Abstract
The nowadays accounting information user profile became more sophisticated and the financial reports face new challenges in accomplishing process to meet users’ needs. The purpose of financial reports is to provide useful information to users. According to International Accounting Standards Board, the utility of information is defined through the qualitative characteristics (fundamental and enhancing). The financial crisis emphasized the limits of financial reporting who has been unable to prevent investors about the risks they were facing. Some managers expressed reservations about the quality and relevance of corporate reporting, stating that the annual report is no longer a useful tool. Due to the current changes in business environment, managers have been highly motivated to rethink and improve the risk governance philosophy, processes and methodologies. The lack of quality, timely data and adequate systems to capture, report and measure the right information across the organization is a fundamental challenge to implementing and sustaining all aspects of effective risk management. Starting from 80s, the investors became more interested in narratives (Notes to financial statements), than in primary reports (financial position and performance). Our research suggests a framework for risk reporting with the main goal of improving the good practice in risk management field. Also, we will debate the relation between the qualitative characteristics of accounting information, transparency and risk, and explore the possibility of developing some good practices in risk reporting.

Keywords: risk management, framework for risk reporting, financial reporting, qualitative characteristics of financial information, good practices

JEL Classification: M20, M29, M41

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Introduction

When we discuss about risk, we think about danger, loss or other unfavourable consequences. In accounting and in finance, the concept of risk is related to a wide range of terms, such as cost – volume analysis, decision trees, discounted cash flows, capital assets pricing models, and the newly hedging concept. Risk management is the process by which organisations methodically address the risks attached to their activities in pursuit of organisational objectives and across the portfolio of all their activities. Effective risk management involves: risk assessment; risk evaluation; risk treatment; and risk reporting. Risk management highlights the actions that the entity takes in order to be prepared for any negative event. The objective of risk management is not to prevent or eliminate taking risk, but to ensure that the risks are taken with complete knowledge and clear understanding so that it can be measured to help in mitigation. The paper will present a short evolution of the accounting qualitative characteristics and how these features may conduct to a more transparent reporting and a balanced risk management process. Our objective is to present a set of information that the company has to include in risk reporting.

A key tenet of sound risk management is risk transparency, both in terms of internal risk reporting as well as external disclosure (Lam, 2007). While there is great demand among business unit managers for automated, consolidated reports and “risk snapshots” as needed, few entities are able to satisfy it today. The ability to generate reports much more frequently, every day or even in real-time, would make risk management a much more flexible, powerful and valued tool for business managers.

A survey conducted by ACCA (2012) has shown that accountants understand risk and that they believe they make a major contribution to risk management and want to do more. It also suggests a correlation between good accounting practices and less dysfunctional behaviour. In theory at least, accountants speak the right language on risk. They embrace the essentials of risk management – such as objectivity, thoughtfulness – and the survey sample showed overwhelming support for the 39 good practices. Accountants value the support they can provide to decision-makers and understand the issues. They are keen to use their skills more to contribute to integrated risk management. It seems very much to be in the best interest of organisations and their shareholders and other stakeholders to let them do so. The paper will present a short evolution of qualitative characteristics of financial information and the way how these characteristics may increase the transparency of reporting and a balanced risk management. Our goal is to highlight a set of items that an entity should consider in risk reporting in order to mitigate omnipresent risks and uncertainties enhancing the related good practices.

