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FUNDAMENTAL PRINCIPLES AND RULES FOR THE FORMATION OF INTEGRATED REPORTING

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The purpose of the article is to develop a hierarchical system of principles of integrated reporting to provide including only relevant and useful information in integrated reports. The study of the regulatory framework and practice of application of set out in the International Integrated Reporting Standard principles allowed to systematize them by combining into three groups according to the direction and purposes of use: structural, organizational and qualitative. Developed hierarchical system of integrated reporting principles allows to form key indicators to be provided in integrated reports and to develop organizational and methodological mechanisms for collecting and disclosing information about them.

Keywords: *integrated reporting, integrated report, accounting system, principles and rules, hierarchical system, International Standard for Integrated Reporting.*

ОСНОВОПОЛОЖНІ ПРИНЦИПИ ТА ПРАВИЛА ФОРМУВАННЯ ІНТЕГРОВАНОЇ ЗВІТНОСТІ

А.С. Крутова, О.О. Нестеренко

Розроблено ієрархічну систему принципів інтегрованої звітності для включення до інтегрованого звіту лише релевантної й корисної інформації. Доведено, що для запобігання перетворенню інтегрованої звітності в сумо

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технічний прийом бухгалтерського обліку, її регулювання має ґрунтуватися на чітко формалізованих принципах, якими зобов'язані керуватися укладачі інтегрованої звітності та працівники, які збирають та передають інформацію для формування інтегрованого звіту. Визначено, що дотримання в інтегрованій звітності основних нормативно-затверджених принципів бухгалтерського обліку певною мірою забезпечить включення до інтегрованого звіту лише релевантної й корисної інформації. До основних принципів підготовки інтегрованого звіту відповідно до підходу, запропонованого Міжнародним комітетом з інтегрованої звітності, належать такі: стратегічний фокус і орієнтація на майбутнє; зв'язаність інформації; взаємодія із зацікавленими сторонами; суттєвість; стислість; достовірність і повнота; постійність і порівнянність. Дослідження нормативної бази та практики застосування наведених у Міжнародному стандарті інтегрованої звітності принципів дозволило їх систематизувати шляхом об'єднання в три групи за спрямованістю та цілями використання: структурні, організаційні та якісні. Дотримання структурних принципів інтегрованої звітності, а саме: розмежування капіталу; вартісний підхід; моніторинг і контроль ризиків; екологізація та соціогармонія – дозволить сформуванню системи основних показників, які мають наводитися в інтегрованому звіті, та розробити організаційно-методичні механізми збору та розкриття інформації про них. Організаційні принципи інтегрованої звітності охоплюють весь обліковий процес, у якому поєднуються жива праця працівників (принципи центроорієнтованості та реагування), засоби праці (принцип інформаціології) й специфічні предмети праці (принцип колації). Якісні принципи інтегрованої звітності запропоновано доповнити принципами відкритості, зрозумілості та транспаральності. Розроблена ієрархічна система принципів інтегрованої звітності дозволить впровадити спеціалізовані технологічно-методичні підходи в процес збору, обробки та перенесення інформації про економічну, соціальну та екологічну діяльність до інтегрованого звіту з урахуванням всіх елементів облікового процесу, який поєднує живу працю, засоби праці та її специфічні предмети.

***Ключові слова:** інтегрована звітність, інтегрований звіт, облікова система, принципи та правила, ієрархічна система, Міжнародний стандарт інтегрованої звітності.*

Statement of the problem. In order to prevent the transformation of the integrated reporting process into a purely technical method of accounting, its regulation should be based on strictly formalized principles, which should be guidelines for integrated reporting draftsmen and employees who collect and transfer information for the formation of an integrated report. The set of these principles should be inherently complex in nature that can be explained by the strategic goal of integrated reporting that is ensuring business stability under different conditions of a business entity's activity. Since the nature of the economic environment of an enterprise, both internal and external, is usually dynamic, integrated reporting must “respond” to all changes in the economic activity of an

enterprise, flexibly and adaptively “adjust to” the emergence of new ones, improve existing ones and dismiss obsolete business-processes. The above-mentioned stipulates for the necessity of making reasonable adjustments in the set of principles of integrated reporting, improving their composition and content.

Review of the latest research and publications. Specifics of integrated accounting system formation of an and integrated reporting principles were discovered by Ukrainian and foreign authors, namely: S. Bobil'ov, M. Brownlee, L. Boudionne, V. Vorobey, I. Glazirina, Y. Gusev, T. Davidyuk, D. Dragishevich, R. Eccles, I. Zhurovska, R. Kolishko, I. Korotetsky, M. Cruz, S. Luvin, O. Malinovska, L. Melnyk, S. Melnyk, I. Potravny, J. Senne, V. Sidorchuk, I. Sinyakevich, O. Smorchkova, D. Tepskot, D. Tikoll.

