Izabela Emerling
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Reporting from the Perspective of Corporate Governance

Illustrated by Example of Companies Listed on the WSE

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INTRODUCTION

The process of globalisation, which also encompasses financial markets, has contributed to initiatives undertaken on an international scale with the aim to improve the process of creating and presenting information. The unlimited access of investors to reliably and comprehensibly communicated information regarding the issuer or its financial instruments listed on an organised market is the basis of a well-functioning financial market.

As reports published by companies listed on the WSE constitute the primary source of information on the current condition and development prospects of companies, they should support rational investor decisions. It is therefore important to create appropriate mechanisms and organisational solutions increasing the quality of published information.

Over the last decade, trust in reliable financial information has been significantly impaired, which has largely changed the EU's disclosure solutions.

Due to the expectations of stakeholders, the scope of disclosed information has been extended. Additional requirements related to, among others, the disclosure of non-financial information, including information regarding corporate governance, were imposed on companies. The new disclosure obligations imposed by the regulator do not, however, protect the stakeholder against the lack of reliability, or even deliberate distortion of the business entity's image presented to capital owners. The obligation to report corporate governance principles and the need to improve security measures against information unreliability contribute to an increased interest in corporate governance mechanisms applied in companies – both internal and external ones.

The monograph is the result of searches for a path of corporate governance improvement on the basis of the review of literature and companies' reporting.

The research was inspired by the new disclosure obligations imposed on companies, in particular those listed on the WSE, i.e.:

- the obligation to disclose non-financial information in annual reports, introduced by the Act of 1 January 2017
- the imposed obligation to report information on the implementation of BPLC 2021.

The purpose of the publication was to present problems related to company reporting and mechanisms reducing the risk of information distortion, as well as detailed disclosure obligations of companies listed on the Warsaw Stock Exchange.

The purpose of the theoretical considerations was to conduct an indepth analysis of domestic and international subject literature, which allowed for identifying activities undertaken by companies in the field of reporting, in particular those aimed at securing the reliability of the reported information, including non-financial information. The practical part of the monograph focuses on the analysis of the method and scope of information disclosed in companies.

The aforementioned goals were achieved using the literature research methodology and the analysis of the content of websites and annual, social, sustainable and integrated reports of selected companies.

The structure of the monograph has been subordinated to its goal.

The first chapter of the monograph is devoted to selected theoretical aspects of corporate governance. The general assumptions, models and rules of exercising supervision over the company's activity, as indicated by the authors, have been discussed while emphasising the notional ambiguity and significant conceptual differentiation.

Due to the assumption made at the beginning, according to which the reporting process is considered to be the basic instrument limiting the information asymmetry between the principal and the agent, the authors of the study have focused on the agency theory as one of the main theoretical foundations of corporate governance.

Assuming that the purpose of the study is to present selected internal mechanisms of supervision, the basic aspects of the work of the supervisory board, which pursuant to statutory regulations is responsible for the reliability of reporting processes, have also been characterised. In addition to selected theoretical studies quoted in this chapter, the authors used the OECD documents on the best corporate governance practice and *Best Practice for WSE Listed Companies 2021*, as well as other documents presenting the current practice of public companies.

This part of the publication also contains a description of selected control mechanisms established within the company, which are used by the supervisory board, and an independent assessment of the financial statement carried out by a statutory auditor in accordance with the provisions of the Accounting Act.

Finally, attention was drawn to the growing interest in internal systems and functions, which provide a significant support for the supervisory authority in ensuring the proper implementation of the obligation to secure the interests of the capital owner and other stakeholders.

The correct fulfilment of disclosure obligations influences the perception of this market and increases investor confidence. These issues have been reflected in the second chapter of the book, which shows the importance of information for stakeholders. It describes their interests and information needs in the field of reporting and presents the essence and characteristics of reporting in public companies. The chapter also contains detailed information on financial and non-financial reporting and discusses the various types of reports that listed companies must prepare and publish, along with the scope of the required information that should be disclosed. This chapter also highlights the provisions obliging public companies to publish particular types of reports and presents the requirements regarding the frequency and timing of such reports publication. An important part of chapter two is also the discussion of the report on the management board's report as a special example of corporate governance disclosures and the methods of its presentation.

The third chapter – the empirical one – focuses on a review of the methods used to present non-financial data in companies. Best prac-

tices applied by Polish companies in the field of non-financial data reporting and the process of non-financial data verification by a statutory auditor have been presented.

Despite its content, the presented study does not exhaust the issues of reporting and the use of corporate governance mechanisms to ensure the reliability of information. Thanks to the combination of theoretical knowledge and examples from business practice, the publication gives a multifaceted view on selected problems related to the collection of information on reporting from the corporate governance perspective and its presentation to stakeholders and the environment in accordance with applicable requirements.

Due to the complexity of the subject of the study and its practical aspect, publications on broadly understood corporate governance, with particular emphasis on reporting, are enjoying great interest. The authors of this study hope that it will provide the basis for further considerations on the need to improve corporate governance mechanisms so as to increase the quality of information published by companies.

1

CORPORATE GOVERNANCE MECHANISMS AND THE PROCESS OF CONTROLLING THE RELIABILITY OF FINANCIAL STATEMENTS SUBMITTED BY COMPANIES LISTED ON THE STOCK EXCHANGE: SELECTED ISSUES

1.1. ESSENCE OF CORPORATE GOVERNANCE

The authors of both Polish and foreign publications endeavour to define the concept of corporate governance. However, they look at this issue from a different perspective, which limits the consistency of the proposed definitions. The differentiation in question is also related to the evolution of the approach to corporate supervision, visible both in the legal doctrine and in the changing concept of the organisation of the supervision process itself. In this part of the study, the definitions and basic models of corporate governance have been reviewed while indicating its main mechanisms.[1] The considerations provide a theoretical basis for a broader presentation of internal and selected external corporate governance mechanisms used to ensure the reliability of in-

[1] Corporate governance mechanisms '[…] mean the way in which the negative consequences of the agency relationship are eliminated and limited (the agency problem, i.e. information asymmetry, divergent goals of the owners and the management board, as well as the shareholders' and managers' different attitudes to risk).' (Marcinkowska 2014, p. 50).

formation given to stakeholders in periodic reports, which will be discussed in the further part of the chapter based on the document *Best Practice for WSE* [Warsaw Stock Exchange] *Listed Companies 2021*.

1.1.1. REVIEW OF CORPORATE GOVERNANCE DEFINITIONS

One of the critical factors determining the rationality of investors' decisions is the reliability of information on the results of the company's operations to date and the company's development prospects. Such information is prepared and published in accordance with applicable regulations. Companies listed on the Stock Exchange (public companies) are subject to special information requirements imposed on them by so-called 'hard law', governed by generally applicable statutory and sub statutory provisions. The correct fulfilment of disclosure obligations is verified by external and internal corporate governance mechanisms. It should be emphasised at this point that, apart from the above-mentioned regulations, the solutions contained in the collections of good practices referred to as 'soft law', which make general statutory regulations more detailed, are also of fundamental importance. The mechanisms of operation and communication with current and future investors as well as with other entities interested in the company's activity that are described in the said documents create a network of additional stabilisers protecting investors against information unreliability (Olejko 2022, p. 6).

The security system outlined above is referred to as corporate governance. It minimises the risk of irregularities and abuses and, at the same time, reduces the phenomenon of information asymmetry between the principal and the agent.

The goal of the above-mentioned mechanisms can therefore be considered to be prevention of irregularities, which is the opinion of R. Woodward. This author describes the corporate governance system as 'procedures and institutions that prevent management abuse and impose penalties' (Woodward 2000, p. 20). Their implementation is aimed at securing the interests of the owner and the capital

invested in the company, as well as the interests of other stakeholders. According to C. Mesjasz, the goals of corporate governance (Mesjasz 2006, pp. 29–30) include:

1. Providing capital owners and other stakeholders with effective procedures and institutions that enable effective monitoring of the work and correcting the mistakes of the management board
2. Reducing divergences and harmonising the interests of the parties involved in the enterprise
3. Ensuring the attractiveness of the enterprise enabling the inflow of funds for its development
4. Maximising the value of the enterprise for the owner and other stakeholders.

The etymology of the term *corporate governance* is associated with the Latin word *gubernare*, which means 'steering, keeping the course while sailing' (Wawrzyniak 2000, p. 17), as well as with the Latin term *corporatio*,[2] meaning a relationship. The aforementioned conceptual ambiguity regarding the corporate governance terms also results

[2] The terms *corporation* and *company* are frequently used interchangeably in the subject literature. In the Polish legal system, there is no statutory definition of the concept of corporation as an economic organisation, and there is also no general regulation relating to this type of structure. M. Kucharski claims that 'a corporation as an organisational form can be distinguished from all forms of organised economic activity' (Kucharski 2007, p. 199). According to the author, corporations are organisations: 'strongly influencing the external environment, having a clear organisational culture, with an indefinite duration, creating a synergy of various types based on their resources, operating under a strong technological imperative, characterised by a complex internal structure and operating on many markets, based on long-term strategies, implementing the mission of the organisation, managed by a group of specialists, a private enterprise (subject to corporate supervision) with fractional ownership' (Sobczak 2009, p. 123). J.S. Czarniecki believes, however, that 'a corporation is an enterprise in the form of a joint-stock company that can participate and achieve success in economic processes on a par with global competitors due to competences and other resources that it effec-

from the diversification of the corporate culture of the countries of these terms origin (Lis and Sterniczuk 2005, p. 25). The way of understanding the term *corporate governance* depends on the theoretical approach, as emphasised by J. Kay and A. Silberston. According to the authors, historical and institutional structures influence the specific perception of corporate governance (Kay and Silberston 1995, p. 23).

The popularisation of the term *corporate governance* was influenced by the publication by Robert A.G. Monks and Nell Minow, who claimed that corporate governance 'is maximising the creation of wealth in a way that does not burden others or the entire society with inappropriate costs' (Lis and Sterniczuk 2005, p. 26). R.S.F. Eels, in the 1960s, used the term *corporate governance* to 'describe the functioning of the system of power and supervision in a corporation (company)' (Mesjasz 2007, p. 44). Lord Cadbury describes corporate governance in a similar way. According to this author, it is a system used to manage and control corporations (Cadbury 2000, p. 8).

J. Brooks described corporate governance more broadly as the problem of accountability related to the activities carried out within the company, i.e. 'the way in which managers are accountable to shareholders as well as other stakeholder groups, and provide the company with a structure that properly serves this purpose' (Jerzemowska 2002, p. 22). An interesting perspective was proposed by N. MacDonald and A. Beattie, according to whom corporate governance is equated with the analysis of internal connections between the structures of an enterprise (Jerzemowska 2002, p. 24).

M.C. Jensen and W. Mecking also stress the importance of the relationship between the principal and the agent. However, they emphasise the aspect of assessing management decisions' compliance with the interests of the capital owner. According to the authors, the concept of corporate governance is related to the focus on 'examining the connections (relations) between the owners of the company and the hired agents who manage (control) the company on their behalf and are obliged to maximise the assets of its owners. The purpose

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tively has at its disposal. The size of the enterprise and the extent to which it is known do not matter' (Czarniecki 2009, p. 9).

of corporate governance is to ensure compliance of these decisions with the interests of the company owners' (Jerzemowska 2002, p. 23). A similar goal of corporate governance is presented in the definition proposed by C. Mayer. According to the author, corporate governance encompasses activities related to the supervision over the activities of the managerial staff, who achieve the goals of investors with dispersed ownership and control (Mayer 1995, p. 31).

A similar approach can be found in the publication of H. Baer and C. Gray. The authors define corporate governance as a system of 'monitoring and control necessary for gaining access to information needed to make investment decisions and to monitor agents (managers) acting in the interests of capital owners' (Herdan 2007, p. 29).

The issue of monitoring and control is also raised in the definition proposed by R.I. Tricker who emphasises the importance of the responsibility component. According to the author, corporate governance defines the rights and obligations that institutionalise actions and liability, i.e. 'supervision (monitoring of managers performance) and responsibility/accountability (making managers accountable to those who have the right to hold them accountable)' (Jerzemowska 2002, p. 24).

What all the above-mentioned definitions have in common is looking at corporate governance through a prism of the goal, which in this case is pursuing the interest of a potential or real owner, also referred to as an investor. However, they address differently the issues related to supervisory mechanisms and the range of stakeholders interested in the effectiveness of supervisory activities.

At this point, it should be emphasised that the very concept of corporate governance has evolved over the years, moving from an approach based mainly on the agency theory, to an approach in which other interest groups, including the external environment, are also taken into account. In their definition, A. Berle and G. Means emphasise the role of both internal and external mechanisms in the mitigation of conflicts between the principal and the agent (Mesjasz 2004, p. 21), and T. Cannon points to social pressure as an element shaping the system of corporate governance (Wawrzyniak 2000, p. 20).

K. Keasey and M. Wright stress that corporate governance can be traced back to as early as ancient times (Keasey and Wright 1997,

p. 291). According to the authors, the separation of ownership from control was already described by Homer in *The Odyssey*.

In publications on corporate governance, the following four stages of the concept formation process are mentioned most frequently (Bogacz-Miętka 2011, p. 22):

1. The year 1776 – introducing the concept of corporate governance to economics – A. Smith, *The Wealth of Nations*.
2. The 19th century – attempts to introduce appropriate legal institutions and organisational solutions minimising the negative consequences of the separation of ownership and control.
3. The year 1932 – the introduction of the concept of corporate governance to contemporary economic theory – A. Berle and G. Means, *The Modern Corporation and Private Property*.
4. The 1980s – the intensification of the search for new solutions in the field of corporate governance resulting from the need to remedy the failures of the existing legal and organisational institutions which did not enable proper protection of the invested capital ownership, leading to a number of bankruptcies and financial scandals.

The issue of corporate governance, however, became a real subject of interest much later. Since the beginning of the 1990s, the international debate on the application of the mechanisms of the corporate governance system has intensified. The engaged parties included in particular institutions such as the European Union, the World Bank, the OECD as well as governments and institutions related to financial markets (Jeżak 2010, p. 10). It was also the time when research on changes and the importance of corporate governance for economic stabilisation was started. According to the principles developed by the OECD, effective corporate governance can be ensured by establishing adequate and effective legal, regulatory and institutional foundations[3] (OECD 2004, p. 31).

[3] The OECD principles of corporate governance will be discussed in the further part of this study.

Given the current trends observed in the practice of listed companies, it is definitely preferred to broaden the scope of problems 'in the sphere of interest' of corporate governance.

Describing the broad 'capacity' of corporate governance, O. Bogacz-Miętka lists its basic elements:

1. Principles, mechanisms, rules and institutions used to control various areas of management
2. Control over management
3. Tools used in research, i.e. the analysis of the functioning of an enterprise or the entire economy, property relations, capital markets or relations with banks, etc.
4. Control over the company management process exercised not only by statutory bodies but also by other stakeholders
5. The subsystem of the economic system of a given country which regulates its institutional conditions, among others, the role of banks or capital markets (Bogacz-Miętka 2011, p. 39).

1.1.2. THE CONCEPT OF SUPERVISION VERSUS CORPORATE GOVERNANCE AND ITS MECHANISMS

When considering the concept of corporate governance, one should not omit a semantic analysis of the very notion of supervision. It is a legal concept, but not unequivocally defined in the normative order, which in consequence leads to different interpretations of the scope of duties and supervisory powers. Nevertheless, the legislator uses the term supervision in numerous statutory acts (Olejko 2022a).

Due to the lack of a generally applicable definition of the very concept of supervision, it is most frequently discussed on the basis of theoretical and legal considerations. Researchers dealing with the issues of supervision emphasise its various areas, tools and goals. The analysis of numerous publications leads to the conclusion that supervision should be perceived much more broadly as a function that consists

in verifying and ensuring the correct activity of the supervised units (entities), where the right to perform supervisory functions is based on legal regulations which define supervisory entities having the authority to exercise supervision.

Supervision is defined as, among others, the right of the superior body to exert influence on the activity of the subordinate body (Jędrzejewski and Nowicki 1995). According to another definition, supervision is the influence of one entity (supervisor) on another (supervised) entity, which is based on the specific competence of the supervising entity authorising it to authoritatively interfere in the sphere of the rights and obligations of the supervised entity (Knosala 1998). Ochendowski defines supervision as the right to control and evaluate the correctness of supervised units' activities in terms of compliance with the law, the set goals and guidelines for the manner of their implementation (Ochendowski 1999). Considering the above in the context of the semantic analysis of the concept of supervision, it seems appropriate to compare it with control (Gad 2011, p. 37), which is used in numerous publications as an alternative term.[4]

It should be emphasised, however, that supervision includes not only control functions but also advisory functions and those related to the possibility of issuing guidelines or recommendations. It is therefore a much broader concept than control, which in a way provides the possibility of influencing the supervised entity through the

[4] It is assumed that control is usually associated with activities consisting in reviewing the documentation of the controlled enterprise or entity, as well as with the possibility of requesting additional explanations and information, and formulating conclusions based on them (Woodward 2000, p. 20).

In the *PWN Encyclopaedia*, which lacks a general definition of the concept of control, supervision is defined as the control and correction of the activities of bodies or entities subject to control (*Encyklopedia PWN* [PWN Encyclopaedia], pp. 416, 513–514). The *PWN Dictionary of the Polish Language* defines the term *supervision* as controlling, looking after someone or something, while the concept of control is described as checking something, comparing the actual state with the required condition, examining something or supervising someone, something (*Słownik języka polskiego PWN* [PWN Dictionary of the Polish Language], pp. 358, 495).

use of tools prescribed by law. The purpose of such activity is, among others, to reduce the probability of irregularities and eliminate the effects of the infringements or abuse that have occurred, as well as preventing the materialisation of other risks related to the supervised entity's activities. Based on that, it can be concluded that control functions do not replace the institution of supervision, but are merely basic means of its implementation (Kulesza 2011, p. 18). Supervision can therefore be defined as a corrective action, which is implemented owing to, among others, the obtained knowledge about the irregularities found during the control.

The task of supervision is not only to ensure compliance with the law but also to ensure that the company's goals are achieved, which is an equally important issue. The supervision function can be implemented thanks to the use of authoritarian measures resulting strictly from the applicable legal regulations and other, non-authoritarian measures which consist in issuing recommendations (Jagielski 2006).

The implementation of supervision goals should be assessed while taking the criteria of efficiency, effectiveness and legality into account. Supervision can be considered effective if it brings the desired results in the form of achieving the goals and tasks planned and when it protects the entity against the materialisation of the risk involved in the company's operations. Supervision is effective if its broadly understood costs are lower than the benefits resulting from activities involved in its implementation.

A special type of supervision is the aforementioned supervision resulting from the ownership of the company's capital, referred to as owner supervision. It is primarily a system of legal and economic institutions that deal with the protection of the shareholders' right to capital entrusted to the managerial staff. Therefore, as emphasised by K. Lis and H. Sterniczuk, it mainly relates to the exercise of rights by formal representatives of the owners in the company's supervisory boards, and concerns its legal sphere (Lis and Sterniczuk 2005, p. 30). The term *owner supervision* is much narrower than the previously quoted corporate governance. In the former, the essence of supervision is seen in the company–owner relationship, focusing mainly on one of the many groups of stakeholders (Table 1.1).

Table 1.1 The concept of corporate governance versus owner supervision

Corporate governance Supervision exercised by both owners (shareholders) and other stakeholders		
	Owner supervision Supervision exercised by the owner or their group	
		Business management Subject of supervision

Source: B. Wawrzyniak, *Nadzór korporacyjny: perspektywy badań*, Organizacja i Kierowanie, 2000, No. 2.

As in the case of corporate governance, it can be stated on the basis of Polish subject literature review that there is no consistent definition of corporate governance, owner supervision or corporate order. In the considerations of Polish authors, one of the dominant translations of the concept of corporate governance is the term *owner supervision*. However, according to J. Jeżak, owner supervision cannot be equated with corporate governance, which is understood much more broadly. This author proposed the term *corporate authority* or *corporate supervision* to refer to corporate governance. J. Solarz relates *corporate governance* to *corporate rule*, which is mutual relations between the company bodies, its suppliers, recipients, employees, shareholders and external sources of financial support (Mesjasz 1998, p. 12).

C. Mesjasz, on the other hand, proposed the term *enterprise rule*, which, according to the author, is a complex system of 'interactions – cooperation and conflicts between all interest groups regulated by appropriate contracts' (Mesjasz 1998, p. 10). In the document *Best Practice for WSE Listed Companies 2021*,[5] the term *corporate governance* was used. It is broadly defined here as 'creating tools that support efficient management, effective supervision, respect for shareholders' rights and transparent communication between the company

[5] The abbreviation *BPLC 2021* (Polish equivalent: *DPSN 2021*) will also be used in this study to denote *Best Practices for WSE Listed Companies 2021*.

and the market'. According to J. Jeżak, corporate governance should be defined as 'the structure of power in the company that is used to establish its goals, means of achieving these goals and methods for monitoring the achieved results' (Jeżak 2010, p. 10).

On the basis of the previous considerations regarding definitions of corporate governance, it can be concluded that their Polish versions stress the relationship between the owners of the corporation (company) and its management board, while limiting the interest in relations with other stakeholders. As emphasised by K.A. Lis and H. Sterniczuk, the Polish system of supervision over companies is closer to owner supervision than to corporate governance, as it is equated with the protection of the owner of the invested capital against the carelessness of management boards.

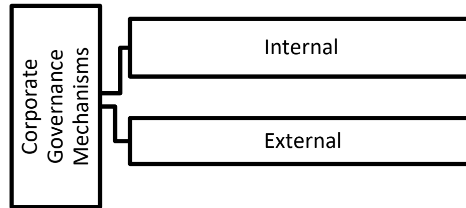
According to the OECD principles, corporate governance includes (OECD 2004, p. 11):

1. A network of relationships between the managerial staff and management-supervisory bodies, owners and other stakeholders.
2. An organisational structure used to set the company's goals, indicate tools for achieving these goals and to monitor the manner and results of the organisation's operation.

The aforementioned areas emphasise the role of the internal mechanisms of corporate governance.[6] It should be stressed, however, that, apart from internal mechanisms, corporate governance is also carried out by external institutions such as, among others, the stock exchange, investment funds, the information market and the market of products or managerial talents (Figure 1.1). In the subject literature, one can also find a third type – so-called regulatory mechanisms. However, they are most often treated as an element of internal tools for supervising the company's operations (Bogacz-Miętka 2011, p. 42).

[6] The legal mechanisms of supervision should be divided into those legal mechanisms that are regulated by mandatory legal acts and mechanisms with weak legal foundations – regulated by codes of good practice.

Figure 1.1 Division of corporate governance mechanisms



Source: own study.

According to Dunlop, the internal organisational and legal mechanisms of corporate governance include (Dunlop 2002, p. 37):

1. Control exercised by the supervisory board
2. Internal control system, including internal audit
3. Division of powers between the company's bodies, including incentive schemes (remuneration of management board members)
4. Ownership structure
5. Debt structure.

Given the purpose of this study, it is also reasonable to indicate the supervision mechanisms that significantly minimise the risk of unreliable reporting. In his publication, J. Gad states that corporate governance internal mechanisms of particular importance 'from the point of view of the financial reporting control system include: the activities of the supervisory board and the audit committee operating within the supervisory board, internal audits supporting the supervisory board, ethical codes and internal procedures' (Gad 2019, p. 85).

On the other hand, external mechanisms that support information reliability include, in the opinion of the author, 'financial reporting regulations, corporate governance reporting regulations, corporate governance best practices, financial audit, requirements regarding disclosure by public companies as well as national culture' (Gad 2019, p. 85).

1.1.3. THEORETICAL FOUNDATIONS AND MODELS OF CORPORATE GOVERNANCE

One of the key theoretical foundations for considering corporate governance is the aforementioned theory, the essence of which lies in the relationship of the so-called agency.[7] Relations and dependencies included in the agency theory are presented as a contract, according to which one party (principal) delegates decision-making responsibilities to the other (agent). Therefore, this relationship involves the entrustment of capital by its owner with the expectation that the agent will undertake actions leading to the multiplication of the assets en-

[7] The period of development of the above-mentioned theory is identified with the rapid development of the concept of corporate governance. 1976 is considered the breakthrough year, when the article by Michael C. Jensen and William H. Meckling entitled 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure' was published. In the quoted study, the authors emphasised significant hazards involved in the inappropriate determination of goals and the division of risk in an organisation. They also noticed problems associated with the desire to maximise the benefits resulting from the contract by each of the parties, placing the principal's interest in opposition to that of the agent. In their opinion, such a situation may contribute to the agent acting contrary to the interests of the principal, when he or she makes a choice between his or her own interest and that of the principal. A remedial measure providing protection against the consequences of behaviour inadequate to the expectations of the capital owner is to create a special system of incentives, motivating the agent to achieve the goals defined by the principal, and thus to work out a mechanism that will bring the goals of both parties to the contract together. The solution is to make the agent's satisfaction dependent on the level of satisfaction of the owner entrusting his capital to the agent. The authors of the aforesaid study also discuss the implementation of appropriate mechanisms in an organisation aiming to discourage behaviour that would be contrary to the interests of the principal, which involves assigning responsibility to agents for the achieved results, and thus creating the possibility of claiming reimbursement of costs related to the agent's improper activities. Thanks to such solutions, the potentially divergent goals of the agent's and principal's actions become similar in a natural way (Jensen and Meckling 1975, pp. 305–360).

trusted to them. The principal entrusting the capital stays outside the organisation, whereas the agent operates within it. This results in evident asymmetry, as the principal has limited access to information.

Such a contract is based on a declaration of will by the parties, where one of them – employed under the contract – undertakes to perform the tasks indicated in the contract, while the other – the employing party – obliges themselves to pay remuneration for the management services provided. By accepting the contract, the agent agrees to act for and under the control of the principal.

However, a certain kind of conflict of interest between the parties to the contract resulting from divergent goals does arise. A. Berle and G. Means defined corporate governance as a set of both internal and external mechanisms aimed at mitigating such conflicts between owners and managers (Berle and Means 1968, p. 24).

