# Corporate governance and reporting

**Robert Jurka**[1]**, Jaroslava Roubíčková**[2]

[1] Prague University of Economics and Business, Prague
Faculty of Finance and Accounting, Department of Financial Accounting and Auditing
Winston Churchill Sq 1938/4, 13067 Prague, Czech Republic
E-mail: robert.jurka@vse.cz

[2] Prague University of Economics and Business, Prague
Faculty of Finance and Accounting, Department of Financial Accounting and Auditing
Winston Churchill Sq 1938/4, 13067 Prague, Czech Republic
E-mail: jaroslava.roubickova@vse.cz

***Abstract:***

This article is devoted to the issue of corporate governance in connection with the requirements for disclosure of financial and non-financial information. It deals with the environment within the European Union and also refers to legislation in the Czech Republic. Its importance emphasises the influence of global events: the COVID-19 pandemic, and the effects of the Russian-Ukrainian conflict. This is a current topic. The periods covered by the topic not only relate to current but also future global development. Due to the extraordinary importance of the influence of global events, the measures taken at the same time concern the guidelines for auditors' procedures in verifying the financial statements of the companies concerned.

***Keywords:*** Corporate Governance, Corporate Governance Code, Financial and non-financial reporting, Published information

***JEL codes:*** M41

## 1 Introduction

Questions related to the sustainability of business and activities of companies, environmental impact, employment policies, etc., have recently increasingly come to the forefront in the economic environment. We will be interested in the measures taken by companies within the framework of corporate governance in the area of risks associated with their activities, but also in the information they publish about the internal control environment.

In the framework of reporting, the NFRD (Non-financial Reporting Directive) is mentioned, on non-financial reporting (sustainability reporting), which obliges selected companies to disclose information about their business impacts and their approach to addressing them.

Another CSRD directive (Corporate Sustainability Reporting Directive) on non-financial reporting extends the obligation to publish more detailed information regarding the sustainable approach of companies. It will mainly concern companies with 250 or more employees with a specified amount of assets and turnover.

The reporting requirements are supplemented by CSR (Corporate Social Responsibility), where the social responsibility of companies is included. It is a collection or system of activities that mitigate the negative impacts of a business and, conversely, ensure its benefit to society.

## 2 Methodology and Data

Part of the conducted research is primarily an analysis of the requirements for published information within the corporate governance framework. This analysis was primarily based on legislative requirements within the European Union with a possible detailed sample of the adjustment in the Czech Republic.

In the empirical part, the article deals with transparent published data of selected companies, mainly medium and large accounting units. Annual reports were used as the main source.

Measures in auditors' procedures for assessing the impact of situations are also a complementary element connected with global events (COVID-19, the Russian-Ukrainian conflict).

## 3 Results and Discussion

### 3.1 Sustainability reporting standards within the EU

**Corporate Sustainability Reporting Directive (CSRD)**

ESG (Environment, Social and Governance) contains a comprehensive view of a company's considerate and sustainable business and investment activities; it is a specific form of the social credit score of the given company.

Underneath the letter "E" (Environment) is a criterion that examines companies' environmental impacts (for example, how companies work with waste and resources). "S" (Social) stands for social criteria (how companies are based on ethics, respecting their employees and also promoting health and safety). The last letter "G" stands for (Governance), or the criteria of responsible company management (this includes, for example, remuneration of managers, corporate culture, ensuring diversity within the staffing of company bodies with regard to age, gender, education, the fight against corruption or tax policy).

ESG issues go hand in hand with non-financial reporting, which has been mandatory for several years in accordance with Directive 2014/95/EU – NFRD (Non-Financial Reporting Directive). Under this directive, large listed companies, banks and insurance companies with more than 500 employees are required to publish reports on the policies they implement in relation to:

- protecting the environment
- social responsibility
- respecting human rights
- fighting corruption and bribery
- diversity in company boards.

In 2020, the European Commission launched a public consultation aimed at gathering the views of stakeholders on possible revisions to the NFRD provisions. In the same year the European Financial Reporting Advisory Group (EFRAG) carried out preparatory work to develop possible EU standards for non-financial reporting in the revised NFRD.