According to the accounting dictionary, the principles (from the Latin principium – the basis, the beginning: 1) the basic initial provisions of any theory, the basic rules of activity, are created in the course of knowledge systematization, but unlike the laws do not exist in nature; 2) established, rooted, generally accepted, most common rules of economic activities and properties of economic processes; 3) the beginning, the leading idea, the basic rule of behavior [1, p. 143]. O.M. Petruk also insists on this pointing out that the methodological error lies in the fact that only the complex application of the principles of accounting and reporting can be efficient, and the ten principles in Ukrainian standards do not provide the quality of accounting information [2, p. 85]. The approach based on the application of a set of principles while preparing and forming an integrated report is intended to achieve an appropriate balance between flexibility and requirements, taking into account the diversity of conditions under which different enterprises operate [3; 4]. Thus, integrated reporting, like any accounting and reporting system, is based on its own principles, but in the course of forming an integrated report, not only the principles of accounting (financial reporting) should be taken into account, but also the principles of modern economic theories that directly or indirectly influence the composition its indices.

The objective of the research is to develop a hierarchical system of principles of integrated reporting to provide including only relevant and useful information in integrated reports.

Presentation of the research material. In 1947, G.A. Macfarland & R.D. Ayars in the work “Accounting Fundamentals” defined science of accounting as classified knowledge as to its scientific principles, which were developed as a result of education and experience [5]. An outstanding accountant Giuseppe Rossi, as early as the XVIIIth century, pointed out:

“... when we apply the principles of accounting for practical purposes, we deal with the art, very important and essential for household managers, since it directs them to the most perfect achievement of economic goals” [6, p. 94]. As T.O. Terentyeva points out: “The principles of accounting have always existed. In essence, they appeared along with the origin of accounting. Accountants had to rely on some initial provisions, basic structures, without which it would have been impossible to build such a complete accounting system as double-entry bookkeeping. These provisions had eventually transformed into principles that have become not only the basis of our accounting, but also have incorporated the traditions, experience and achievements of past generations of practitioners and scientists” [7].

Thus, adherence of the main statutory accounting principles in the integrated reporting will, to a certain extent, ensure that only relevant and useful information is included in an integrated report. At the same time, ISIR expands significantly the list of source principles that should be the basis for the preparation of integrated reporting and clearly defines the basis on which the content of an integrated report should be formed and which will affect the form of presenting information in terms of the economic, social and environmental components. The main principles for the preparation of an integrated report in accordance with the approach proposed by the International Committee on Integrated Reporting include the following: strategic focus and orientation on the future; information coherence; interaction with the parties concerned; essentiality; brevity; reliability and completeness; continuity and comparability [8]. In addition, Ukraine’s intention to join the EU and adoption of the Association Agreement between Ukraine and the European Union update the principles of a free market economy among which: supremacy of law, appropriate management, fight against corruption and promotion of sustainable development that are defined as the basis for strengthening relations, which requires modification of the theoretical basis of integrated reporting in terms of the main principles and provisions.

Investigation of the normative base and the practice of applying the principles set forth in the ISIR made it possible to conclude that it is expedient to systematize them by clustering into three groups according to the orientation and purposes of application: structural, organizational and qualitative. Such systematization will, firstly, give a deeper understanding of the nature of each of the principles, and, secondly, will become a theoretical basis for developing a hierarchical system of principles for integrated reporting.

Table 1

Systematization of Integrated Reporting Principles

| № | Group | Title | Interpretation of the content |
|---|------------|---|--|
| 1 | 2 | 3 | 4 |
| 1 | Structural | Strategic focus and orientation to the future | An integrated report should include analysis of an organization's strategy and explain how this strategy correlates with an organization's ability to create value in the short, medium and long-term, as well as the use of capital by it and impact on them |
| 2 | Structural | Interaction with the parties concerned | integrated report should include analysis of the nature and quality of an organization's interaction with its main parties concerned, including how and to what extent an organization understands and takes into account their legitimate and substantiated demands, interests and requests |
| 3 | | <i>Spatial continuum*</i> | An integrated report should include analysis of institutions of legal, commercial, social, environmental and political context that affect an organization's ability to create value in the short, medium or long term |
| 4 | | <i>Capital differentiation</i> | An integrated report should include information on the types of capitals used by an organization to create value, their description, components, size |
| 5 | | <i>Value approach</i> | Information in an integrated report should describe in detail how an organization creates value in the short, medium and long term |
| 6 | | <i>Monitoring and control of risks</i> | An integrated report should disclose information on the risks that affect the ability to create value by an organization in the short, medium and long term and on the corporate mechanisms of management |
| 7 | | <i>Ecologization</i> | integrated report should disclose information on the introduction of the systems of technological, managerial and other decisions that enable to increase efficiency of use of natural resources while, at the same time, preserving or improving the natural environment |
| 8 | | <i>Socioharmony</i> | An integrated report should disclose information on the social responsibility and social indices of an organization |
| 9 | | Organizational | Information coherence |

