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Integrated Reporting: Be Prepared

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The days when a company could simply focus on a healthy bottom line in its financial statement are gone. Today, businesses face heightened expectations. They have a role to play in society and they have more stakeholders to answer to: investors, shareholders, employees, regulators, environmentalists and special interest groups.

There is increasing pressure to evolve and progress corporate reporting. The new buzzword is "Integrating Reporting" or <IR> which would provide diverse stakeholders a coherent and holistic view of the the organisation.

Integrated reports provide information about strategy, governance, performance and prospects, and how these would affect the organisation's ability to create and sustain value. When executed properly, integrated reports help companies to make better decisions and manage their businesses more effectively.

THE <IR> FRAMEWORK

The International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standard-setters, the accounting profession and NGOs, believes that corporate reporting must evolve to include all factors affecting an organisation's ability to create value over the short, medium and long term.

The Council released the International <IR> Framework in December 2013, spelling out new standards in corporate reporting. The framework establishes guiding principles and content elements for the integrated report.

Organisations need not follow strictly the order of the content elements, though, but may vary these according to their unique circumstances in accordance with the judgement of senior management and the Board of Directors.

Nonetheless, the reports should present the content in a way that clearly shows the interconnections between the elements.

Its vision is for integrated thinking and integrated reports to be the new norm, with greater coherence and efficiency in the reporting process as the new philosophy and standards become thoroughly embedded in every form of communication by an organisation to stakeholders.

An integrated report is different from financial statements and sustainability reports. It is a "designated, identifiable communication" and may form part of another report prepared by an organisation for compliance purposes.

Three fundamental concepts of integrated reporting are:

- Value creation for the organisation and for others
- The capitals
- The value creation process

THE ROLE OF BOARDS

Under the Integrated Reporting Framework, the Board of Directors must provide a statement setting out their responsibility for the integrity of the integrated reports; that the board has applied its collective mind to the preparation and presentation or the reports; and that the integrated reports are in accordance with the framework.

This question of boards providing such statements was the most contentious issue arising from the IIRC's consultation process with just over 50 per cent of respondents supporting it. However, investor representatives felt that this statement is necessary to add credibility to the reports. Singapore companies would need to consider and evaluate how they would discharge this responsibility.

PROGRESS ON <IR>

According to the IIRC, more than 100 companies globally have signed up for its pilot programme. This includes some of the world's largest companies such as China Light & Power, Deutsche Bank, HSBC, Hyundai Engineering and Construction, NAB, PepsiCo., Tata Steel and Unilever. In Singapore, DBS Bank and the Singapore Accountancy Commission have joined the pilot programme with growing interest among others.

IIRC has an emerging <IR> database of examples from various annual and integrated reports that illustrate specific Guiding Principles and Content Elements.

Independent assurance is likely to be important for the long term credibility of integrated reports. In July 2014, the IIRC has started the debate in this area by issuing a discussion paper, *Assurance on <IR> An Introduction to the Discussion*, which sets out benefits and challenges of assurance.. This is a good and timely development as it will aid the development of assurance standards and protocol on <IR>.

Currently, there is no regulatory requirement for integrated reports except in South Africa. This is a market-led initiative that encourages companies to communicate their value creation story, rather than create another compliance burden.

In Singapore, the Institute of Singapore Chartered Accountants (ISCA) has formed an <IR> Steering Committee to provide strategic directions and oversight of Singapore's efforts to influence and shape the development of the International <IR> framework which also takes into account the Asian perspective.

The Steering Committee comprise of representatives from the regulatory bodies and other players in the corporate ecosystem including SID. It has formed five work groups to conduct research, promote and engage stakeholders on <IR>.

<IR> is arguably the most significant reporting innovation and change since the creation of International Financial Reporting Standards. However, it is fraught with implementation issues. It remains to be seen whether the traditional annual report will be replaced by the integrated report. This depends on whether the information included in the report meets the needs of stakeholders and how readily available it is within the company. Replacing the annual report is not something that will happen immediately. ■