

THE ROLE OF THE INTEGRATED REPORTING PROCESS IN ENSURING THE SUSTAINABILITY OF THE ACTIVITIES CARRIED OUT BY AGRICULTURAL ENTITIES

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Abstract: Obviously, the economic entities operating in agriculture are given a very important role in the overall process concerning food production, but it is equally known that most of these entities are oriented towards specific activities that do not bring into discussion or do not put forward the idea of their sustainable deployment. The current financial communication system, through the set of documents that make up the annual financial statements, does not allow economic entities active in agriculture or food production in general to present financial information which allows the quantification of the impact such activities have from the perspective of sustainability. Therefore, our study is based on the notion that financial and non-financial reporting systems used by agricultural entities must contribute to reaching the objective of ensuring sustainability for the activities they carry out.

JEL classification: M40, M41

Key words: sustainability; accounting; integrated reporting process; financial statements; agricultural;

1. INTRODUCTION

Society is currently confronted with a multitude of issues with a high degree of complexity, among which the one concerning the provision of food for the population can be considered one of the most important.

A synthetic analysis of the current situation reveals that worldwide there is a major imbalance in the way in which food resources are distributed and consumed, given that certain geographical areas face a surplus of food, often materialized in waste, while others are subject to acute shortages, materialized even in the impossibility of satisfying certain elementary needs.

Currently, approximately 7.7 billion people live on Earth and their number increases by one million every five days (<https://ro.wikipedia.org>), with official estimates showing a steady pace of population growth (table no. 1).

Table no. 1: Estimates of global population evolution

Year	Estimated population (thousands of inhabitants)
2015	7.383.009
2020	7.795.482
2025	8.185.614
2030	8.551.199
2035	8.892.702
2040	9.210.337
2045	9.504.209
2050	9.771.823
2055	10.011.171
2060	10.222.598

Source: United Nations, *Probabilistic Population Projections based on the World Population Prospects: The 2017 Revision*,
(<https://population.un.org/wpp/Download/Probabilistic/Population/>)

Under the circumstances that the upward trend of the global population is a reality that cannot be denied, and its growing trend will continue in the following years, we believe that the general issue of food provision worldwide is aggravated and calls for a rapid solution, but also sustainable from all points of view.

This goal becomes a real challenge for the mankind, provided that the proposed objective must be achieved in sustainable conditions. The rapid growth of the global population and the existing imbalances in food provision between different geographical areas are real factors that increase the difficulty of achieving the proposed target but which must not, at the same time, affect the sustainability of the actions undertaken to that end, so that the results obtained are to be seen especially from the perspective of the interests of future generations and be characterized by efficiency and sustainability.

We believe that the provision of global food supplies must not be achieved in any circumstances, as this objective has to be addressed both in terms of quantity and quality. The amount of food required must be obtained as a result of developing processes that guarantee adequate food quality so that people's health is not jeopardized, as well as minimizing adverse effects on the environment, thus ensuring the prerequisites of obeying the general requirements of some sustainable activities, all of which are combined with a more efficient allocation of existing resources between geographic areas of the world and reduction of food waste.

We support this idea because the present reality reveals that a large part of food globally becomes waste and a significant part of the global population is affected by the lack of decent food, while hundreds of millions of people suffer from obesity and various other diseases associated with obesity, the latter mainly due to unhealthy eating rather than excess food. Thus, according to the Food and Agriculture Organization – FAO, it is estimated that one-third of the food obtained at global level is wasted, while nearly a billion people are starving (www.fao.org/food-loss-and-food-waste/en/), and the World Health Organization – WHO claims that over 1.9 billion adults aged 18 and over are overweight and over 650 million are obese (<https://www.who.int/en/news-room/fact-sheets/detail/obesity-and-overweight>).

In this context, it is a question of identifying viable solutions that contribute to achieving the overall objective of ensuring the necessary food resources globally, reducing

waste and mitigating the existing asymmetry in the allocation of food quantities between different geographic areas of the world, in terms of sustainability.

Obviously, economic entities operating in agriculture are given a very important role in the overall process of food production, but it is equally well known that most of these entities are oriented towards specific activities that do not bring into discussion or do not put forward the idea of their sustainable deployment.

It is well known that the current financial communication system, through the set of documents that make up the annual financial statements, does not allow economic entities that active in agriculture or food production in general to present financial information that allow the quantification of the impact that such activities have from the perspective of ensuring sustainability.

Therefore, our study is based on the notion that financial and non-financial reporting systems used by agricultural entities must contribute to reaching of the objective of ensuring a sustainable character for the activities they carry out.