The development of the concept of governance was also influenced by a much broader theory of stakeholders. It is based on the assumption that various interest groups function inside the company and in its environment. This theory does not focus, as in the case of the agency theory, on the principal–agent relationship. Its main assumption is the existence of numerous, both formal and informal, contracts in the company, which constitute the basis for the company's implementation of goals corresponding to the needs of all interested parties.

In addition to the aforesaid theories, the authors of publications dealing with corporate governance usually mention the theories listed below as the most important ones for understanding its essence (Dobija and Koładkiewicz 2011, p. 23):

1. The theory of transaction costs
2. Managerial theories
3. Resource-based theories
4. Servant leadership theories.

The relationship between the company's bodies is largely influenced by the supervision model adopted in a given country. As emphasised by T. Cannon, corporate governance is a unique model of behaviour,

specific to every country or society. It is based on the interaction between the legal-institutional system, the structures and principles of the operation of boards of directors (supervisory boards), the principles of ownership and ownership structure, on the one hand, and social pressure, on the other (Wawrzyniak 2000, p. 20). The description of the key features and the identification of specific models were possible thanks to the research on supervision systems conducted mainly in Great Britain, Germany, the United States and Japan. The above-mentioned research included the observation and assessment of the dominant ownership structure in a given country, the mechanisms of company control and protection of the interests of capital owners, internal organisational solutions applied in companies or solutions minimising the discrepancy of the agent's and principal's goals in the form of systems for motivating company management boards. The research confirmed the significant diversity of the solutions applied, which was influenced by the factors of influence indicated by T. Cannon, i.e.:

1. Ownership rules and ownership structure
2. Legal and institutional – regulatory system
3. Principles of the functioning of internal supervisory authorities
4. Social and international pressure (Bogacz-Miętka 2011, p. 62).

The greatest differentiation of the applied solutions was found between the systems of corporate governance functioning in Great Britain and the United States and those in continental Europe and Japan. In the subject literature, the dominant division of corporate governance models is the one based on criteria including (Opalski 2005, pp. 11–22):

1. Legal and institutional solutions
2. Purpose and social responsibility of the organisation
3. Ownership structure and control mechanisms applied
4. Participation of external and internal mechanisms.

Taking into account the basic and most frequently quoted classification criterion, i.e. the legal and institutional solutions used in a given country, the following were distinguished:

1. One-tier monistic model
2. Two-tier dualistic model.

This division is based on the different division of competences and responsibilities for the proper functioning of the company as identified by the researchers. The original one-tier monistic model originating from the 17th-century commercial companies (Opalski 2005, pp. 11–22) combines supervisory functions with the function of company management within one body, the so-called board of directors. It consists of:

1. Executive directors
2. Non-executive directors.

In the two-tier dualistic model, there are two separate bodies:

1. Management board, which takes decisions, manages the company's affairs and represents it
2. Supervisory board, which oversees the activities of the management board and has the competences to influence its activities to the extent permitted by applicable regulations.

There is a clear separation of the supervisory and control functions from the decision-making ones. Persons holding managerial positions cannot sit on the company's supervisory board. In Poland, the basic regulation regarding the corporate governance model is the Code of Commercial Companies, which has been in force since 1 January 2001. The above-mentioned regulation shaped the dualistic model of corporate governance implemented in Polish joint-stock companies. It defines a clear division of both powers and responsibilities related to management and supervision between the two separate bodies of the company, namely, the management board and the supervisory board or the audit committee. However, the aforesaid regulation also provides

for a situation in which a supervisory board member, due to the lack of a management board or a member of the company's management board, may be delegated to perform duties assigned to the management board. Pursuant to Article 383 § 1 of the Commercial Companies Code, 'the powers of the supervisory board include […] suspending individual or all members of the management board due to important reasons, and delegating members of the supervisory board, for a period not longer than three months, to temporarily perform the functions of management board members who have been dismissed, have resigned or cannot perform their duties for other reasons.'[8]

The major advantage of the dualistic model is organising the relations between the company's bodies and capital owners. The company's supervisory board is focused on monitoring the work of the management board without the possibility of making management decisions, which are the domain of the management board. When assessing the work of the supervisory board, the owner applies the basic criterion of the effectiveness of supervision exercised by this body. Such an assessment is not easy, though, and sometimes seems impossible. This idea is developed further in the study. The main drawback of the dualistic model is poor flexibility and extended time of response to changes both inside the organisation and in its environment. The decisive advantage of the monistic model is a reduced information constraint. The lack of a clear division into differently functioning bodies (management board and supervisory board) is conducive to building relationships that allow for limiting (to a certain extent) the negative consequences of information asymmetry. In the case of the dualistic model, the information constraint is the result of a clear separation of the agent's activities from those carried out by members of the supervisory body. However, the one-tier model also has some disadvantages, the most important of which is the lack of subjectivity in the assessment of the work of executive directors.

The method of exercising supervision over a corporation is also different, depending on the degree of ownership concentration (own-

[8] Act of 15 September 2000, Code of Commercial Companies (Journal of Laws of 2000, No. 94, item 1037).

ership structure). In the case of the low concentration of ownership, the possibilities of controlling the company by the owner are evidently limited. The dominant role in the process of supervision over the management board's activities is played by external institutions, which offer a number of control instruments. The most important one is the capital market. In the internal model, both ownership and control functions are highly concentrated and supervision relies heavily on internal supervision mechanisms. The main role is played by supervision exercised by the majority shareholder through the supervisory board. As emphasised by M. Aluchna and I. Koładkiewicz, the characteristics of the Polish system of corporate governance are similar to those identified by Berglöf and Claessens. Its main features include the weakness of external mechanisms and, at the same time, the importance of internal mechanisms, limited investor control and insufficient transparency standards, with a simultaneous high concentration of ownership and the majority shareholders' frequent involvement in management (Aluchna, Koładkiewicz 2018 p. 15).

From the perspective of company's social responsibility and purpose, the literature on the subject distinguishes the following supervision models (Koładkiewicz 2000, pp. 48–49):

1. Financial model (shareholder model)
2. Social model (stakeholder model).

According to the agency theory, the primary goal of the company's operations in the financial model is to maximise the value for capital owners – shareholders. It is related to the expectation of certain behaviour on the part of the managerial staff that will shape the result of the company's operations in an appropriate manner. Therefore, the management board undertakes activities that bring quick positive effects, as shown in the periodic reports submitted by the company. The capital market is the main mechanism of control and supervision over the company's operations in such a model. As opposed to the financial model, the company in the social model is seen as a joint venture and its aim is to meet the needs of all parties involved. The supervision model related to this approach is based on the participation

of representatives of various interest groups in the supervisory board (Koładkiewicz 2000, pp. 48–49).

Based on the conducted investigations, taking into account the criterion of the participation of internal and external mechanisms in the system of supervision, the researchers distinguished the following (Bogacz-Miętka 2011, p. 64):

1. Autonomous system model
2. Authoritarian system model
3. Market system model
4. Cooperative system model.

A supervision system is classified in the above-mentioned category depending on the type of its external or internal mechanisms and the extent to which it uses these mechanisms. The autonomous system is characterised by a low participation of both internal and external mechanisms. In the market system, a high degree of involvement of external supervision mechanisms can be observed, with a simultaneous low involvement of internal mechanisms. On the other hand, authoritarian systems are characterised by a high involvement of internal supervision mechanisms with the low participation of external mechanisms. The last of the aforementioned systems – the cooperative one – is characterised by a high level of participation of both internal and external mechanisms.

It should be emphasised at this point that the presented typology is of a theoretical and cognitive nature. In the economic reality, there are various combinations of the above-mentioned model solutions.

1.2. BEST PRACTICE FOR LISTED COMPANIES AS AN ELEMENT OF CORPORATE GOVERNANCE

The generally applicable provisions of the law – 'hard law' – regulating corporate governance issues are supplemented by sets of guide-

lines – principles of building effective corporate governance. These regulations, the so-called 'soft law', belong to external mechanisms of corporate governance, which are important for ensuring the effectiveness of the financial reporting control system. This part of the study contains the characteristics of regulations constituting the so-called 'soft law' used in companies listed on the Warsaw Stock Exchange, together with the presentation of the OECD Principles of Corporate Governance – the prototype of other European codes, including the current BPLC 2021.

1.2.1. OECD PRINCIPLES OF CORPORATE GOVERNANCE

Regulations imposing the obligation of specific behaviour on the company's managerial staff, either directly or by means of internal regulations created in accordance with the applicable law, have frequently failed to achieve the basic goal of supervision, which is to protect the interests of capital owners and a wide range of other stakeholders. In the 1970s, various institutions began to develop codes of conduct, the purpose of which was to build reputation and a relationship with shareholders based on mutual trust (Żabski 2013, p. 132). Therefore, additional documents were created to promote solutions strengthening the security of the company's operations, the so-called corporate governance principles, which constituted a set of recommendations defining internal and external relations of supervised institutions, including relations with shareholders and clients, their organisation, the functioning of internal supervision and key internal systems and functions, as well as statutory bodies and rules of their cooperation. The solutions contained therein are not binding, as they are merely sets of recommendations (Blejer-Gołębiowska 2012, p. 56). The aim of the recommended solutions is to promote transparency (Grudzewski, Hejduk, Sankowska and Wańtuchowicz 2010, p. 197), and thus to increase the credibility of a company and the reported results of its business activities. The prototypes of the currently created documents, the so-called best practices, are the principles adopted by OECD. These

rules are not a binding act of international law. They are a classic example of the so-called 'soft law'[9] (Oplustil 2010 pp. 60–61).

After the publication of the first set of rules in Europe called the Cadbury Code in 1992 in Great Britain, 345 collections of best practices appeared all over the world by the year 2014. It should be noted that this number includes 91 first versions of the documents, whereas another 254 are the amended versions (Cuomo, Mallin and Zattoni 2018). It is also worth emphasising that it was the Cadbury Code that introduced the 'comply or explain' principle, the use of which will be described later in the study (Aluchna 2008, p. 19).

The OECD Principles of Corporate Governance, developed in 1999 and updated in later years, were created to support decision-makers establishing a framework for the functioning of supervision in OECD and non-OECD countries. By promoting the best practices, this document aims to achieve the fundamental goal, i.e. economic growth and, among others, an increase in the level of employment while ensuring financial stability. These principles have been recognised by the Financial Stability Forum as one of the 12 key regulations the application of which leads to the creation of sound financial systems. It should be emphasised that the document was created as a set of the best solutions used in various models of corporate governance.

The OECD Principles of Corporate Governance are considered to be a set of guidelines for investors, stock exchanges, business entities and other stakeholder groups, which make decisions on the applica-

[9] The acts that are the source of the universally binding law – 'hard law' – are enumerated in Article 87 of the Constitution of the Republic of Poland. According to the judgment of the Constitutional Tribunal of 12 May 2003 (ref. No. SK 38/02, OTK ZU 2003, No. 6A, item 53), in addition to legal standards, there are norms of conduct set by private entities, e.g. norms of social or economic organisations. They are included in the so-called 'soft law'. These standards 'are not part of the legal system if they are established by organisations operating on a voluntary basis, i.e. membership in them is not a necessary condition for having access to specific goods, and compliance with the established standards is not legitimised by state coercion. This does not mean, however, that they are not part of the broadly understood social order, built on the principle of subsidiarity.'

tion of appropriate solutions within a complex corporate governance structure.

The document consists of two main parts. The first part is divided into the following sections:

1. Providing the basis for an effective corporate governance framework
2. Rights of partners/shareholders and major ownership functions
3. Equal treatment of partners
4. Role of stakeholders
5. Openness and transparency
6. Scope of the responsibilities of the company's body.

In each of the above-mentioned sections, the principle and the recommendations supporting its implementation have been quoted. The second part of the document contains a commentary to the principles with a justification for their application. Useful examples to be followed when putting the principles into practice have also been included.

The basis for creating the OECD principles is the assumption that ensuring an effective and efficient corporate supervision increases trust in the organisation, provides protection against irregularities and allows for increasing the chance for financial stability and economic growth. The first principle emphasises the obligation to apply the law regarding the division of competences in the company and to clearly define the division of responsibilities between the supervisory and executive authorities. In view of the above principle, it is important to recommend the effectiveness and transparency of supervision, compliance with the law and the guarantee of an appropriate level of qualifications of the members of supervisory authorities and management boards.

Another general rule that shapes corporate governance in line with OECD is the protection of the partners'/shareholders' rights and facilitating the exercise of their rights. The effect of the implementation of the OECD recommendations regarding the above principle is to a certain extent limitation of information asymmetry resulting from,

among others, the exercise of the right to obtain exhaustive information about the decisions, as well as the right to participate in decision-making processes concerning significant changes in the functioning of the company.

The key to the proper performance of the corporate governance function in line with the OECD is to ensure equal treatment of all partners/shareholders, including minority and foreign shareholders. In the event of this rule violation, all partners/shareholders should have the possibility of receiving appropriate compensation. Particular protection is granted to minority shareholders. Proper corporate supervision should protect them against unfair practices of shareholders holding a controlling stake.

According to the document, it is necessary to use mechanisms that will also ensure the exercise of stakeholders' rights, which are established by the law and acquired through mutual agreements. The need for active cooperation between the company and its stakeholders is also emphasised. The implementation of such solutions is aimed, among others, at creating the economic value, jobs and sustainable profitability of companies. Given the subject of this publication, the most important is the fifth principle, according to which the conceptual framework of corporate governance should guarantee the timely publication of accurate information that includes all material matters relating to the company, including information on the financial standing, performance, as well as the ownership structure and supervision over the company.

The strictly observed reporting principles provide a basis for building systems for supervising and monitoring the activities of companies that operate according to market rules. Appropriate principles regarding the publication of information constitute an extremely important mechanism which secures shareholders and, in a sense, shapes the behaviour of companies.

With such a strong focus on the information disclosure obligation, the OECD principles emphasise at the same time the need to reduce the costs and administrative burden related to information processes. They also find it inadvisable to publish information the disclosure of which could lower the company's competitive position. At the same

time, according to the concept of the authors of the discussed principles, reporting cannot be limited solely to publishing periodic information about the company. It is necessary to immediately inform shareholders of significant price-setting events, i.e. events that could influence the shareholder's decision.

The OECD standards also apply to financial statement audits, which, according to the discussed principles, should be performed annually by an independent statutory auditor in order to maintain objectivity. Such an audit should assure the capital owners that the report presents the financial standing and performance of the company in an accurate and objective manner. Auditors conducting an audit are obliged to conduct it with due diligence.

According to the last, sixth OECD principle, corporate governance should also include mechanisms and tools that will allow the company to ensure effective monitoring of management processes by the company's body and should take into account the financial liability of the company's body towards the company and shareholders/shareholders. The specific tasks of company bodies include ensuring '[…] the reliability of the company's accounting and financial reporting systems, including an independent audit of financial statements, as well as ensuring the existence of appropriate control systems in the company, in particular risk monitoring systems, financial and operational control systems, and compliance with applicable regulations and standards' (OECD 2004). Table 1.2. contains a summary of the above-discussed basic OECD principles of corporate governance.

More detailed recommendations, supplementing the above-mentioned regulation, can be found in another set of rules developed by the International Corporate Governance Network, abbreviated as the ICGN. The organisation, which was established in 1995, represents various interested groups, i.e. investors, companies, financial and scientific organisations. The aim of the organisation is to support the development of corporate governance practice as well as dialogue between various interest groups. The rules adopted by the organisation are adjusted to the changing economic conditions. After the last modification in 2017, consultations aimed at searching and implementing even more useful solutions began again in July 2020.

Table 1.2 OECD principles of corporate governance – basic principles

I. Providing the basis for an effective corporate governance framework
A corporate governance framework should promote transparent and efficiently operating markets, comply with the letter of the law and clearly indicate the division of responsibilities between the various supervisory, regulatory and executive authorities.
II. Rights of partners/shareholders and major ownership functions
A corporate governance framework should protect the rights of shareholders and facilitate the exercise of shareholders' rights.
III. Equal treatment of partners/shareholders
A corporate governance framework should ensure equal treatment of all shareholders, including minority and foreign shareholders. All partners/shareholders should be entitled to receive real compensation in the event of violating their rights.
IV. Role of stakeholders in corporate governance processes
A corporate governance framework should recognise the stakeholders' rights that have been set by legislation and acquired by mutual agreement and it should foster active cooperation between companies and stakeholders in order to create the economic value, jobs and sustainable profitability of enterprises based on sound financial foundations enabling them to operate on the market.
V. Openness and transparency
A corporate governance framework should ensure that companies publish, on a timely basis, accurate information regarding all material matters relating to them, including information on the financial standing, performance, capital structure and supervision exercised over the company.
VI. Scope of responsibilities of the company's body
A corporate governance framework should guarantee an appropriate direction of the company's strategy, effective monitoring of management processes by the company's governing body as well as the financial liability of the company's governing body towards the company itself as well as its partners/shareholders.

Source: OECD Principles of Corporate Governance 2004.

The above-mentioned sets of recommendations are not the only regulations that constitute the so-called 'soft law' in the field of corporate governance.

The most popular European codes of best practice include documents developed by:

1. Euroshareholders (European Shareholder Group)
2. EASD (European Association of Securities).

However, when the above-mentioned institutions were creating the documents, they relied on the solutions presented previously in the aforesaid OECD principles. Hence, the OECD principles are considered to be the most important regulation in the scope under consideration.

1.2.2. *BEST PRACTICE FOR WSE LISTED COMPANIES*: THE CONCEPT AND EVOLUTION

When considering the Polish codification of best practices of companies listed on the Warsaw Stock Exchange, it is worth mentioning the initiatives taken by two organisations, which approach the issue in a different way. These are:

1. Polish Corporate Governance Forum operating at the Gdańsk Institute for Market Economics
2. Corporate Governance Forum established by the Business Development Institute (Bogacz-Miętka 2011, p. 132).

The first of the above-mentioned organisations has developed *The Code of Corporate Governance for Polish Companies Listed on the Stock Exchange*, which became known as the Gdańsk Code, whereas the second one has created *Best Practices in Public Companies* – known as the Warsaw Code. The diversified approach to the concept of corporate governance presented in the above-mentioned documents was influenced by the composition of the teams developing these documents. In the case of the Gdańsk Code, the works were chaired mainly by representatives of the scientific community, and the consultations were chiefly attended by representatives of the investor community. The second document was created as a result of the work of lawyers and representatives of circles directly related to listed companies. It was this document that was adopted by the

Warsaw Stock Exchange. Following the consultations in September 2002, it was presented as a binding document. Despite the popularisation of the Warsaw Code, the Gdańsk Code also played an important role in the promotion and development of corporate governance principles. Since the document was adopted on 1 January 2003, issuers have been obliged to publish an annual statement regarding the company's compliance with the principles set out in the document *Best Practice for WSE Listed Companies*. The presented principles are referred to in the literature as the so-called 'soft law' (Ofiarski 2016, p. 138). Such a stance is also presented by the authors of this study. However, also in this case, the researchers describing the concept of corporate governance present extremely different positions. As emphasised by Andrzej D. Nartowski, 'Best Practices are not a "code", a "soft" law, a "lesser" law, a "vice" law or a "law" in general. They are not "obeyed", but applied. They have no binding force, they do not entail orders and prohibitions; the state does not guard them with its institutions and sanctions' (Nartowski 2016, p. 4). The correctness of such an approach to the discussed issue is confirmed by invoking the general 'comply or explain' rule, according to which issuers are only obliged to explain the reasons for their potential failure to apply a specific best practice.[10] It is therefore possible not to apply the principle, but the reason for that must be indicated. Such a structure allows maintaining the adequacy of the applied best practices to the scale and scope of the company's operations. Due to the fact that best practices constitute a set of recommendations, failure to comply with a rule and explaining the reasons is not directly related to sanctions. However, permanent or incidental failure to apply a given rule results in the company's obligation to immediately inform about this fact, in the manner specified in § 29(3) of the Stock Exchange Regulations. The company is obliged to publish relevant information on the official website and in a manner analogous to the procedure used for submitting current reports. The obligation to publish should be 'fulfilled as soon as the issuer arrives at the reasonable conviction that a given

[10] The amendment to the document *Best Practice for WSE Listed Companies 2021* significantly changed the approach to the problem of following best practices.

rule will not be applied, and in any case, immediately after the occurrence of an event constituting a breach of a specific corporate governance rule. It should be emphasised that companies' explanations indicating the reasons and circumstances of their failure to comply with a rule should be exhaustive enough to be a real source of information about the reasons for failure to apply a given rule. They should also allow for assessing the company's attitude to the compliance with the principles contained in this collection' (WSE Rules). The issuer's failure to comply with the above regulation constitutes a breach of the WSE Rules, which, in accordance with § 180 of the WSE Rules, may result in the imposition of a regulatory penalty. Non-compliance with best practices may, however, be associated with a much more serious consequence, i.e. loss of reputation and credibility. This thesis seems to be confirmed by the results of the research carried out by A. Aluchna. According to the author, '[…] the value of companies following corporate governance recommendations was higher by more than 5%' (Aluchna 2007, pp. 18–19). On the other hand, G.W. Logan and W. Stettinius stated that '[…] investors are willing to accept a significantly higher bonus for companies following best practices, and reliable communication with the market and good investor relations are major criteria when making investment decisions' (Colley et al. 2005, p. 255).

The first set of best practices, *Best Practices in Public Companies in 2002*, adopted by the WSE Management Board on 4 September 2002, has been amended many times. Its name has also been changed. The reason for these changes, as in the case of the OECD document, was an attempt to adapt the promoted solutions to new challenges. Until the end of June 2021, the document in force was a collection of best practices, which came into force on 1 January 2016.

In 2020, the Corporate Governance Committee, composed of representatives of the most important institutions on the Polish capital market as well as experts specialising in corporate governance, prepared a draft set of corporate governance rules – *Best Practice for WSE Listed Companies 2021 – BPLC 2021* (abbreviation). Upon completion of the consultation process, the final form of the document was adopted and it came into force on 1 July 2021. The document is a response to

the current trends in the area of changes to the corporate governance. It takes into account comments submitted by market participants, including, among others, a proposal to depart from the current practice of reporting only corporate governance principles and the reasons for abandoning their application in favour of imposing the obligation to publish comprehensive information on the scope of the principles applied. According to the proposed solutions, a report on the scope of best practices application is to be published on a special-purpose form available in the EIB reporting system.

The modified document, similarly to its previous version, was divided into six chapters listed in Table 1.3. However, it does not include solutions to issues regulated by statutory provisions, i.e. the Act on Statutory Auditors or the Act on Public Offering. On the other hand, it addresses the problems of climate protection, sustainable development, diversity in the composition of company bodies and equal remuneration. The new rules also refer to the distribution of profit, the issuance of shares with the exclusion of pre-emptive rights and purchase of own shares. It also focuses on such issues as general meeting organisation, proposing candidates for supervisory board members and appointing them as board members.

Table 1.3 *Best Practice for WSE Listed Companies 2021* – basic principles

I. INFORMATION POLICY AND COMMUNICATION WITH INVESTORS
In the interest of all market participants and its own, a listed company ensures proper communication with its stakeholders by pursuing a transparent and reliable information policy.
II. MANAGEMENT BOARD AND SUPERVISORY BOARD
In order to achieve the highest standards with regard to the performance of their duties by the management board and the supervisory board in an effective manner, only persons with appropriate competences, skills and experience are appointed to the management board and the supervisory board. The management board members act in the interest of the company and remain responsible for its activities. The management board is responsible, in particular, for leadership in the company, commitment to setting and implementing its strategic goals as well as ensuring the company's efficiency and security. When performing their function and duties, which includes taking decisions, the supervisory board members should in their conduct be guided by independence of their own judgments, and should act in the best interest of the company. The supervisory board works in a culture of debate,

analysing the company's situation against the background of the branch and the market on the basis of materials provided to it by the company's management board and internal systems of the company, as well as materials obtained from outside, using the results of the work of its committees. The supervisory board, in particular, gives opinions onthe company's strategy, verifies the work of the management board in terms of achieving the established strategic goals and monitors the company's results.
III. INTERNAL SYSTEMS AND FUNCTIONS
Efficiently operating systems and internal functions are indispensable tools for exercising supervision over the company. The systems include the company and all areas of its group's operations that have a significant impact on the company's situation.
IV. GENERAL ASSEMBLY AND RELATIONS WITH SHAREHOLDERS
The management board of a listed company and its supervisory board should encourage shareholders to become involved in the company's affairs, primarily through active, personal or proxy participation in the general assembly. The general assembly should respect the rights of all shareholders, striving to ensure that the resolutions adopted do not infringe the legitimate interests of individual groups of shareholders. Shareholders participating in the general assembly exercise their rights in a manner that does not contravene standards of decency. The general assembly participants should come to the meeting prepared.
V. CONFLICT OF INTEREST AND TRANSACTIONS WITH RELATED PARTIES
The company and its group should have transparent procedures for managing conflicts of interest and entering into transactions with related parties where a conflict of interest may arise. Procedures should specify the methods of identifying such situations, disclosing them and proceeding in the event of their occurrence. A member of the management board or supervisory board should avoid engaging in professional or non-professional activity that could lead to a conflict of interest or adversely affect their reputation as a member of the company's governing body, and in the event such a conflict of interests arises, they should disclose it without delay.
VI. REMUNERATION
The company and its group take care of the management team stability, including through transparent, fair, consistent and non-discriminatory rules of remuneration, which are manifested, among others, by equal pay for women and men. The adopted policy of remuneration for members of the company's governing bodies and its key managers defines, in particular, the form, structure as well as the method of establishing and paying the remuneration.

Source: *Best Practice for WSE Listed Companies 2021* (abbreviation BPLC 2021).

The guidelines on the application of the *Best Practice for WSE Listed Companies 2021*, edited and updated by the Corporate Governance Committee, prepared in the Q&A formula, are and will be of fundamental importance for the correct application of the adopted principles.