Continued table 1

| 1 | 2 | 3 | 4 |
|----|----------------|------------------------------|---|
| 10 | | Continuity and comparability | Information included in an integrated report should be presented: (a) on the basis that does not change for a long time; and (b) in such a way that comparison with other organizations can be made in those cases when it is essential for an organization's ability to create value over time |
| 11 | Organizational | <i>Center-orientation</i> | To develop a system for collecting information for an integrated reporting process, it is necessary to form responsibility centers according to the hierarchical levels of management and units of an enterprise |
| 12 | | <i>Colation</i> | Information provided in an integrated report is constantly verified for adequacy |
| 13 | | <i>Response</i> | The process of integrated reporting should be organized in such a way that to be able to consistently respond to requests from financial capital suppliers |
| 14 | | <i>Informatiology</i> | Comprehensive application of information technologies at all stages of transferring information from the moment of its registration to obtaining effective indices, transferring them to an integrated report and in the process of its presentation |
| 15 | Qualitative | Significance | integrated report should disclose information on the issues that have a significant impact on the assessment of an organization's ability to create value in the short, medium and long-term |
| 16 | | Brevity | An integrated report should be concise |
| 17 | | Reliability and completeness | An integrated report should include all essential facts, both positive and negative, in a balanced form and error-free |
| 18 | | <i>Openness</i> | An integrated report should be accessible to all the parties concerned, in particular financial capital suppliers |
| 19 | | <i>Clearness</i> | An integrated report should include sufficient information that is prepared so that it can be easily interpreted by the parties concerned |
| 20 | | <i>Verification</i> | To increase business transparency an integrated report should be verified by means of an independent audit |
| 21 | | <i>Temporality</i> | Presenting information in an integrated report should take into account cause-and-effect relationships under time conditions |

* The principles proposed by the author are italicized.

The organization of the integrated reporting process requires economic entities to develop specialized technological and methodological approaches to the process of communicating, collecting, processing and transferring information on economic, social and environmental activity to an integrated report, which requires consideration of specialized organizational principles. It is evident that applying only the principles of collecting information for an integrated report (information coherence, continuity and comparability) can not adequately provide an integrated process. Therefore, it is expedient to adhere to the organizational principles of integrated reporting that cover the entire accounting process, which combines the living labor of employees (the principles of center-orientation and response), instruments of labor (the principle of informatiology) and specific subjects of labor (the principle of colation).

The information presented in the integrated reports must be straightforward and aimed at clear understanding by its users on the assumption that they have sufficient knowledge and are interested in perceiving this information; the degree of utility of the information included in an integrated report is determined by the quality principles of the integrated reporting that are proposed to be supplemented by the principles of openness, clearness and temporality.

In order to develop the methodological foundations for forming an integrated report, the principles of integrated reporting, defined by the ISIR, are proposed to be expanded and clustered into the groups that determine their orientation and are systematized according to the purposes of use (Table 1).

The developed hierarchical system of principles of integrated reporting sustains the thesis of G.A. Porter about that the principles that are guiding for the formation of integrated reporting are developed to improve the conditions of conducting business [9, p. 23–24]. They represent a system of views on the formation of its indices, and their adherence allows more complete understanding the process of integrated reporting and a defining role in the methodology and organization of the practical activity of economic entities.

Conclusion. In the developed hierarchical system of principles of integrated reporting, the first group of principles affects directly the structure of an integrated report and consolidates the initial provisions that must be adhered in determining its content. We believe that the standard does not fully take into account all the components of an integrated report and emphasizes only the principles that relate to the strategy and interaction with the interested users, at the same time, other mandatory elements of a business model, namely capital, value, risks and socioecological indices, are

disregarded. Adhering the proposed principles of integrated reporting, namely: capital decumulation; value approach; monitoring and risk control; ecologization and socioharmony will allow forming a system of the main indices to be included in an integrated report and developing organizational and methodical mechanisms for collecting and disclosing information about them.

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FUNCTIONAL APPROACHES TO ACCOUNTING AND ANALYTICAL INFORMATION TO ENSURE THE ECONOMIC SECURITY OF THE ENTERPRISE

O. Toporkova, O. Lytovchenko

The article examines the essence and mechanism of strategic planning and management of a trade and production enterprise in the management information system to ensure economic security, the development of accounting and analytical systems and their integration, modern methods of financial modeling and controlling for making strategic management decisions by combining owners, financial managers, administrative and management personnel, contractors and

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