2. OBJECTIVE

In the present research we will emphasize the need to adapt the financial communication system applied by the agricultural units so that, through the information made available to the public, the sustainability assurance of the specific activities carried out by these entities is supported.

In this sense, on the one hand, we will highlight the informational limits that the annual financial statements have, from the perspective of providing some data necessary for determining the level of sustainability of the agricultural activities, and on the other hand, we will suggest the way to adapt the current financial communication system to achieve the above-mentioned goal.

In order to achieve the proposed objectives, we will refer to the current normative framework opposable to agricultural entities and will emphasize the need to adapt it so as to allow a relevant analysis of the manner in which the financial results communicated are also accompanied by non-financial results which ensure the sustainability of the conducted activities.

3. METHODS

Regarded from the perspective of economic activities, the concept of sustainability was, until recently, tackled strictly in terms of the financial results obtained, which are said to have to allow the activity to continue at the same level or at a higher level, so that the effort-effect ratio be a favourable one.

In the current context, the idea of sustainability acquires a wider concept, which goes beyond the limits of the concept of efficiency and economic profitability, in addition, it also calls into question the imperative necessity to carry out economic activities in terms of efficiency, but not determine the exhaustion of the available resources, the alteration of the environment, and the compromise of the possibilities to meet the needs for future generations.

Starting from the general goal of ensuring the sustainability of the food production process through entities active in the field of agriculture, with all that is assumed in the current vision, the research undertaken will use as main processes the analysis, synthesis and professional judgment to highlight the shortcomings of the current process of the financial

communication applicable to the entities in question, but also to propose certain solutions to limit or even eliminate these shortcomings.

4. RESULTS AND DISCUSSIONS

The economic entities operating in Romania, implicitly those in the field of agriculture, from the point of view of the financial reporting system that is opposable to them, can be classified into three categories: micro-entities, small entities and medium and large entities.

Depending on the category in which they fall, the structure of the set of documents that make up the annual financial statements may differ in the sense that, in relation to the fulfilment or non-fulfilment of size criteria covering the total of assets, the net turnover and average number of employees, they may be required to prepare a balance sheet and a short-term profit and loss account, a balance sheet and a developed profit and loss account, the statement of changes in equity, the cash flow statement, explanatory notes, as the case may be.

The shortcomings of these documents through which financial information is reported to interested third parties is that they do not allow the highlighting of negative aspects that undermine the concept of sustainability in a broad sense as previously defined.

By means of these components of the annual financial statements, economic entities in general and those in agriculture in particular communicate to the stakeholders historical financial data that do not allow a clear analysis of the impact of the decisions taken on the concept of sustainability .

In support of our point of view, we will discuss some elements that we consider relevant to the subject in question, which will allow us to argue the future views expressed in this study, such as: the use of genetically modified organisms, the practice of intensive farming, large-scale use of pesticides, and the use of nanotechnologies in food production.

We consider these analysis criteria relevant because Romania is among the countries that use such practices. For example, we support this view by the fact that, in 2017, the volume of pesticide sales registered in Romania was in the first half of the ranking, in connection to the other European Union countries, as it is shown in the table below:

Country	Quantity of pesticides (kg active substance)
Spain	37982029
Italy	32642764
France	29769882
Turkey	21831287
Germany	13266132
Poland	6927315
United Kingdom	5484053
Netherlands	4724858
Romania	4600276
Portugal	4181275
Hungary	4170518
Finland	3227750
Belgium	2495880
Austria	1991638

Czech Republic	1853685
Greece	1685867
Bulgaria	1287452
Switzerland	990436
Cyprus	817955
Slovenia	794727
Croatia	727129
Lithuania	690115
Slovakia	685325
Ireland	633962
Denmark	483731
Latvia	266538
Sweden	264768
Estonia	117032
Malta	101552

Source: <https://ec.europa.eu/eurostat/tgm/download.do?tab=table&plugin=1&language=en&pcode=tai02> (accessed July 2019)

Regarding genetically modified organisms (GMOs), although in our country, in recent years there has been a significant decrease in their use by farmers, it should be remembered that their use as raw materials of such products continues to be a widespread practice, especially if we take into account the fact that a great part of the raw materials processed in the Romanian food industry comes from import, in the context in which global growth of GMO cultivated areas is 60% in 2016 compared to 2007 (<https://www.green-report.ro/modificare-genetica-omg/>).

By resorting to the practical activity, we can say that the information flow related to these structures, such as those referred to above, highlights specific steps to other categories of assets, which we briefly present below:

- a) initial recognition at the expense of the relevant stock accounts;
- b) impairment of the entity's results on derecognition, on the expense of the corresponding expenditure accounts, by their nature;
- c) the presentation of historical information on the assets used in the annual financial statements.