The introduction of a new set of best practices was accompanied by changes to §29 of the Stock Exchange Rules, which regulate the principles of providing information on the application of good practices. Apart from information about violations related to their application, Companies are currently obliged to publish comprehensive information on the application of the rules. The above-mentioned rules of conduct for companies listed on the WSE include the information, control, incentive and organisational space. Following all the above-mentioned principles by implementing the recommended detailed solutions leads to the strengthening of the position of the company's stakeholders.

Bearing in mind the subject of this study, apart from issues related to the functioning of supervisory boards and their role in the process of monitoring the reliability of reports, which are discussed in the aforesaid document, one should emphasise the special role of recommendations regarding internal functions that are not regulated in other generally applicable legal provisions. They constitute particularly important internal mechanisms of corporate governance that strengthen control over the correctness of the company's reporting. The above-mentioned corporate governance mechanisms, particularly important in the reporting process, will be discussed later in the study, and examples of practices applied by listed companies in Poland will be presented in chapter three.

1.3. ROLE OF THE SUPERVISORY BOARD, A STATUTORY AUDITOR AS WELL AS SELECTED INTERNAL SYSTEMS AND FUNCTIONS IN THE PROCESS OF ENSURING EFFECTIVE CONTROL OVER REPORTING

Pursuant to the applicable legislation, the supervisory board of a company ensures the reliability of financial statements prepared by the management board. It is responsible not only for reporting, but also for the proper functioning of the internal control system. As emphasised by the WSE Corporate Governance Committee in its stance of 26 June

2019 on the effectiveness of supervision in public companies, 'A special role in ensuring the proper functioning of a joint-stock company, and in particular a public company, is played by the supervisory board.'[11] In the performance of supervisory functions, it is supported by effective internal systems and functions, as well as an external mechanism for verifying the reliability of reports, which consists in auditing the reports by an independent statutory auditor. Therefore, the supervisory board uses the information provided to it by the statutory auditor and by the internal audit unit, which was confirmed by J. Gad in his research on the activity of supervisory boards (Gad 2012, p. 786).

This chapter focuses on the basic principles of functioning of selected institutions (corporate governance mechanisms) that support supervision, thus limiting the probability of providing unreliable and misleading information by the company. Based on the Best Practice for WSE Listed Companies discussed in the previous chapter, regulations applying to the functioning of Supervisory Boards and Audit Committees operating within them were referenced, with particular emphasis on the role of this body in monitoring the financial reporting process. The key role of the statutory auditor and the importance of the internal control system were also noted (Emerling 2015, p. 91). Next, the role of selected internal corporate governance mechanisms functioning in a company, with particular emphasis on internal audits, was examined.

1.3.1. SUPERVISORY BOARD AND ITS COMMITTEES

The changes that are gradually introduced to the Polish legal system increasingly emphasise the role of the supervisory board in ensuring the security of the organisation and its owners. Thus, they force its

[11] Corporate Governance Committee – an advisory body at the Warsaw Stock Exchange S.A. It undertakes independent actions and formulates independent opinions. It is composed of experts – representatives of the interests of various groups of capital market participants. Its activity is focused on issues related to the principles of *Best Practice for WSE Listed Companies.*

increasing engagement in the supervision of the financial reporting process[12] (Walińska and Gad 2012, p. 206).

The duties of supervisory boards are defined in a very general way by commercial law (Gad 2012, p. 778). Pursuant to the Commercial Companies Code, the supervisory board 'in order to perform its duties may examine all documents of the company, request reports and explanations from the management board and employees, and review the company's assets' (Commercial Companies Code, Article 382 § 1). The interest of the company should not be confused with the interest of a specific shareholder or even a group of shareholders (Sołtysiński et al. 2008, p. 1453). Activities of supervisory board members aimed at pursuing the interests of the company should be characterised by independence of their own opinions and judgments.

The specific duties of the Supervisory Board include, among others, the assessment of financial statements in terms of their compliance with the accounting books and documents, as well as with the factual circumstances.

Bearing in mind the subject of this study, one should emphasise the special role of the supervisory board in the process of limiting information asymmetry that results from the separation of capital ownership from the management function. It is this body of the company that, apart from the management board, is obliged to ensure that the

[12] Article 4a), introduced in the amendment to the Accounting Act of 2018 (Journal of Laws of 2018, No. 63, item 395), significantly changed the situation of members of the supervisory board or another supervisory body of entities subject to the Accounting Act by imposing new obligations on them and establishing sanctions for failure to perform the imposed duties. Pursuant to the above-mentioned regulation, apart from the entity's manager, members of the supervisory board or another supervisory body of a given entity are also required to ensure that the financial statements and the report on the company's activities meet the statutory requirements. The results of the research conducted by J. Gad in 2009 and 2011 did not confirm that supervisory boards members were influenced by the introduction of the above regulation. The authors did not clearly indicate the impact of the aforesaid statutory provision on the scope of work performed by supervisory boards (Gad 2011). The increased scope of duties of the supervisory board was indicated by 31% of respondents in 2009 and 40.5% of respondents in 2011 (Walińska and Gad 2012 p. 209).

accounting of the entity is kept in accordance with the adopted accounting principles (policy), and that the financial statements reliably and clearly present the property and financial situation as well as the financial result of the enterprise. Such an assurance is essential for the capital owner taking the decision to approve the financial statements. Therefore, the supervisory board safeguards the reliability of information provided by the management board.

In terms of the impact exerted by the supervisory board on the management board, four models of its operation can be distinguished. They have been presented in Table 1.4.

Table 1.4 Position of the Supervisory Board versus the Management Board's position

Supervisory board position		Management board position: Weak	Management board position: Strong
	Strong	strong supervisory board/weak management board	strong supervisory board/strong management board
	Weak	weak supervisory board/weak management board	weak supervisory board/strong management board

Source: J. Machaczka, K. Misiołek, *Modele naczelnego kierownictwa w spółkach kapitałowych*, [in:] *Nadzór właścicielski w spółkach prawa handlowego*, S. Rudolf (ed.), Wydawnictwo Naukowe PWN, Warszawa 1999, p. 34.

J. Machaczka and K. Misiołek identified the following conceptual models of the supervisory board:

1. Controlling supervisory board
2. Representative supervisory board
3. Managing supervisory board
4. Political and entrepreneurial supervisory board (Machaczka and Misiołek 1999, p. 35).

A characteristic feature of the controlling and managing supervisory board is the domination of capital owners in its composition, as opposed to the other two models, where non-shareholders dominate.

B. Wawrzyniak and B. Bińczak divided model supervisory boards as follows:

1. Supervisory boards representing the public interest
2. Quasi-supervisory boards
3. Traditional supervisory boards
4. Controlling supervisory boards.

According to the typology presented above, the traditional supervisory board is composed of members representing external interests and the company's managerial staff. It is characterised by a great emphasis on the effectiveness of management processes. The supervisory board representing the public interest is composed of external interest representatives. What is emphasised in this model is the element of representation. The quasi-supervisory board does not fulfil its role because it does not fulfil the representative function and has no influence on the effectiveness of management. The last of the abovementioned models – the managing supervisory board functions in the case of high regulatory flexibility, where both the managerial staff and employee representatives can participate in its work. Such a situation increases the competences of the board.

As emphasised by Bohdanowicz, the ownership structure has a decisive influence on the work of the supervisory board and its internal structure (Bohdanowicz 2009a).

P. Rysiak and M. Wróblewski (Deloitte Report 2019, p. 15), taking into account the typology presented by I. Koładkiewicz, distinguished three models of supervisory board functioning, i.e.:

1. Controlling type
2. Intermediary type
3. Synergistic type.

Members of the supervisory board classified in the first group – the controlling type – perceive themselves as guardians of the shareholders' interests. Their attention is focused primarily on controlling the management board. The supervisory board classified as the intermediary type acts as the company's ambassador, thus opening up new business opportunities. The board classified in the last category – synergistic bodies – in addition to fulfilling its statutory duties, may also act as an advisor to the management board. Supervisory boards that function solely as supervisors are a relic of the past. Currently, the model of their functioning is closer to the concept put forward in the 1970s by Erich Gutenberg, who, while defining the scope of the supervisory board's responsibilities, indicated, among others, the functions performed by the board (Gutenberg 1970):

1. Supervisory function
2. Advisory function
3. Decision-making function
4. Coordinative function.

The duties and statutory powers imposed on supervisory boards contribute to the achievement of the basic purpose of its functioning, which is to protect the interests of the owner, among others, by maximising the agent's effort.

The activities of the supervisory board are therefore intended to influence the management board by exercising its statutory powers and to ensure that the principal's interests and the interests of the agent are reconciled.[13] It is necessary both to motivate the management board by setting specific goals and to constantly monitor the effectiveness and efficiency of its actions.[14]

[13] A mechanism commonly used to minimise risks associated with the indicated discrepancy is the introduction of a special management remuneration system (Urbanek 2004, pp. 103–106)

[14] The relevant provisions that make the manager's remuneration system dependent on the level of achievement of the set goals are most often introduced directly in managerial contracts referred to as incentive contracts (Starnowska 2004, pp. 129–132). An example is the bonus mechanism introduced in man-

The implementation of the goals of company management boards is assessed on the basis of financial and non-financial statements, in which the company presents the results of its activities. However, making the amount of remuneration of management board members dependent on the achievement of goals, which is frequently assessed on the basis of financial measures presented in periodic reports submitted by companies, creates a risk of manipulating the financial data and the risk of deliberately violating the basic principle of information reliability. This is another argument in favour of searching for organisational solutions that eliminate or minimise the indicated risk.

Pursuant to the Accounting Act, members of the supervisory board are jointly and severally liable to the company for damage caused by an act or omission related to a breach of the obligation to ensure the reliability of information published by the company.[15]

In view of the above considerations regarding the scope and purpose of activities carried out by the supervisory board, the question arises how to assess the effectiveness and efficiency of this body of the company. Despite attempts made, no clear criteria for such an assessment have so far been identified. The dominant view in the subject literature holds that the research conducted to date has not proved the existence of a direct correlation between the specific characteristics of the supervisory authority and the performance of companies (Johnson and Daily 1996, pp. 409–423).

agerial contracts and the division of management board members' remuneration into a fixed part and a variable part, dependent on the achievement of specific management goals. In the case of companies with State Treasury shareholding, the Act of 9 June 2016 on the principles of determining the remuneration of persons managing certain companies (Journal of Laws, item 1202) is applicable. According to Article 4.1. of the Act, the resolution shaping the remuneration of members of the management body should take into account the division of the total remuneration of a member of the management body into a fixed part, which is an indicated amount of the basic monthly salary, and also a variable part, which is a supplementary salary.

[15] The liability of members of the supervisory board of a listed company is legitimised by: Article 192 of the Act of 11 May 2017 on Statutory Auditors […], Article 96(6a) of the Act of 20 July 2005 on public offering, Articles 77 and 79 and Article 4a of the Accounting Act of 29 September 1994.

A significant enhancement of the effectiveness of corporate governance is the specialisation mechanism introduced by the Act on statutory auditors and audit firms, consisting in the selection of teams within the supervisory board that perform tasks in a specific area subject to supervision. In the case of supervision over financial reporting, such a task is performed by the audit committee. According to M. Bartoszewicz and S. Ligas (Bartoszewicz and Ligas 2015, p. 2), the authors of the report entitled 2015 Global Audit Committee Survey, although audit committee members participating in the study are convinced of the effectiveness of their supervision, they see a significant threat to the quality and effectiveness of their work, which is related to the increasing pace and complexity of the business environment. As many as three quarters of respondents participating in the survey stated that 'the time necessary to perform duties has increased significantly (24%) or moderately (51%), and half of them noticed that being a member of the Audit Committee is becoming increasingly difficult with the current time and competence resources.'[16] The research results presented in the report confirmed that in Polish companies there are fewer special committees responsible for selected risk areas, and '[…] most of the tasks related to supervision are the responsibility of the Audit Committee or the Supervisory Board in full composition' (Bartoszewicz and Ligas 2015).

The adoption of the Act on statutory auditors, their self-government, entities authorised to audit financial statements and on public oversight of 7 May 2009 was of fundamental importance for the development and popularisation of the audit committee concept in Polish companies. Chapter 8 of the currently applicable Act of 11 May 2017 on statutory auditors, audit firms and public oversight contains detailed regulations specifying entities required to have a committee, entities exempt from this obligation, requirements regarding the qualifications of committee members, the scope of duties and powers, and responsibility.[17] Entities exempt from the obligation to have

[16] International Standard on Auditing 200 *Purpose and General Principles of Financial Statements Auditing.*

[17] The Act refers to the regulations contained in the Regulation of the European Parliament and of the Council (EU) No. 537/2014 of 16 April

a committee are specified in the Act. They include issuers of securities, who '[…] at the end of a given financial year and at the end of the financial year preceding a given financial year did not exceed at least two of the following three amounts:

1. PLN 17,000,000 – in the case of total assets of the balance sheet at the end of the financial year
2. PLN 34,000,000 – in the case of net revenues from the sale of goods and products for the financial year
3. 50 people – in the case of average annual employment in full-time equivalent […]' (Act on Statutory Auditors, Audit Firms and Public Oversight of 2017).

In such entities, the duties performed by the audit committee may be delegated to the supervisory board or another supervisory or controlling body. In order to ensure the high quality of the audit committee's work, the Act indicates appropriate rules for selecting its members, based mainly on the criteria of professionalism and independence. Pursuant to Article 129(1) of the Act, the committee should include minimum three members, and one of them should have knowledge and skills in the area of the accounting or auditing of financial statements. In addition, members of this body should have knowledge of the branch in which the company operates, and this criterion is deemed to be fulfilled if at least one member has such knowledge. Furthermore, the statutory requirement regarding the audit committee's independence of the supervised entity is considered to be met if the majority of its members, including the chairman, are independent of it.

The audit committee is an element of the corporate governance system (Report of NACD Blue Ribbon Commission on Audit Committee 2000). The basic tasks of the audit committee include monitoring of

2014 on detailed requirements for statutory audits of financial statements of public interest entities. Pursuant to the wording of Article 128(1) of the aforementioned Act, 'A public interest entity must have an audit committee referred to in Regulation No. 537/2014. Members of the audit committee are appointed by the supervisory board or another supervisory or controlling body from among the members of that body.'

the financial reporting process, monitoring of the effectiveness of internal control systems, risk management and internal audit systems, as well as monitoring of the financial audit activities carried out in the entity. The role of the committee is also to ensure the independence of the statutory auditor and the audit firm. The Committee is also obliged to inform the supervisory board or another supervisory or controlling body of a public interest entity about the results of the audit, and explain how the audit contributed to the reliability of financial reporting in that public interest entity and what role was played by the audit committee in the audit process. The Committee assesses the independence of the statutory auditor and grants consent to the auditor's provision of permitted services that are not part of the audit. It is also obliged to develop a policy of selecting an audit firm to conduct the audit. Such a policy is aimed at reducing the risk of audit irregularities and ensuring that the selection process is carried out in a manner that will guarantee the integrity of the financial statement audit. Based on the conducted research, Stewart and Munro concluded that the dominant belief among managers and partners of audit firms is that the existence of an audit committee in the entity significantly reduces the risk involved in the audit (Stewart and Munro 2007, pp. 52–69). Other authors drew similar conclusions on the basis of the conducted studies.

To sum up, in view of the purpose of this study, it should be emphasised that it is the audit committee, as one of the mechanisms of corporate governance, that '[…] acts as a guarantor of the reliability of financial information generated by the entity […]' (Ambroziak and Chmielowski 2011, p. 212).

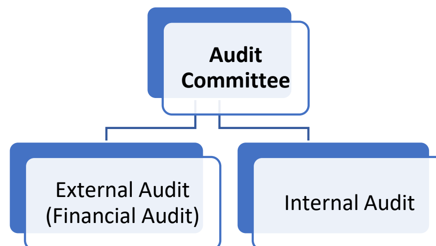
1.3.2. FINANCIAL AUDIT AS AN INDEPENDENT INSTRUMENT FOR STRENGTHENING THE EFFECTIVENESS OF SUPERVISION

The supervisory board, as the body responsible for ensuring the information reliability of the financial statement and for verifying the effectiveness and efficiency of the internal control system as well as the quality of the management board's work, performs its duties using legal

tools and organisational solutions that increase the chance of detecting irregularities in the above-mentioned scope. Such tools include, among others, an audit of the financial statement and other elements of the annual report conducted by a statutory auditor, an assessment of the effectiveness of the internal control system performed by an internal auditor, as well as other elements of the broadly understood control system, creating a protective shield against the materialisation of risk related to the company's activity. When performing its function, the audit committee uses information provided by the internal auditor and the statutory auditor (Figure 1.2). The verification instruments used by the supervisory board and its audit committee can therefore be divided into:

1. Internal instruments – dependent
2. External instruments – independent.

Figure 1.2 Mechanisms supporting the audit committee in its verification of the accuracy and integrity of the financial statement



Source: own study.

In order to verify the accuracy of the financial statement and to validate the information contained therein, the statement is audited by an independent statutory auditor (Sawicki 2012). The supervisory board supervises the audit process (Walińska and Gad 2012, p. 208). This process is carried out through the audit committee of the supervisory board. As emphasised by M. Ambroziak and A. Chmielowski, the audit committee '[…] is a platform for cooperation and information exchange between external auditors and the bodies of the audited entity (including its internal auditors and the supervisory board)' (Ambroziak and Chmielowski 2011, p. 212).

An audit[18] is considered to be an instrument of corporate governance – external – independent. The activity of a statutory auditor is regulated by both Polish and international standards. The most important, commonly used ones include the Accounting Act, the Act on Statutory Auditors, Audit Firms and Public Oversight, National Standards on Auditing or International Standards on Auditing. Professional financial auditing traces back to the 1862 British publication of the document called the British Companies Act, which emphasised the need for an independent review of the accounting books in order to prevent errors and fraud. After 1940, the scope of expectations towards this process changed (Brown 1962, p. 697). The amendment to the Companies Act introduced the obligation to audit annual financial statements, and specified the minimum scope of information provided therein (Hulicka 2008, p. 14).

In recent years, a significant extension of the scope of cooperation between the supervisory board and the statutory auditor has been observed. This was due mainly to the adoption of the Act of 21 June 2017 on statutory auditors, audit firms and public oversight. This act definitely strengthened the powers of corporate bodies (Buk 2017, p. 14). M. Gottlieb defines financial auditing as '[…] a systemic process of applying certain established procedures which consists in objectively collecting and evaluating research material related to economic transactions that took place in the entity during a given accounting period' (Gottlieb 1992, p. 137). A broader approach to the financial audit has been proposed by D. Krzywda, who claims that it encompasses not only the examination of the statement '[…] but also proposals of necessary corrections of the information contained therein and involves issuing an opinion on its credibility […]' (Krzywda 2005, p. 13).

The statutory auditor expresses a written opinion on the correctness and integrity of the financial statement (Pfaff 2018, p. 69), and determines whether it clearly and fairly presents the material situation of the entity

[18] The beginning of professional financial auditing is associated with the issue of the British Companies Act in Great Britain in 1862. It was the first document that emphasised the need for, and consequently, the importance of an independent review of accounting books (Hulicka 2008, p. 13).

and its financial standing. Pursuant to Article 83 of the Act on Statutory Auditors, following the audit, the auditor prepares a written audit report in accordance with national audit standards.[19] As emphasised by M. Ślebzak and K. Ślebzak, '[…] the statutory auditor also performs a preventive and protective function for the audited entity' (Ślebzak 2014, p. 6).

In the light of the applicable regulations, the basic obligations of a statutory auditor include timely performance of the audit, performance of activities certifying the financial statement, expressing an impartial opinion in writing in accordance with applicable regulations, statutory auditor practice standards and the rules of professional ethics, which include:

1. Independence
2. Honesty
3. Objectivity
4. Professional competences
5. Due diligence
6. Professionalism
7. Confidentiality.[20]

Although auditors are not responsible for assessing the entity's ability to continue its operations, which is in the sphere of manager's duties, they are responsible, among others, for obtaining sufficient and appropriate audit evidence to confirm that the entity's manager had reasonable grounds to adopt the going concern principle when drawing up and presenting the financial statement.

In accordance with point 11 of the International Standard on Auditing 200 *Overall Objectives of an Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, the objectives of an audit conducted by a statutory auditor are: 'To obtain

[19] The audit report is 'a written report on the audit of the financial statement of the audited entity, containing the opinion of the statutory auditor on the audited financial statement' (Article 2(31) of the Act on Statutory Auditors, Audit Firms and Public Oversight).

[20] International Standard on Auditing 200 *Purpose and General Principles of Financial Statement Auditing.*

reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether caused by error or fraud, which will enable the auditor to express an opinion on whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework, and to draw up a report on the financial statements and provide information about the auditor's findings in accordance with the requirements of IAS.'

At the same time, in point A 45 of the aforementioned standard *Inherent Limitations of Auditing*, it has been confirmed that the audit performed cannot constitute a basis for gaining absolute certainty as to the reliability of information contained in the financial statement. According to the above-mentioned standard, 'statutory auditors cannot be expected to reduce the risk to zero, nor are they able to do so, and therefore they cannot gain absolute certainty that the financial statements are free from material misstatement, whether due to fraud or error.' This results from the inherent limitations of an audit, which causes the fact that most of the audit evidence used by the auditor to draw conclusions and form an opinion is plausible rather than conclusive. The inherent limitations of the audit result from:

1. The essence of financial reporting
2. The essence of audit procedures
3. The need to conduct an audit within a reasonable time and at a reasonable cost.

The aforementioned regulation confirms that the audit conducted by a statutory auditor essentially reduces the risk of information unreliability, but it does not eliminate it completely. Hence, it is very important to strengthen the internal mechanisms of defence against the risk of all kinds of irregularities, including those related to the malfunctioning of the accounting system.

These mechanisms also support the audit process conducted by an independent external entity. An important role in this respect is played by the institutional internal and permanent mechanism of verification, which consists in creating an internal audit position or unit. The authors of the auditing standards recognise the great im-

portance of these mechanisms. In accordance with the National Audit Standard 610(Z) as amended by ISA 610 *Using the Work of Internal Auditors*,[21] an external auditor may use the internal audit function to support the conductance of an audit.

1.3.3. INTERNAL SYSTEMS AND FUNCTIONS FOR ENHANCING SUPERVISION OVER THE COMPANY'S OPERATIONS

The increasing complexity of business processes and the need to use appropriate tools so as to reduce the likelihood of irregularities and, consequently, the risk of increasingly severe penalties, affect the search for tools that allow this risk to be minimised. This fact has contributed greatly to an increased interest in internal systems, which can play a key role. Recently, there has been an intense debate on the internal control system.

In the document referred to in the previous chapter, *Best Practice for WSE Listed Companies*, the area of the internal systems and functions has also been included under the so-called 'soft law'. The current document, in addition to organising the relations between authorities and communication with stakeholders, also focuses on intra-organisational solutions aimed at minimising the risk associated with business activity. These systems constitute an important tool for strengthening supervision over the company's operations provided that they have been properly implemented and effectively used.

Pursuant to the third principle of the Best Practice for WSE Listed Companies, a WSE listed company should maintain an effective system of internal control, risk management and supervision, and additionally an effective internal audit function. This stance is confirmed by the WSE Corporate Governance Committee in its speeches.[22] The

[21] National Auditing Standard 610(Z) as amended by ISA 610 *Using the Work of Internal Auditors*.

[22] See Statement of the Corporate Governance Committee on the effectiveness of supervision in public companies of 26 June 2019.

standards clearly emphasise the need to adjust organisational solutions with regard to internal systems and functions to the size and nature of the company's operations. According to the quoted standard, the above-mentioned internal organisational solutions must be implemented rationally the scale of the company's activity, its type and size.

The obligation to ensure the reliability of the financial statement imposed on the supervisory board imposed on the supervisory board is directly connected with the obligation to ensure the effectiveness of internal control systems (Gad 2019, pp. 72–74). Only such systems allow securing the correctness of the main and auxiliary processes carried out in the company, as well as their compliance with internal and external regulations. The internal control system includes mechanisms for ensuring and verifying the correctness of accounting processes related to the identification, recording, processing, presentation and, next, interpretation of information on the company's operations. It is therefore one of the basic tools supporting the supervisory board in the performance of its tasks.

The major global institutions dealing with the issues of internal control systems include:

1. The Committee of Sponsoring Organizations of the Treadway Commission – COSO – the USA[23]
2. State control organisations of European countries affiliated to the International Organization of Supreme Audit Institutions – INTOSAI).[24]

[23] The first of these institutions, an American private sector organisation striving to improve the quality of financial reporting, has made a special contribution to the process of defining and developing the concept of internal control. In 1994, the organisation published the document entitled *Internal Control – Integrated Framework*, also known as COSO I model. In 2004, another document was issued – Enterprise Risk Management – Integrated Framework, frequently referred to as ERM or COSO II model. In 2009, the document entitled *Internal Control – Integrated Framework Guidance on Monitoring Internal Control Systems* was developed and published. It included guidelines on the principles of effective and efficient monitoring of internal control systems.

[24] The International Organization of Supreme Audit Institutions (INTOSAI) is an independent organisation. In 1992, the organisation issued audit standards, referred to as INTOSAI audit standards. These standards present the

The concept of internal control, similarly to corporate governance, does not have one formalised or even commonly accepted definition (COSO Report Internal Control – Integrated Framework Concept, 2008). E. Terebucha defines internal control in a traditional way as 'activities performed as part of the management function performed by the company's management team, as well as by designated units and persons' (Terebucha 1995, p. 2). Control activities consist in '[…] checking, mainly by comparing with a task set, an internal directive and applicable regulations – the legality, reliability and correctness of economic operations carried out in the enterprise, both intended and actually performed, in order to increase the operational efficiency, ensure the protection of social property and comply with applicable legal standards and internal instructions' (Terebucha 1965, p. 21).

