IFAC POLICY POSITION 8
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International Federation of Accountants®

ENHANCING ORGANIZATIONAL REPORTING: INTEGRATED REPORTING KEY

IFAC:

- **Considers integrated reporting as the way to achieve more coherent corporate reporting system, fulfilling a need for a single report that provides a fuller picture of organizations' ability to create value over time;**
- **Strongly supports the International Integrated Reporting Council (IIRC) and the implementation of the International Integrated Reporting (<IR>) Framework;**
- **Believes that the integrated report can be used as an "umbrella" report for an organization's broad suite of reports and communications, enabling greater interconnectedness between different reports and recognizing that there is a range of different frameworks and regulations available and under development;**
- **Supports reporting that produces information on which assurance conclusions can be expressed, in accordance with high-quality international assurance standards; and**
- **Recognizes that the accountancy profession has a significant contribution to make, and an important role to play, in developing and implementing enhanced organizational reporting and that professional accountants play an important role in broad-based organizational reporting arrangements, and in providing assurance.**

Introduction

All organizations, regardless of size and whether they operate in the private or public sector, prepare and use information to inform important decisions regarding their business. Organizational leadership use financial and non-financial information to manage and direct strategies and operations.

Over many years, external stakeholders—investors, suppliers, creditors, banks, and regulators—have demanded increasing amounts of information and disclosure about organizations' governance, strategic direction, operations, and decisions. This permits, for example, investors to make more informed investment decisions, suppliers to make better business decisions when undertaking transactions, and regulators to assess whether organizations are complying with requirements.

During the last century, great strides were made in the reporting of one of the primary sources of information for all key stakeholders; that is, organizations' financial statements and associated notes and disclosures. In essence, these financial statements capture much of the financial information that reflect an organization's performance. Internationally, the key financial reporting standards are International Financial Reporting Standards (IFRS) for private sector organizations and International Public Sector Accounting Standards (IPSAS) for the public sector. In some jurisdictions, financial statements are prepared (in full, or in an abbreviated fashion) more frequently than once a year, such as quarterly or half-yearly. Financial statements prepared in accordance with internationally-accepted financial reporting standards play an invaluable role in capital markets and market participants' decision making.

However, there is widespread recognition that, in addition to capturing the financial information organizations prepare and use in managing and directing their business, it is important to capture and report other, largely non-financial, information. Information that shows how value is created by a number of capitals that are not adequately reflected in financial reporting. Therefore, many organizational stakeholders recognize that financial reporting alone cannot satisfy all of their information needs and continue to seek more and different information of relevance, including information pertaining to an organization's strategy, governance, risk management, human resources, and approach to broader sustainability issues, including environmental and social issues. Much of this information can be provided by enhancing organizational reporting.

Increasingly, regulators are aware of the need for a broad range of information about how organizations run their businesses in order to fulfill their organizational and regulatory objectives. They are also paying greater attention to enhanced organizational reporting, and are increasingly of the view that assessments of an organization—for example, its performance or compliance with regulatory requirements—depend on a wider range of information than is available from financial reports. Recognizing the importance of the issue, many regulators are considering the best ways to encourage organizations to produce and publish more broad-based information.

High-quality organizational reporting is important for all types of organizations. In a number of countries, the importance of public sector entities reporting more broad-based information is already evident by the range of reporting and associated assurance that is currently in place.

Public Interest

IFAC believes it is in the public interest for organizations to report more broad-based information that is important to, and useful for, stakeholders. Broad-based information that:

- promotes transparency and accountability, and assists organizational management and those charged with governance in making important business decisions and demonstrating their stewardship responsibilities;
- provides a more comprehensive view of an organization's position, performance, and longer-term potential and sustainability than financial reporting alone; and
- provides critical information for external stakeholders to make decisions, in particular with respect to those aspects of an organization's operations that are not fully reflected in financial statements, such as the capitals,[1] intangibles, or resources that are the basis for an organization's ability to preserve and create value over time.