However, the analysis of the annual financial statements, namely the balance sheet and the profit and loss account, does not provide relevant analytical information on the types of raw materials and materials used in the production processes but only synthetic information detailed according to the nature of the stocks concerned. In other words, by analyzing the annual financial statements of agricultural entities, we do not obtain relevant information on the nature and quantities of pesticides, genetically modified organisms, food additives used, etc.

To support this point of view, we will use as an example the case of pesticides that, from the accounting point of view, are considered to be stocks, namely consumables. The three steps that we have referred to above make the following operations strictly accounting:

- a) reflection of the inventory inflow as a result of initial recognition:

3028 = Accounts that indicate the origin of stocks 50.000 lei
 “Other consumables”

b) consumption in production processes, the impact of expense accounts and the result, as a result of derecognition:

6028 = 3028 40.000 lei
 “Expenditure on other consumables” “Other consumables”

121 = 6028 40.000 lei
 “Profit or loss” ”Expenditure on other consumables”

c) the disclosure in the financial statements of information regarding the use of pesticides:

Balance sheet:

Name of the element		No. rd.	Balance at:	
			Beginning of the exercise	End of the exercise
A		B	1	2
B.	ACTIVE CIRCULANTE			
	I. Stocks (ct. 301+302+303+321+322+/-308+323+326+327+328+331+332+341+345+346+347+/-348+351+354+356+357+358+361+/-368+371+/-378+381+/-388+4091-391-392-393-394-395-396-397-398-din ct.4428)	05	7.000	17.000

Profit and loss account:

Name of the indicators		No. rd.	Financial exercise	
			Precedent	Current
A		B	1	2
8.	a) Expenditure on raw materials and consumables	17	37.000	40.000

Thus, looking at the balance sheet, it can be observed that, on the one hand, the row for stocks shows cumulative information on all categories of stocks, people interested in the quantities of pesticides used did not have access to such information by referring to the annual financial statements, and on the other hand, the profit and loss account provides information on expenditure on raw materials and materials, without providing any informational details through this component of the financial statements either. It follows that analyzing the annual financial statements, which are synthesis and reporting documents, external information users cannot find out if and how much pesticide was used by that entity. At most, such information could be provided through the explanatory notes to the annual financial statements, but the practice in the matter invariably demonstrates the opposite.

The rationale presented in a synthetic manner on the example of pesticides can be extended to other categories of elements such as genetically modified organisms used as

seed material or raw material, the use of food additives, growth hormones, antibiotics for treatments etc.

In this context, there has been a need to adapt the annual financial statements to the current requirements imposed by the financial communication process by introducing requirements to communicate those data that are not necessarily financial but rather to the possibility of estimating the social impact and the environmental activity that the business may have.

Thus, the concept of integrated reporting has become well-known, according to which the financial objectives of the economic entities, the society and the environment in which they operate are a trinomial through which the sustainability or corporate social responsibility associated with the economic activities is expressed.

At the European level, the integrated reporting system materialized with the adoption of the 2014/95/EU Directive on the submission of non-financial information and information on diversity by certain companies and large groups, amending the provisions of 2013/34/EU Directive on the annual financial statements, the consolidated financial statements and the related reports of certain types of companies.

Since Romania is a member of the European Union, naturally, the national legislation regulating the problems related to the financial communication process took over the provisions stipulated by the European norms, so that according to OMPF no. 1802/2014, *“entities that at the balance sheet date exceed the criterion of having an average of 500 employees in the financial year include in the administrators’ report a non-financial reporting containing, to the extent that they are necessary to understand the entity’s development, performance and position, and the impact of its activity, information on at least environmental, social and personnel aspects, respect for human rights, the fight against corruption and bribery, including: a) a brief description of the business model of the entity; b) a description of the policies adopted by the entity in relation to these matters, including the necessary diligence procedures applied; c) the results of the respective policies; d) the main risks associated with those matters arising from the entity’s operations, including, where relevant and proportionate, its business relations, products or services that could have a negative impact on those areas, and how the entity manages those risks; e) key non-financial performance indicators relevant to the entity’s specific activity.”*

At the same time, the aforementioned regulation also mentions the fact that *“the non-financial reporting must contain, in relation to environmental matters, details of the current and foreseeable impact of the entity’s operations on the environment and, as appropriate, on health and safety, renewable and non-renewable energy use, greenhouse gas emissions, water use and air pollution. ... The non-financial reporting also includes the consequences for the climate change that the entity’s activity has and the use of the goods and services it produces, as well as its commitments to sustainable development, the fight against food waste and the fight against discrimination and the promotion of diversity.”*

In practice, this is the solution that normalisers have set up to enable economic entities to communicate to interested third parties information about the impact that their activities can have on the overall process of sustainability insurance.