Currently, however, due to the departure from the functional approach to the issues of internal control (Szymczyk-Madej 2011, p. 115), the most frequently definition quoted in the subject literature is that of COSO, according to which internal control is a process initiated by the supervisory board, management board or employees, created '[…] in order to provide objective assurance that goals can be achieved in the following categories:

1. Effectiveness and efficiency of operations
2. Reliability of reporting
3. Compliance with applicable laws and regulations' (COSO report).

current development trends, problems and tasks related to the methodology and practice of internal control. The issued standards constitute guidelines regarding the rules of conduct when performing control activities, and the method of control. In addition to the above-mentioned publications containing guidelines and regulations relating to the operation of the internal control system, a number of other studies have also been prepared. These include, in particular, the reports by Ronnie Hampel and Nigel Turnbull. The first one, which was developed in 1995, emphasises the need for the managerial staff of a business enterprise to ensure the effectiveness of the control mechanisms implemented in the entity, which entails the need to assess the effectiveness of these mechanisms and their compliance with the law, and the need to evaluate the risk management process. The 1999 Nigel Turnbull report defined the role of internal control in the risk management process.

All three of the above-mentioned categories overlap, with the second one relating directly to the reliability of the reporting process, which is the subject of this publication. The INTOSAI standards define internal control as '[…] functional means that are used by the entity's managerial staff to gain certainty from internal sources that the processes for which it is responsible are conducted in a manner that minimizes the likelihood of fraud, error, and wasteful or ineffective practices; it has many features of external control, but it can properly execute the orders of the managerial staff to which it is accountable' (INTOSAI 2000, p. 74).

According to the NSFA (National Standard of Financial Audit), internal control is 'a process designed, implemented and maintained by persons exercising supervision, the managerial staff and other employees of the entity so as to provide reasonable assurance that the entity's objectives regarding the reliability of financial reporting, effectiveness and efficiency of operations, as well as compliance with applicable laws and regulations are achieved' (NSFA 315, 2015, p. 2). E.J. Saunders, on the other hand, defined internal control as '[…] operational procedures and instructions, mechanisms and structures (organizational and hierarchical), rules and regulations, other requirements etc. which a company introduces in order to conduct its business as efficiently as possible and which taken together constitute the company's internal control system' (Saunders 2003, p. 32).

Pursuant to Recommendation H of the Polish Financial Supervision Authority, internal control is defined analogously to the concept adopted in the Anglo-Saxon model as a set of 'control mechanisms ensuring the achievement of the statutory objectives of the internal control system (i.e. effectiveness and efficiency of the bank's operations, reliability of financial reporting, compliance with the rules of bank risk management), compliance of the bank's operations with the provisions of the law, internal regulations and market standards)' (Recommendation H, Polish Financial Supervision Authority 2017, p. 3). The control mechanisms are defined as '[…] processes initiated by the managerial staff which are designed to ensure:

1. Reliable financial and operational information
2. Compliance with rules and procedures planned, legal provisions and other regulations
3. Security of the company's assets
4. Operational efficiency
5. Achieving the mission and goals set for the company's activities and programmes
6. Honesty and ethical values' (Moeller 2015, p. 48).

In the above recommendation, PFSA refers to the definition of the internal control system contained in the Act of 29 August 1997 Banking Law (Journal of Laws 1997 No. 140, item 939, as amended). The internal control system is defined here as an element of the management system. The internal control function is part of a complex internal control system. Pursuant to Article 9c(2) of the Act:

> 'The bank shall separate the following as part of the internal control system:
>
> 1) the control function aimed at ensuring compliance with control mechanisms concerning, in particular, risk management in the bank, which includes positions, groups of people or organisational units responsible for the performance of tasks assigned to this function
>
> 2) a compliance unit the task of which is to identify, assess, control and monitor the risk of the bank's activities non-compliance with the provisions of the law, internal regulations and market standards, and to submit reports on these issues
>
> 3) an independent internal audit unit responsible for examining and evaluating, in an independent and objective manner, the adequacy and effectiveness of the risk management system and the internal control system, excluding the internal audit unit' (The Banking Law Act).

In the summary of considerations on the scope and definition of the internal control system, it can therefore be concluded that it includes examining the correctness of task implementation, the selection of resources, the course and efficiency of business activity in comparison

with the set goals, the established strategy of operation and applicable legal regulations.

Internal control consists of five interrelated elements, which include (COSO Report, p. 13):

1. The control environment, providing a basis for the remaining control elements
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring.

The complexity of the internal control system limits the possibility of creating one model solution. It is also difficult to talk about the full coherence of such a complex and heterogeneous system. B. Kuc believes that the control system 'does not currently mean a coherent solution, according to which all types of control are conducted in a company, but includes many detailed solutions, taking into account different expectations of control in various areas of activity and at different levels of company management' (Kuc 2002, p. 17).

However, a conceptual framework was created to streamline and increase the effectiveness of the internal control systems implemented in business units. Thus, standard organisational solutions, which provided a basis for building effective internal control systems, were gradually introduced. The process of building general assumptions was based on numerous experiences, including those related to the lack of control and detection of frauds that resulted in the global financial crisis, revealing the weakness of corporate governance mechanisms. As emphasised by Thijs Smit, the President of ECIIA, 'The 2008 financial crisis proved best that the monitoring and control carried out by the Audit and Risk Committees were not effective enough to detect the main risks that led to the crisis.'[25]

[25] Audit and Risk Committees New EU regulations and best practices, FERMA/ECIIA.

Taking the above into consideration, IIA[26] and FERMA[27] emphasised the importance of the 'three lines of defence model' as an important tool for integrating, coordinating and combining the assurance and support functions within the unit.

Table 1.5 Three lines of defence against the materialisation of risk

First line	Operational management	Is the owner, responsible and accountable for the assessment, control and mitigation of risk.
Second line	Internal management functions (support functions and control functions)	Monitors and facilitates the implementation of effective risk management practices through the first line. Supports the risk owners in the reporting of relevant information related to risk in the organisation.
Third line	Internal audit	Provides the designated body responsible for organisational governance and top management with assurance regarding the effectiveness of risk assessment and management as well as related internal control systems, including in particular how the first and second lines of defence work.

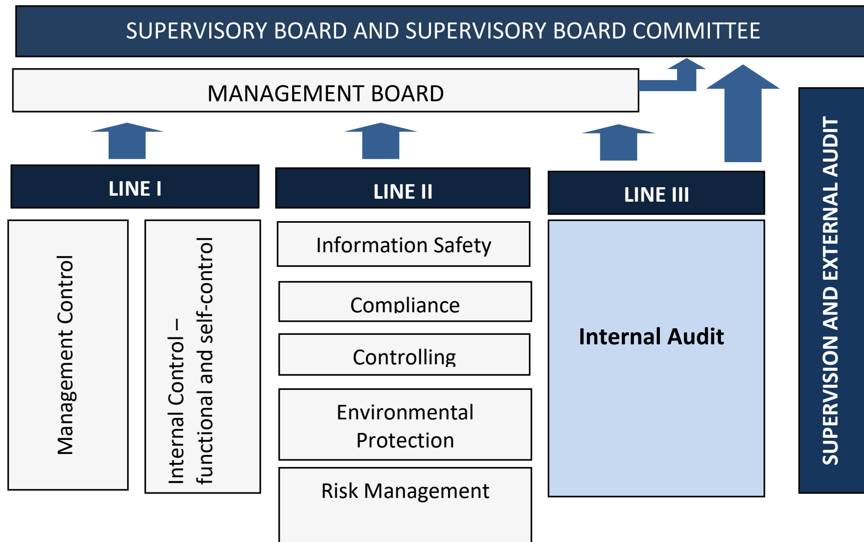
Source: Audit and Risk Committees New EU regulations and best practices, IIA FERMA and ECIIA, p. 12.

[26] The Institute of Internal Auditors (IIA) was established in 1941. It is the oldest and the largest organisation of internal auditors in the world. 'More than 200,000 people are associated with more than 200 national divisions and affiliated organisations. The Institute of Internal Auditors is a world leader in the field of standardisation, certification, research, education and preparation for the practical performance of the internal auditor profession.' https://www.iia.org.pl/o-nas/kim-jestesmy

[27] The Federation of European Risk Management Associations (FERMA) 'was created by 13 national risk management associations. Currently, it has over 5,000 individual members from all industries and business branches (production, finance, health care, public administration). The founding members are associations from the following countries: Belgium (BELRIM), Bulgaria (BRIMA), Denmark (DARIM), France (AMRAE), Germany (Bfv & DVS), Italy (ANRA), Netherlands (NARIM), Portugal (APOGERIS), Russia (RussRisk), Spain (AGERS), Sweden (SWERMA), Switzerland (SIRM) and the United Kingdom (AIRMIC). Poland is represented by POLRISK, whose founding members were, among others, PBSG consultants.' https://www.pbsg.pl/ferma-global-risk-raport-2007/

Based on the assumptions presented in the above-mentioned concept (Table 1.5), in 2013 the IIA presented a model in which the roles and responsibilities in the areas distinguished in the three-line model presented above (Figure 1.3) were clearly defined. According to the assumptions of the IIA model, everyone in the organisation is jointly responsible for the proper functioning of the internal control system.

Figure 1.3 Three lines of defence against the materialisation of risk – IIA



Source: own study based on *Trzy linie obrony w efektywnym zarządzaniu ryzykiem i kontroli*, Instytut Audytorów Wewnętrznych, January 2013, https://www.iia.org.pl.

The first line includes control mechanisms implemented in operational processes and risk management carried out by business units. The second line includes compliance functions and independent risk management, as well as other units carrying out control activities in the organisation. The third line of defence is provided by internal audit.

In 2020, the model of three lines of defence against the materialisation of risk, including the risk related to the unreliability of the reporting process, was modified. First of all, it is no longer a model of defence against risk materialisation, although, naturally, the internal control system functioning in this way will still protect the or-

ganisation against broadly understood risk. Now, according to IIA, it is supposed not only to protect, but also stimulate development and promote cooperation. Another mechanism supporting the effectiveness of corporate governance mentioned in the *Best Practice for WSE Listed Companies 2021* is the company's system of compliance with the law, which encompasses the examination of compliance in all areas of the organisation's operation, including all regulations, starting with statutory acts and lower-order acts to internal regulations and procedures. This tool significantly reduces the risk of illegal activities and, thus, protects the company against the consequences of violating applicable regulations.

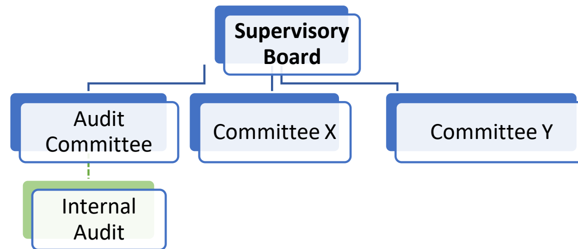
The corporate risk management system is indicated in the *Best Practice for WSE Listed Companies* as an internal function that provides an important mechanism to support management boards in effectively dealing with uncertainty, which is associated with risk, on the one hand, and with a chance to increase the company's value, on the other. Corporate risk management is 'an enterprise-wide, strategy-driven process carried out by the management board, managerial staff or other employees of the company which is aimed at identifying potential events that may influence the enterprise, keeping risk within defined boundaries, and reasonably ensuring the achievement of enterprise goals' (Corporate risk management – Integrated Framework, The Committee of Sponsoring Organizations of the Treadway Commission 2004, p. 16).

The compliance and risk management tasks included in the above-presented IIA concept are performed in the area of the second line.

In view of the purpose of ensuring the correctness of the reporting process, the internal audit function, which is also mentioned in the National Standards on Auditing, deserves special attention. It is a function that strengthens and evaluates the internal control system and, at the same time, supports the activities of the statutory auditor and the supervisory board. Communication between the supervisory board and the audit is largely carried out through the audit committee (Figure 1.2). The observation of the scope of cooperation conducted in the years 2009–2011 confirmed a significant increase in the usefulness of information provided to the Supervisory Board by the internal

audit. Therefore, the role of the internal audit in the process of supervision over the company's operations is increasing (Walińska and Gad 2012, p. 212). The internal audit unit conducts an independent, objective and systematic assessment of risk management, control and governance processes.

Figure 1.4 Supervisory Board and internal audit function



Source: own study.

The *Best Practice for WSE Listed Companies 2021* contains a set of recommendations specifying the role and functioning of internal audit in a listed company, placing it in the area of the internal functions that support the company's operations, including its supervisory board. Internal audit is therefore an integral part of '[…] the management and corporate governance system of the enterprise' (Irodenko 2016, p. 153). However, it plays a special role. According to the cited document, the basic features of internal audit activity are its objectivity and independence. In order to maintain the independence standard, it is necessary to properly place the internal audit unit in the company's organisational structure. It is therefore assumed that the audit manager should be subject to the level of management in the organisation that will allow the internal audit to fulfil its duties. It is considered optimal to subordinate the audit services directly to the president of the management board. Such a location reduces the risk of influencing the auditors by persons responsible for the examined organisational units. It should be emphasised that, in accordance with the International Standards of the Professional Practice of Internal Auditing, which regulate the activities of auditors, the audit unit is administratively subordinated to the compa-

ny's management board, and functionally – to its supervisory board. In order to reduce the risk of the company's management board influencing the auditor in the performance of their tasks, it is recommended to introduce security measures by, among others, limiting the possibility of dismissing audit managers through including relevant provisions in the internal audit work regulations, approved by the supervisory board. M.J. Barrett and P. Tiessen emphasise that it is the audit committee that should participate in the process of specifying the internal audit working conditions, including the amount of remuneration, as well as in the process of appointing and dismissing the internal audit head by approving or issuing opinions on the decisions taken by the senior management team (Barrett and Tiessen 1989). The research conducted by M. Arena and G. Azzone, on the other hand, has revealed that the effectiveness of internal audit work significantly increases when the audit committee frequently meets with the head of the internal audit unit, and when it is more engaged in the process of monitoring and evaluation of internal audit work (Arenas and Azzone 2009).

Based on the conducted research, James Roth confirmed the change of the internal auditor's role over the years from an auditor performing post-factum analysis of events to an auditor reacting to reported irregularities, and finally, to an advisor in the risk management process (Roth 2002). A similar opinion on the development of internal audit is expressed by K. Knedler and M. Stasik, claiming that 'The role and function of the auditor are increasingly often placed in the context of risk management, which is part of the general concept of governance' (Knedler and Stasik 2014, p. 15).

The tasks performed by internal auditors are largely consistent with the main area of activity and, what is worth emphasising, of responsibility of the audit committee specified in the Act on Statutory Auditors, Audit Firms and Public Oversight. They share a common goal (Bednarek 2016, p. 37). Based on the analysis of the subject literature and statutory regulations as well as reports on business practice, it can be concluded that the internal auditor is naturally the main, albeit often underestimated, ally of the committee, and, by extension, of the supervisory board.

In the summary of the above considerations, it should be emphasised that the three internal systems indicated in the document *Best Practice for WSE Listed Companies 2021*, i.e.:

1. Internal control
2. Compliance
3. Risk management.

as well as the *audit function*, are considered to be the key internal tools securing the correct operation of a business unit. However, to strengthen the activities of the company's governing bodies, and at the same time, significantly support the fulfilment of supervisory duties by the supervisory board, these tools must function in a proper way. Using the discussed organisational solutions solely for the purpose of improving the image does not bring the expected results.

The selected internal supervision mechanisms discussed in this chapter, considered from the perspective of the work of the supervisory board and its obligation to ensure the reliability of information made available by the management board to a wide group of recipients, are characterised by synergy, the use of which significantly improves the security of the company's operations. As emphasised earlier, this fact, noticed by an increasing number of researchers, increases the interest not only in the control mechanisms themselves, but in the effects of their interaction. It can therefore be expected that this field will be used to conduct further, more in-depth research works. The second chapter is devoted to the information needs of listed companies and their scope of reporting in the light of corporate governance, with an emphasis on non-financial reporting and the management board's report as an example of disclosures in the area of the corporate governance.

2

COMPANY REPORTING AND THE CONCEPT OF CORPORATE GOVERNANCE

2.1. IMPORTANCE OF INFORMATION AND INFORMATION NEEDS IN THE FIELD OF REPORTING IN RELATION TO CORPORATE GOVERNANCE

Information is a very important element in a business unit. Its importance is increasing due to the shift from an economy based on standard factors of production towards an economy based on intangible assets. Currently, information plays the role of the most valuable strategic resource on the market, owing to which it is possible to achieve and maintain the desired competitiveness.

Thanks to technological development and the process of globalisation, information plays a very important role in the functioning of enterprises (Krasodomska 2014, p. 15). Correct, reliable and comprehensive information is a basis for effective management of an economic unit (Messner 2007, p. 19).

With regard to financial markets, globalisation has resulted in taking measures aimed at improving the process of creation and presentation of information. Unlimited access of investors to clearly presented, reliable information about the issuer or its financial instruments listed on the organised market provides a basis for a well-functioning financial market. Proper fulfilment of disclosure obligations increases investor trust and is very important for the reputation of this mar-

ket. Readers of financial statements expect more detailed information about the process of creating the value by an entity and its impact on the environment. Such information is the starting point for the disclosure of non-financial information that shows the profitability of the adopted business model and demonstrates the entity's ability to meet stakeholders' expectations. This is of utmost importance for a wide range of investors and for investors who may invest their funds in a wide range of entities, as well as for issuers of securities that seek funding. Placing securities on the organised market is a way of obtaining capital by the issuer through a public or private offer of securities, but it entails the necessity to fulfil the disclosure obligations by the issuer whose securities are admitted to trading on the organised market. Reliable fulfilment of obligations brings fruit in the form of a higher market valuation of the issuer's securities. The timely disclosure of the required information to the public limits the scale of the phenomenon which is very harmful to the capital market, namely, the use of inside information, i.e. the illegal use of information advantage by people who have valuable information and make transactions on financial instruments. The significant scale of such behaviour considerably weakens confidence in the market. Reliable fulfilment of disclosure obligations not only has a positive impact on public companies and their chances for cheaper capital raising on the financial market but also contributes to building trust in the entire market due to the minimisation of the risk of committing unlawful acts by information privileged persons.

In the era of continuous development of financial markets, the information system should be well adapted to the information needs of financial market users. However, the usefulness of the information system can be maximised only if it contains all of its components. Fragmentary application of the system or treating its components as independent elements leads to sub-optimisation (Dobija 2011, p. 71). Moreover, attention is often drawn to the fact that there is no information system, and therefore no accounting system, that would be objectively optimal for each user, and thus, for stakeholders involved in capital markets, due to a wide variety of utility functions and information needs of individual users (Jaworska 2016, p. 110).

In the era of globalisation, the trend in accounting is to move away from the classic financial statement prepared solely for the recipient who is an investor. The contemporary recipient of the annual report is practically every person that makes binding decisions based on the information contained in the report (Kawecki 2018, p. 200).

The subject literature, as shown in the figure, points to significant differences between the classic scope of the financial statement and that of the annual report. Pursuant to Article 45 of the Accounting Act, a financial statement consists of the following elements:

1. Balance sheet
2. Profit and loss account
3. Cash flow statement
4. Statement of changes in equity
5. Additional information, including an introduction to the financial statement as well as additional information and explanations (Accounting Act, Article 45).

Traditional accounting, which is understood as the identification, measurement and reporting of information the nature of which is purely financial, is slowly disappearing. In addition, the usefulness of financial statements is diminished as focusing attention on financial data while omitting non-financial information leads to an incomplete picture of the enterprise. This, in turn, contributes to information asymmetry and makes it difficult for stakeholders to take right decisions (Fijałkowska 2016, p. 116). The changes that had taken place finally forced the need to define a completely new reporting model, reducing the asymmetry and enabling the improvement of the previous financial reporting (Śnieżek and Wiatr 2012, p. 62).

The introduction of corporate governance standards into the policy of public companies was supposed to contribute to publishing reliable information by economic entities.

Disclosing reliable information about economic units is one of the attributes of a market-efficient company (Ciechan-Kujawa 2014, p. 30). In order to reach an appropriate and optimal level of disclosed information, it is reasonable to define the scope of information that should be disclosed.

Pursuant to the Accounting Act, the scope of accounting includes:

1. Adopted principles of accounting (policy)
2. Keeping accounting books based on accounting documents which include records of events in a chronological and systematic order
3. Periodic determination and verification of the actual state of assets and liabilities by taking inventory
4. Valuation of assets and liabilities and determination of the financial result
5. Preparation of financial statements (Sawicki 2008, p. 11).

According to the above scope of accounting, the disclosure of non-financial data is not the subject of financial accounting. However, the definitions of accounting are general enough to allow including non-financial information, integrated or social reporting in the accounting area (Gos 2014, p. 30; Krasodomska et al. 2021, p. 53; Bauer et al. 2020).

Directive 2014/95/EU amending Directive 2013/34/EU with regard to disclosure of non-financial information and diversity information by certain large entities and groups has been implemented into Polish law through the following legal acts:

- With regard to the requirements of extended reporting of non-financial information – an amendment to the Accounting Act (the Accounting Act, i.e. of 2019, item 351).
- With regard to the requirements for disclosing information on the diversity policy in relation to the composition of company bodies – an amendment to the regulation on current and periodic information (Regulation of the Minister of Finance of 2019 on current and periodic information provided by issuers of securities and on conditions for regarding the information required by the laws of a non-member state as equivalent).

Before the directive came into force, few Polish companies submitted reports on the CSR policy on a voluntary basis (Samborski 2011, p. 373). Pursuant to the new regulations introduced in a direc-

tive, companies are obliged to provide information about their policy, among others, in a report on the company's activities; they must present, inter alia, a description of the policy pursued in a given area, its results, as well as the risks and management of risks in non-financial matters (Dobija and Koładkiewicz 2011, p. 45) (Jeżak 2010, p. 15), (Paliwoda and Matiolańska 2009, p. 23). In addition, they should publish information regarding the environmental, social and employee-related issues, respect for human rights and prevention of corruption and bribery (Monks and Minnow 1995, p. 8). More information on non-financial reporting is contained in the subsequent sections of this study. The currently prevailing tendencies, such as the requirements of institutions that develop accounting standards, stakeholder requests or deliberate actions undertaken by companies themselves, put pressure on the provision of an increasing amount of non-financial information, i.e. prospective, non-monetary and qualitative information (Krasodomska 2010, p. 45). Accepting the idea of the reporting that includes non-financial information is not easy as it requires a different perception of the company's success factors, as well as noticing many other types of capital in addition to financial one. It is a reflection of the evolution of corporate reporting (Krasodomska 2015, p. 90).

It should be noted that there is no one universal definition of non-financial information. Non-financial information enables collecting a wide range of new data, e.g. in the area of the CSR. A common definition is still being developed, and so far no agreement has been reached on this issue. It is extremely important as the Non-Financial Disclosure Directive aims to standardise reporting practices across Europe (FEE 2016, p. 7).

In the first years, corporate governance standards were a response to anomalies and irregularities in the activities of some listed companies (Monks and Minow 1995, p. 8). Their task was to adjust the activities that deviated from the standard regarded as appropriate to the activities represented by the majority of companies listed on the stock exchange (Emerling 2019, p. 144).

The entirety of regulations in this area should protect the interests of a diverse group of financial information users and the safety of business transactions. The way to understand whether a listed company is an attractive investment target is to analyse its financial performance

and compare it with other companies operating in the same industry under similar macroeconomic circumstances.

Corporate Social Responsibility (CSR) is, in the most general terms, the responsibility of an economic unit towards its stakeholders (Wójcik-Jurkiewicz 2016, p. 142). The origins of the idea known as "social responsibility" date back to the second half of the 20th century. The first study dealing with the issues of corporate social responsibility was the book by H. R. Bowen entitled: *"Social Responsibilities of the Businessman"*, published in 1954 (Szadziewska 2014, p. 238). In the1970s and 1980s, corporate social responsibility developed and increasing importance began to be attached to the image of a company in its competitive environment (Adamus-Matuszyńska 2014, p. 108). The social responsibility model is considered to have been created by K. Davis, who put the management board's social obligations on a par with the company's economic goals (Masztalerz 2014, p. 71). The concept of CSR is based on the disclosure of an increasing amount of additional information relating to financial statements in order to meet legal, ethical and discretionary social expectations of enterprises. The purpose of CSR is to search for factors enhancing the quality of a unit's relationship with its stakeholders. Over the past 50 years, the concept of CSR has contributed to the evolution of the perception of economy and business. Milton Friedman's strongly postulated hypotheses, which can be summarised as 'business of business is business', have been updated and replaced by the concept of 'shared value' (Porter and Kramer 2011). According to the definition proposed by M. Porter and M. Kramer, the so-called common value is a strategy and operational practices that increase the company's competitiveness while improving the living conditions of local communities which constitute the environment of the conducted business activity (http://odpowiedzialnybiznes.pl/artykuly/tworzenie-wartosci-wspolnej-przyszlosc-odpowiedzialnosci-biznesu).

There is no one universal definition of corporate social responsibility. Interpretation of CSR is diverse and depends both on the territory in which the concept functions and on the cultural factor (Ditlev-Simonsen and Wenstøp 2013, p. 145). The Polish Agency for Enterprise Development defines CSR as a management strategy according to

which economic units voluntarily take into account social and environmental interests as well as relations with stakeholders, in particular with their own employees, in their activities. Being socially responsible means investing in human resources, environmental protection and relations with the environment, as well as providing information about the actions taken, as it contributes to the company's competitiveness and constitutes a foundation for sustainable social and economic development (https://www.parp.gov.pl/csr). The European Commission, on the other hand, defined CSR as 'the responsibility of enterprises for their impact on society'. The Commission accepts the claim that enterprises voluntarily take social and environmental issues into consideration and emphasises the importance of the relationship between an entity and its broadly understood stakeholders (Bender 2017, p. 46). Furthermore, the European Commission emphasises that only discretionary measures, i.e. measures that are voluntary and go beyond the adopted standards, can be treated as socially responsible.

Under the CSR concept, enterprises in the era of globalisation consider not only the economic goal, but also social and environmental objectives. Business entities use many ways of transmitting information in the field of social responsibility, including reports or websites (Macuda, Matuszak and Różańska 2017, p. 117).

