

Integrated Reporting: Be prepared



By **CHALY MAH**
SID Council Member

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 which would provide diverse stakeholders a coherent and holistic view of 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 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.



COUNTING BEANS

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.

Integrated Concept

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

Under the IR 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 of 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% 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.

According to the IIRC, more than 100 companies globally have signed up for its pilot programme, including DBS Bank, which was the first Singapore member, China Light & Power, Deutsche Bank, HSBC, Hyundai Engineering and Construction, NAB, PepsiCo., Tata Steel and Unilever.

IIRC has an emerging IR database of examples from various annual and integrated reports that illustrate specific Guiding Principles and Content Elements. This database is accessible at www.theiirc.org

The auditors' role in providing assurance on integrated reports will need to be developed and the International Auditing and Assurance Standards Board has already provided for the development of an assurance standard in this area in their strategy. In the meantime, auditors may need to use principles in existing assurance standards when working with companies to provide assurance on integrated reports.

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.

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. ■

Chaly Mah is the CEO of Deloitte Asia Pacific and Chairman of Deloitte Singapore