1. Literature review

Short history about frameworks developments

The most known framework in accounting field is the Conceptual Framework for Financial Reporting developed by International Accounting Standards Board (IASB) starting by 1978. The mentioned framework is a document that plays the role of compass in accounting, guidelines for professionals. First step in critical analysis of framework may be attributed to Edwards (1981) who view the framework as a gyrocompass to navigate in a domain. Miller and Redding (1986) consider a framework a “collection of rules, accepted
truths and other basic ideas about a field” and Alballa-Bertrand (1992) is more incisive in defining the framework, considering it “a badly needed analytical structure”. Paciolo’s writings from 1494 are the first “framework” for accounting professionals. Not only financial accounting has such document. In almost any field we find a landmark which is playing the role of framework: astronomy (Copernicus, 1543; Galileo, 1632), evolution (Darwin, 1859), managerial accounting (Johnson and Kaplan, 1991), and so on. Yet, a globally accepted framework for nonfinancial reporting (including risk reporting) is still needed (Albriet al, in press). Besides defining the relevant concepts of the field related to, the framework is necessary for (Solomon and Solomon, 2004):

- Developing the appropriate taxonomy for a specific domain;
- Guide lining the practice;
- Representing a basis for research projects;
- Improving the communication between academics and professionals;
- Contributing to a better understanding of the field.

If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable (IASB, 2010). The qualitative characteristics of financial information, as set out in the conceptual framework of the IASB, are fundamental for standard-setting and are intended to be used by entities when they make accounting decisions: policy choices and policy changes (IASB, 2010).

The current Conceptual Framework for financial reporting is a new version of Framework issued in 1989 by former IASB (IASC) and revised in 2010. It contains such concepts as relevance, faithful representation, verifiability, reliability, comparability, understandability and timeliness. For non-professionals, these terms are abstract. The researchers analysed the framework’s concepts and obtained empirical conclusions; the value relevance of financial information is based on regressions of price on accounting items such as earnings (Barth et al., 2001; Hail, 2013); the variables of asymmetric timeliness of earnings is based on regressions of earnings on returns (Basu, 1997; LaFond and Watts, 2008); the benefits of comparability are measured by the similarity of a firm’s earnings-return relationship to other entities (De Franco et al., 2011); and the understandability of accounting narratives is based on readability and comprehension tests (Smith and Taffler, 1992).

Quality, transparency and good practice

While “quality” of accounting information and “transparency” of a disclosure system or accounting standards are commonly and interchangeably used terms, a precise definition of quality or transparency that everyone agrees on has been elusive. Pownall and Schipper (1999) define transparency as “standards that reveal the events, transactions, judgments, and estimates underlying the financial statements, and their implications” (Pownall and Schipper, 1999). Levitt (1998) defines good accounting standards as those that “produce financial statements that report events in the periods in which they occur, not before, and not after.” Ball et al. (1999; 2000) interpret transparency as a combination of the properties of timeliness and conservatism.

\[ \text{Transparency} = f(T, C) \] (1)
where:

\( T \) – timeliness

\( C \) – conservatism

The quality of financial information users receive is a function of both the quality of (accounting) standards governing the disclosure of accounting information and the regulatory enforcement or corporate application of the standards in an economy.

\[
\text{Quality of financial information} = f(Q_{\text{IFRS}}, Q_{\text{GAAP}}, MD, VD)
\]

(2)

where:

\( Q_{\text{IFRS}} \) - quality of international accounting standards

\( Q_{\text{GAAP}} \) - quality of local / national accounting standards

MD – mandatory disclosure

VD – voluntary disclosure


\section*{Risk reporting}

Risk disclosure in accounting is influenced by the standard setters’ requirements through the issuance of some accounting standards (IAS 32, IFRS 7, IFRS 8, IFRS 9, and IFRS 13). The professionals from UK (Institute of Chartered Accountants in England and Wales–ICAEW) are encouraged to report risk; the Turnbull Report (1999) underlined the importance of quality of internal control and risk management policies. The information needs of users include those related to risk and uncertainties were also long noted and debated by accounting institutes worldwide.

