

Financial forms in integrated reporting as a means of achieving leadership in accounting

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Abstract Our paper focuses on the problem of achieving leadership in financial services via ensuring the efficiency of using existing types of reporting. We consider the chronological stages of the appearance and implementation of integrated reporting on the territory of the Russian Federation. Moreover, a paper provides a comparative analysis of the report, compiled in accordance with IFRS, with an integrated report, which allows us to draw some similarities and advantages.

In addition, the paper presents the advantages and disadvantages of integrated reporting based on existing Russian and foreign experience with accounting standards and their implementations. Our findings identify the pressing need for providing information in the form of an integrated report for interested external users in order to obtain reliable data with a long-term perspective. In addition, we develop an algorithm for introducing an integrated report for Russian organizations as a base one with the ability to adjust individual elements of the process in connection with the individual characteristics of each organization.

1 Introduction

Nowadays, at the present stage of economic activity of enterprises and organizations, it becomes quite typical and customary to provide reflection of financial results in the form of financial statements in order to inform about the financial condition of an economic entity for various users. The preparation and preparation of financial statements is strictly regulated by existing standards in accordance with IFRS (International Financial Reporting Standards, RAS (Russian Accounting Standards), GAAP (Generally Accepted Accounting Principles or Generally Accepted Accounting Principles) and other national standards adopted for standardization in various states (for example, USBU - Ukrainian Accounting Standards).

International Financial Reporting Standards (IFRS) are standards based on International Standards Accounting Board (IASB) accepted principles. IFRS was formerly known as International Accounting Standards (IAS) and was introduced after 1973 by the Board of the International Accountants Standing Committee (IASC) (see e.g. Carmona and Trombetta 2008; Solovieva 2013).

IASB also follows a rigorous, open standard development process and cooperates with national standard setters around the world. The IASB has 15 members from nine countries. The International Accounting Standards Board is the independent personal department and was established in 2001 to replace the International Accounting Standards Committee. The aim of the IASC is to establish and publish accounting policies to be followed in the management of financial statements and to promote their general approval and publicity. It also usually works for the development and management of policies, accounting policies and measures that involve the presentation of monetary statements. They apply to joint financial reports and other reports of companies, including those engaged in commercial, industrial, financial and similar activities, regardless of their legal personality. Financial statements based on IFRS are designed to meet the frequent needs of shareholders, the public, employees and creditors by providing information about the monetary situation, routine and cash flows of an institution. An absolute set of monetary reports includes monetary position reports, total comprehensive income, cash flows, changes in equity, accounting policies and explanatory notes.

The practice of using the above standards in the Russian Federation has led to a time-consuming process of analyzing financial indicators by external users to make economic decisions (Aletkin 2014). Thus, the need arose to create a convenient format where financial indicators reflect their interaction and represent

economic efficiency (Duvanskaya and Sverchkova 2016). The solid background for that formed in 2000-2009 led to the creation of the International framework for integrated reporting and the launch of market testing as part of the Pilot Program in 2010-2013. (Slepneva and Khoruzhiy 2013; Malinovskaya 2016) At this stage, the issue of the need to introduce integrated reporting in a mandatory manner for Russian enterprises is actively discussed, as well as the further path of its development.

This paper focuses on the issue of financial services and achieving leadership and efficiency in these services via ensuring the quality and preciseness through employing integrated types of reporting. Our results might be of a special interest for the Russian as well as foreign accounting and financial community.

2 Literature review

Our analysis of scientific publications on the topic of the study showed that the problems and prospects for the development of integrated reporting in the past few years are quite relevant in the work of Russian scientists and scientists in the field of accounting, analysis and audit.

Based on the studied definitions given by the above authors, it can be concluded that integrated reporting is a new effective tool that in the near future will ensure the interaction of companies with financial markets and a wide range of stakeholders. This tool helps to evaluate the development of the company, as well as its prospects for the long and short term.

For example, Horton et al. (2013) investigate how the application of IFRS has impacted the accuracy of analyst forecasts after disagreement and volatility in revisions in 16 EU countries. It appears that the improvement in the quality of financial reporting has been identified for both first-time voluntary first-time adopters and non-financial entities that are required to apply IFRS. These results are confirmed by Eierle et al. (2018) who analyse accounting and financial reporting in private German companies and agree that there exists a clear need for providing internationally comparable accounting information that is subjected to globally accepted standards.

In developed economies with a strong regulatory environment, it has been found that the mandatory application of IFRS has little or no impact on revenue management (see Doukakis 2014). Some other studies, such as Barth et al. (2008), and Soderstrom and Sun (2007) documented that other factors, such as the institutional environment and the economic environment, affect the quality of the reporting, even if international standards exist IFRS or IAS. There is no consensus on the measurement of accounting quality when comparing United States GAAP to IFRS. They found that the information content in 16 countries where the introduction of IFRS was required increased compared to 11 countries that complied with domestic accounting standards, although the impact of introducing IFRS on the strength of the law enforcement in the acquiring company country depended. In addition, they note that companies that previously provided more information about the differences between their domestic accounting policies and United States GAAP recorded a significant increase in the informational content of their income, whereas companies that provided less informative reconciliation did not see a change in income

Although earlier studies in developed countries generally found a positive correlation between the information content of profits and the adoption of IFRSs, it has been shown in some sources that the lack of changes in the institutional framework in Brazil together with the previous selective voluntary adoption of IFRSs all lead to adverse effects (see e.g. Rodrigues et al. 2012; Steinbach and Tang 2014). The Brazilian case contributes specifically to the subset of this literature, which examines individual developing countries with adoption mandates. In order to examine whether the quality of accounting information in Brazil has improved after the adoption of IFRSs in 2010, the quality of accounting comprehensively in various areas, such as accounting relevance, information content of results, forecasting activities for financial analysts and liquidity, should be measured (Eng et al. 2019).

