



STAKEHOLDERS' NEEDS FOR THE AUDIT OF NON-FINANCIAL STATEMENTS OF THE COMPANY

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Abstract: Non-financial reports are a mandatory reporting element of companies in the Republic of Serbia that have more than 500 employees, which all interested interest groups, i.e. the company's stakeholders, have the right to view. Non-financial reports refer to respect for the principles of sustainability, corporate social responsibility, environmental protection and social aspects such as respect for human rights, without publishing the company's financial results. The subject of this scientific paper is a theoretical analysis of the needs of stakeholders for the audit of non-financial reports and the need to point out the significance of the influence of stakeholders on the transparency of non-financial reports. This paper aims to show which areas and information stakeholders are interested in non-financial reports, which can contribute to increasing the efficiency of the audit process. Also, the goal of this paper is to determine the influence of the stakeholder needs on improving the quality of the audit of non-financial reports.

Keywords: non-financial reports, audit, stakeholders, sustainability, social responsibility.

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Introduction

Stakeholders are interest groups that act and have influence on the operations of a business entity. They are distinguished by characteristics such as power, which represents a state in which one of the participants in a social group carries out his influence, that is, achieves his plan despite the resistance that exists during the implementation and realization of a certain strategy, tactic or plan. Stakeholders also possess legitimacy, which is defined as a set of rights, norms and beliefs that opinions and actions undertaken by interest groups are legally verified. Also, their responsiveness in a certain situation is reflected in a degree of attention that stakeholders require to be respected when participating and/or exerting influence on the operations of a specific business entity. All the above characteristics of interest groups (stakeholders) determine to a large extent the degree to which their opinions are considered when solving specific issues and problems by the business entity. Solving problems, and primarily their identification, depends on the degree of respect and implementation of decisions represented by the stakeholders of the business entity. Stakeholder theory represents the inclusion of stakeholders, i.e. interest groups that participate in the operations of business entities in the capacity of owners of the company's resources. The owners of the company's resources as interest groups have a great influence, which they implement through operational plans, and for the sake of goals that create a business map and directly reflect on the company's operations.

Interest groups, that is, users who seek information from financial, non-financial and audit reports include, in addition to the owners, investors, banks as creditors, suppliers and other creditors, the state as a tax authority and especially the general public. In addition to the mentioned external ones, there are also internal users, which include: management, internal audit, audit committee, board and specially employees (Ljubisavljević and Jovković, 2016).

An audit is an organized and purposeful activity that subsequently examines the company's operations, and in addition to financial reports, non-financial reports related to social aspects and aspects of the environment in which the company operates are extremely important in modern business. The audit of non-financial reports is a systematic process of independent examination of the reality and objectivity of the company's non-financial reports. The choice of approach and methodology, i.e. the way of conducting audit procedures, is most often conditioned by the specifics of the business entity where the audit is performed, as well as the willingness to take risks for opinions about the reliability and objectivity of non-financial reports.

Literature review

According to a survey conducted by KPMG (2017) on reporting on corporate responsibility, 250 of the world's largest corporations regularly report on the sustainability of their performance, and Sweden is the leading country in the world when it comes to publishing non-financial reports. Given that the need for non-financial reporting is increasing every day at the world level, the need for stakeholders to audit non-financial reports is also increasing. Stakeholders who have an influence on the operations of large companies have the right to review the audit of non-financial reports.

The development of reporting on business sustainability, as well as on social aspects, has contributed to the need for companies to disclose their environmental, social and governance initiatives. Various frameworks have been developed in order to ensure fairness to large companies during non-financial reporting (Vukić et al., 2017). The most commonly used frameworks are ISO 26000, which was developed by the International Organization for Standardization of Socially Responsible Business. The Global Reporting Initiative (GRI) was developed to help large business organizations make the right decisions about the sustainable development of their business. GRI is an independent, global, non-profit organization and leading provider of guidelines for reporting on environmental, social and economic performance (Calabres et al., 2019). GRI helps companies and stakeholders understand and communicate their impact on sustainability and its progress, supporting the public and other interested parties.