The primary goal of financial reports is to help users to draw up economic decisions, especially with future consequences; information related to risks may influence the users, either to be more conservative, or more optimistic, according to their affinity to risk. The companies’ financial reports are weak in risk reporting, due to the fact that information about risk is more qualitative and the preparers may feel uncomfortable to disclose it in narratives. The researchers confirm the lack of risk disclosures in financial reports (Beretta and Bozzolan, 2004). Investors appreciate any complementary information, considering it an advantage in making decision process.
For analysing risk reporting, the researchers use either the financial statements (annual reports) or internal documents of entities, such as management discussions. (Amranet al., 2008). Initially, the yearly financial statements were the source to examine risk disclosure; the directors disclosed it in order to comply with mandatory legal requirements and with accountability function (Linsley and Shrikes, 2005). Studies related to risk reporting are conducted in: UK (Abraham and Cox, 2007; Dhanani, 2003; Iatridis, 2008; Linsley and Lawrence, 2007; Linsley and Shrikes, 2006; Solomon et al., 2000), Italy (Beretta and Bozzolan, 2004), Portugal (Lopes and Rodrigues, 2007); Canada (Lajilli and Zéghal, 2005); Australia (Poskitt, 2005), USA (Hodder, et al., 2001; Schrand, 1997), Romania and Bulgaria (Roman, and Sargu, 2014). In Romania we found an increase interest in risk and risk management (Nichita, 2014), especially related to financial market (Horobet and Dumitrescu, 2008; Horobet and Ilie, 2009).

Some researchers (Hodder et al., 2001) analysed the English standard for risk reporting and conclude that there are three important topics:

- disclosure requirements need quantitative information in the annual reports to help investors and users to understand the companies’ instruments risk disclosures;
- the process to assess risk is a very difficult matter for users and investors, and
- the Financial Risk Release contains three formats of disclosure to help the users to evaluate a company’s risk. The users will depend on the format the companies used.

The comparative analysis between advantages and disadvantages of risk disclosure conducted by Linsley and Shrites (2000, 2005) examining the same issues, but within the annual reports of companies issued in different years, identify that entities can reduce the cost of capital by improving risk disclosure and increasing it in the annual reports. The same study revealed that shareholders’ value may increase if entities have a forward-looking approach in risk disclosure. Continuing their research in 2006, Linsley and Shrites prepare a content analysis of financial statements of a sample of 79 entities (from non-banking sector) from UK; the data about risk are structured as:

- three narrative groups (upside/downside, monetary/non-monetary and past/future),
- six risk factors (financial, operational, empowerment, information processing and technology, integrity and strategy).

They found:

- a positive association between narrative risk reporting (number of risk disclosures) and company size (Beretta and Bozzolan (2004) obtained the same results for Italian companies);
- a positive association between narrative risk reporting (number of risk disclosures) and the level of environmental risk (measured by Innovest EcoValue'21™);
- the companies disclosed more information of risk if they have lower levels of environmental risk;
- companies with higher levels of risk did not provide sufficient risk information to stakeholders;
• no association between narrative risks reports (number of risk disclosures) and five measures of financial risk containing: gearing ratio, asset cover, and price to book value of equity, *qui-score* and *beta-factor*.

• there are not monetary valuations of risk information;

• the companies have a willingness to disclose forward-looking risk information.

Dietrich et al. (2001) consider that the forward looking approach in risk reporting will lead to increased market efficiency. On the other hand, Botosan (2004) explained the difficulty of measuring the quality of risk disclosure, because the quality of disclosure depends on user perception as listed by the International Accounting Standard Board.

In last decades, the good practices related to risk reporting evolved and refined as a result of uncertainties that marked the business environment. A multidimensional approach of risk reporting reveals following structural elements of good practices in professional services industry:

• transparency in risk reporting;

• clear defining of risk attitude;

• Integration of risk in every business unit;

• Optimal allocation of resources for risk management;

• Integration of risk in organizational cultures of entity.