Taking into account the previous formation of the prerequisites for the creation and gradual establishment of integrated reporting, the phased chronological separation of Malinovskaya (2015) allows us to define the present stage of the existence of integrated reporting as a "breakthrough" that dates from 2014-2017. This stage is characterized by the development and adoption of integrated reporting around the world.

The same period is also called the "transitional". The IIRC website announced that in the transition period (2014–2017) the goal is to move from the phase of creating the Framework Guide for integrated reporting and testing of the methodology to the recognition of this approach around the world, as evidenced by investors using this approach ("integrated investments"), and the availability of support from government agencies and regulators (see e.g. Feoktistova et al. 2017).

Overall, IFRS appears to be a result of the scattered enforcement of accounting standards in many institutions in the context of strong state involvement in the economy. Moreover, certain standards require offsetting if certain conditions are met and the frequency of reporting should also be ensured for the transparency and the usability of reporting results.

The next section of our paper provides an analysis and comparison of the novel reporting formats and their usage in Russian conditions. We compare the existing and the new forms and assess their relevance within the today's conditions.

3 Analysis of the new reporting formats

With regard to the above analysis and literature review, it seems possible to assess the experience of using the new reporting format for the past stage, to compare theoretical assumptions about a sharp increase in companies seeking to increase information transparency, as well as put forward assumptions about the possible development of the information disclosure sphere.

First of all, it is necessary to conduct a comparative analysis of the main aspects of the reporting developed since 1973 on the basis of IFRS and reporting in a new format (see Table 1 that follows).

Table 1. Comparative table of IFRS and integrated reporting

Comparison of aspects	IFRS	Integrated reporting
The main idea of creating	Making comparable reporting companies in different countries	Providing information to stakeholders on the effectiveness of the company over time
Reporting format for environmental analysis	Requires special financial knowledge to interpret it	Reporting format is understandable and accessible
Standardization and unification	Reporting is built in accordance with a standardized system	The lack of a single, rigorous standardized system; there are developments by the ISIS working group of the International Standard
Comparability	Carrying out a comparative analysis with other companies is real, since the vast majority uses this unified system	Comparison with other companies is difficult due to the lack of strict commitment to specific indicators
Completeness of information	Information is provided strictly in accordance with the requirements of IFRS	Extensive information coverage among various fields of activity
Strategic focus and future orientation	Missing forecasts and indicators	Provides an idea of the short or long term development of the company
Information connectivity	Information is provided on sections that do not reveal a relationship	The information is presented in the form of interconnections between different areas, you can see the influence of factors on each other
Materiality and brevity	Full information is provided (relevant and irrelevant), which only later can be interpreted as necessary	Must provide brief information that is essential to assessing the organization's ability to create value in the long run

Source: Own results

Based on the results from Table 1, one can conclude that the characteristic aspects vary greatly in their purpose. This means that the existence of integrated reporting makes sense to eliminate the omissions that reporting under IFRS may allow.

In connection with the high level of the tendency for companies to disclose information by providing integrated format reporting, it seems interesting to consider the identified advantages and disadvantages for analyzing the effectiveness of using integrated reporting, as well as assessing its future development. Identified parties are presented in Table 2.

The official implementation of integrated reporting as a mandatory source of information is currently very difficult, as the results of Table 2 show. The improvement of the system requires a certain amount of time, labor, efforts to prepare special programs, as well as to finalize standards.

In order to study the level of interest in dynamics, it is necessary to bring the available data on the number of companies in the Russian Federation that generated reports that meet the goals and objectives of the integrated format to a visual image. The data obtained are presented in the Figure 1 that follows.

Table 2. Advantages and disadvantages of integrated reporting

Advantages	Disadvantages
The desire to maximize information transparency in its disclosure	It is not an official and mandatory form of providing information
Allows interested parties to evaluate the activities of organizations to decide on partnerships, investments, etc.	Relatively little application experience (especially for Russian organizations)
Reflects the relationship between different aspects of the company and its results	Lacks recognition of the need and importance of introducing a new disclosure format
Improving the image of the organization, including at the international level	Lack of awareness of companies about the possibilities of application, as well as economic efficiency in the future
Increasing company competitiveness	At the moment, it requires a lot of time, as it is usually compiled on the basis of IFRS reporting

Source: Own results

Based on the results of studying the dynamics of the number of companies using integrated reporting, interest in providing integrated reporting was noticeably expressed, which may be due to a high level of awareness of the increasing role of identifying non-financial indicators of economic activity, building a business model and other opportunities for attracting stakeholders.