What is Enhanced Organizational Reporting?

The enhanced organizational reporting domain is increasingly seen as fragmented with different reporting requirements for different purposes and capitals There is a debate about how the broader information needs of stakeholders should be met through a single channel—the annual or integrated report—or whether different channels should be used for different purposes. A number of frameworks, standards, and principles have begun to emerge, covering social and environmental accounting and reporting; corporate social

[1] Capitals are defined as "stocks of value on which all organizations depend for their success as inputs to their business model, and which are increased, decreased, or transformed through the organization's business activities and outputs." The capitals are categorized in the International <IR> Framework as: financial, manufactured, intellectual, human, social and relationship, and natural.

responsibility (CSR) reporting; environmental, social, and governance (ESG) reporting; sustainability reporting; and integrated reporting.

This reporting involves providing decision-useful information to organizational stakeholders beyond what is included in traditional financial reporting, and may provide important links between financial reporting and other organizational reporting. Some organizations already prepare and use the type of broader-based information in their business decision making that is now being requested by others. Enhanced organizational reporting to external stakeholders requires these organizations to shape their reporting for the intended users of that information. Other organizations may need to consider the capacity and capability of current financial reporting processes to determine what changes may need to be made to ensure that organizational reporting is effective.

In practice, organizational reporting that goes beyond traditional financial reporting may often involve the presentation and disclosure of information that is both quantitative and qualitative in nature. It is more likely to include forward-looking or prospective information that is not contained in "traditional" financial reporting, which tends to focus on past performance. Typically, quantitative reporting would not be presented in monetary terms, and may involve the reporting of volumes, number counts, ratios, comparisons, percentages, and so on. Importantly, this type of reporting can assist organizations in identifying and reporting organizational performance, including the effectiveness of corporate governance, risk management, and internal control.[2]

Developing and Implementing Organizational Reporting Frameworks

The accountancy profession has a great deal to contribute to, and a key role to play in, enhancing organizational reporting. The profession has a long history of involvement in a number of key areas that are important to the development and implementation of organizational reporting frameworks that go beyond traditional financial reporting, for example, developing and improving financial reporting processes and controls and identifying, measuring, and reporting key financial and other information.

Key Considerations for Reporting Frameworks

In developing and implementing robust organizational reporting frameworks, IFAC believes it is necessary to consider a number of factors.

- Materiality

  Materiality in financial reporting may more easily depicted as a quantitative amount. However, determining materiality for organizational reporting that goes beyond traditional financial reporting will often involve a qualitative assessment, or a quantitative assessment of non-monetary amounts. IFAC recognizes that this is a topic where a broad range of views exists and hence it is an important topic of debate.[3]

- Relevance

  Given the growing number of frameworks being developed, IFAC recognizes that there are a broad range of views on what is most important to include when enhancing organizational reporting. Factors such as the primary users of the information, the legal and cultural environment, the capacity of the organization, and the jurisdiction are several matters that are integral to the debate on relevance.

[2] Refer to Policy Position Paper 7, *Effective Governance, Risk Management, and Internal Control*.

[3] See Corporate Reporting Dialogue, *Statement of Common Principles of Materiality*, and IIRC and IFAC guidance on *Materiality in Integrated Reporting*.

- Reliability

  Information that is not reliable cannot be typically considered decision useful. It is important that information be sufficiently reliable so as to provide added value to users. A prerequisite for reliable information is that it is subject to appropriate evidence-gathering procedures such that management can be held accountable for the information reported.

- Comparability

  As well as providing information that assists stakeholders in making assessments about individual organizations, robust organizational reporting frameworks should be developed in a manner that permits appropriate comparisons to be made over time, as well as between organizations.

- Timeframe

  Organizational reporting frameworks often address issues pertaining to organizational arrangements and performance, and value preservation and creation, over the short, medium, and long term. As such, it may not always be consistent with the generally shorter-term focus of most financial reporting. Consideration needs to be given to how these different, and yet both very important, types of reporting can be presented in a complementary manner.