2. Symmetrically approach between conceptual framework for financial reporting and conceptual framework for risk reporting

Our paper tries to create a symmetric approach between conceptual framework for financial reporting and a conceptual framework for risk reporting. Botosan (2004) recommends that the notion of quality should be based on Conceptual Framework for Financial Reporting (IASB) as it reflects a consensus on what constitutes good disclosure, as precursory of good practice. Recent working papers (Nichita, 2014, 2015) highlighted the concern of accountants about the uncertainty of the business environment and the willingness to involve in risk management processes. The research synthesises the results of interviews with professional from an accounting services company; the company is included in Major Romanian accounting services top prepared by E&Y (2014) published on doingbusiness.ro website.

The former Conceptual Framework encourages the preparers of financial statements to elaborate reports useful for users based on four quality characteristics, with the same importance. The Board is aware that sometimes may be a conflict between these characteristics and recommends applying the professional judgment and best practices in order to obtain balanced and useful reports. The empirical research papers published proposed regression models for the measurement of the accounting information quality based on qualitative characteristics in association with adaptation of international standards and local accounting regulations (Barth et al., 1999, Schipper, 2005; Ball, 2006; Soderstrom and Sun, 2007; Ding et al., 2007, Albu et al., 2011; Mihai et al., 2012; Albu et al., in press).
The Conceptual Framework for Financial Reporting emphasises that quality of financial information may be achieved when the relevance and faithful presentation criteria are met. This approach about accounting quality characteristics classifies them in fundamental and complementary, as presented in figure no. 1.

In this context, of quality of financial reports through qualitative characteristics, we interviewed 10 accountants (seniors and juniors) about how they disclose in the financial statements the risk. We offered them some items as references and, also, we asked them to write more items about risk reporting or what they would like to know more related to risk and risk management.

We asked accountants to criticize / analyse the following statements:

- “We present in notes to financial statements information about risk”
- “We describe in notes to financial statements the models used for risk assessment and measurement”
- “We present the evolution of risk and uncertainty year by year”
- “The users of financial statements do not need information about risk and it is not necessary to disclose them in our reports”.
- “Our job is not to disclose risks”.

Figure no. 1: Qualitative characteristic of financial information

Source: Authors presentation based on IASB Conceptual Framework
Based on answers of our sample of accountants, we classify the information collected in clusters according to the qualitative characteristics recommended by IASB in its Conceptual Framework. So far, the collected data conducted to classify them in four clusters, as relevance – as fundamental qualitative characteristic, and understandability, verifiability and comparability, as enhancing qualitative characteristic (table no. 1)

**Table no. 1: Information classification**

**Relevance**

1. Disclosure of strategy regarding risk and risk management
2. Disclosure of probability of risk occurrence
3. Disclosure of impact of risks upon business
4. Disclosure of material risks
5. Disclosure of impact of risk upon current activity of entity and its effects upon future development of entity’s activity.

**Understandability**

1. Disclosure of definition of risk (how the entity defines the risk related to its activity and industry) and the types of risks that faces the entity
2. Define the activities necessary in risk management process
3. Describe the risks using tables, graphics, narratives
4. Describe the methods used in risk assessment
5. Disclosure of risk in the context of business strategy, business model and performance management

**Comparability**

1. Consistency in risk disclosure from period to period
2. Disclosure or risk in financial reports from period to period
3. Consistency in using the methods of risk assessments
4. Disclosure of changes in methods of risk assessment
5. Disclosure of factors that affects risk
6. Disclosure of changes in risk strategy and risk measurement

**Verifiability**

1. Disclosure of quantitative information about risk
2. Disclosure of quantitative risk models used by entity
3. Disclosure of concepts used in risk identification and measurement
4. Disclosure of limits of models used in risk assessment

Professionals from accounting field are not against risk reporting; they will prefer to have a guide for good practices to compass in this new context. Generally, financial reports reveal quantitative information (sales, assets, liabilities); non – quantitative data cannot be standardized and require professional judgment in reporting process.

The information about risk is not provide by reporting department because is related to short term or long term strategy of entity; in this case, management team should be involved in risk reporting.
Conclusions and final remarks
The focus of good risk management is the identification and treatment of the risks in order to bring into unison with the organisation’s risk appetite. Risk management of any business may conduct to a better performance and goal achievements in terms of performance or shareholders value.