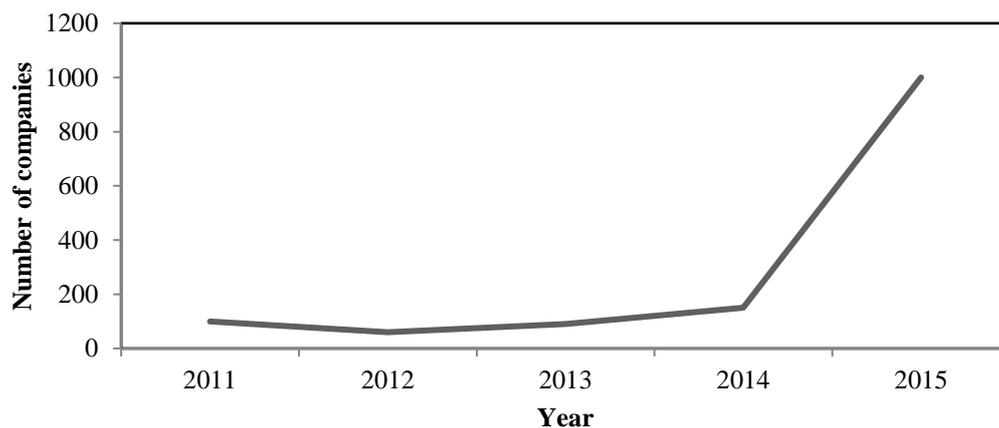


Fig. 1. The number of integrated reporting companies in the Russian Federation

Source: Own results

In 2015, the RRS (Russian Regional Integrated Reporting Network) conducted a study (in the form of a transparency rating) in order to form an idea of corporate transparency of the largest Russian companies. Similar studies were also conducted in 2012 and 2013; in 2016, the rating was not published. According to the data for 2015 18 companies were identified (2.5% of the total number of organizations under study), the reporting of which fully complied with the requirements of the International Standard for Integrated Reporting. World-class experience shows that 12% of companies already prepare integrated reports and 25% - reports on sustainable development. Almost all (99%) disclose in their reports information on activities in the field of sustainable development (to a greater or lesser extent), 37% of companies do this fully, issuing integrated reports or “two volumes” (traditional reports and reports on sustainable development) (see Malinovskaya 2015) .

In order to increase the number of companies with the ability to create an integrated report, a phased algorithm for the process of preparing an integrated report has been developed (see Table 3 that follows below).

The interest on behalf of the scientists is due to the presence of a large number of advantages of compiling non-financial reporting in the format of an integrated report for successful economic activities of companies. For companies that do not have experience in compiling an integrated report, a chronological model is developed with a description of the processes at each stage.

Table 3. Integrated Report Preparation Process Algorithm

Stage	Name of the stage	Description of the processes for preparing an integrated report
1	Planning the transition to integrated reporting	Assessment of the availability of necessary data: qualitative and quantitative financial indicators
		Determination of time limits for the implementation period of the first integrated report
2	Formation of the working group	Appointment of responsible persons for the collection of information
		Determining the amount of work and tasks for creating an integrated report
3	Content and structure development	Identification of key performance indicators of the organization
		Prioritization of the provision of information: reflect only with a high level of priority
4	Information collection and processing	Key data collection
		Distribution of collected information in accordance with the structure
5	Preparation for publication	Building the business model
		Consolidation of data and text in the form of diagrams and tables
6	Integrated Report Publishing	Distribution of the report for external users and stakeholders

Source: Own results

Other stages may be introduced into the developed model, as well as their removal, which is determined individually for each company based on the level of preparedness of the necessary information.

Thence, it becomes clear that the conversion plan to IFRS and its implications for issuers and users of financial statements, regulators, trainers and other stakeholders must be effectively coordinated and communicated.

4 Conclusions and discussions

Overall, it appears that the implementation of IFRS requires extensive preparation, both at country and company level, to ensure coherence and clarity about the powers that IFRSs will have over other existing national laws. In addition, it seems that the practical implementation of IFRS requires adequate technical capacity among issuers and users of financial statements, auditors and regulators. All of the above ensures achieving the leading position in accounting and financial reporting, both on the national and the international levels.

Our results show that the adoption of IFRS attracted more local analysts, especially those with prior experience with ifrs and an international portfolio, although the forecasting accuracy of local analysts was not affected by the acquisition of IFRS. In addition, our results suggest that harmonization of accounting has brought comparability benefits that increase the value of accounting data.

Therefore, the prospect of further development of the implementation processes and the preparation of integrated reporting can be viewed as a very positive and effective increase in the number of large companies. The formation of integrated thinking might make it possible to realize the importance of disclosing non-financial indicators for successful economic activity and sustainable development. All of the above is especially important for Russian companies that need to adopt the experience of developed countries in the field of increasing transparency of information disclosure to improve interaction with stakeholders which, in the nearest future, can help to attract additional investments and other kinds of support for the development of entrepreneurship.

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