Proportionality

In developing, adopting, and implementing enhanced organizational reporting frameworks and arrangements, consideration needs to be given to the:

- impacts of such reporting, especially if it is mandated within a jurisdiction, on organizations of different sizes; and
- users of information provided by organizations of different sizes.

For small- and medium-sized entities (SMEs) the cost-benefit considerations of implementing new and additional organizational reporting requirements are particularly important. Integrated reporting may help SMEs build a better, more concrete understanding of the factors that determine its ability to create value over time and present a holistic picture of how the organization creates value to current and prospective equity investors, banks, and other providers of financial capital.

Principles-based approaches to such organizational reporting are typically easier to adopt and apply to a broader range of organizations.

Voluntary or Mandated

In some jurisdictions, organizational reporting that goes beyond traditional financial reporting forms part of an organization’s regulatory reporting requirements. IFAC recognizes that jurisdictions around the world are at different stages of development (e.g., in terms of securities legislation and regulation, standards of reporting, and capacity of the accountancy profession and preparers of business reports). Coupled with cultural, political, legal, and other environmental factors, this means that, from a global perspective, it is not possible at this stage to recommend whether such enhanced organizational reporting should be mandated or driven by market requirements and expectations. However, regardless of the approach chosen, success depends on the:

- perceived benefits that will accrue to information users (e.g., better decision making) and ultimately to society as a whole (e.g., sustainable growth and employment), and whether these outweigh the costs of reporting;

- acceptance of its value as an important decision-making and accountability tool;
- robustness of the reporting and assurance arrangements;
- guidance and supporting material made available to organizations when implementing these organizational reporting arrangements; and
- clarity around the relationship between various reporting requirements both nationally and internationally.

Assurance

Independent assurance enhances users' confidence in the information being provided. It can also assist organizations in developing their systems and processes to provide high-quality organizational reporting. This may be especially important in the formative years of such reporting, as preparers' and users' confidence in the information being reported continues to grow.

IFAC is of the view that organizational reporting should be undertaken in accordance with robust international reporting frameworks, and that such reporting should be subjected to an assurance engagement in accordance with high-quality international assurance standards. Therefore, it is important that frameworks for organizational reporting are developed in a manner that provides suitable criteria against which preparers can determine the content of the report ***and*** assurance conclusions can be provided by assurance professionals. Reporting frameworks and arrangements should aim to ensure that the reporting delivered by organizations exhibits appropriate characteristics; generally, it must be relevant, complete, reliable, neutral, understandable, and derived from verifiable sources.

IFAC recognizes that the International Auditing and Assurance Standards Board (IAASB) issued standards relevant to the provision of assurance of broad-based organizational reporting; namely International Standard on Assurance Engagement (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The IAASB also issued subject-specific standards, such as ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*. IFAC considers it important for the IAASB to continue to consider the role of assurance across a broad range of extended organizational reporting as it has with its Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*. IFAC encourages the IAASB to monitor developments and liaise closely with organizations such as the IIRC to consider how the assurance of integrated reports might serve the public interest and meet stakeholder needs.

The Relationships between Different Reporting Frameworks

IFAC recognizes that there is a range of different organizational reporting frameworks and regulations available and being developed, and considers it important to examine the relationship between these frameworks and to promote global consistency and convergence. IFAC is encouraged by regulators' interest in this general topic, but notes this high level of interest is also contributing to the growing number of differing requirements across jurisdictions.

While these other organizational reporting frameworks are not as developed as financial reporting, there is a risk that having numerous frameworks, whether they are topic or country focused, will potentially present significant problems in coming years, especially for organizations that operate across borders and in numerous jurisdictions. It potentially diminishes the ability of stakeholders to make proper assessments and resource allocation decisions about multinational organizations, and creates potential regulatory arbitrage opportunities when such reporting is mandated.