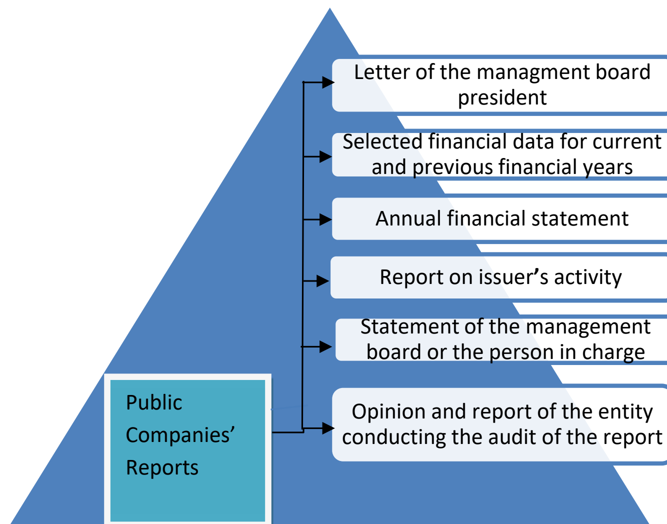
Nowadays, due to the growing information needs of financial statement recipients, it is noticeable that financial statements are expanded towards business reports, otherwise known as annual reports (Samelak 2013, p. 115). As far as the socially responsible report is concerned, the above-mentioned author emphasised the trend in the fields of accounting and reporting that consists in transforming the classic financial statement into the so-called annual report, which, in addition to the standard elements of the report, such as: a balance sheet, a profit and loss account, a cash flow statement, a statement of changes in equity and additional information; it also includes non-financial information (Samelak 2013, p. 117).

An annual report is necessary to properly present, understand the context, diagnose and evaluate the effects of the company's operations and resources, as well as its current and future market and financial standing.

Reports are '[…] summaries of figures, prepared on a one-time or periodic basis for the purposes of statistics and control of activities; they are communicated mainly outside, in the form of reporting templates, brief messages, reports.' The shortest definition of a report is the information that '[…] is an informative text, usually containing a more or less concise account of some events' (Messner 2010, p. 625).

In a broader sense, a report is defined as '[…] a synthetic approach to economic and financial aspects of entities' functioning' (Messner 2010, p. 625). A report is a simple, accessible and understandable presentation of the results of the observed events, their analysis and summary that can be used in the future. By describing past events and drawing conclusions from them, it is possible to rationally use the acquired knowledge and optimise the decisions made. It enables verifying the accomplished goals of an enterprise, while taking into account the microeconomic conditions, and ensures the comparability of data from different periods. Corporate reports serve the strategic goals of a given unit. In this sense, a report is understood as '[…] an organised system of providing valuable information (not only financial) to the broadly understood managerial staff.' The elements of the public companies' report are presented in Diagram 2.1.

Diagram 2.1 Elements of the public companies' reports



Source: own study based on the Accounting Act and the Regulation.

The definition of a report corresponds to the definition of a socially responsible report, which complies with the principle of a faithful and reliable image, i.e. one that presents a true and fair view of the financial standing of an economic entity (Krasodomska 2010a, p. 25). Another manifestation of the considered concept of CSR in accounting is the creation of a new form of reporting, i.e. an integrated report. The most important organisation that disseminates the concept of an integrated report on the international arena is the International Integrated Reporting Council (IIRC), which was established in 2010. Integrated reports, which are an expression of the CSR concept, not only compile, but also combine and integrate financial and non-financial information (Anam and Kacprzak 2017, p. 25). It is worth mentioning, however, that there are significant differences between the generally understood CSR reporting and integrated reporting. The domain of integrated reporting is focus on the process of creating value over time, while CSR reports present the impact of an individual on the environment and are addressed to a wider group of recipients (Krasodomska 2015, p. 78).

According to the readers of CSR reports, it is important to maintain a balance between positive and negative information about the entity's commitment to corporate social responsibility. Reports containing only positive information are very often considered subjective and, thus, ignored when making investor decisions (Fijałkowska and Sobczak 2014, p. 200).

Over the last several years, attempts have been made to create frameworks for the disclosure of non-financial information as part of the CSR concept. Some of them are: Balanced Scorecard, Sustainability Reporting, Triple Bottom Line or Integrated Reporting. Each of these frameworks has different characteristics and focuses on different aspects of non-financial disclosure (FEE 2016, p. 1).

Additionally, in the reporting of non-financial data there is the so-called 'managerial approach', according to which it is possible to compile non-financial and financial information while taking into account the corporate social responsibility strategy, and present it in accordance with the calculus of responsibility. The responsibility calculus is a measure of achievements in the field of sustainable develop-

ment, the aim of which is to justify the management board's activity. It enables reliable and transparent communication of information about the activities and the potential in economic, social and environmental issues (Zysnarska-Dworczak 2015, p. 200).

Similarly to the content of financial statements, the definition of stakeholders has also changed. In the subject literature, one can find many divisions of stakeholders. One of them is the division of stakeholders into two major groups from the point of view of accounting:

1. 'Classic' stakeholders, i.e. capital providers, e.g. banks, shareholders, lenders
2. 'New' stakeholders, i.e. employees, contractors, customers, government agencies, society (Krasodomska 2014, p. 16).

Another division indicates the following groups of stakeholders:

1. Investors, advisers and financial analysts
2. Creditors
3. Government agencies and local governments
4. Employees
5. Managers
6. Competitors (Świderska and Więcław 2014, p. 54).

Stakeholders as individuals were first defined by Freedman. These are people interested in the enterprise, who may influence the achievement of goals by the organisation or vice versa: their situation may be influenced by the achievement of goals by the organisation (Freedman 1994, p. 15). In this sense, stakeholders are: employees, customers, shareholders and the local community. Stakeholders can therefore be understood narrowly and broadly. Stakeholders in a narrow sense are people without the support of whom the organisation does not exist; in a broader sense – all those who are more or less involved in the organisation's affairs. Particular groups of individuals have different expectations at different times (Freeman and Reed 1983, pp. 90–92).

The most important needs of stakeholders are presented in Diagram 2.2.

Diagram 2.2 Stakeholders' information needs

Source: own study based on: B. Sadowska, *Rachunkowość podmiotów gospodarki* [Accounting of Economic entities] ..., p. 111.

Accounting is part of the subsystem of management information systems which collects, classifies, processes, analyses and provides relevant, finance-oriented information that supports decision-making processes, provides information to external recipients (i.e. current and potential investors, government and local government agencies, lenders) and internal (managers) (Turyna 2006, p. 9), (Foltys 2018, p. 9). Therefore, from the point of view of information usefulness, the role of information recipients, and thus, their information needs, are extremely important.

The recipients of financial statements on the first level of differentiation are divided into external and internal. Internal statements are intended solely for the internal needs of a given reporting entity. Their contents may, depending on the scope of the report, concern production and financial issues, such as the condition and movements of the company's assets, the course of economic processes, costs incurred and results achieved. External reports can be used by the reporting unit as well as by other organisations and institutions such as banks, tax offices, statistical offices. The nomenclature also includes a division into active and passive recipients. Active stakeholders are identified with internal recipients who are involved in the day-to-day affairs of the entity, which results in their greater participation in creating the entity as a whole. Passive recipients, on the other hand, are identified with external addressees of financial statements, who are in the company's environment and influence it sporadically, sometimes only once. This is a narrow approach to the issue, the broader version of which is presented in the figure below.

The distinction between recipients in the group of external stakeholders into those engaged in capital and those engaged in information indicates the nature of the interest of individual subjects in the entity's financial statement. Recipients engaged in capital are subjects that finance the entity's activities in various ways. Recipients who are engaged in information are subjects that need selected data in order to be able to make decisions within their own entity or to be able to effectively control certain processes taking place on the market, or this data is necessary to administer the state. The main classification of information-engaged addressees of reports distinguishes three groups: governmental authorities, which include entities that are entitled to receive benefits from the entity, information agencies that require information contained in the entity's financial statement in order to conduct their own activities, and a group of entities that are opinion makers in relation to financial statements (Sawicki 1998, pp. 273).

Each of the recipients of the financial statement has certain expectations of the data presented therein. These expectations reflect their goals and needs. The division of stakeholders and their requirements in relation to financial statements is presented in Table 2.1.

Table 2.1 Classification of financial statement recipients

Addresses of financial statements					
Internal (active)	**External (passive)**				
	Capital-engaged		Information-engaged		
Management Board	Owners	External providers of capital	State authorities	Information agencies	Other
Managers		Banks	CSO (Central Statistical Office)	Competitors	Media
Analysts	Super-visory Board Members	Leasing Associations	Auditors	Business intelligence	Social organisations
Employees		Lenders	State authorities	Rating agencies	Environmental organisations
		Individual investors	Local governments	Research institutions	Customers
		Pension, trust and insurance funds	Courts	Consulting and advisory offices	Other
		Suppliers	Supreme Audit Office		

Source: own study based on: D. Wędzki, *Analiza wskaźnikowa sprawozdania finanso-wego*, Polskie Wydawnictwo Profesjonalne Sp. z o.o., Kraków 2006, pp. 12–13.

Internal recipients include the management board, managerial staff, analysts, specialists and employees.

The management board is the representative and, at the same time, the executor of the owners' plans. It has an impact on creating an economic image by adopting a properly selected accounting policy. It is responsible for the factual preparation of the financial statement; it is also keenly interested in the approval of the statement by the body supervising the entity's work. It should strive to maximise the value of the enterprise, which results in an increased market value of its shares and stocks. The management board is interested in this area because part of its remuneration depends on the entity's net profit. Moreover, it is also interested in increasing its monthly salary.

The task of the managerial staff is to manage the unit in an operational manner on the upper middle level. Their information needs are related to the area of the economic information. They need it for planning the development of the entity as well as taking current and strategic decisions.

Analysts deal with the control of the entity's financial situation, remaining responsible for evaluating the entity's environment. Their tasks also involve preparing information and providing it to managers so that the latter can take relevant decisions.

The employees enable the functioning of the entity. They should strive to maximise the value of the enterprise and increase their own remuneration. Apart from internal recipients, a very important group of stakeholders are external recipients. They are divided into capital-engaged and information-engaged, which is shown in Table 4.

The first group is the owners of the entity, who are naturally committed to achieving pre-defined goals. They attach importance to the financial results of the entity as well as the manner and effects of management entrusted to the management board. They are interested in paying out dividends, which constitute a kind of their remuneration, and maximising the market price of the stocks and shares.

The supervisory board (SB) is a representative of the owners, supervising and controlling the entity in their interest. It expresses an opinion on the entity's financial statement, controls it in terms of the content, and remains responsible for damage caused to other business units with which the entity maintains trade relations. Supervisory board members are interested in maximising the value of the entity.

Banks provide capital to the entity. They check whether the entity is financially reliable at the time of granting a loan, and remain interested in its long-term financial standing as well as forecasts of its financial results.

Lessors finance entities through operating or finance leases. At the time of releasing the leased asset, they need to check whether the entity is able to pay the instalments increased by interests within the specified timeframe.

Lenders finance the entity in the form of short-term loans. They can be individual, institutional or other business units. They are interest-

ed in whether the money lent to the entity and the interests due will be paid on time.

Investors finance the entity by purchasing securities and are interested in the amount of risk involved in engaging their private funds. Another important indicator that interests investors is the rate of return on investment, which must be satisfactory. These types of recipients of financial statements need additional information that will influence their decisions to buy, keep, or sell the entity's shares.

Investment, insurance and trust funds are entities that finance the entity in the form of blocks of shares or minority shareholdings, thus becoming its investors. They are interested in the entity's financial standing, which will largely influence the achievement of their goals and profits in the form of dividends paid. They will seek to maximise the value of the entity.

Suppliers supply raw materials and products. They are also indirectly engaged in the provision of capital, as they grant trade credits to the entity.

A very important group of external recipients are recipients engaged in information. These include the Central Statistical Office, experts, government and local authorities, courts, Supreme Audit Office, competition, business intelligence, rating agencies, research institutes, consulting offices, media, social and environmental organisations as well as customers.

The Central Statistical Office collects, processes and publishes statistical information regarding the employment, investments and the general financial situation of entities operating in Poland. Its aim is to obtain information on the financial standing, employment structure etc. from financial statements drawn up by entities as well as from reports prepared specially for the Office, which are specified in separate legal regulations.

Statutory auditors are a group whose task is to check whether the financial statements have been prepared in accordance with the economic operations that took place in a given reporting period. They must answer the question whether the entity will continue its activities. In addition, they are interested in the remuneration they will receive for the provision of their service, i.e. the financial statement audit.

Administrative, state and local government authorities are established for the purposes related to the management of the state at the central, voivodship, poviat and communal levels, respectively. State authorities are interested in the financial standing of the entity which has an impact on the national income planning and economic policy they create. In particular, they want to be provided with information on the allocation of resources and the effectiveness of activities in substantive areas. As regards local government authorities, they aim to shape the level of fees and taxes. Additionally, they influence the local development policy.

The task of courts is to adjudicate or dismiss motions regarding the bankruptcy of an entity or the fault of an employee or other persons suspected of an economic crime.

The Supreme Audit Office, on the other hand, aims to exercise control over state-owned entities and other units that use state funds. The areas subject to verification include cost effectiveness and how the funds obtained by the units have been used. Both institutions look for evidence in the financial statements to support or reject the suspicions thrown on the entity or the entity's employees.

Another group includes competitors that analyse the financial statements of the entity in terms of information about the strengths and weaknesses of the enterprise, which is essential for effective competition. Competitors attach importance to long-term cooperation with the entity.

Business intelligence agencies, rating agencies and research institutions analyse financial statements for their principals, mainly issuers of securities, but they also provide services for other entities as well as for scientific purposes.

Consulting offices are commissioned by the unit preparing the financial statement. They provide expert opinions to help the entity solve potential financial problems. Their goal is to diagnose the existing financial problems so as to find a solution and submit it to the entity's managerial staff.

Media want to present the information contained in the financial statement in an attractive and accessible way. They are interested in information from the financial statement that could influence the decisions of investors.

Social organisations are interested in the correlation between the financial standing of the entity and the society, whereas environmental organisations examine the cause-and-effect relationships between economic events indirectly related to the financial situation of the entity and the impact of its activities on the environment. Their aim is to demonstrate the positive influence of the entity for society and ecology. (Wędzki 2006, pp. 12–13).

The last group of recipients are customers interested in continuation of the entity's business operations, which is necessary from the perspective of long-term cooperation. (Emerling 2020, p. 32).

2.2. CHARACTERISTICS AND SCOPE OF THE DISCLOSURE OBLIGATIONS OF COMPANIES LISTED ON THE WSE

All public companies operating on financial markets must fulfil a number of obligations regarding the publication of financial and non-financial information. Disclosure obligations and their scope imposed on issuers of securities differ depending on the system used for financial instrument trading, which can be effected through organised trading (regulated market or alternative trading system) or through an organised trading platform.

From the issuer's perspective, these systems differ in the requirements to be fulfilled by issuers and their securities. The differences concern in particular the scope of disclosure obligations. The information varies depending on the markets to which it relates. The following regulated markets can be distinguished among the securities markets:

1. The main market (i.e. the official stock-exchange listing market within the meaning of the Trading Act) and the parallel market, organised by the WSE
2. The market organised by BondSpot S.A.

The markets listed below have the status of an alternative trading system:

1. Two markets organised by the WSE (dedicated to equity securities of small and medium-sized companies, operating under the trade name NewConnect)
2. Alternative trading system organised by BondSpot S.A. (trading in debt instruments is served by Catalyst).

Disclosure obligations imposed on issuers in connection with their application for the listing of securities (admission to trading) and after such admission has been obtained are regulated in the MAR (Market Abuse Regulation), the Public Offering Act and the Regulation of the Minister of Finance of 2019.

The MAR defines the obligations of issuers seeking admission of their financial instruments to trading on a regulated market or whose financial instruments have already been admitted to trading on such a market or – in the case of instruments traded only on a multilateral or organised trading platform – issuers whose financial instruments have been admitted to trading on any of the above-mentioned platforms or who are seeking admission to trading on a multilateral trading facility. This obligation comes down to publishing, among others, inside information within the meaning of the MAR.

The disclosure obligations of issuers of securities admitted to trading on a regulated market are specified in the Public Offering Act (Public Offering Act, Article 56). Issuers are required to publish current and periodic information.

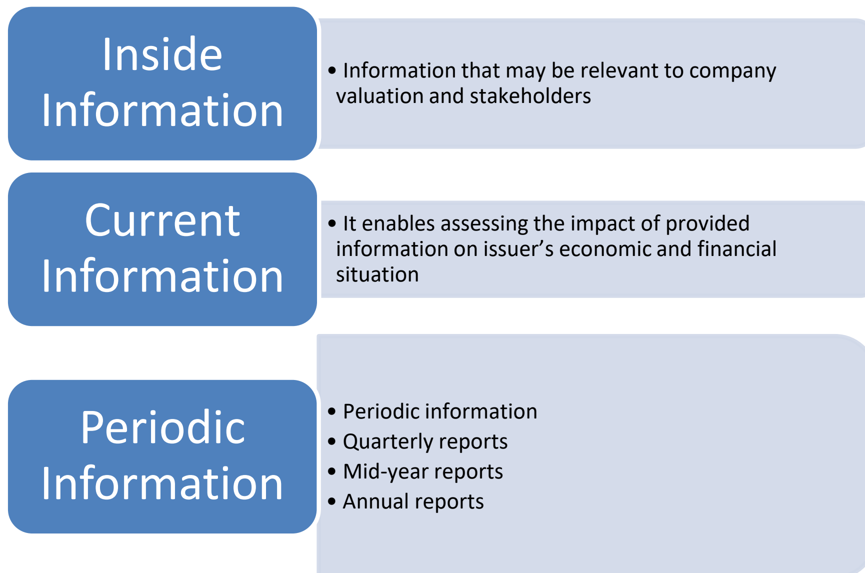
The obligation to publish inside information rests to the same extent with all issuers, while the scope of current and periodic information is specified in the Public Offering Act:

1. In the case of issuers of securities admitted to trading on the official stock-exchange listing market, reporting must comply with the provisions of the Regulation of the Minister of Finance of 2019, whereas

2. In the case of issuers of securities admitted to trading only on a regulated market which is not an official stock-exchange listing market, reporting is carried out in accordance with the provisions of the regulations of that market.

Listed companies are required to submit current and periodic information to the Polish Financial Supervision Authority, the company operating a regulated market (WSE) and to the public. This obligation arises already at the time of applying for the admission of shares to trading on the regulated market and ceases when the shares of a given issuer are withdrawn from trading. The obligations of companies are presented in Diagram 2.3.

Diagram 2.3 Obligations of public companies in the field of financial and non-financial reporting



Source: own study based on the Regulation.

In the case of issuers whose shares are admitted to trading on the market operated by the WSE, the required information is made pub-

lic through the Electronic Information Transfer System (supervised by the Polish Financial Supervision Authority). If the shares are admitted to an alternative system of trading on the NewConnect and Catalyst markets, all reports are published in the EBI (Electronic Base of Information) system. Financial statements can also be accessed through the websites of the main market of the Stock Exchange, NewConnect market and Catalyst market. In addition, each piece of information is published on the website of the Polish Press Agency (PAP), as well as at infostrefa.com run by InfoStrefa S.A. in cooperation with the Polish Press Agency and the Association of Stock Exchange Issuers. Listed companies should also post such reports on their websites.

Companies are required to publish inside information; therefore, the Regulation also defines inside information as relating directly or indirectly to one or more issuers or one or more financial instruments. This is information that has not been disclosed to the public and, if disclosed, would likely have a significant impact on the valuation of financial instruments or the valuation of related derivative financial instruments. Inside information is therefore very important and very valuable, and is taken into account by investors when making investment decisions. It should be communicated to investors immediately.

The regulation indicates examples of information that should be provided. These are, among others:

1. Operating results
2. Changes in control and agreements regarding control
3. Changes in the composition of the management board or supervisory board
4. Changes of auditors or other information regarding the activities of auditors
5. Activities related to capital or the issuance of debt securities or guarantees
6. Purchase or subscription of securities
7. Decisions to increase or decrease the share capital, mergers, divisions and separations
8. Purchase or disposal of capital shares or other main assets, or subsidiaries

9. Restructuring or reorganisation which affects the issuer's assets and liabilities, financial condition or profits and losses
10. Decisions on share buyback programs or transactions in other listed financial instruments
11. Changes in the rights attached to the issuer's shares
12. Filing a petition for bankruptcy or issuance of decisions as part of bankruptcy proceedings
13. Disputes
14. Cancellation or liquidation of credit lines by one or more banks
15. Dissolution or verification of the reasons for the dissolution of the company,
16. Changes in the value of assets
17. Insolvency of significant debtors of the company
18. Decrease in the value of real estate
19. Physical destruction of uninsured goods, new licences, patents, registered trademarks
20. Decrease or increase in the value of financial instruments held
21. Reduction in the value of patents or rights, or intangible assets due to market innovations
22. Receiving offers to purchase specific assets
23. Innovative products or processes
24. Cases of liability for the quality of the product or for damage to the natural environment
25. Changes in forecast income or losses
26. Orders received from customers, their cancellation or important changes
27. Withdrawal or entry into a new area of the primary activity
28. Changes in the issuer's investment policy
29. The date of establishing the right to dividend, change in the dividend payment date and the dividend amount
30. Changes in the dividend policy.

The catalogue of examples of inside information is very wide, but it should be remembered that the issuer ought to be able to assess which information is very important from the point of view of the company he represents, and therefore should not use it for advertising purposes.

Thus, the legislator gives a certain freedom in presenting inside information, as the issuer may decide what information will be disclosed.

In addition to inside information, companies are required to provide current and periodic information.

Current and periodic reports must contain information reflecting the specificity of the described situation and should be drawn up in a true, reliable and complete manner. In the event the specific nature of a given event covered by a given current or periodic report requires additional information to ensure its true, fair and complete picture, this information should be included by the issuer in the current or periodic report. Moreover, current and periodic reports should be prepared in a way that enables investors to assess the impact of the provided information on the material situation, the financial standing and the results of the issuer and its capital group, respectively.

In current reports, listed companies inform about all events that have a significant impact on their economic, material and financial situation. Due to the commencement of the application of the Market Abuse Regulation (MAR), the provisions of the Regulation of the Minister of Finance of 2019 on current and periodic information have been significantly modified. Pursuant to § 5–16, the obligation to publish a current report applies to specific events indicated in the regulation, i.e.:

1. Registration or refusal to register changes in the issuer's statute by the court
2. Change of rights attached to the issuer's securities
3. Termination or dissolution by the issuer or the audit company of the contract for auditing or reviewing financial statements or consolidated financial statements
4. Dismissal or resignation of the managing or supervising person or the issuer receiving information about the decision of the managing or supervising person to resign from applying for election in the next term of office
5. Appointment of the managing or supervising person
6. Placing an entry regarding the issuer's enterprise in section 4 of the register of entrepreneurs referred to in the Act on the National Court Register

7. The decision of the court declaring the issuer's bankruptcy becoming final, dismissing the petition for declaration of its bankruptcy if the debtor's assets are not sufficient to pay the costs of the proceedings or are sufficient to cover only these costs, changing the decision to open restructuring proceedings into the decision to declare the issuer's bankruptcy
8. Issuance of share documents as part of conditional increase of the issuer's share capital
9. Adoption by the issuer's management board of a resolution on the issue of shares as part of the target increase of the issuer's share capital
10. Change of the issuer's registered office or website address
11. Placing on the issuer's website a statement of the capital group regarding non-financial information or a report of the capital group on non-financial information prepared by a higher-level parent entity (Accounting Act, Article 69(5)).

Apart from the above-mentioned catalogue of current information, the provisions of the regulation in question regulate special cases of submitting current reports on corporate companies.

They include additional requirements for e.g. banks, insurance companies, local government units, as well as obligations related to the broadly understood participation in trading on the official stock-exchange listing market, such as: detailed information on convening or holding a general meeting, ending a subscription or sale of securities, admission of securities to be traded on the official stock exchange market.

The published information on general meetings allows shareholders to directly participate in decisions regarding the company. The information contained in the company's current report must, among others, include the following:

– the content of the announcement about the convocation of a general meeting
– the content of draft resolutions and documents to be discussed at the general meeting, relevant to resolutions to be adopted, which have not been previously disclosed to the public

- the content of the resolutions adopted by the general meeting and the content of the documents put to the vote, and for each resolution also the number of shares from which valid votes were cast, as well as the percentage of these shares in the share capital, the total number of valid votes, including the number of votes "for", "against" and 'abstention'
- information on the general meeting's withdrawal from considering any of the items on the agenda planned, the content of draft resolutions that were put to the vote but were not adopted
- information on filing an action to revoke or annul a resolution of the general meeting and on court's issuance of a judgment in the case, as well as on the date of annulment or revocation of the resolution, or dismissal of the action, or information provided to the shareholder outside the general meeting pursuant to Article 428 § 5 or 6 of the Commercial Companies Code.

The general meeting of a public company is convened through an announcement posted on the company's website and in the form of a current report sent via the Electronic Information Transfer System. It should be convened at least twenty-six days before the date of the general meeting. Shareholders of a public company who want to participate in the general meeting should (Article 4061 of the Commercial Companies Code) report this fact sixteen days before the date of the general meeting. This day is called the record date – the day of registering participation in the general meeting. Disclosure obligations for issuers in the NewConnect and Catalyst trading systems are specified in internal WSE guidelines.

When performing the disclosure obligations, it should also be remembered that if the issuer's subsidiary is a public company, the issuer's obligation to submit a current report in the scope including information about the subsidiary is deemed to be fulfilled if this information has been provided by the subsidiary. These rules are very important and their observance, which includes compliance with the criteria specified for individual types of current reports, is subject to thorough examination by the Polish Financial Supervision Authority in the case of issuers from the regulated market.