In 2021, ERFRAG published reports containing recommendations for the European Commission to develop possible EU sustainability reporting standards. In the same year the Commission presented its proposal for a Corporate Sustainability Reporting Directive (CSRD), which aims to revise and strengthen the existing rules introduced by the Non-Financial Reporting Directive (NFRD). The proposal extended EU sustainability reporting requirements to all large companies and all listed companies (almost 50,000 companies in the EU would now have to submit a detailed sustainability report).

In the course of 2021, the European Commission adopted the first draft directive of the European Parliament and the Council of the EU regulating the new obligations of selected companies to report data related to the sustainability of these companies – the Corporate Sustainability Reporting Directive (CSRD). This directive affects several documents such as Directive 2004/109/EC, Directive 2006/43/EC, Directive 2013/34/EU, Regulation (EU) No. 537/2014, Directive 2014/95/EU – NFRD.

In June 2022, the Council of the EU and the European Parliament reached a provisional agreement on CSRD, which will set mandatory environmental, social and governance reporting criteria for large companies and listed SMEs. The new regulation CSRD Directive will apply from 2024, in three phases for selected entities:

- from 1 January 2024 to companies already subject to the Non-Financial Reporting Directive;
- from 1 January 2025 to companies not currently subject to the Non-Financial Reporting Directive;
- from 1 January 2026 to listed small and medium-sized enterprises

This provisional agreement is subject to approval by the Council of the EU and the European Parliament. The Directive will enter into force 20 days after publication in the Official Journal of the European Union.

The CSRD Directive requires that information and data presented in non-financial reporting be verified by a certified independent auditor or other independent professional who is subject to supervision and is governed by relevant quality and ethical standards. ESG and non-financial monitoring have a much wider scope than CSR.

## 3.2 Corporate governance and reporting in the Czech Republic

The published information is primarily a part of annual reports. In the annual reports, we can find financial and non-financial information about a company's activity, economic status, performance and development. The content of the information is defined by the relevant legislation, e.g., Act No. 563/1991 Coll., on accounting, Act No. 90/2012 Coll., on commercial companies and cooperatives, and other special legal regulations.

An irreplaceable part of annual reports is information on corporate governance, on the internal control system, on risks and measures taken. In addition to this information, we can also specifically include information from the financial statements, which are an integral part of the annual report of a specific company. Here, for the purposes of our article, we will be interested in the data that companies provide, usually in the appendix to the financial statements, in the Events section after the balance sheet date, especially the description of the impact of the situations with the COVID-19 pandemic and the Russian-Ukrainian conflict.

The obligation to prepare an annual report is usually closely linked to the audit obligations for the given accounting unit (company), Our intention is to primarily pay attention to large companies and their obligation to disclosure.

Under the internal control system, the procedures and measures used within a company to identify and, at the same time, eliminate risks are presented in the annual reports. The aim of the control system is to detect derogations from the set goals at the right time and to eliminate their negative impact on the company.
(Dvořáček 2003). Internal control can include a system of controls created by management, particularly financial, operational, record-keeping and other controls. (Schiffer 2009, p. 17).

In the analysed annual reports, the following forms of risk are included: e.g. financial risks, price risks, credit risks, currency risks, market risks, liquidity risks, economic risks, legislative risks, and political risks. The measures applied in the company against the elimination of risks are supplemented.[1]

In order to comply with the going concern assumption of the given company, different measures are taken in different sectors. Recently, the consequences of the effects of the COVID-19 pandemic and the Russian-Ukrainian war conflict have been at the forefront of global interest.

For instance, one of the most affected sectors in the context of COVID-19 was tourism. The published information states, for example:
The company is aware that even with regard to the current situation caused by the COVID-19 pandemic, which continues even after the date of the financial statements, tourism will be under particularly strong pressure caused by external circumstances in the following period, and the ability to quickly adapt to all changes in the entire tourism industry will be key on a global level. The successful restart of business activities after the end of the crisis caused by the COVID-19 pandemic is essential, as is the continued mutual integration with other companies in the group and the implementation of mutual synergies. The company wants to use, in particular, cooperation in purchasing activities with other companies operating within the division of the parent company, but also with other entities of the group.[2]

