2015) as it implies the use of the historic financial information and offers financial perspectives on short term, without taking into consideration other aspects around the company: the society, the environment, corporate governance issues etc. Other authors consider that lately the financial statements have lost their relevancy in front of the investors as the information presented is not complete (Ittner and Larcker, 1998). The need for complete information regarding external reporting of the activities of the organizations led to expansion and transformation of the traditional corporate reporting by including social and environment aspects (Mallin, 2009; Hopwood et al., 2010). The development of a new kind of corporate reporting seems to be inevitable because it allows individuals and organizations to counterbalance the strength of financial information by integrating non-financial information (NFI), considered nontraditional, in their financial statements (Smith, 2014).

## **2. Methodology**

To fulfill the purpose of the article I decided to make an exhaustive analysis of the documents containing NFI according to the EU legislation in force (usually the administrator's report or sustainability report).

For this I selected the large companies which are PIEs listed on BVB with an average of more than 500 employees during the financial years 2017 and 2018 (the reason of choosing the PIEs and the condition of exceeding the average number of 500 employees are purely legislative and will be explained in the next section of the present article together with the reason of choosing the financial years of 2017 and 2018).

### **2.1. Data collection**

The first step in data collection was to identify the Romanian's PIE's that satisfy the above mentioned conditions. The most handy resource was the online database available on [www.listafirme.ro](http://www.listafirme.ro)<sup>4</sup> which returned 759 research

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<sup>4</sup> [www.listafirme.ro](http://www.listafirme.ro) is a full online register containing all the active companies from Romania which brings together information from various official sources such as: the Official Journal of Romania, Ministry of Public Finances, National Trade Register Office, National Agency for Fiscal Administration etc.

results obtained by fining the research to return the results taking into consideration entities exceeding the average number of more than 500 employees for 2017 and 2018 financial years (of which 9 entities had less than 500 employees as average number by the end of 2017 financial year but with an average number of over 500 employees in 2018; another entity had 0 employees in 2017 and in average more than 500 people employed in 2018) distributed by the type of the organization as follows:

**Table 1: The structure of the Romanian companies with more than 500 people employed in average for the financial years 2017 and/or 2018**

<b>FORM OF ORGANIZATION</b>	<b>TOTAL NO</b>
INSTITUTES	2
NATIONAL COMPANIES	12
JOINT STOCK COMPANIES	289
LIMITED PARTNERSHIP	4
PERMANENT OFFICE (Fiscal Code, ART. 8) <sup>5</sup>	2
GENERAL PARTNERSHIPS	1
CRAFT COOPERATIVE SOCIETY	1
LIMITED LIABILITY COMPANIES	446
<b>Grand Total</b>	<b>757</b>

Source: Own processing according to the data obtained

The next step was to fulfill the other criterion: to select the PIE listed on BVB. According to the Law No. 162/2017 from 6<sup>th</sup> of July 2017 regarding statutory audit of the financial statements and of the consolidated financial statements, “public-interest entities” means, among others<sup>6</sup>, those entities who have the securities traded on a regulated market. Taking into consideration this criterion, have been selected only the entities that could be listed on BVB: the joint stock companies. The selection resulted in 289 joint stock companies. There was only one problem left: which of the 289 joint stock companies are listed on BVB? For finding the answer to this question I translated the list of the entities listed on BVB available on the official website into an editable

<sup>5</sup> It may be a branch, an office, an headquarter, a manufacture and so on according to the Romanian Fiscal Code

<sup>6</sup> The list continues with others 3 categories of PIE, not included in the present research

format used further to check based on the fiscal code of each entity which one is in my list. The result consisted in obtaining 40 PIE which, according to the law in force, shall include in the administrator's report (or another report) NFI required by the EU.

## **2.2. Explaining how the objective of the paper will be achieved**

To present the main non-financial reporting practices of the Romanian's EIP listed on BVB I considered it appropriate to be able to answer at the end of this research to the following questions:

Q1: Does the auditor's report refer to the reporting of NFI?

Q2: Does the audit report specify that another report will be published for corporate responsibility?

Q3: Did the auditor verify that NFI was reported?

Q4: Does the administrator's report include the non-financial statement?

Q5: If the administrator's report included NFI, does it appear in a separate section called "non-financial statement"?

Q6: Although, if applicable, the administrator's report includes NFI provided in NFRD, is there a separate report on non-financial reporting considered by the company in compliance with NFRD?

Q7: Do the companies in the sample draw up the non-financial statement or an individual report including NFI?

Q8: Does the non-financial statement/non-financial report contain the following aspects regarding to: human rights, diversity (in terms of age, gender, educational and professional background), environment, social responsibility, treatment of employees, anti-corruption, bribery, business model, policies and Due Diligence Process, outcomes, risks and key performance indicators?

Q9: What non-financial reporting regulations were used: national or international?

Q10: If international non-financial reporting framework have been used, which are this?

Q11: The non-financial reporting of 2018 looks improved than the non-financial reporting of 2017,

The 11 questions above represent the essence of this research paper. These were chosen taking into consideration the first observations I obtained on my first non-financial reporting preview of the selected companies as the role of the preview was to identify the most common aspects which link the selected companies regarding non-financial reporting. In other words, the

above 11 questions may be a starting checklist which, applied on more companies from various countries, can help comparing the non-financial reporting practices from one country to another.