Current information, as opposed to inside information, should be provided only if the event of the occurrence of factual circumstances strictly defined in the provisions of the regulation of the Minister of Finance of 2019, in the scope resulting from these provisions.

Chapter 4 of the regulation contains all the necessary information on periodic reports. Pursuant to § 82 of the above-mentioned regulation, the issuer is obliged to publish the following periodic reports:

1. Quarterly
2. Every 6 months
3. Annually.

The issuer being a parent company is also obliged to submit periodic reports in the form of a consolidated quarterly report, a consolidated semi-annual report and a consolidated annual report.

Periodic reports contain two groups of information: financial data and descriptive information. In periodic reports, companies provide information, among others, in the form of a financial statement for a period required for a given type of report. The contents of such reports provide investors primarily with information used for making investment decisions. Periodic reports also contain statements, opinions and assessments prepared by the company's supervisory board. Moreover, a report on the activity of an issuer or its group prepared by the management board or the managing person must present a true picture of the development and achievements as well as the situation of these entities, in particular, a description of major hazards and risks.

The provisions of the Regulation of the Minister of Finance of 2019 leave the dates of period reports to the discretion of issuers. Only maximum time limits for these reports to be made public are imposed.

Pursuant to § 80 of the above-mentioned regulation, the issuer is obliged to specify and communicate fixed dates for submitting periodic reports by the end of the first month of a given financial year. If it is necessary to change the declared date, such information must be provided not later than two days before submitting the periodic report on the new date and not later than two days before the previously declared date of publication, if the periodic report is to be submitted after that date.

One of the periodic reports is a quarterly report, which should include:

– Data for the quarter of the financial year covered by this report and cumulative data for all full quarters of the financial year in the form of a quarterly condensed financial statement, containing at least: a balance sheet, profit and loss account, statement of changes in equity and cash flow statement.
– A summary of additional information on an alternative investment company – in the case of an issuer being an alternative investment company.

The data is prepared in accordance with applicable accounting principles, using the principle of valuation of assets and liabilities as well as measurements of the net financial result specified on the balance sheet date, taking into account adjustments for reserves, reserves and deferred income tax assets referred to in the Accounting Act, and asset write-downs on assets. All data included in the condensed quarterly financial statement are presented with comparable data.

A condensed quarterly financial statement, which is a component of a quarterly report, contains additional information regarding the principles adopted when preparing the report, including information on changes to the applied accounting principles (policy) and information on significant changes in estimated values. Moreover, the additional information should contain a wide range of information which, in short, can be defined as information that may significantly affect the assessment of the issuer's material situation, financial standing and financial result, such as:

– Explanations concerning the seasonal or cyclical nature of the issuer's operations in the presented period.
– Information on inventory write-downs to net realisable value and on reversal of such write-downs.
– Information on impairment losses on financial assets, tangible fixed assets, intangible assets or other assets, and on reversal of such impairment losses.

- Information on the conclusion by the issuer or its subsidiary of one or more transactions with related entities, if they were concluded on terms other than market terms, or an indication of events that occurred after the date when the condensed quarterly financial statement was drawn up and, therefore, were not included in this report, which may significantly affect the future financial results of the issuer.

Issuers that apply IAS prepare quarterly financial statements in the abbreviated version specified in these standards.

The quarterly report and the consolidated quarterly report should be submitted simultaneously, not later than within 60 days from the end of the quarter of the financial year to which they relate. For the New Connect market, the deadline for submitting quarterly reports may not exceed 45 days from the end of the quarter to which they relate. The issuer is not required to submit a quarterly report for the second and last quarter. This exemption does not apply to funds.

Another type of periodic report is a mid-year report. A mid-year report should include:

- Selected financial data including basic items of the mid-year financial statement for the first half of the current year and the previous financial year, and in the case of the balance sheet – at the end of first half of the current year and at the end of the previous financial year.
- A condensed mid-year financial statement covering the first six months of the financial year, drawn up in accordance with applicable accounting principles and subjected to a review by an auditing company, in accordance with applicable regulations and professional standards.
- A statement by the management board or the managing person declaring that the mid-year financial statement and comparable data comply with applicable accounting principles and give a true, clear and fair view of the issuer's financial standing and its financial result, and that the issuer's mid-year report con-

tains a true picture of the issuer's development, achievements and situation, including a description of major threats and risks.
– A report on the review of the condensed mid-year financial statement or the audit report, if the condensed mid-year financial statement was subject to audit.
– The stance of the management board or the managing person, along with the opinion of the issuer's supervisory board or supervisor, regarding the auditing company's qualified opinion, adverse opinion or refusal to express an opinion in the audit report reviewing the condensed mid-year financial statement, and in the event the condensed mid-year financial statement was subject to audit by an auditing company – regarding the auditing company's qualified opinion, adverse opinion or refusal to express an opinion in the audit report reviewing the condensed mid-year financial statement. The said stance should also refer to the impact of the adverse opinion or refusal to express an opinion in the audit report reviewing the statement, and in the event that the financial statement was subject to audit by an auditing company – the subject of the reservation, the adverse opinion and refusal to express an opinion on the mid-year financial statement, including on the results and other financial data; in each case, the relevance as well as actions which the issuer has taken or planned in view of the situation should also be presented.

Similar requirements apply to consolidated mid-year reports of the capital group. The mid-year report and its consolidated version shall be submitted within 3 months from the end of the first half of the financial year. No report is prepared for the second half of the year.

In the case of all issuers, this report should, among others, include:

– Information specified in accounting provisions, discussion of the basic economic and financial values disclosed in the annual financial statement, information on the adopted strategy of de-

velopment of the issuer and its capital group, as well as information on activities undertaken to implement this strategy.
- Description of significant risk factors and threats, specifying to what extent the issuer is exposed to them.
- Indication of significant ongoing proceedings before a court, a competent arbitration authority or a public administration body, regarding the liabilities and receivables of the issuer or its subsidiary, accompanied by information on the subject matter of the proceedings, the value of the subject of litigation, the date of initiation of the proceedings, parties to the proceedings and the issuer's stance.

The company is obliged to provide a statement on the application of corporate governance in a report on the issuer's activities (§ 70 section 6 point 5 of the Regulation of the Minister of Finance of 2019). The current provisions of the regulation extend the scope of the statement in question to include information on the audit committee or, respectively, the supervisory board or another supervisory or controlling body in the event that this body performs the duties of the audit committee. Additionally, issuers are required to provide information on the number of meetings of the audit committee or the supervisory board or another body entrusted with the function of the audit committee. Moreover, the above-mentioned statement must include quite detailed information on the audit company auditing the issuer's financial statement.

The provisions of the Regulation of the Minister of Finance of 2019 extend the scope of the activity report. It should contain non-financial information prepared in accordance with Article 49b §§ 2–8 of the Accounting Act.

The mid-year report and the consolidated mid-year report should be submitted not later than three months from the end of the half of the year to which it relates. There is no obligation to submit a mid-year report for the second half of the year.

The most important document providing stakeholders with data on the activities of a public company in the reporting year is the annual report consisting of the following parts:

1. Letters from the president of the management board or the managing person, presenting the most important achievements of the entity in a given financial year as well as the prospects of activity development in the next financial year
2. Selected financial data for the current and previous financial year (converted into euro)
3. Annual financial statements prepared in accordance with applicable accounting principles and subjected to examination by a statutory auditor
4. A report on the issuer's activity (describing the entity's operations in the reporting period and the principles of drawing up the annual financial statement)
5. Statements made by the management board or the managing person
6. The opinion and report of the entity authorised to audit financial statements concerning the annual financial statement and the annual report on the company's activity.

Banks as well as entities which issue securities admitted to public trading and draw up consolidated financial statements are obliged to apply the International Financial Reporting Standards when preparing financial statements.

A complete annual financial statement includes: a balance sheet, a profit and loss account, additional information, a statement of changes in equity and a cash flow statement.

Joint-stock companies in Poland are also required to prepare a report on the entity's activity, which includes data on its material situation and financial standing, the obtained results of its operations as well as risk factors, along with a description of potential threats. The activity report of an entity whose securities are admitted to trading on the European Economic Area market must also include a statement on the application of corporate governance principles.

As regards non-financial reporting, public companies should be guided primarily by the principle of materiality pertaining to non-financial data disclosures.

More information on non-financial reports will be included in the subsequent section of the publication. Pursuant to Article 49b(9) of

the Accounting Act, the issuer may also decide to include non-financial information in a separate report instead of drawing up a statement on non-financial information, which is an element of the activity report. This document should also be posted on the issuer's website not later than 6 months after the end of the financial year. The activity report should also contain information that a separate report on non-financial information has been prepared.

Issuers on the New Connect market submit the annual report immediately after issuance of the opinion by the statutory auditor, but not later than within 7 days from its receipt by the issuer and not later than four months from the end of the financial year.

The report on payments and the consolidated report on payments made to public administration shall be submitted not later than within six months from the end of the financial year. Apart from the indicated dates, there are separate deadlines for the publication of periodic reports for local government units and investment funds.

If the last day of publication of the results falls on a non-working day, the deadline is shifted to the first working day following that day.

Issuers are required to define fixed dates for submitting periodic reports in a given financial year and submit information on these dates in the form of a current report by the end of the first month of each financial year.

Legal liability related to the obligation to report relevant information may, in a specific case, come down to administrative (regulated market or alternative trading system), regulatory (alternative trading system), criminal and civil liability.

In the case of issuers of securities, the administrative and legal sanction imposed by the Polish Financial Supervision Authority may apply to:

a. the issuer (monetary sanction, delisting the issuer's financial instruments or both sanctions jointly),
b. a member of the issuer's management board (cash sanction; after a penalty has been imposed on the issuer),
c. a member of the supervisory board (cash sanction; after a penalty has been imposed on the issuer in the event of a gross breach of the disclosure obligations by the issuer).

The responsibility of the audit company consists in auditing the financial statement and presenting an audit report. The audit report ought to confirm that the financial statement has been drawn up in accordance with applicable regulations and should contain an opinion regarding the statement on the application of corporate governance principles, indicating whether the issuer has included all the required information in this statement.

The responsibility of the general meeting comes down to reviewing and approving the management board's report on the company's activity and on the financial statement for the previous financial year, as well as to acknowledging the fulfilment of duties by the members of the company's governing bodies. An ordinary general meeting which adopts resolutions on these matters should be held within six months following the end of the financial year.

The liability of the supervisory board or the supervising person encompasses preparing an opinion or statements regarding, among others, the auditing company's qualified opinion, adverse opinion or refusal to express an opinion on the mid-year financial statement, or the auditing company's qualified opinion, adverse opinion or refusal to express an opinion on the annual financial statement, as well as an opinion or statements on compliance with the provisions regarding the appointment, composition and functioning of audit committees. The supervisory board is also responsible for presenting an assessment, along with justification, regarding the report on the issuer's activity and the financial statement in terms of their compliance with the accounting books, documents and the actual state of affairs.

2.3. REPORTS SUBMITTED BY THE MANAGEMENT BOARD AS A SPECIFIC EXAMPLE OF DISCLOSURES IN THE FIELD OF CORPORATE GOVERNANCE AND METHODS OF ITS PRESENTATION

In Poland, pursuant to Article 49(1) of the Accounting Act, the submission of the financial statement must include the so-called report on the management board's activity. This report, otherwise known as a 'report

on the border of accounting', contains most of the non-financial data characterising the economic entity (Krasodomska 2014, p. 113).

The report on the management board's activity is a mandatory element of financial reporting of joint-stock companies, limited joint-stock partnerships, mutual insurance companies, mutual reinsurance companies, cooperatives and state-owned enterprises. Micro and small entities can be exempted from the obligation to draw up an activity report, provided that an appropriate resolution is adopted by the approving body (shareholders' meeting).

Pursuant to the provisions of *Directive 2014/95/EU*, the obligation related to disclosures in the sphere of diversity policy (Fijałkowska et al. 2019, pp. 44–45) imposes a disclosure requirement on large listed companies (issuers of securities) admitted to trading on one of regulated markets in the European Economic Area (EEA) which meet two of the following three conditions:

1. The average annual employment exceeds 250 people
2. The balance sheet total at the end of the financial year exceeds PLN 85 million, or
3. Net revenues from the sale of goods and products for the financial year exceed PLN 170 million.

The management board's report, prepared by the manager of the entity, supplements the financial statement. In addition, if the financial statement of a given entity is subject to mandatory audit conducted by a statutory auditor, the activity report is also subject to audit. Pursuant to the Act, the report should include all relevant information needed to assess the financial standing and material situation of the entity, including:

1. A brief description of the entity's business model
2. Key non-financial performance indicators relating to the entity's operations
3. A description of the policies followed by the entity in relation to social and employee-related issues, natural environment, respect for human rights and prevention of corruption, as well as a description of the results of adherence to these policies

4. A description of due diligence procedures
5. A description of significant risks involved in the entity's operations, including risks related to the entity's products or its relations with the external environment, including contractors, as well as a description of these risks management.

The activity report should contain financial and non-financial indicators, as well as additional explanations regarding the amounts presented in the financial statement. The Accounting Act does not contain a template of this report, but only an open catalogue of information that should be included in it. Pursuant to Article 49 of the Accounting Act, these are in particular:

1. Information on events significantly affecting the entity's operations that occurred in a given financial year or after its end, but before the date of the financial statement approval
2. Information on the forecast development of the business entity
3. Information on major achievements in the field of research and development
4. Data on the current and forecast financial situation
5. Information on treasury shares, including an indication of the reason for their purchase in a given financial year, the number and value of these shares and sold shares, as well as an indication of the part of the share capital represented by these shares
6. Information on the entity's branches
7. Information on financial instruments in terms of the risk to which the entity is exposed (risk of changes in prices, credit risk, risk involved in significant disruptions in cash flow and liquidity risk), and with regard to the objectives and methods of financial risk management adopted in the entity, together with methods of hedging significant types of transactions planned for which hedge accounting is applied.

The entrepreneur himself decides which information is important when assessing the condition of the company. The form of presentation is also discretionary: descriptive, tabular or graphic. However,

entities must bear in mind that information overload may obscure the picture of the entity's financial standing and material situation.

The sources of data used in the process of drawing up management board's reports are mainly internal documents, i.e. plans, strategies, internal codes, as well as external documents, such as forecasts or macroeconomic analyses (Gos, Janowicz, Mućko, Niemiec, Skoczylas and Waśniewski 2015, pp. 179–180). Detailed information on the management board's activity report is also contained in the National Accounting Standard No. 9 – 'Sprawozdanie z działalności' [Activity Report] (KRS No. 9, point 4.1). Globally, the activity report takes a variety of names, shapes and forms, and has varying ranges of content (Deloite 2014, p. 34).

Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014, adopted in 2014, amending Directive 2013/34/EU with regard to disclosure by certain large entities and groups of non-financial information and information concerning diversity has increased the mandatory scope of non-financial information to be disclosed by companies. The activities undertaken by the European Commission in the field of non-financial data disclosure clearly fit into the global trend of extending the scope of reporting in individual countries to include non-financial issues. Regulation of non-financial information disclosure from the level of the EU directive rather than national laws clearly favours international corporations by reducing additional costs related to differences in national regulations (FEE, p. 1).

Pursuant to § 70 of the Regulation of the Minister of Finance, the statement on the application of corporate governance principles should contain information on the diversity policy, i.e. 'a description of the diversity policy applied towards the issuer's administrative, management and supervisory bodies with regard to, in particular, age, gender or education and professional experience, the objectives of this diversity policy, the manner of its implementation as well as the effects in a given reporting period, and in the event that the issuer does not apply such a policy – an explanation of such a decision.' This requirement applies to periods starting after 31 December 2016.

Pursuant to the provisions of the Directive, there are cases when entities are exempted from the obligation to report extended non-financial information. They include the following circumstances:

1. A subsidiary is released from the obligation to prepare a separate statement on non-financial information if its parent company (and a higher-level parent company), having its registered office on the territory of the European Economic Area, draws up a consolidated statement on non-financial data in which it includes the said subsidiary.
2. A parent company of a lower level is not obliged to prepare a group statement on non-financial information when a parent company of a higher level, based in the European Economic Area, draws up such a consolidated statement or report and includes the parent company of a lower level in it (Anam and Kacprzak, p. 8).

The regulations imposed on entities do not contain a specific penalty for non-disclosure of data (Fijałkowska 2014, p. 35). Consequently, information disclosed under duress will never be as useful as data provided on a voluntary basis. According to the 'comply or explain' principle, failure to comply with the Directive requires the entity to merely explain the reasons for such action (Jaworska 2016, p. 110).

According to the Directive, there is no obligation to draw up a separate, social or integrated, CSR report. This report is only one of the possible solutions. Entities may also fulfil their obligations in the area of the non-financial data reporting by disclosing the minimum necessary information in the activity report. At the same time, the presented information should be sufficient to assess the results, development, condition and impact of the undertaken activities on the indicated areas, which means strict adherence to the materiality principle.

Entities have three ways of disclosing information on their achievements:

1. An annual business report in the form of unrelated reports, such as a traditional financial statement and reports on the effects of the social activity of the enterprise, adapted to various standards regarding social and environmental reporting
2. A financial statement and its supplement in the form of an extended activity report, containing at least information on environmental, employee-related and social issues, data regarding

the respect for human rights and prevention of corruption and bribery

3. Integrated reporting, which combines financial and non-financial data (social, environmental and data on corporate governance) according to international integrated reporting standards (Zysnarska-Dworczak 2016, p. 308).

If non-financial data is reported in the form of a separate part of the entity's activity report (which is part of the company's annual report), we deal with the so-called statement on non-financial information (https://www.sii.org.pl/11922/aktualnosci/felietony/dane-niefinansowe-czyli-nowe-obowiazki-spolek-gieldowych.html).

Table 2.2. presents the scope of disclosures contained in the entity's activity report and in the statement on non-financial information based on the provisions of the Accounting Act.

Table 2.2 Information disclosures in the activity report and in the statement on non-financial information

Information contained in the activity report	Information contained in the statement on non-financial information
– events significantly affecting the entity's operations in the financial year and after its end, until the date of financial statement approval – forecast development of the entity – major achievements in the field of research and development – current and projected financial situation – treasury shares – branches owned by the entity – financial instruments	– brief description of the entity's business model – non-financial key performance indicators related to the entity's operations – description of the policies adopted by the entity in relation to social and employee issues, natural environment, respect for human rights, prevention of corruption, as well as a description of the results of the policies applied – description of due diligence procedures – description of significant risks related to entity's activity

Source: own study based on J. Błażyńska, *Standaryzacja raportowania niefinansowego*, Studia i Prace, Kolegium Zarządzania i Finansów, Wydawnictwo SGH, Warszawa 2018, p. 13.

Entities reporting non-financial data in the form of statements on non-financial information are required to disclose it within 15 days

from the date of approval of their annual financial statement, and if they draw up a separate report, optionally together with the activity report subject to publication on the entity's website, within 6 months from the balance sheet date the preparation of this statement or the separate report is confirmed by a statutory auditor (Rubik 2018, p. 212).

In the case of non-financial reporting in the form of a separate document, there are no legally regulated names for such a report. The most common names are *non-financial report* and *sustainability report*.

In the subject literature, an integrated report is often interchangeably referred to as an integrated statement. This report, which is an expression of the CSR concept and the final product of so-called social responsibility accounting, differs from the classic financial statement, as it:

1. Emphasises integration and the links existing between the various areas of the company's operations
2. Considers all types of capital, not only the classic financial capital
3. Takes into account strategic issues relating to both the past and the future
4. Is characterised by prospectivity and long-term timeframe
5. Focuses on transparency and brevity of reporting
6. Focuses on an individual approach to the company's operating conditions.

The financial statement and management board's commentary, guarding the interests of the capital owners, provide a strong foundation for an integrated report, which can be seen as a key concept of non-financial reporting. There are significant differences between integrated reporting and generally understood CSR reporting. Integrated reporting focuses on the process of creating value over time, while the CSR report shows the influence of an entity on its environment and is addressed to a wider audience (Krasodomska 2014, p. 78).

Currently, the integrated report, which is a combination of financial and non-financial data, is the most desirable form of non-financial reporting. The reporting of non-financial information should not only take the form of a separate report, but should be part of the business unit management system and a permanent component of com-

munication with stakeholders. The necessary condition is the complementarity of financial and non-financial information. It is necessary to develop a consistent and transparent conceptual apparatus, and to link financial and non-financial data within a coherent enterprise management system. It is worth emphasising that the main goal of the report is to disclose data in line with the expectations of its users, and these users accept the 'comply or disclose' approach (Błażyńska 2018, p. 16).

The importance of non-financial reporting is growing year by year. Publication of data on customer relations, ethics, prevention of corruption, social responsibility, as well as disclosing information about employees, natural environment, dialogue with the environment and social involvement are becoming increasingly popular (Śnieżek et al. 2018, pp. 94–95). Moreover, transparent presentation of non-financial data increases the credibility of companies from the perspective of external and internal stakeholders (Krzyszofek 2017, p. 343).

Proposals of information regarding environmental, social and employee-related issues, human rights and the prevention of corruption and bribery that should be presented in disclosures are contained in Table 2.3.

Table 2.3 Non-financial information published in the non-financial statement according to Directive 2014/95/EU

Type of non-financial information	Scope of information
Social information	Training in the anti-corruption policies and procedures applied in the organisation.
	Confirmed incidents of corruption and actions taken in response to them.
	The number of significant fines and the total number of non-financial sanctions for non-compliance with laws and regulations.
	Internal and external mechanisms that allow for signalling unethical or illegal behaviour and issues related to the integrity of the organisation.
	Total number of discrimination incidents and corrective actions taken in this regard.
	Total number of legitimate complaints about breach of customer privacy and data loss.
	Customer satisfaction survey results.

	Total value of financial and in-kind donations to political parties, politicians, and related institutions by country. Access points in sparsely populated and economically less developed areas. Initiatives aimed at improving access to financial services for disadvantaged persons.
Environmental information	External economic, environmental and social declaration, principles and other initiatives that are accepted or supported by the entity.
Information regarding employee-related issues	Total number as well as rates of employment and employee turnover by age group, gender and region. Injury, occupational disease, lost days and absenteeism rates as well as the number of work-related fatalities by region and by gender. Average annual number of training hours per employee by gender, employment structure. Composition of supervisory bodies and staff divided into categories of employees by gender, age, minority affiliation. Ratio of men's basic salary to women's salary by position held.

Source: own study based on the Directive.

Recently, some of the most popular standards for reporting non-financial information and alternative methods have been developed in the field of non-financial reporting.

In the process of reporting non-financial data, business entities are not required to apply specific, formalised guidelines or standards. However, they are obliged to refer to the issues included in Directive 2014/95/EU and the amended Accounting Act. Hence, if the entity's report includes information on the business model, policies divided into specific areas and their results as well as a description of the risks and adequate indicators, the reporting obligation is deemed to be fulfilled (Dymowski 2017).

On 5 July 2017, the European Commission issued the Communication: *Guidelines on non-financial reporting (methodology for reporting non-financial information)*, containing a rich set of frameworks on which business entities can rely in their non-financial reporting process. The aforesaid guidelines include:

1. Global Reporting Initiative – GRI
2. ISO 26000 Standard of the International Organization for Standardization

3. Global Compact initiative
4. The OECD Guidelines for Multinational Enterprises
5. The EU Eco-Management and Audit Scheme (EMAS)
6. The model guidance on reporting information in the field of environmental protection, social policy and corporate governance to investors participating in the UN Sustainable Stock Exchange initiative
7. Tripartite declaration of the International Labour Organization principles concerning multinational enterprises and social policy
8. UN sustainable development goals, resolution of 25 September 2015 – *Transforming Our World: The 2030 Agenda for Sustainable Development*
9. the UN Guiding Principles on Business and Human Rights Implementing the United Nations 'Protect, Respect and Remedy' Framework
10. The Natural Capital Protocol
11. Carbon Disclosure Project (European Commission Communication 2017).

In addition, the European Commission emphasised in the Communication that organisations, when disclosing non-financial information, should adhere to principles such as materiality, balance and intelligibility, reliability, completeness, conciseness, strategy and future-oriented approach, consistency of disclosures with respect to other reporting elements and focus on stakeholders (Tylec 2018, p. 308).

The latest GRI Standards consist of 3 Universal Standards, which apply to all organisations, and a set of 33 Topic-specific Standards, divided into economic, social and environmental issues. Economic entities may choose from the Thematic Standards and apply only those that are of the greatest importance in terms of the materiality of issues related to their business. In the future, as expected, the set of standards will be expanded to include newer issues (Dypdahl 2019). The set of currently applicable GRI Standards is presented in Figure 2.2.

Figure 2.1 Structure of GRI Standards

Source: *GRI 101: Foundation 2016*, https://www.globalreporting.org, a paper read on 23.05.2021.

The Universal Standards, which are designed to facilitate the reporting by an enterprise, regardless of its size, branch or location, are classified as follows:

1. Foundation (GRI 101)
2. General Disclosures (GRI 102)
3. Management Approach (GRI 103).

Topic-specific Standards are divided into:

1. Economic (GRI 200)
2. Environmental (GRI 300)
3. Social (GRI 400) (Aluchna, Katsyluk and Roszkowska-Menkes 2018, p. 17).

The first part of the Universal Standards, i.e. Foundation GRI 101, contains a set of reporting principles recommended to organisations which draw up reports according to GRI guidelines (GRI 101, 2016). These principles are the foundation for ensuring the transparency of the prepared reports. They are divided into 2 groups, which include the following rules:

- defining the content of the report:
  - stakeholder inclusiveness
  - the sustainable development context
  - materiality
  - completeness, and

- defining the quality of the report:
  - balancing
  - comparability
  - timeliness
  - accuracy
  - credibility
  - transparency (Aluchna et al. 2018, p. 17).