The topic of business sustainability of large enterprises emerged as a pluralistic concept with different definitions and is considered a complex concept that requires special attention (Byrch et al., 2015). Despite everything, efforts to establish initiatives at the international level provide organizations with frameworks for non-financial reporting, although uniform rules and guidelines related to reporting on business sustainability are still missing. Although there are efforts to harmonize regulations and frameworks at the international level, there is still a difference in the development of non-financial reporting between large companies (Romero et al., 2014).

Earlier research on sustainability and reporting at the macroeconomic level focused on incorporating sustainability to measure the so-called a green perspective of the company's operations, which does not reflect the full ecological and social cost of operations. Companies can use the GRI standards as a starting point for their sustainability reporting, but they must adapt them to the specifics of their business. The GRI framework allows each company flexibility in terms of reporting on issues of greatest importance to the company and its stakeholders (Landrum and Ohsowski, 2018). Due to increased public awareness and demand from stakeholders, sustainability reporting has become mandatory and companies

are therefore under pressure when it comes to presenting sustainability reports. Companies should identify the sustainability issues that are most important to their stakeholders and to take into account their expectations when formulating strategies (Font et al., 2016), as well as to choose a framework that complies with regulations and meets the needs and expectations of stakeholders. Frameworks for reporting on sustainability issues, such as the GRI standards, have a general multi-stakeholder approach that encourages stakeholder involvement when identifying important sustainability issues in companies' operations (Calabres et al., 2019). Perez-Lopez et al. (2018) point out that the scientific literature pays very little attention to the participation of stakeholders in determining the priority issues of the sustainability of companies' operations. Most companies have different types of stakeholders characterized by conflicting interests, expectations and values, so their influence on the company's operations is weaker (Calabres et al., 2019). As a result of the above, there was also a need for stakeholders to audit the non-financial reports of companies.

Stakeholders' need for auditing non-financial statements

In today's modern business, the role of audit as the main factor in the control of non-financial reports of large business entities contributes to an increasing number of detections of illegal procedures within their business. The main reasons for this phenomenon mainly relate to non-compliance with sustainability and social responsibility standards, the financial crisis caused by the Covid-19 virus and the imperfections of the audit methodology in connection with the presentation of incomplete and/or non-objective non-financial reports. These issues most often arise as a result of unjustified actions of a business entity, the objective impossibility of an officially recognized audit of non-financial reports to consider the risks of informal activities of economic entities, as well as non-compliance of the competent audit body with the activities of the company.

The presence of stakeholder requirements when it comes to non-financial reports is of essential importance for the control, correction and presentation of true data of the business entity that is the subject of the audit. In today's modern environment, we encounter processes of boycotting products and services produced by socially unethical and irresponsible large companies, most often multinational companies. That is why it is the obligation and duty of the management to take into account not only economic but also social requirements related to actions that are aimed at increasing the welfare of interested groups and the community as a whole when making business decisions. As part of the social responsibility policy, large business entities are obliged to prepare and present non-financial reports in accordance with: (Kaspereit and Lopatta, 2016):

- values, principles and codes of conduct, because ethics enables companies that achieve success to have a good organizational scheme of the management system;
- monitoring and reporting to interested users and groups regarding information, as well as the possibility of availability and transparency of information or reports that the local community is interested in;
- the process of successful implementation of social responsibility, which encourages large companies to become key participants in the creation of a social and business environment;
- joint action and association with other social organizations around common goals that imply respect for trust and responsibility, as well as establishing cooperation with other economic sectors.

The process of developing an international consensus on social responsibility includes the provision of guidelines on the implementation of ethical principles in the specific tasks of the company in order to benefit the wider social community. As a result of previously conducted research related to the audit of non-financial reports, several deficiencies have been identified that require special attention by authorized auditing organizations and auditors. The quality of the auditor's work depends on those who want to point out problems and existing shortcomings during the analysis. The activities undertaken by the audit organization and individual auditors, in the conditions of the financial crisis, require the engagement of many companies and organizations within the economic sector.