However, we consider that the solution provided by normalisers to request entities that have more than 500 employees on average to draw up this non-financial reporting is not the most appropriate because, according to the data provided by the National Trade Register Office , at the end of May 2019 there were 960,345 economic entities

(<https://www.onrc.ro/index.php/ro/statistici?id=243>), of which only 680 entities were included in the scope of the provision obliging them to make the financial statement (<http://www.csreport.ro/analize-csr/lista-responsabilitatii.html>). Even though, according to the same source, about 25% of Romanian employees work in the 680 companies, as shown in the table below, out of a total of 4930.4 thousand employees existing on 31 December 2018 in Romania, only 116.1 thousand employees were engaged in agriculture, forestry and fishing, which means 2.35% of the total.

Employees number as of 31.12.2018 by activities of the national economy	Thousands of people
Total	4930,4
Agriculture, forestry and fishing	116,1
Industry	1368,1
Extractive industry	48,4
Manufacturing industry	1164,3
Production and supply of electric and thermal energy, gas, hot water and air conditioning	52,7
Water supply; sanitation, waste management, decontamination activities	102,7
Constructions	381,9
Wholesale and retail trade; repair of motor vehicles and motorcycles	793,0
Transport and storage	266,1
Hotels and restaurants	206,5
Information and communications	183,3
Financial intermediations and insurances	86,9
Real estate	18,4
Professional, scientific and technical activities	149,8
Administrative service activities and support service activities	290,7
Public administration and defense; social insurance in the public system	209,7
Education	353,9
Health and social services	390
Performing, cultural and recreational activities	69,2
Other service activities	46,8

Source: <http://statistici.insse.ro:8077/tempo-online/#/pages/tables/inssse-table>

Under these circumstances, the question arises whether among the 680 companies which exceed the average number of 500 employees, which will have to prepare, from the financial statements of 2018, the non-financial reporting, the ones in agriculture and food production have a representative share.

We consider that for the field of agriculture the criterion promoted by OMPF no. 1802/2014 regarding the individual annual financial statements and the consolidated annual financial statements, which brings into question the average number of employees, is not representative because in this area of the national economy the average number of employees per agricultural holding is usually less than 500, especially if we consider that the average agricultural area on a holding with a legal personality is about 214 hectares,

according to data provided by the National Institute of Statistics in the Structural Survey of Agriculture carried out in 2016.

Therefore, we believe that establishment of the criteria according to which this integrated financial reporting is made should be set in a more nuanced manner, taking into account several elements, including the scope of activity of the reporting entities.

In the field of agriculture, we consider that the average number of employees is not a representative criterion, especially if we consider that in very many cases we refer to seasonal activities involving a variable number of employees, but for example the area exploited by economic entities could be used, along with other elements, as a more relevant criterion, as many of the indicators used in this area are related to this criterion.

Therefore, due to its specific nature, we believe that in order to support the approach to sustainable development in the field of agriculture, another approach would be useful in selecting the entities obliged to report non-financial data, such as the one based on the use of combined criteria, which does not exclude entities that, although they have on average fewer than 500 employees, exploit very large areas or have very large livestock or have a high agricultural production etc.

5. CONCLUSIONS

Recent developments in integrated reporting can be considered beneficial in support of the initiative to ensure the sustainability of economic activities and enhance the corporate responsibility of entities.

Although the decision to introduce the non-financial reporting in the structure of the annual financial statements drawn up by economic entities with an average number exceeding 500 employees has been interpreted, including to increase bureaucracy and increase the costs of financial reporting, we consider that beyond such aspects that in many ways it can be considered interpretable or subjective, the benefits that they will bring in the medium and long term will overcome certain shortcomings that they now seem to generate.

In this general context, we believe it is very important not to leave outside the integrated reporting system those economic entities which, by the nature of their activities, have a major impact in terms of ensuring sustainability and social accountability regarding the use of the organization's capital, financial and also human, intellectual, natural and social.

Therefore, in order to ensure a relevant attraction in the scope of the integrated reporting system of all economic entities that, through their activity, have a decisive impact on the process of ensuring sustainability, we believe that the way of establishing the reporting criteria represents a key element.

Taking into account the above-mentioned views, we consider that it is the task of the normalisers in the matter to analyze this issue more carefully, as, as we suggested earlier, the use of a single criterion based on the average number of employees may exclude from the scope of the integrated reporting system certain categories of entities, in whose case the communication of non-financial information would also be fully justified and beneficial.

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