### **3. Non-financial reporting in the EU and Romania**

In EU, the non-financial reporting has its origin starting with Directive 2013/34/EU. This Directive, among many others, stipulate the presence of the key performance indicators regarding NFI in the administrator's report, including information relating to environment and employees. This Directive was not very clear regarding non-financial reporting, being amended later by the Directive 2014/95/UE. This Directive introduced the term of "non-financial statement" which was to be a part of the administrator's report. The non-financial statement becomes mandatory for the large entities which are PIE's exceeding on their sheet dates the average number of 500 people employed.

A very important aspect is that the NFRD applies a "comply or explain" system as the undertakings that do not pursue policies in relation to one or more of those matters shall provide in the non-financial statement a clear and reasoned explanation for not doing so. From this statement we can deduce that the undertakings comply with NFRD if they develop policies for at least one matter listed as potential content in the non-financial statement and for the matters omitted they have to explain that choice. Or not, this is not very clear in NFRD. Also, the provisions of the NFRD apply starting with 2018 for the financial year starting on 1<sup>st</sup> January 2017. This is the reason for which I selected the financial year 2017. Even if starting with the financial year 2018 all the Romanian entities with more than an average number of 500 employees during the financial year 2018 (Order No. 3456/2018 from 1<sup>st</sup> November 2018 of the Ministry of Public Finances), in the present study I kept the same PIE's of 2017 in order to ensure comparability of non-financial reporting of Romanian PIE listed on BVB from one year to another. Hence the difference between the Romanian and EU legislation. In other words, the EU law refers to PIE exceeding on their sheet dates the criterion of the average number of 500 people employed during the first reporting year required while the Romanian law requires to all the entities (not only PIE's) with more than the average number of 500 people employed during the first reporting year required to present NFI in a non-financial statement (usually a section of the administrator's report) or in another report (sustainability report). Given the article 4 (1) of the NFRD according to which Member States of the EU shall

bring into force laws in order to comply with NFRD, I considered it appropriate to select the Romanian PIE's with more than the average number of 500 employees during the first reporting year required expected to comply with the EU law regarding non-financial reporting (2017) as specified in the NFRD.

Though the non-financial reporting is mandatory to be respected in the EU by the organizations who meet the criteria, the EU does not set a standard or a framework under whose flag the non-financial reporting requirements must be fulfilled. NFRD gives pretty much flexibility to report relevant information in the way in which the companies consider most useful. The companies have the freedom to choose the reporting guidelines relying on one of the following: United Nations Global Compact, OECD guidelines for multinational enterprises, Global Reporting Initiative and so on. The companies have also the possibility to use the non-binding guidelines (available from 2017) to disclose NFI.

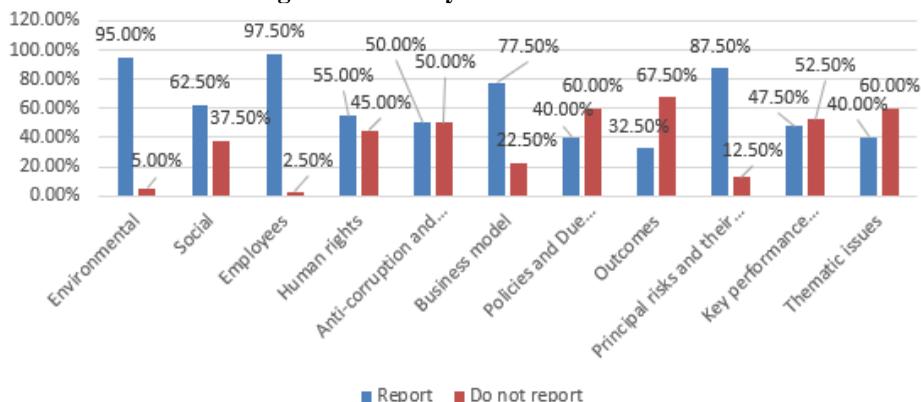
#### **4. Results**

Considering the 40 companies that are the object of the present research paper and the NFI related to the analyzed financial years (2017 and 2018), in 87,5% of cases the auditors mention in the audit reports if the company respected the NFRD provisions (transposes into Romanian legislation) and just 67,5% of them verified if NFI has been reported. Usually, the auditors who verify that organizations report NFI are using the following expression in audit report: "The administrators are responsible for preparing and presenting other information. That other information includes the administrator's report". Also, in 10% of the cases the auditor specifies that the NFI will be published into a separate report.

Regarding the content of administrator's report, 65% of the companies include NFI and just 30% of the selected companies have a special section in the administrator's report named "non-financial statement", which makes the NFI easier to be found in the administrator's report. Even if the administrator's report includes NFI provided in NFRD, 25% of the companies prepare a separate report with respect to NFRD, but not necessarily a report prepared in accordance with an international non-financial reporting framework as just 20% of the companies use such a framework, that being Global Reporting Initiative (GRI).

As about the non-financial aspects, the analyzed companies report as follow:

**Figure 1: Non-financial aspects reported by the Romanian’s PIEs’ listed on BVB during the financial years 2017 and/or 2018**



Source: Own processing according to the data obtained

Most of the selected companies report in special aspects related to employees (97,8%), environmental issues (95%), principal risks and their managements (87,5) and business model (77,5%).

## 5. Conclusion

The Romanian’s PIE’s listed on BVB follow the rules of the EU regarding non-financial reporting even if some report to a greater extent than others. The results show a practice of reporting mostly issues regarding employees, environmental, risks and business model.

Most of the auditors verify the existence of the NFI in the administrator’s report which does not include all the time a separate section named “non-financial statement”.

The only international non-financial reporting standard used by some companies is GRI, but the most of them report using the EU guide for reporting NFI.

## 6. Acknowledgement

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