The purpose of external and internal auditing activities when it comes to non-financial reports is to ensure the submission of true, timely and qualitative (quality) information about the position of a specific company in accordance with the requirements of its stakeholders or interested parties. In the case when low-quality non-financial reports are delivered to interested parties, on the one hand, the result of unprofessional actions by the economic entity is presented, while on the other hand, the unprofessional performance of economic functions and duties is presented. The results of the KPMG research (2017) also indicated that in the conditions of the existence of the financial crisis, in countries with a developed market economy that have established an institutional body for auditing at the national level, there are individual cases of low-quality non-financial reporting. These cases are characteristic only in conditions of economic recession where its consequences are reflected through the collapse of banks, large public, private and state organizations and through reporting in the mass media. The global financial crisis drew attention to one of the main problems of the accounting and auditing profession, which requires an urgent solution.

The role and significance of the audit of non-financial statements

Non-financial reports provide stakeholders with a wealth of important information, and as a whole they show a comprehensive overview of the company's processes and activities in all relevant areas of socially responsible business. Companies can use different approaches to increase the credibility of their non-financial statements. One of the most common ways is certainly using an independent assurance service. The result of independent assurance is the publication of a conclusion on the quality of non-financial reports, as well as qualitative and quantitative information communicated in non-financial reports (Damjanović, 2021). Independent assurance provides stakeholders with a greater degree of confidence in the quality of non-financial reports. In addition to strengthening trust, the audit of non-financial reports is also important for the compilers of the non-financial report. The audit of non-financial reports confirms or disputes the claims presented in the non-financial report (Todorović et al., 2020). Non-financial reports are much more than a legal obligation, since they contain specific information. Through non-financial reports, stakeholders can learn about achievements and investments in the field of environmental protection, sustainable practices in personnel matters, cooperation with local communities, as well as activities in the field of corporate governance. The auditor should check whether the mentioned areas are adequately explained in the non-financial reports. When checking the mentioned information, there is no possibility of objectively verify the information presented in the non-financial report in the same way, as auditors would do when checking the veracity of the information presented in the financial reports (Todorović et al., 2020). However, certain information presented in financial reports can be more closely described and explained in non-financial reports. Non-financial statements contain qualitatively described information of financial statements.

In the conditions of the financial crisis in the Republic of Serbia, there is an increase in the existence of risks associated with the fact that the volume of non-financial benefits has reached such a level that more and more business entities and entrepreneurs are ready to break the law, as well as to renounce moral and ethical principles. The results of the research on non-financial crimes in Russia, conducted by KPMG (2017), show that with the onset of the financial crisis, the number of illegal non-financial actions in business organizations did not increase, but their restructuring took place. Irregularities that were observed at the first level of management, and related to the employee mistreatment, were reduced due to the increase in economically unjustified actions taken by top managers when it comes to sustainable operations and respect for social aspects, primarily human rights, i.e. the rights of employees. There is no specific and precisely defined role of the auditor in today's financial crisis when it comes to non-financial reports. Even in countries with developed market economies with audit regulatory bodies, the

auditors have encountered cases involving suspicious non-financial reports with non-compliance with requirements that are in accordance with audit standards has been confirmed. According to the data of representatives of international and regional organizations, the occurrence and development of financial crises prevent the proper and efficient work of accountants and auditors, as well as the application of quality accounting and auditing standards. Respect for the transparency of non-financial reports in market economies cannot depend only on the work of auditors. As for the standards, based on experience from practice, audit standards were created according to business conditions that are characteristic of the markets of developed countries, promoting the economic growth of large companies in the last twenty years. A significant decrease in the application of audit standards related to non-financial reports was recorded in less developed markets, with a significant decrease in the margin of safety that enables adaptation to changes in business conditions.

The importance of ethics when auditing non-financial reports

Large companies are continuously dedicated to achieving positive business results in a socially responsible manner with constant care for the local community, and to the satisfaction of clients and employees. The operations of business entities must be in accordance with the environment in which the company carries out its business mission with minimal negative impact on the environment. Integrating social responsibility through their core activity, in order to enable sustainable business growth, companies pay special attention to the population vulnerable groups such as children, youth, people with disabilities, etc.