Consequently, IFAC considers it vital that regulators, standard setters, and others involved in the development of reporting frameworks recognize and promote not just the need for enhancing organizational reporting but also the need for globally consistent and convergent practices and arrangements. The challenges associated with convergence of financial reporting arrangements in the last decade provide a sound reason for all parties to aim for a consensus, or at least the identification of the relationships and consistency between the different frameworks, at the earliest possible time.

Having one globally-accepted framework also helps provide a basis for a more coherent corporate reporting system.

A Coherent Corporate Reporting System with Integrated Reporting

The landscape of enhanced organizational reporting is perceived as fragmented with different reporting requirements for different purposes and capitals. It leads to frequent claims of too much reporting, lack of relevance or ease of use for beneficiaries/key audiences, reporting driven more by compliance than by narrative clarity, and inconsistent approaches.

IFAC believes that integrated reporting is the means to bring about a more coherent corporate reporting system.

> Integrated reporting is described as "*a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term*."[4] It aims to be most relevant for financial capital allocation decisions; hence, integrated reporting is primarily directed toward those who provide financial capital to organizations.

There is a need for a single report that provides a fuller picture of an organization's ability to create value over time, and that provides greater interconnectedness between different reports. The integrated report can be used as an "umbrella" report for an organization's broad suite of reports and communications. The analogy of an octopus places the integrated report as the head of the octopus. Integrated reporting aims to supplement and build upon other developments and can be applied continuously to all relevant organizational reports and communications.

In some jurisdictions, there is potential to apply integrated reporting to existing regulatory arrangements for management commentary. It can also be applied in a proportionate and scalable manner to all organizations regardless of size and sector.

Importantly, integrated reporting is more than reporting or producing an additional report. It is founded on *integrated thinking* leading to a change in the way businesses think about preserving and creating value. Integrated thinking involves organizational change to require everyone in the organization to increase their contribution to a much broader, and longer term, concept of value creation through a better understanding of how value is created. This will hopefully lead to a better outcome from reporting that responds to systemic risks to capital and financial markets systems, and sustainable development challenges.[5]

These are the drivers the global coalition had in mind when it established the IIRC—a need for reporting to evolve to meet the needs of the 21st century.

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4 Refer to paragraphs 1.2 and 1.3 of Consultation Draft of the International <IR> Framework *Integrated Reporting*, April 2013

5 Refer to *The 2030 Agenda for Sustainable Development: A Snapshot of the Accountancy Profession's Contribution* and *Creating Value with Integrated Thinking*.

Credibility and trust in organizations and reporting needs to be driven by effective governance, as well as by assurance from internal and external auditors. This ensures reporting is connected to oversight and decisions made by those charged with governance, resulting in better decisions and behaviors that are consistent with long-term goals and performance.

Other Frameworks

Several of the key organizational reporting frameworks and arrangements in existence, or being developed, include:

- Global Reporting Initiative (GRI)—aiming to provide organizations with a comprehensive sustainability reporting framework that enables them to disclose their governance approach and the environmental, social, and economic performance and impacts of their organizations;
- UN Global Compact—a strategic policy initiative for organizations committed to aligning operations and strategies with ten universally accepted principles on human rights, labor, environment, and anti-corruption. A key aim is that organizations operating in a globalized economy help markets, commerce, technology, and finance advance in ways that benefit economies and societies everywhere;
- Carbon Disclosure Project and Climate Disclosure Standards Board (CDSB)—aiming to provide a global framework for companies to measure, disclose, manage, and share vital environmental information. It offers a global climate change reporting framework that aims to link financial and climate change-related reporting to provide policymakers and investors with clear, reliable information for robust decision making;
- International Public Sector Accounting Standards Board (IPSASB)—a conceptual framework for general purpose financial reporting by public sector entities, which underpins the development of IPSAS and Recommended Practice Guidelines. Specific topics addressed by the IPSASB that extend beyond traditional financial reporting include reporting service performance information and the long-term sustainability of public sector finances;
- Sustainability Accounting Standards Board—aims to develop and disseminate industry-specific accounting standards that address material sustainability issues, which are developed in the context of regulatory arrangements in the US market, in particular, for publicly listed companies;
- Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises—aiming to be far-reaching recommendations for governments to direct to multinational enterprises, and providing voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation; and
- Various reporting requirements currently included in corporations, securities, and other legislation and regulation, including those that cover narrative reports to complement financial reporting, such as a directors' report, management commentary, management's discussion and analysis, or operating and financial review.

