

To keep you up-to-date with the latest legal and economic developments, this newsletter prepared by our Team provides information that may affect the operation of your business in Albania.

Guideline on Non-Financial Reporting and Performance Reporting of Non-For-Profit Organizations

On 26.06.2020, the Albanian National Council of Accounting has published the Guideline on Non-Financial Reporting (*methodology for reporting non-financial information*) (the “Guideline”). The Guideline is prepared based on article 18 of the Law no. 25/2018 dated 10.05.2018 “**On Accounting and Financial Statements**”, and is harmonized with the European Union’s Directive no. 2014/95/EU dated 22.10.2014 “**On Non-Financial Reporting**” and the related guideline issued by the European Commission.

Purpose of the Guideline

Non-financial reporting applies to large undertakings, being of public interest, having an average of more than 500 employees during the reporting period. Its preparation needs to be integrated with the management report based on accurate information about environmental and social impact, employment matters, respect of human rights, anti-corruption and bribery matters.

The Guideline is non-obligatory and aims to help organizations on presenting an accurate, material, useful, consistent and coherent non-financial information that provides sustainable growth, employment and transparency for interested stakeholders.

Key principles of non-financial reporting

- Disclose of material information

Different from the common concept of materiality used by preparers, auditors and users of financial statements, the reported non-financial information should be to the extent of necessary information to understand the impact of company’s activity.

- Fair, balanced and understandable

The non-financial statement should fairly consider favorable and unfavorable aspects of the main operations. The information should be assessed and presented in an unbiased way and should consider all available and reliable inputs, considering also the information needs of relevant stakeholders. Users of the information should not be misled by material misstatements, by material information omit, or immaterial information disclosure. The non-financial statement should clearly distinguish facts from views or interpretations.

- *Comprehensive but concise*

There are some issues that the companies are expected to reveal with material information such as environmental, social and employee matters; respect of human rights; anti-corruption and bribery matters. Companies should also provide a comprehensive picture of their activity for the reporting year. This refers to the breadth of information disclosed. However, the depth of information reported on any issue, depends on its materiality. The non-financial statement is also expected to be concise and avoid immaterial information.

- *Strategic and forward-looking*

The report is expected to provide insights into a company's business model, strategy and its implementation, and explain the short-term, medium-term and long-term implications of the information reported.

- *Stakeholder orientated*

Companies are expected to consider the information needs of all relevant stakeholders. They should focus on information needs of stakeholders as a collective group, rather than on the needs or preferences of individual or atypical stakeholders, or those with unreasonable information demands.

- *Consistent and coherent*

The non-financial statement is expected to be consistent with other elements of the management report. Making clear links between the information presented in the non-financial statement and other information disclosed in the management report makes the information more useful, relevant and cohesive.

The content of the non-financial report should be consistent over time. This enables users of information to understand and compare past and present changes in a company's development, position, performance and impact, and relate reliably to forward-looking information.

Content of Non-Financial Reporting

Non-financial reporting is an integrated part of the management report, presenting a review of the impact of the economic organizations in aspects of environmental, social and employment, human rights, anti-corruption and bribery impacts. Entities should keep in focus personal data protection while preparing the report. The content of the report should include the following:

1. Brief description of the business

A company's business model describes how it generates and preserves value through its products or services over the longer term. The business model provides context for the management report. It provides an overview of how a company operates and the rationale of its structure, by describing how it transforms inputs into outputs through its business activities. In more simple terms, what a company does, how and why it does it.

2. Description of the policies pursued by the entities in relation to reported impacts, including implementation of due diligence

Companies should disclose material information that provides a fair view of their policies. They should consider disclosures on their approaches to key non-financial aspects, main objectives, and how they are planning to deliver on those objectives and implementing those plans. Any disclosures would consider the company's specific circumstances. In these disclosures, a company may explain its management and board's responsibilities and decisions, and how resource allocations relate to objectives, risk management and intended outcomes.

3. The outcome of policies

Relevant disclosures on outcomes of policies may provide useful information on the company's strengths and vulnerabilities. The non-financial statement should reflect in a comprehensive and concise way the results of a company's operations and activities. Companies may consider explaining the relationship between financial and non-financial

BOGA & ASSOCIATES

outcomes, and how this is managed over time. The analysis of outcomes should include relevant non-financial Key Performance Indicators (KPIs). Companies are expected to disclose the KPIs that they consider most useful in monitoring and assessing progress and supporting comparability across companies and sectors. Where appropriate, companies may also consider presenting and explaining this information in relation to targets and benchmarks.

4. The principle risks related to reported impacts and their mitigation

Companies should disclose information on their principal risks and on how they are managed and mitigated. Those risks may relate to their operations, their products or services, their supply chain and business relationships, or to other aspects. This would include an appropriate perspective on short, medium and long-term principal risks. Companies are expected to explain how principal risks may affect their business model, operations, financial performance and the impact of their activities.

5. Non-financial key performance indicators relevant to the business

Companies are expected to report Key Performance Indicators (KPIs) that are useful in respect to their specific circumstances. The KPIs should be consistent with metrics used by the company in its internal management and risk assessment processes. This makes the disclosures more relevant and useful, by improving therefore the transparency. Disclosing high quality, broadly recognized KPIs (for instance, metrics widely used in a sector or for specific thematic issues) could also improve comparability, particularly for companies within the same sector or value chain.

Thematic Aspects

Companies concerned shall include in the management report a non-financial statement containing information to the extent of necessary understanding of the undertaking's development,

performance, position and impact of their activity to some thematic aspects.