The involvement of the engagement partner and other key members of the engagement team in the planning of the audit of non-financial statements is based on their experience and perception and thereby improves the effectiveness and efficiency of the planning process. Performing preliminary engagement activities at the beginning of the current audit engagement helps the auditor to recognize and evaluate events or circumstances that may negatively affect the auditor's ability to plan and perform the audit engagement. Carrying out these preliminary engagement activities enables the auditor to plan the audit engagement in which he establishes requirements and gives instructions for the engaged team's discussion on the subject's susceptibility to misrepresentation of non-financial reports. The auditor's consideration of client retention and relevant ethical requirements, including independence, takes place during the audit engagement in accordance with the occurrence of changes in conditions or circumstances. Performing the initial client retention procedures and assessing relevant ethical requirements, including independence, at the beginning of the current audit engagement means

that they are completed before other significant activities of the current audit engagement are performed.

When preparing the General Audit Implementation Plan, the auditor should select the audit team that will conduct the audit process in the business entity. The selected auditors must be objective and highly ethical, respecting all the standards and regulations of the audit profession and be independent in relation to the client. Understanding the entity's operations and the audit risk is an extremely important step in the process of preparing the audit of non-financial statements. At the very beginning of audit planning, and before the analysis of non-financial data, it is crucial to become familiar with the business of the client subject to the audit. Auditors obtain information about the operations of a business entity through a conversation with the company's management, as well as through external sources such as the Internet, official publications issued by the business entity, the media, etc.

Understanding the company's operations implies understanding its business cycles, and the auditor must carry out the procedures for identifying the business cycles in the company, whose recording in the business books is an important part of the financial statements. It is also necessary to identify the procedures in electronic and manual processing systems that participate in initiating, processing, recording and reporting in non-financial reports, reviewing accounting records in electronic and printed versions that make up part of the preparatory or final documentation in connection with initiating, processing, recording and reporting in non-financial reports, as well as monitoring the process of preparing non-financial reports.

Limitations in the audit procedure of non-financial statements

The existence of limitations related to the audit of non-financial reports for the needs of stakeholders relate to the inconsistent terminology, and the classification of parts of non-financial reports contributes significantly to this problem. The auditor can identify intentional omissions, classification of the reasons for the occurrence of intentional irregularities with the algorithm as evidence of improper compilation of non-financial reports. Traditional approaches to auditing non-financial statements require additional theoretical research and synthesis of practical experience in this sphere. The objective impossibility of an officially recognized audit of non-financial reports requires the consideration of risks due to the informal activities of economic subjects.

Institutional bodies for auditing and auditing standards in the world were created in conditions of economic growth in developed countries and were aimed at providing reliable non-financial information for users of non-financial reporting, without noticing irregularities in the operations of the informal sector, which mainly related to the zone of the so-called gray economy. The fact that the

institutional regulation of auditing in the world, and especially in Russia, conceptual approaches to auditing that are also based on the international provisions of auditing and ethical standards, through the implementation of the control function, effectively affects only the economic activity that is reflected in non-financial reports and the segment of hidden economic activity that refers to the receipt of illegal funds. This also applies to corrupt practices that arise as a consequence of them and therefore remain hidden from official auditing bodies. The development and definition of institutional audit bodies can be considered an efficient way of functioning of audit within the framework of non-financial reporting, if their main purpose is quality control through which the institutional function is fulfilled. The efficiency of the functioning of audit standards related to non-financial reports depends on the quality assurance mechanism, both at the level of audit activities in general and at the level of audit services. The application and proper use of such mechanisms at all levels of auditor activity will enable overcoming the institutional dysfunction observed in the current stage of development of audit activities for the needs of stakeholders in the field of non-financial reporting.

A key characteristic of the development of institutional audit bodies in modern business conditions represents a requirement for prevention and efficient identification of intentional misrepresentations of data in non-financial reports. The above is related to unjustified actions of management and employees as economic actors. Forms of economic organizations, management methods and technology must be developed and continuously improved, in order to correspond to changed economic conditions. They aim to promote the minimization of errors in business activities, in order to detect and prevent negative deviations associated with the submission of false non-financial information and reports by economic entities. However, in connection with the above-mentioned reasons, the available methodological problems raise the question of confirming the existence of suspicious non-financial statements, which is still not resolved. Further research will enable errors and irregularities to be discovered during the audit of non-financial reports, which will be of great importance for decision-making by numerous stakeholders.