IFAC acknowledges that integrated reporting acts as an umbrella for dialogue on corporate reporting and supports the Corporate Reporting Dialogue, an initiative convened by the IIRC involving organizations that issue standards and frameworks with international impact. The aim of the Dialogue is to promote greater coherence and comparability between reporting frameworks, standards, and related requirements.

Role of Professional Accountants

IFAC strongly supports and encourages the involvement of professional accountants in this important emerging field. The skills and expertise of professional accountants are well suited to advancing organizational reporting, for example, in relation to managing and reporting an organization's performance, assessing and developing appropriate internal control reporting and governance arrangements, in matters pertaining to measurement, and in providing assurance and enhancing the credibility of reported information. Professional accountants are also well placed to facilitate integrated thinking.

Specifically, professional accountants contribute to advancing organizational reporting in their roles as:

- Professional accountants in business, who play important roles within organizations to develop business cases, manage performance, implement reporting arrangements and systems, and assess and assist in the development of governance and risk management arrangements and strong internal controls;
- Assurance practitioners, who play a critical role in providing assurance on, and hence enhancing the credibility of, organizational reporting by utilizing internationally-accepted, high-quality assurance standards; and
- Professional accountants providing professional services, who, in many jurisdictions, play important advisory and consulting roles for organizations with respect to organizational reporting, especially for small- and medium-sized entities.

The Role and Work of IFAC

IFAC believes it is important for the accountancy profession to be involved in, influence, and drive the development of improved organizational reporting.

Specifically, IFAC:

- contributes to the work undertaken by the IIRC in the context of a strategic partnership with the IIRC (captured in a Memorandum of Understanding, with IFAC recognized as an <IR> Breakthrough Partner);
- monitors and contributes to the work of other standard setters and thought leaders, such as GRI, CDSB, and the Sustainability Accounting Standards Board;
- monitors developments and encourages the profession—professional accountancy organizations, accountancy firms, and individual professional accountants—to be involved in initiatives to improve organizational reporting; and
- issues a range of guidance to assist professional accountants in fulfilling their roles in enhancing organizational reporting.[6]

Implications for IFAC Member Organizations

The global acceptance of enhanced organizational reporting will depend strongly on acceptance in national jurisdictions and regions. IFAC notes that many of member organizations are actively engaged on this topic and encourages them to continue to promote the importance of organizational reporting that goes beyond traditional financial reporting in their jurisdictions and regions, and to encourage and support the need for

[6] For example, refer to International Good Practice Guide, *Principles for Effective Business Reporting Processes*.

global consistency and convergence. For those member organizations not yet actively engaged, IFAC urges them to become more involved.

Additionally, IFAC seeks to provide its members with the necessary competence and skills to be involved in this important development. This is particularly important for professional accountants working in small- and medium-sized practices (SMPs) providing services to SMEs, as new and additional organizational reporting requirements will often significantly impact SMPs and SMEs that have little or no background or expertise in this field.

Specifically, IFAC encourages members and associates to contribute to advancing IFAC's positions presented in this paper by:

- promoting awareness of these matters, especially within their own jurisdictions;
- developing professional education and continuing professional development offerings that address topics relevant to enhancing organizational reporting; and
- utilizing their relationships, where appropriate, with governments and regulators to promote the global consistency and convergence of organizational reporting frameworks.

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IFAC'S MISSION

IFAC serves the public interest and strengthens the accountancy profession by:

- Supporting the development of high-quality international standards;
- Promoting the adoption and implementation of these standards;
- Building the capacity of professional accountancy organizations; and
- Speaking out on public interest issues.

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