The following items constitute a non-exhaustive list of thematic aspects that companies are expected to consider when disclosing non-financial information:

Environment:

- material disclosures on pollution prevention and control;
- environmental impact from energy use;
- direct and indirect atmospheric emissions;
- use and protection of natural resources (e.g. water, land) and related protection of biodiversity;
- waste management;
- environmental impacts from transportation or from the use and disposal of products and services;
- development of green products and services.

Social impact and employment:

- gender diversity and other aspects of diversity;
- employees entitled to parental leave, by gender;
- workers who participate in activities with a high risk of specific accidents or diseases;
- the number of occupational accidents, types of injury or occupational diseases;
- employee turnover;
- the ratio of employees working under temporary contracts, by gender;
- average hours of training per year per employee, by gender;
- employee consultation processes;
- number of people with disabilities employed by the entity.

Human rights:

- negative impacts possibly caused by their operations and decision-making;

BOGA & ASSOCIATES

- acceptance and addressing of complaints, also ensuring the law instruments against human rights violation;
- operations and suppliers with a considerable risk toward human rights violation;
- actions and measurements undertaken for prevention of human trafficking and exploitation;
- providing to people with disabilities access on entity's premises, equipment, documentations, and web;
- respecting freedom for syndicates and associations;
- engagement with stakeholders.

Anti-corruption and bribery:

- anti-corruption policies, procedures and standards;
- criteria used in corruption-related risk assessments;
- internal control processes and resources allocated to preventing corruption and bribery;
- employees having received appropriate training;
- use of whistleblowing mechanisms.

Diversity Report

Article 19 of the Law on Accounting requires also large entities being with public interest to give information on policies and actions undertaken toward diversity of their Board of Directors. This information is integrated in the management report, separate from non-financial ones.

The election of a Board member is required to follow generally accepted principles on non-discrimination. Diversity should mainly cover aspects of age, gender, educational and professional background, geographical advantage etc. It is important for the entity to decide specific and measurable goals toward diversity, especially in relation to gender balance.

Performance Reporting of Non-for-Profit Organizations

Subject to Article 22 (3) of Law no. 25/2018 “**On Accounting and Financial Statements**”, non-for-profit organizations in Albania with a total assets or turnover of over ALL 30 million, are required to prepare and publish a performance report, as part of their annual financial statements.

The purpose of such reporting is to ensure full responsibility of non-for-profit organizations toward related parties regarding their performance. The performance report should give a clear snapshot of what the NGO has performed, its achievements and impact. The responsibility for preparation of the report goes to the management of the NGO. The performance reporting should contain the below listed information:

a) Objectives and goals:

- foundation purpose;
- activities taken toward the main goals;
- operational strategies.

b) Results and performance:

- current results and future planning

c) Financial reporting:

- success in finding of funding sources;
- use of direct funds from NGO or organization towards it has allocated funds.

d) Organizational structure, management and reporting:

- identification data (legal seat, registration number, business identification number etc.);
- organizational structure, supervisory board (names or professional background), management;
- other management policies
- information if the NGO is part of a larger group of NGOs;
- relationship with other NGOs.

e) Other material information on the NGO.

BOGA & ASSOCIATES

If you wish to know more on issues highlighted in this edition, you may approach your usual contact at our firm or the following:

info@bogalaw.com

Tirana Office

40/3 Ibrahim Rugova Str.
1019 Tirana
Albania
Tel +355 4 225 1050
Fax +355 4 225 1055
www.bogalaw.com

Pristina Office

50/3 Sylejman Vokshi Str.
10000 Pristina
Kosovo
Tel +383 38 223 152
Fax +383 38 223 153
www.bogalaw.com

BOGA & ASSOCIATES TOP TIER ACHIEVEMENTS 2021

IFLR1000 2021: Ranked in Tier 1 in Financial and Corporate

Chambers Global 2021: Ranked in Band 1 in General Business Law

Chambers Europe 2021: Top Ranked in 4 practice areas

The Legal 500 2021: Top Ranked in Legal Market Overview

Benchmark Litigation Europe 2021: Top Ranked in Dispute Resolution

WTR1000 2021: Top Ranked in Trademarks

The Newsletter is an electronic publication edited and provided by Boga & Associates to its clients and business partners. The information contained in this publication is of a general nature and is not intended to address the circumstances of any particular individual or entity. The Newsletter is not intended to be and should not be construed as providing legal advice. Therefore, no one should act on such information without appropriate professional advice after a thorough examination of the particular situation. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. You can also consult the Newsletter on the section “Library” of our website.

© 2021 Boga & Associates. All rights reserved.

This publication is copyrighted and is protected to the full extent of the law. Nevertheless, you are free to copy and redistribute it on the condition that full attribution is made to Boga & Associates. If you have not received this publication directly from us, you may obtain a copy of any past or future related publications from our marketing department (marketing@bogalaw.com) or consult them in our website (www.bogalaw.com). To unsubscribe from future publications of Newsletter, please send “Unsubscribe” by replying to our email accompanying this edition.

Boga & Associates

Boga & Associates, established in 1994, has emerged as one of the premier law firms in **Albania** and **Kosovo**, earning a reputation for providing the highest quality of legal, tax and accounting services to its clients. Until May 2007, the firm was a member firm of KPMG International and the Senior Partner/Managing Partner, Mr. Genc Boga, was also the Senior Partner/Managing Partner of KPMG Albania.

The firm’s particularity is linked to the multidisciplinary services it provides to its clients, through an uncompromising commitment to excellence. Apart from the widely consolidated legal practice, the firm offers the highest standards of expertise in tax and accounting services, with keen sensitivity to the rapid changes in the Albanian and Kosovo business environment. The firm delivers services to leading clients in major industries, banks and financial institutions, as well as to companies engaged in insurance, construction, energy and utilities, entertainment and media, mining, oil and gas, professional services, real estate, technology, telecommunications, tourism, transport, infrastructure and consumer goods.