The above-mentioned rules for defining the content of the report affect the process of selecting the content of the statement. The report takes into account all activities of the entity, its impact on the environment, as well as the needs and expectations of stakeholders, which play a very important role. The principles of defining the report quality, on the other hand, determine choices regarding the quality of information contained in the report as well as its appropriate presentation. The quality of disclosed information is indispensable for stakeholders to conduct a fair and objective assessment of the entity, and, consequently, to take appropriate actions (GRI 101, 2016).

The second part, i.e. General Disclosures (GRI 102), is used to disclose information about the organisation and its sustainable development reporting practices. These indicators have been divided into the following 6 sections:

1. Organizational Profile – these disclosures provide information about the size of the organisation, its geographic location and activities. This information helps stakeholders to understand the nature of the entity and its impact on the economy, environment and society
2. Organizational Strategy – a review of the organisation's sustainability strategy to provide context for further, more detailed reports using other GRI Standards. This section is intended to provide insight into strategic issues and may be based on information contained in other parts of the report
3. Ethics and Integrity – this section uses the term *business partner* to refer to both disclosures. In the context of this standard, the group of *business partners* includes, among others, suppliers, intermediaries, lobbyists, joint venture partners, consortia, governments and customers
4. Management – the disclosures in this section include, among others. a review of the composition and structure of management, the role of the highest managing body in the setting of the organisation's goal, value and strategy, and its participation in the assessment of economic, environmental and social performance as well as in risk management, evaluation of the

highest managing body's competencies and performance, and information on remuneration
5. Stakeholder engagement – in this section, information about the organisation's approach to stakeholder engagement is disclosed. Additional guidance on stakeholder engagement can be found in the Foundation (GRI 101)
6. Reporting Practice – these disclosures contain an overview of the process undertaken by the entity to define the content of the report, and therefore, the relevant topics and their boundaries, as well as all kinds of changes and corrections. In addition, they provide basic information about the report, statements regarding the application of GRI Standards as well as the organisation's approach to seeking external assurance (GRI 102, 2016).

Part three of the Universal Standards, i.e. Management Approach (GRI 103), contains general requirements regarding the reporting on the approach to material topics management. The standard defines them as follows:

1. General requirements for announcing the management approach
2. Explanation of a material topic and its boundary (GRI 103-1) – for each material topic, the reporting entity discloses why the topic is material and indicates its boundaries
3. The management approach and its components (GRI 103-2) – for each material topic, the organisation explains, among others, how it manages the topic and defines the purpose of the management approach
4. Assessment of the Management Approach (GRI 103-3) – for each material topic, the reporting entity discloses the mechanisms of assessing the effectiveness of the management approach, the results of this assessment, and any related adjustments to the management approach.

Among the detailed Topic-specific Standards regarding the economic series (GRI 200), the information on the flow of capital between interested parties and on major economic effects resulting from the

activities of the reporting entity is disclosed (GRI 201, 2016). In the context of GRI Standards, the environmental dimension (GRI 300) concerns the impact on natural systems, including land, water, air and ecosystems (GRI 301), whereas the social dimension (GRI 400) shows the influence of the organisation's activities on the social systems in which it operates (GRI 401).

The last part of GRI Standards is a glossary of terms (GRI Standards Glossary 2019). The definitions and terms contained therein apply in the context of the GRI Reporting Standards. If a term is not defined in the GRI Standards glossary, the commonly used and understood definitions shall apply.

Selected reporting issues discussed in this chapter are of great importance from the perspective of the obligation to ensure the reliability of information that is made available by the management board to a wide audience. Mandatory and voluntary information provided in reports has a significant impact on how the company is perceived by external observers. This fact, noticed by a growing number of stakeholders, makes the subject of reporting particularly interesting. In the next, last chapter, reports of public companies and the scope of information contained therein have been analysed, especially with regard to the application of good and bad practices.

3

REPORTING BY POLISH LISTED COMPANIES

3.1. SELECTED LEGAL REGULATIONS ON NON-FINANCIAL DATA REPORTING

The obligation to disclose non-financial information rests with public-interest entities (Accounting Act of 1994, Article 3(1e)(1–6) that are joint-stock companies, limited joint-stock partnerships, or those limited-joint-stock partnerships or limited partnerships in which all partners bearing unlimited liability are joint-stock companies, limited joint-stock partnerships or companies from other countries with a legal form similar to these companies, provided that in the financial year for which the financial statement is drawn up and in the year preceding this year, the amounts specified in Article 49b of the Accounting Act (Accounting Act of 1994, Article 49b(1), referred to in the previous chapter, have been exceeded. The issues which pursuant to the provisions of the cited act should be disclosed in the statement on non-financial information are also discussed at length in the above regulation.

It should be emphasised that the obligation to apply extended non-financial reporting has also been imposed on parent entities operating on the basis of the Banking Law, the provisions on trading in securities, the provisions on investment funds and alternative investment fund management, the provisions on insurance and reinsurance activities, the provisions on cooperative savings and credit unions or the regulations on the organisation and operation of pension funds, irrespective of the amount of income (Accounting Act, Article 2(1)(3).

This obligation, in addition to the above-mentioned entities, also applies to parent companies that are joint-stock companies, limited joint-stock partnerships or to those limited-joint-stock partnerships or limited partnerships in which all partners bearing unlimited liability are joint-stock companies, limited joint-stock partnerships or companies from other countries with a legal form similar to these companies if the aggregate data of the parent company and all subsidiaries at each level on the date of the balance sheet for the financial year and on the date of the balance sheet for the year preceding the financial year:

1. After consolidation exclusions exceed the amounts already mentioned in the previous chapter (Article 49b(1)) or
2. Before consolidation exclusions exceed the following amounts:
   - 500 people – in the case of average annual employment in full-time equivalent and
   - 102,000,000 – in the case of total assets of the balance sheet at the end of the financial year or
   - PLN 204,000,000 – in the case of net revenues from the sale of goods and products for the financial year (Accounting Act, Article 55(2b)).

The applicable legal regulations allow the parent company to refrain from drawing up the corporate group's statement regarding non--financial information in a situation where such information is included in a separate report of the corporate group prepared together with the report on the activity of the entire group and is posted on its website within 6 months from the balance sheet date. Additionally, the report of the capital group should include information on the preparation of a separate report on non-financial information (Accounting Act, Article 55(2c)).

The scope of disclosure of non-financial information by entities that prepare a statement of the corporate group or a separate report is the same as in the case of public-interest entities that prepare separate financial statements (Accounting Act, Article 49b(2–8)).

In a situation where a higher-level parent company having its registered office or management board's headquarters on the territory

of the European Economic Area draws up a corporate group's statement on non-financial information or a corporate group's report on non-financial information in accordance with the regulations in force in a given country, the lower-level parent entities are not obliged to prepare a corporate group's statement or a corporate group's report on non-financial information. In the activity report, these entities should quote the name and registered office of the higher-level parent that draws up the corporate group's statement or report on non-financial information, which includes this entity as well as its subsidiaries at all levels (Accounting Act, Article 2e).

As has already been mentioned, the legal regulations in force do not oblige entities to apply uniform solutions. When preparing statements on non-financial information, entities may apply any rules, including their own rules, national, international or EU standards, norms or guidelines. It is important that the entity's statement include information regarding the principles, standards, norms or guidelines that have been applied (the Accounting Act, Article 49b(8)). It should also be noted that the applicable regulations do not contain any patterns or templates that could be used to draw up the discussed statement on non-financial information (Grabowska-Kaczmarczyk, Jonas et al. 2020, p. 70).

The lack of clear indications and requirements makes it much more difficult to compare the data disclosed by entities, the content and quality of the reports prepared. On the other hand, specification of the minimum scope of information to be disclosed by entities leaves a wide space for an entity to present its achievements in the non-financial sphere, taking into account both form and content.

The previous chapters contained many references to the GRI Standards, but some companies disclose non-financial data based on the Non-Financial Information Standard (NFI Standard). The Non-Financial Information Standard (NFI Standard), published in 2017, was created to assist Polish companies in obligatory reporting of non-financial, environmental, social and employee-related information (Standard Informacji Niefinansowych, Fundacja Standardów Raportowania, Warszawa, 2017 [Non-financial Information Standard, Reporting Standards Foundation, Warsaw, 2017]). 'The standard is

an environmental regulation, the development of which was coordinated by the Reporting Standards Foundation and the Association of Stock Exchange Issuers, a patron of which is the Responsible Business Forum.' (Non-Financial Information (NFI) Standard 2017, https://odpowiedzialnybiznes.pl/publikacje/standard-informacji-niefinansowych-sin-2017/, accessed: 22 March 2022). Entities can use the Non-financial Information Standard (NFIS) free of charge. The NFIS guidelines may provide a basis for reporting non-financial information for both listed companies and other market entities, institutions and organisations. The Non-Financial Information Standard has been accepted and supported by a number of institutions and organisations related to the capital market (NFIS 2017, p. 1).

The NFIS consists of a basic part, which contains basic guidelines and five supplementary annexes:

- Annex 1: Legal interpretations of Directive 2014/95/EU
- Annex 2: Materiality matrix
- Annex 3: Stakeholders and key areas of responsibility
- Annex 4: The importance of indicators and their selection from the point of view of capital markets
- Annex 5: Detailed description of the areas.

According to the NFIS guidelines, non-financial data reports should contain information that allows for understanding the development, results and situation of the entity as well as the impact of its activities on: environmental, social and employee-related issues, respect for human rights, prevention of corruption and bribery. The report should also include:

- a brief description of the entity's business model,
- a description of the policies applied by the entity in relation to these matters, including due diligence procedures,
- the result of these policies,
- the major risks associated with these issues, related to the entity's operations, including – where applicable and on a proportionate basis – its business relations, products or services that

may have an adverse impact on these areas, and how the entity manages those risks,
- non-financial key performance indicators related to a given activity' (NFIS 2017, p. 7).

Individual EU countries, adjusting their regulations to the provisions of the EU Directive 2014/95/EU, introduced guidelines on non-financial reporting. The adopted solutions are aimed at, among others, specifying the minimum scope of the presented non-financial information, but also increasing the transparency of the presented data and their comparability. In addition to the NFIS guidelines presented above, in Austria on 17 January 2017, the NaDiVeG Act on Improving Sustainable Development and Diversity was passed (*Nachhaltigkeits- und Diversitätsverbesserungsgesetz*, NaDiVeG, 2017 No. GP XXV RV 1355 AB 1406 S. 158. BR: AB 9711) P. 862., CELEX-No. 32014L0095). Pursuant to this act, companies must disclose identified risks, strategies, achieved results and non-financial performance indicators regarding a wide range of social and environmental issues. Non-financial data reporting is required from public utility companies with more than 500 employees and a balance sheet total of more than EUR 20 million or sales of more than EUR 40 million, which are oriented on the capital market or provide financial services.

3.2. VERIFICATION OF NON-FINANCIAL DATA BY A STATUTORY AUDITOR

The growing requirements of the users with regard to information necessitate the adaptation of reporting to the changing conditions and needs of decision makers. 'Stakeholders expect the non-financial information disclosed by entities to be reliable and presented in a fair manner. The result of the growing expectations of stakeholders is also the desire to ensure credibility of the disclosed information by an increasing number of entities' (Grabowska-Kaczmarczyk 2020, p. 25).

The existence and completeness of non-financial information is confirmed by a statutory auditor, whose task is to verify whether all

required information has been included in an activity report (or in a separate report).

The provisions of *Directive 2014/95/EU* indicate quite generally that the task of statutory auditors and auditing companies should only be to check whether a statement or a separate report on non-financial information has been submitted (Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/ EU with regard to the disclosure of non-financial information and diversity information by certain large entities and groups, OJ L 330 of 15 November 2014, point 16. Later in the Directive, it is stated that Member States should be able to require that the information contained in the non-financial statement or in the separate report be verified by an independent entity providing assurance services.

The International Standard on Auditing 720, *Auditor's Responsibilities Relating to Other Information* (International Standard on Auditing 720 (revised) *Auditor's Responsibilities Relating to Other Information*, IFAC, 2016, Annex No. 1.34 to Resolution No. 3430/52a/2019 of the National Council of Statutory Auditors of 21 March 2019) specifies the responsibilities of the statutory auditor with regard to other financial or non-financial information (other than the financial statement and statutory auditor's report on this financial statement) contained in the entity's annual report.

The guidelines of the aforesaid standard should be read in conjunction with *ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* (National Standard on Auditing 200 in the wording of International Standard on Auditing 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, IFAC, 2016, Annex 1.1 to Resolution No. 3430/52a/2019 of the National Council of Statutory Auditors of 21 March 2019). ISA 720 emphasises the auditor's independence and ethical requirements, the application of which should be facilitated by the introduced provisions (ISA 720 (Z), 2016, points 2 and 4).

The requirements of the discussed standard have been designed to enable the auditor to achieve the objectives set out in ISA, and therefore, also the overall objectives set for the auditor. It should be emphasised that,

in accordance with ISA provisions, the auditor's opinion on the financial statement does not include other information, and ISA 720 does not oblige the auditor to obtain audit evidence beyond that required to form an opinion on the financial statement (ISA 720 (Z), 2016, point 2).

The auditor is required to read and consider other information with regard to its consistency with the financial statement and the knowledge obtained during the financial statement audit. An inconsistency identified in other information may indicate significant distortions of the financial statement or significant distortions of other information, which consequently reduces the financial statement credibility and affects the auditor's report as well. Thus, significant distortions may also have an adverse effect on decisions made by the addressees of the auditor's report (ISA 720 (Z), 2016, point 3).

In accordance with ISA 720, the objectives of the auditor after they have become acquainted with other information are: (ISA 720 (Z), 2016, para. 11)

a. to consider whether there is a significant incoherence between other information and the financial statement,
b. to consider whether there is a significant incoherence between other information and the auditor's knowledge acquired during the audit,
c. to react in an appropriate manner in the event that the auditor identifies any significant incoherence, or if he/she discovers in any other way that other information seems to be significantly distorted, and
d. to report in accordance with this ISA.

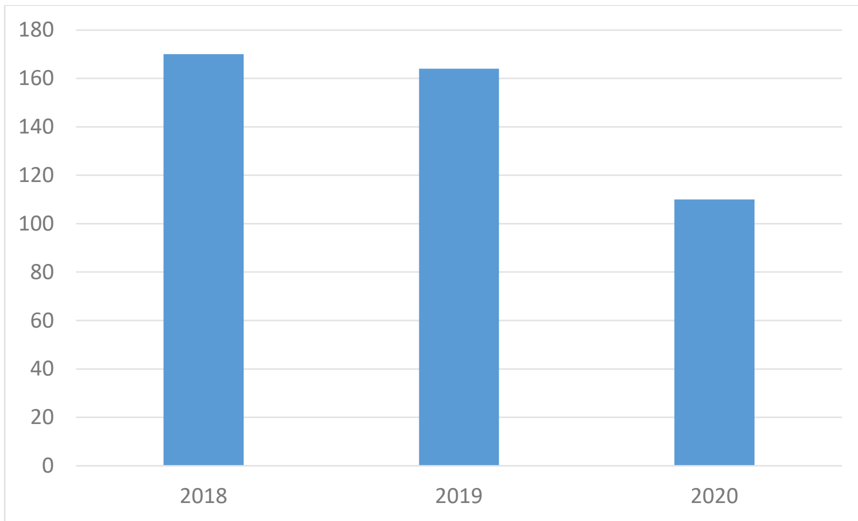
3.3. ANALYSIS OF NON-FINANCIAL REPORTS OF SELECTED LISTED COMPANIES

Non-financial reporting has been carried out by entities since 2005. It is a response to the imposed statutory obligations and the needs of

stakeholders. The companies listed on the WSE constitute a majority of public-interest entities required to publish non-financial data. Considerations on the submitted statements or reports on non-financial data concern the years 2018, 2019 and 2020, and therefore also apply to the period of the COVID-19 pandemic. The target group were all companies listed on the Warsaw Stock Exchange that fulfilled the obligations resulting from Directive 2014/95/EU for the years 2018–2020, the reports of which were published by 25 August 2021.

Chart 1 presents the number of companies that published non-financial data for the years 2018, 2019 and 2020.

Chart 3.1 Number of companies presenting non-financial data for the years 2018–2020

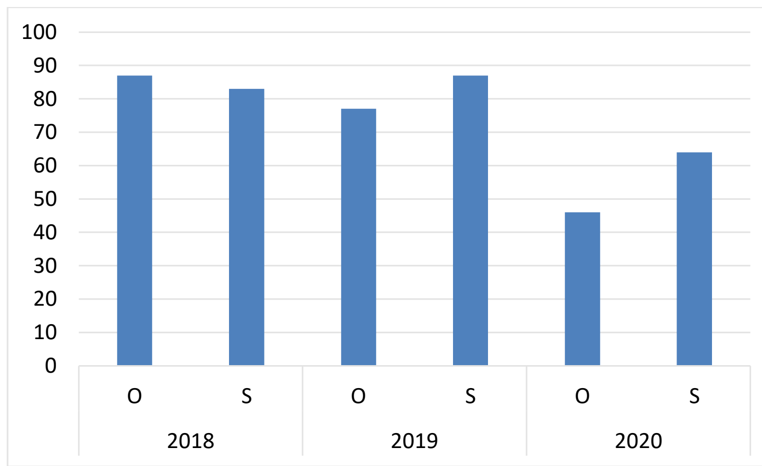


Source: own study based on the WSE data.

Information on non-financial data for the year 2018 was provided by 170 entities, for 2019 – 164 entities, while for the year 2020 this number dropped to 110. Compared to 2018 and 2019, in 2020 there is a noticeable decrease in the number of statements or reports on non-financial data. This might be due to many reasons, but one of the main causes is certainly the effect of the COVID-19 pandemic.

Chart 2 shows non-financial information submitted by companies listed on the WSE, broken down into statements and reports on non-financial data for the years 2018, 2019 and 2020.

Chart 3.2 Number of submitted statements and reports containing non-financial data for the years 2018–2020



Source: own study based on the WSE data.

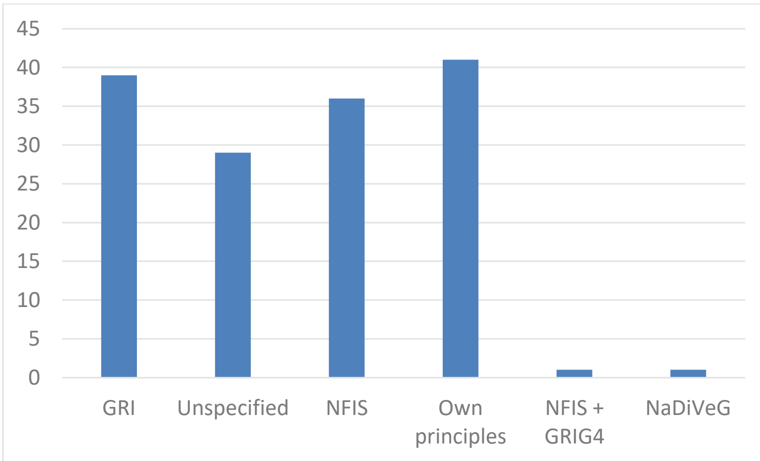
Statements on non-financial information (the report is a separate part of the activity report) for the year 2018 were submitted by 87 entities, for the year 2019 – by 77 entities, and for 2020 – by 46 entities. The statement on non-financial information, where the report is a separate statement drawn up together with the activity report, for the year 2018 was prepared by 83 entities, for the year 2019 – by 87 entities, and for the year 2020 – by 64 entities.

Next, the basis for preparing non-financial information in individual entities in the years 2018–2020 was verified.

Graphs 3-5 illustrate the popularity of the applied guidelines for presenting non-financial data in particular years.

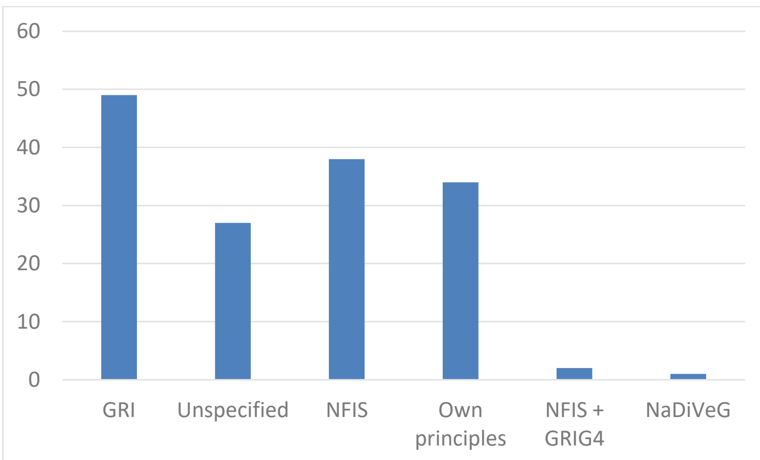
Non-financial data in the reports was most often presented on the basis of the Global Reporting Initiative (GRI) Standards, except for the year 2018, in which 41 companies chose their own rules, while GRI Standards were chosen by 39 entities. The reports containing

Chart 3.3 Number of submitted statements and reports containing non-financial data by type of guidelines for the year 2018



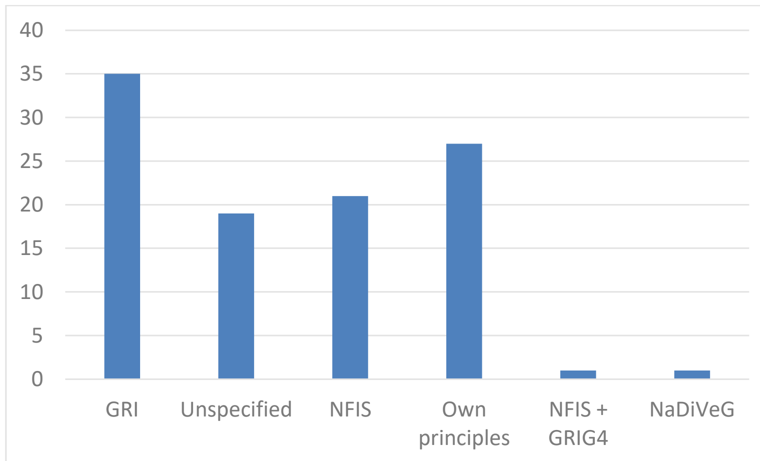
Source: own study based on the WSE data.

Chart 3.4 Number of submitted statements and reports containing non-financial data by types of guidelines for the year 2019



Source: own study based on the WSE data.

Chart 3.5 Number of submitted statements and reports containing non-financial data by types of guidelines for the year 2020



Source: own study based on the WSE data.

non-financial data, in addition to GRI guidelines, were most often drawn up on the basis of the Non-Financial Information Standard (NFIS), own reporting principles (frequently developed on the basis of GRI or NFIS) and principles not specified anywhere. The latter raise concerns due to the lack of formalised foundations and the impossibility of making any comparisons with other years or with entities from the same branch. Once the entity is able to define a pattern and indicate best practices that provide a basis for reporting, the situation changes dramatically.

3.4. *BEST PRACTICE FOR WSE LISTED COMPANIES 2021* (BPLC 2021)

Best Practice for WSE Listed Companies 2021 (BPLC 2021) is a set of corporate governance rules to be followed by issuers of shares listed on the WSE Main Market (Best Practice for WSE Listed Companies 2021,

https://www.gpw.pl/dobre-praktyki2021, accessed on: 23/03/2022). These rules were introduced by the Exchange Supervisory Board on the basis of Resolution No. 13/1834/2021 of 29 March 2021. This is the latest version of the Best Practice, in force since 2002, which must be followed by companies in accordance with the Stock Exchange Regulations. Best Practice 2021 entered into force on 1 July 2021.

'The application of corporate governance principles contained in BPLC 2021 is voluntary, but each listed company is obliged to provide information on their application in accordance with the 'comply or explain' principle. It should be emphasised that BPLC 2021 takes into account the current legal status and the latest trends in the field of the corporate governance and responds to the demands of market participants interested in better corporate governance in listed companies' (BPLC, p. 4).

The *Best Practice for WSE Listed Companies 2021* has been divided into six thematic groups, namely:

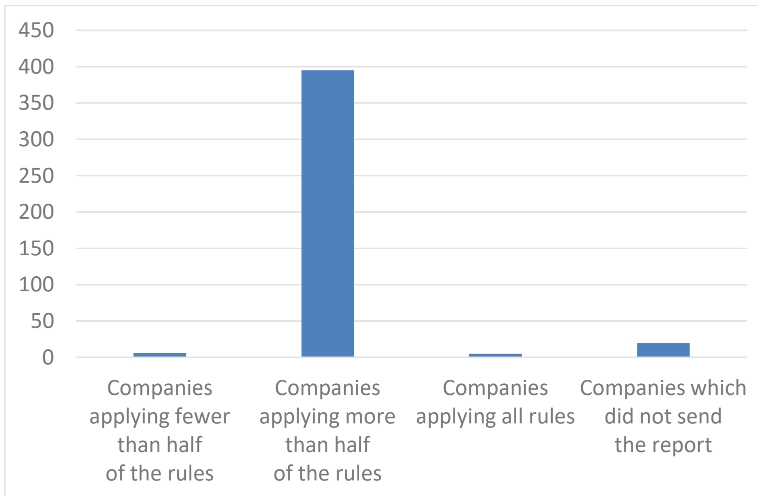
1. Information policy and communication with investors
2. Management board and supervisory board
3. Internal systems and functions
4. General assembly and relations with shareholders
5. Conflict of interest and transactions with related entities
6. Remuneration.

At the beginning of each chapter, the general goal to be pursued by listed companies is defined, and next, rules specifying the actions that should be taken are set out.

Chart 6 presents data regarding the implementation of the *Best Practice for WSE Listed Companies 2021*.

Among the listed companies, 406 (95%) submitted reports containing a description of the applied rules, while 20 of them did not fulfil this obligation. All of the BPLC 2021 rules were applied by only 5 companies, while more than half of the rules were implemented by 395 companies. Only 6 companies implemented fewer than half of the recommended rules, which can be considered a favourable phenomenon.

Chart 3.6 Number of companies applying the *Best Practice for WSE Listed Companies 2021*



Source: own study based on the WSE data.