The Russia-Ukraine conflict affecting the activities of a number of companies and the description of events and risks can be supplemented with a sample of published information: As of the date of preparation of these financial statements, there is a risk that the development of the Russian-Ukrainian conflict could have a negative impact on the company's business, including the risk of reduced supply in the supply chain. The company has no subsidiaries or capital investments in Ukraine. In Russia, the company owns a 16.8% equity stake in OOO Volkswagen Group Rus, which may be particularly affected by currently adopted sanctions and other political and economic developments in Russia. The company's business activities in these two countries do not have a material impact on the company's earnings and financial position, and there is no risk of material impairment of the assets reported in the financial statements as of 31 December 2021. As of the date of preparation of these financial statements, it is not possible to predict with sufficient certainty the extent to which further escalation of the Russian-Ukrainian conflict will affect the world economy in 2022, and, at the same time, an adverse effect on the company's operating results, financial condition and net assets cannot be excluded.[3]

The influence of rising energy prices and other inputs is often cited as a significant negative factor for the economy of many companies. At present, various measures are being taken in the Czech Republic and in other countries of the world as a result of unexpected price increases, which will affect the inputs and outputs of company activities. This and a number of other facts will certainly have an influence on the future existence of the company (going concern), on the evaluation of risks and the decision to adopt safeguarding procedures and measures.

Company management reports should respond to developments and increasing sanction measures that are not only taken centrally within the European Union, but on a global scale. Further developments may lead to negative derogations from the company's forecasts and such information should be disclosed.

[1] Škoda Auto; annual report 2021.
[2] Exim Tours, annual report 2020
[3] Škoda Auto; annual report 2021.

In connection with the published data, the opinion of the external auditor also plays a significant role. The war conflict and the sanction measures adopted to varying degrees impact some accounting units or selected business areas, their functioning, e.g., a decrease in the value of financial and non-financial assets due to sanction measures against the Russian Federation, interruption of supplier and customer relations or other disruption of business activity, risk of devaluation of investments and others. These accounting entities should reflect significant impacts and uncertainties in their financial statements. Auditors issuing reports on financial statements must respond to current and available information about the effect of the current situation on the entity and how this information either was or was not presented in their financial statements. Recommended procedures were published by the Chamber of Auditors of the Czech Republic (https://kacr.cz). Accountancy Europe also paid attention to the effects of the war in Ukraine, which in March 2022 published a document on its website regarding the effects of the war in Ukraine on the profession of European accountants (lxxtw>33{ { { 2eggsyrxerg}iyvsti2iy).

## Conclusions

Within the framework of corporate governance, efforts towards high-quality financial and non-financial reporting have been increasing in recent years. The prediction of risks related to the company's activities, the setting of functional rules and measures will certainly be very valuable information for external interested parties as well. This is where the measures taken will play a role, not only on a EU level, but also in terms of global concepts.


## Acknowledgements

This article is prepared as the output of the IP100040 project at the Faculty of Finance and Accounting of the Prague University of Economics and Business, Prague.


## References


DVOŘÁČEK, J. Internal audits and control. Prague: C.H. Beck, 2003, p. 45.

SCHIFFER, V. Internal control system: an important tool for asset protection and management of accounting units. Prague: ASPI, 2009, p. 17.

https://www.consilium.europa.eu/en/press/press-releases/2022/06/21/new-rules-on-sustainability-disclosure-provisional-agreement-between-council-and-european-parliament/

https://www.csreurope.org/newsbundle-articles/new-social-and-environmental-reporting-rules-for-large-companies-from-2024

https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/fags-sanctions-russia-business-services_en.pdf

https://www.europarl.europa.eu/legislative-train/theme-a-european-green-deal/file-review-of-the-non-financial-reporting-directive

https://www.epravo.cz/top/clanky/co-je-to-esg-a-co-pro-vas-znamena-114345.html

https://www.accountancyeurope.eu

Act No. 90/2012 Coll., on business companies and cooperatives. Retrieved from: https://www.zakonyprolidi.cz/cs/2012-90

Act No. 563/1991 Coll., on accounting. Retrieved from: https://www.zakonyprolidi.cz/cs/1991-563

Act No. 256/2004 Coll., on business activities on the capital market. Retrieved from: https://www.zakonyprolidi.cz/cs/2004-256

Act No. 106/1999 Coll., on free access to information. Retrieved from: https://www.zakonyprolidi.cz/cs/1999-106