Based on the proposed disclosure of risk similarly with accounting Conceptual Framework, the best practices may be:
- Identification of critical processes and assessment of impact of its upon business;
- Continuous evaluation of risk management process;
- Establishing the recovering strategies of investments;
- Testing, monitoring and improving of performance.

As accountants provide decision support, this approach to risk management puts accountants in a very important position. Most “risky” decisions in companies have some sort of financial aspect, and it is most often accountants who are asked to estimate the financial implications of alternative courses of action. On top of this, accountants will almost always outnumber formally designated risk managers in any given organisation. Accountants provide objective measurement, analysis and assurance for making good decisions. Good decisions mean less risk. As accountants share an aptitude for managing risk, it makes sense to look at how the day-to-day activities of the average accountant contribute to risk management.

The benefits of improved risk reporting should not be seen as being purely limited to individual investors or to the managers who gain investors’ confidence by such reporting. There are potential economic benefits to the wider community in terms of better risk-based resource allocation, with increased long-term capital formation as a result. The need to report on risks and risk management can also be expected to lead to improved internal information being collected on the risks that the enterprise faces, as well as the need to demonstrate that the risks identified are being managed, as shareholders hold directors to account for their risk management. However, companies’ directors are sometimes reluctant to include additional disclosure because competitors may make strategic use of information disclosed (Linsley and Shrives, 2005). This may lead to the imposition of a proprietary cost, hence putting a company at a competitive disadvantage and affecting the company negatively.

Entities need to integrate the risk-taking and the risk-controlling sides and involve all the different views and perspectives within them (business executives, middle management, heads of business lines, risk officers) as well as including the perceptions of shareholders, customers, regulators and other external users into the equation. To accomplish both objectives – linking better risk and strategy and integrating the risk-taking and the risk management sides together – entities need to adopt a fundamentally different approach. The first step of this approach is to articulate a plausible future state that is linked to the different strategic initiatives that have already been agreed. The plausible future state is directly derived from explicit assumptions made by the management about the future. Making very explicit what are the possible threats and opportunities allows the management to identify risks in the context of their strategy and the possible opportunities (Maurer, 2009).
The critical analysis of relationship value – risk will be the foundation of a constructive idea which will mitigate risk and losses. The dedicated risk manager will permanently contribute to innovate in methods of risk management.

The paper represents a first step in developing a coherent framework for risk reporting in order to assist both preparer and users of reports in making process decision; the risk is part of the business and the goal is not to eliminate it, but to find ways for a better management. The researchers and practitioners alike are invited to be part of process of drawing up the essential directions in risk reporting, to switch from backward looking to forward looking.

The clusters proposed as a result of interviews with professionals from accounting services field set out as preliminary stage in preparing a coherent framework for risk reporting where the good practices lead to diminishing the unfavourable consequences associated to risks.

The paper developed a normative analysis regarding risk reporting by proposing four groups for organize the information related to risks: relevance, understandability, comparability and verifiability. To increase the quality of reporting economical and financial risks the entity should organize training and courses for its employees from risk department (Huerta et al., 2013). The main goal of any framework is to create guidelines for communicate information that can be used by investors and other interested parties to evaluate clearly, concise and reliable the perspectives on entity; the results of our interviews with professionals from accounting services entity represent the first steps that we should take in improving quality of reporting and to draw appropriate practices.

The principles useful for drawing the good practices in risk reporting field includes (not limited):

- Commitment from all employees;
- Concentric vision upon risk and risk management;
- Clear separation between monitoring, control and risk management;
- Clear definition of risk attitude and business strategy about risk management;
- Application of risk strategies in every business unit.

The complexity and dynamics of economic environment will require continuous revisions and improvements of presentation of financial information, including risk information, and the related practices will evolve in order to be suitable in different contexts.

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