The general goal in the first chapter is to ensure an appropriate level of communication with stakeholders by pursuing a transparent and reliable information policy, which is very important for both the company itself and all market participants. Chart 7 presents the number of companies applying the principles described in the chapter of BPLC 2021 entitled *Information Policy and Communication with Investors*.

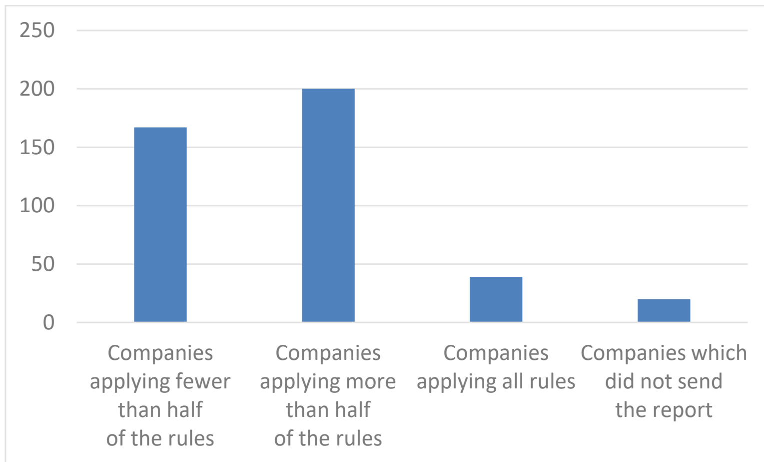
Among the companies which sent reports containing a description of the applied BPLC 2021 rules, all the principles from the first chapter regarding *Information Policy and Communication with Investors* were applied by 39 companies, while 200 companies complied with more than half of the recommended rules. Fewer than half of the principles from chapter 1 of BPLC 2021 were implemented by 167 companies.

The first chapter of BPLC 2021 specifies 10 principles. Chart 8 shows the types of rules set out in the first chapter and the number of listed companies that have implemented them.

The most frequently implemented rule among those listed in the chapter entitled *Information Policy and Communication with Investors* was the principle (1.7) concerning the need to provide investors with

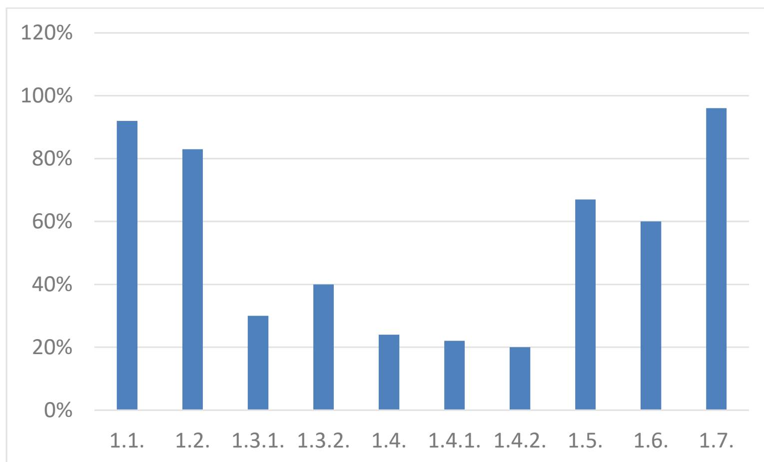
information about the company within a maximum of 14 days. This rule is followed by as many as 96% of companies listed on the WSE.

Chart 3.7 Companies applying the principles regarding *Information Policy and Communication with Investors* according to BPLC 2021



Source: own study based on the WSE data.

Chart 3.8 Types of principles specified in *Information and Communication Policy with Investors* and the number of companies that implemented these rules



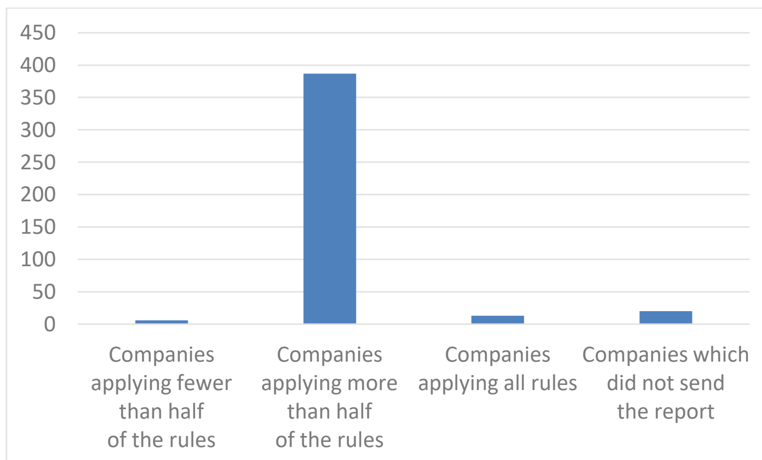
Source: own study based on the WSE data.

On the other hand, the least frequently implemented rule from the chapter in question (followed by merely 20% of the companies) concerned the content of information on ESG strategies, which should include the 'value of the gender pay gap ratio, calculated as the percentage difference between the average monthly remuneration (including bonuses, awards and other allowances) paid to the entity's female and male employees for the last year, as well as information on actions taken to eliminate any inequalities in this respect and the presentation of related risks and the time horizon in which the entity is planning to achieve equality' (BPLC 2021, p. 6).

The second chapter, *Management Board and Supervisory Board*, specifies the rules applying to the fulfilment of duties by members of the management board and the supervisory board, as well as the qualities required from persons who undertake to perform such functions. The duties of supervisory board members have also been indicated.

Chart 9 presents the number of companies that apply the principles described in Chapter 2 of BPLC 2021 entitled *Management Board and Supervisory Board*.

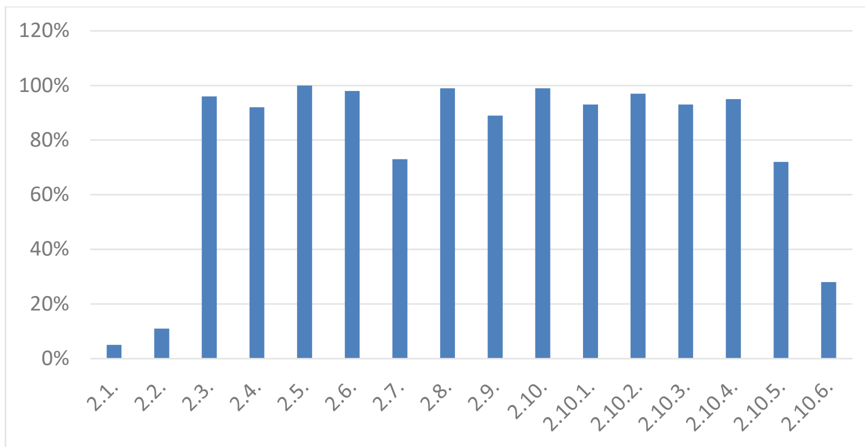
Chart 3.9 Companies applying the principles specified in the chapter of BPLC 2021 entitled *Management Board and Supervisory Board*



Source: own study based on the WSE data.

In the case of the principles included in the chapter of BPLC 2021 entitled *Management Board and Supervisory Board*, as many as 387 out of 406 companies which submitted the report applied more than half of the recommended guidelines. Thirteen companies followed all the rules and only 6 companies applied fewer than half of them.

Chart 3.10 Companies applying the principles from the chapter of BPLC 2021 entitled *Management Board and Supervisory Board*

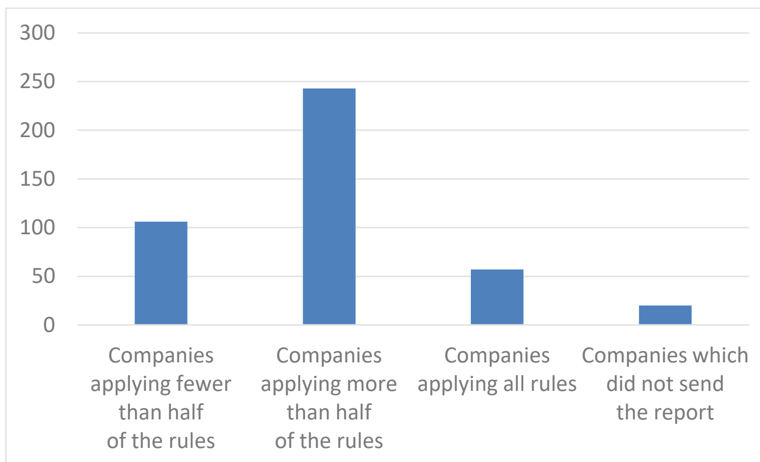


Source: own study based on the WSE data

All companies listed on the WSE implemented rule 2.5, according to which members of the supervisory board and the management board voting against a resolution may submit a dissenting opinion to be noted in the minutes. On the other hand, only 5% of the companies had a diversity policy towards the management board and the supervisory board, adopted by the supervisory board or the general meeting, respectively. According to the BPLC 2021 guidelines, the diversity policy should define the goals and criteria of diversity, e.g. in such areas as: gender, field of education, specialist knowledge, age and professional experience, and should also include the date and method of monitoring the achievement of these goals. It should be emphasised that participation of minorities in a given body with regard to gender differentiation cannot be lower than 30% (rule 2.1).

The third chapter, entitled *Internal Systems and Functions*, provides guidelines regarding the systems functioning in companies, the efficient functioning of which is 'an indispensable tool for exercising supervision over the company. The systems encompass the company and all areas of its group's operations that have a significant impact on the company's situation' (BPLC 2021, p. 11). The number of listed companies applying the principles of *Internal Systems and Functions* is presented in Chart 11.

Chart 3.11 Companies applying the principles of *Internal Systems and Functions* according to BPLC 2021



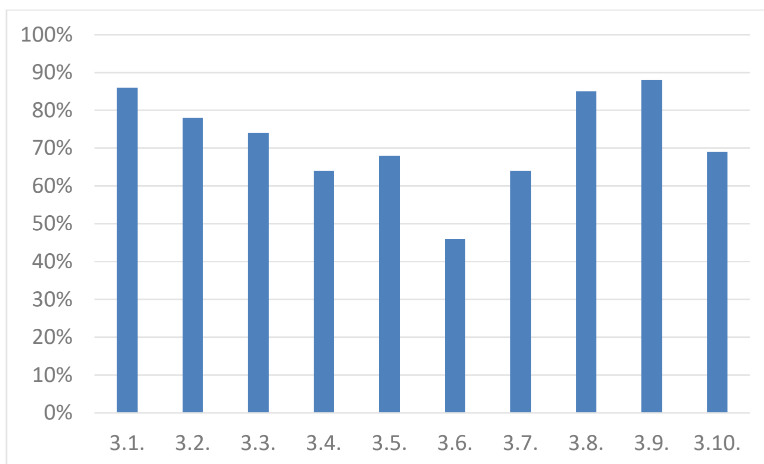
Source: own study based on the WSE data.

The rules specified in the BPLC 2021 chapter entitled *Internal Systems and Functions* were implemented by more than half of 243 listed companies. Fewer than half of the rules were applied by 106 companies, whereas 57 companies applied all of them.

The popularity of the principles from Chapter 3 of BPLC 2021 is illustrated in Chart 12.

The rule implemented by the largest number of companies (88%), discussed in Chapter 3 of BPLC 2021, pertains to the monitoring by the supervisory board of the effectiveness of the following systems: internal control, risk management, supervision of compliance with

Chart 3.12 Companies applying the principles contained in the chapter of BPLC 2021 entitled *Internal Systems and Functions*



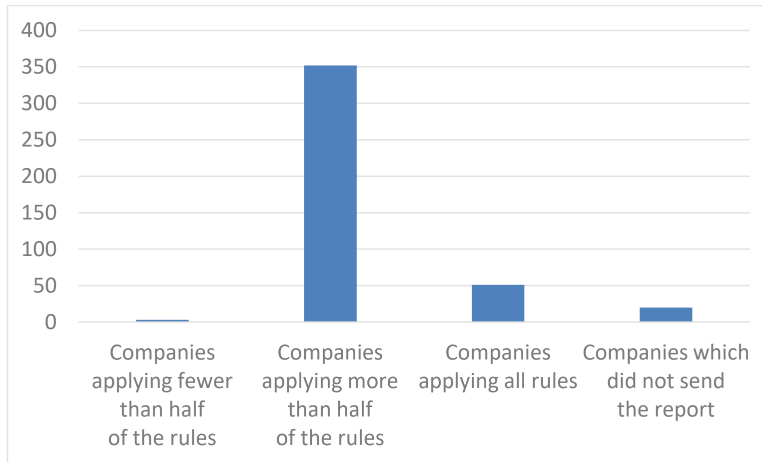
Source: own study based on the WSE data.

the law, as well as internal audit function, based on, among others, reports provided to it periodically, directly by persons responsible for these functions and by the company's management board. According to this principle, the supervisory board should also make an annual assessment of the effectiveness of these systems and functions. In a situation where the company has an audit committee, it is this committee that monitors the effectiveness of systems and functions. This, however, does not release the supervisory board from carrying out an annual assessment of the effectiveness of the aforementioned systems and functions.

The least often applied of all the rules set out in Chapter 3 were the regulations on organisational subordination of the person in charge of internal audit in relation to the management board president, who functionally reports to the audit committee chairman or, in the event that the board acts as an audit committee, to the supervisory board chairman (rule 3.6). This rule was implemented by 46% of the entities subjected to analysis.

Chart 13 presents the number of companies applying the principles referred to in the BPLC 2021 chapter entitled *General Meeting and Relations with Shareholders*.

Chart 3.13 Companies applying the principles referred to in the BPLC 2021 chapter entitled *General Meeting and Relations with Shareholders*



Source: own study based on the WSE data.

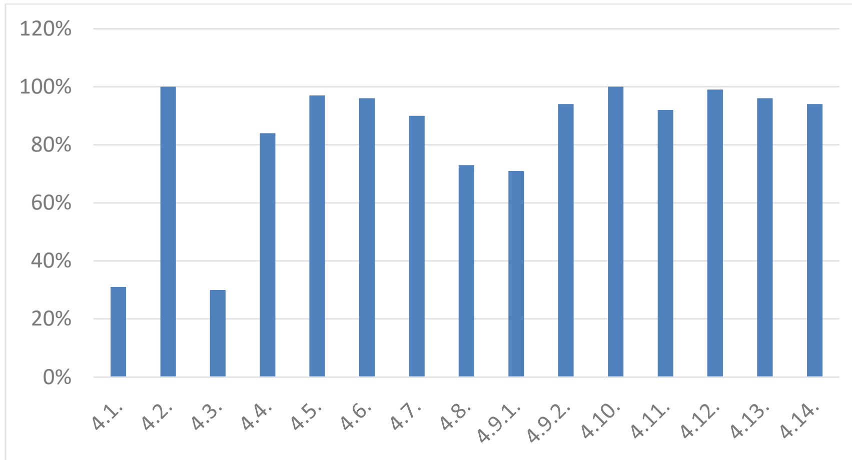
The largest number of listed companies – as many as 352 – applied more than half of the rules from the BPLC 2021 chapter entitled *General Meeting and Relations with Shareholders*. The number of companies applying all the rules remained at a similar level as in the case of the previously analysed group of rules, while fewer than half of the rules included in Chapter 4 of BPLC 2021 were implemented by only three entities.

Chart 14 presents the number of entities applying individual principles from Chapter 4 of BPLC 2021.

It is worth emphasising that as many as two out of 15 rules were applied by all companies listed on the WSE, and 7 rules were followed by more than 90% of these companies.

Pursuant to the provisions of rule 4.2, which was applied by all companies listed on the Warsaw Stock Exchange, the company should determine the place, date and form of the general meeting in a manner enabling participation in the meeting of as many shareholders as possible. If there is a need to cancel the general meeting, change the date or adjourn the meeting, the company should make every effort to

Chart 3.14 Companies applying the rules from in the BPLC 2021 chapter entitled *General Meeting and Relations with Shareholders*



Source: own study based on the WSE data.

ensure that this happens only in justified cases and does not prevent or restrict shareholders from participating in the general meeting.

Pursuant to rule 4.10, 'the exercise of shareholders' rights and the manner of exercising their rights may not hinder the proper work of the company's bodies' (BPLC 2021, p. 14).

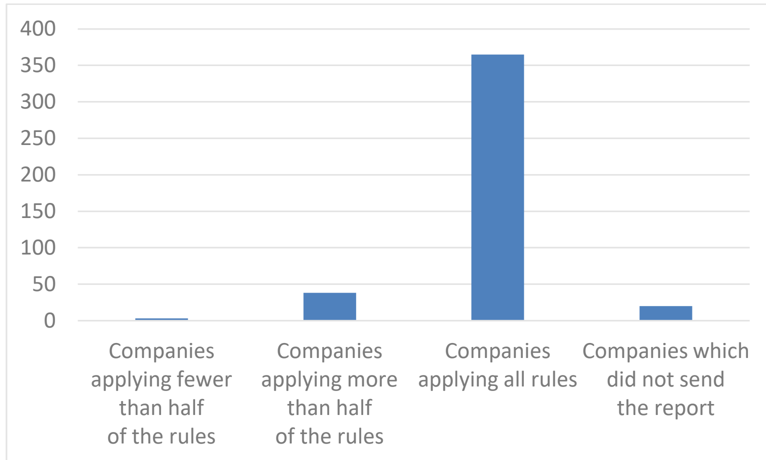
Only 30% of companies listed on the WSE provide publicly available real-time broadcasts of the general meeting (rule 4.3).

Another group of rules is devoted to the conflict of interest and transactions with related parties. The number of companies applying the principles from this chapter is presented in Chart 15.

All the rules from the chapter entitled *Conflicts of Interest and Transactions with Related Entities* were applied by 365 companies, which deserves special emphasis. More than half of the rules recommended for listed companies were implemented by 38 companies, while only three companies applied fewer than half of the rules.

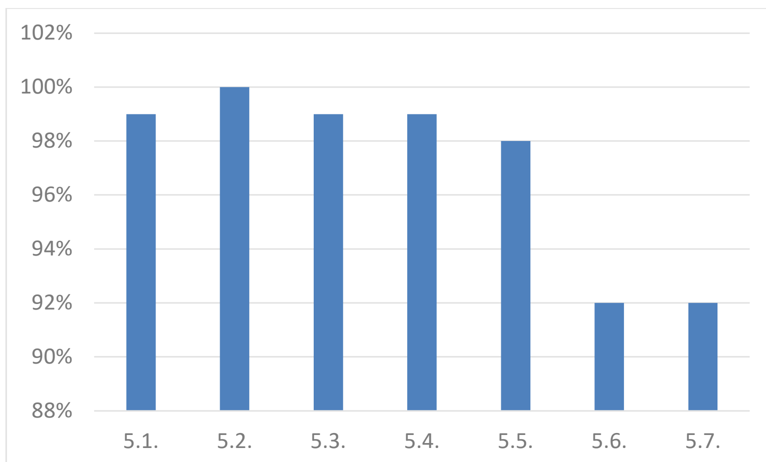
Detailed information concerning the number of companies that implemented individual principles from Chapter 4 is presented in Chart 16.

Chart 3.15 Companies applying the principles from the BPLC 2021 chapter entitled *Conflicts of Interest and Transactions with Related Entities*



Source: own study based on the WSE data.

Chart 3.16 Companies applying the rules from the BPLC 2021 chapter entitled *Conflicts of Interest and Transactions with Related Entities*



Source: own study based on the WSE data.

As emphasised earlier and illustrated in Chart 16, the extent to which the principles contained in Chapter 5 were implemented by companies listed on the WSE is very high. All the rules were applied by more than 90%. All listed companies observed Rule 5.2, which pertains to a situation where a member of the management board or supervisory board concludes that the decision of the management board or supervisory board is contrary to the interests of the company – in such a case, he or she has the right to request that their dissenting opinion be included in the minutes of the management board or supervisory board meeting.

As regards the rules discussed in Chapter 5, 92% of the companies implemented rules 5.6 and 5.7, which refer to transactions with related entities. In the event that the conclusion of a transaction with a related entity requires the consent of the general meeting, the supervisory board is obliged to prepare an opinion on the legitimacy of such a transaction. In such a case, the board should assess the necessity to first consult an external entity that will conduct a valuation of the transaction and an analysis of its economic effects. On the other hand, when a decision on the conclusion by the company of a significant transaction with a related party is taken by the general meeting, before making such a decision, the company should provide all shareholders with access to information necessary to assess the impact of the transaction on the company's interests, including the opinion of the supervisory board.

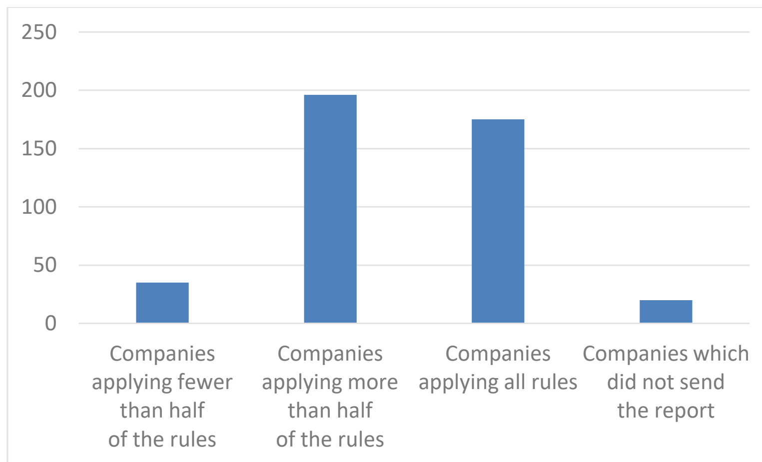
The last chapter of BPLC 2021 concerns remuneration. Chart 17 presents the number of listed companies which apply the rules both fully and selectively.

The largest number of the listed companies subjected to analysis implemented more than half of the rules (196), followed by companies that complied with all the recommendations (175), whereas 35 entities observed fewer than half of the rules.

The popularity of the principles from Chapter 6 of BPLC 2021 is illustrated in Chart 18.

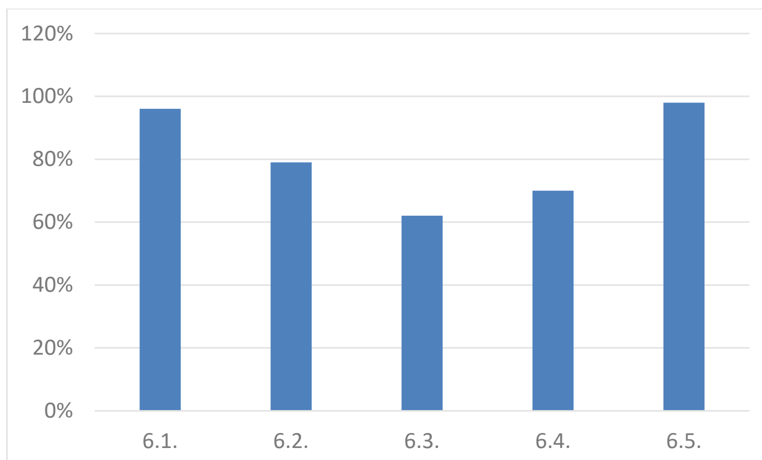
The majority – 98% of the listed companies – applied rule 6.5, according to which the amount of remuneration of supervisory board members should not be dependent on the company's short-term results.

Chart 3.17 Companies applying the principles contained in the BPLC 2021 chapter entitled *Remuneration*



Source: own study based on the WSE data.

Chart 3.18 Companies applying the principles specified in the BPLC 2021 entitled *Remuneration*



Source: own study based on the WSE data.

On the other hand, only 62% of all companies listed on the WSE implemented rule 6.3, which says that 'if one of the incentive pro-

grammes in the company is management stock options program, its implementation should be dependent on the fulfilment by entitled persons within minimum 3 years of predetermined and realistic financial and non-financial goals that are appropriate for the company and sustainable development, and the established price of purchasing the shares by the entitled, or the price of option settlement may not differ from the value of the shares from the period when the program was adopted' (BPLC 2021, p. 18).

SUMMARY

Information is currently considered to be the fourth factor of production alongside land, labour and capital. It is worth emphasising that importance of information in the modern world continues to grow.

This is also confirmed by the analysis of corporate governance issues conducted by the authors of this study. As the development progresses and the complexity of economic processes increases, the risk of distorting information on the actual financial standing of the enterprise also grows. The statutory obligation to disclose information, which increases the scope of published information, including non-financial information, accompanied by a simultaneous implementation of relevant corporate governance mechanisms, allows this risk to be minimised.

Information reporting is an element of the company's accounting system and closely correlates with its informative function. The main purpose of drawing up a non-financial report is communication with information users, stakeholders of a business entity. This communication is based not only on numbers (financial statements) but also on the use of non-financial and descriptive information (non-financial reports, additional information, integrated reports).

The task of corporate governance reporting is to simultaneously provide information on the entity's strategy, its vision and mission; financial and non-financial achievements; as well as social, environmental and economic activities. Reporting in this area should take into account the expectations of stakeholders and ought to be carried out with their involvement. The purpose of disclosing information on the achievements of companies in the field of corporate governance is to present a clear, concise and reliable picture of how the organisation creates value, how it operates and how it is supervised.

Regulations imposing the obligation to publish non-financial reports, including information on corporate governance, that have been introduced to Polish law increase the scope and transparency of the published information, which improves the quality of communication with stakeholders. However, the lack of uniform solutions with regard to these reports publication still poses a problem for many researchers dealing with reporting issues.

To sum up, the conducted analysis and the issues raised in this monograph certainly do not exhaust the entire problem. Due to the extensive scope of the topic, only selected problems related to reporting and corporate governance have been discussed – those that authors consider to be fundamental, given the need to reduce the information asymmetry between the capital owner and the agent managing this capital. However, many other areas in this thematic field require continued research, which may provide a basis for further publications.

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of the European Parliament and of the Council of 22 October 2013 amending Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC Text with EEA relevance.

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