Conclusion

Today, certain preconditions have been created for the emergence and development of a special type of audit aimed at identifying irregularities found in non-financial reports. A negative impact on the reliability of non-financial information systems of large companies leads to serious economic and moral consequences for economic entities and the social community as a whole. The area of auditing non-financial reporting has not been sufficiently researched and there is a very small number of scientific and practical researches available in this area. Also, there are

major limitations related to the possibilities for efficient recognition of illegal actions and limitations in the understanding of audit procedures by stakeholders.

A specialized methodology can identify misrepresentations in the non-financial reporting of economic actors due to concealment of relevant data related to the sustainability and social responsibility of large companies. For this reason, it is necessary to implement special audit tools and methods that are becoming more and more current along with the development of methods for detecting irregularities in non-financial reporting. A high-quality and timely internal audit procedure is of great and often crucial importance, given that internal and external stakeholders adopt business decisions based on presented data that focus on tasks, plans and strategies related to business decisions. A timely, up-to-date and accurate internal audit helps to reduce the level of risk related to the company's operations.

The importance of business decisions made on the basis of internal and external audits can be decisive for the company's operations and the achievement of business results in the coming period. In order to build trust in the audit process and its quality, it is necessary to synchronize the activities of government agencies, professional associations, representatives of the audit profession and users of non-financial reports. In order to improve the quality of the audit of non-financial reports and the understanding by stakeholders, it is necessary to take concrete measures and activities, including legislative changes, building transparent reporting, raising awareness among professional auditors and management about the importance of achieving and maintaining a high-quality audit process of non-financial reports.

The goal of establishing an audit of the company's entire operations is directed towards a pre-prepared audit plan, which should cover the entire course of the company's operations, in accordance with international standards. For the needs of stakeholders, it would be beneficial to combine financial and non-financial reports into an integrated report. There is a need to introduce a more systematic and permanent system for auditing non-financial reports with the aim of more efficient business risk management, which will adequately evaluate non-financial indicators that are realized, applied and function in practice. Such activities of preparing the audit of non-financial reports, according to the established criteria, should enable the audit procedure to be carried out according to the rules, practices and procedures of the auditing institution. The criteria and set parameters for the implementation of this audit should ensure that the process is timely, comprehensive, adequately documented by appropriate and suitably qualified personnel and is based on realistic professional judgments, facts and evidence.

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POTREBE STEJKHOLDERA ZA REVIZIJOM NEFINANSIJSKIH IZVEŠTAJA PREDUZEĆA

Apstrakt: Nefinansijski izveštaji su obavezan element izveštavanja preduzeća u Republici Srbiji koja imaju više od 500 zaposlenih u koje imaju pravo uvida sve zainteresovane interesne grupe, odnosno stejkholderi preduzeća. Nefinansijski izveštaji se odnose na poštovanje principa održivosti, društvene odgovornosti preduzeća, zaštite životne sredine i socijalnih aspekata kao što je poštovanje ljudskih prava, bez objavljivanja finansijskih rezultata preduzeća. Predmet ovog naučnog rada je teorijska analiza potreba stejkholdera za revizijom nefinansijskih izveštaja i potreba da se ukaže na značaj uticaja stejkholdera na transparentnost nefinansijskih izveštaja. Ovaj naučni rad ima za cilj da prikaže za koje oblasti i informacije su zainteresovani stejkholderi u nefinansijskim izveštajima što može da doprinese povećanju efikasnosti procesa revizije. Takođe, cilj ovog rada je da se utvrdi uticaj nivoa potreba stejkholdera na povećanje nivoa kvaliteta revizije nefinansijskih izveštaja.

Ključne reči: nefinansijski izveštaji, revizija, stejkholderi, održivost, društvena odgovornost

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