TOPIC 35

INTEGRATED REPORTING

Quote:- The secret of change is to focus all of your energy

not on fighting the old, but on building the new

INTEGRATED REPORTING

INTRODUCTION

Today's organizations require to assess the value created over the time by actively managing a wider range of resources. **Resources like intangible assets such as intellectual capital, research and development, brand value, natural and human capital have become as important as tangible assets in many industries. However, these intangible assets are not universally assessed in current financial reporting frameworks even though they often represent a substantial portion of market value.**

ORGANISATIONAL STRUCTURE/ ISSUING AUTHORITY

Integrated Reporting (<IR>) is a concept first introduced in South Africa. Later on, this concept travelled to many countries like German, France, Spain, Brazil and UK and integrated reporting was made along with their financial statements in one or the other manner.

In 2010, the International Integrated Reporting Council (IIRC) was set up which aims to create the globally accepted integrated reporting framework.

The International Integrated Reporting Council (IIRC) is a global coalition of:

- Regulators
- Investors
- Companies
- Standard setters
- The accounting profession and NGOs

Together, this coalition shares the view that **communication about value creation** should be the next step in the evolution of corporate reporting.
With this purpose they issued the International Integrated Reporting (IR) Framework. The framework has been developed keeping in mind the greater flexibility to be given to the entity and the management in the reporting but at the same time should target to report the value created by the organisation through various capital.
Integrated Reporting as the name suggest will integrate both financial and non- financial information. **In future, it will become the only report to be issued by the organisation.**

WHAT IS INTEGRATED REPORTING <IR>?

"Integrated Reporting reflects **how our company thinks and does business**. This approach allows us to discuss material issues facing our business and communities and show **how we create value, for shareholders and for society as a whole."**
Dimitris Lois, CEO, Coca-Cola HBC

Organizations are using <IR> to communicate a clear, concise, integrated story that explains how all of their resources are creating value. <IR> is helping businesses to think holistically about their **strategy and plans**, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance.

Integrated Reporting (<IR>) promotes a more cohesive and efficient approach to corporate reporting and aims to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

Big investors do not trust the annual reports which are prepared as per INDAS/AS. Under this reporting, financial and non-financial factors are disclosed upon which big investment decisions may be taken. The main objective of this report is to explain the following 4 main areas of an entity:

(a) **Strategies of the companies**
(b) **Governance to apply the stragety**
(c) **Performance as per strategy**
(d) **Propective of company**

On the basis of above explanation, investors can judge value creation by company in short, medium or long term.

It's a portal by which the organisation communicates a holistic view of:

- Its Current position
- Where it's going And
- How it intends to get there

PURPOSE OF INTEGRATED REPORTING

The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time.

An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including:

- Employees
- Customers
- Suppliers
- Business partners
- Local communities
- Legislators
- Regulators and
- Policy-makers

SALIENT FEATURES OF INTEGRATED REPORTING FRAMEWORK

(a) Targets the Private Sector or Profit Making Companies

This Framework is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

(b) Identifiable Communication

An integrated report may be prepared in response to existing compliance requirements, and may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication.

An integrated report is intended to be more than a summary of information in other communications (e.g., financial statements, a sustainability report, analyst calls, or on a website); rather, it makes explicit the connectivity of information to communicate how value is created over time.

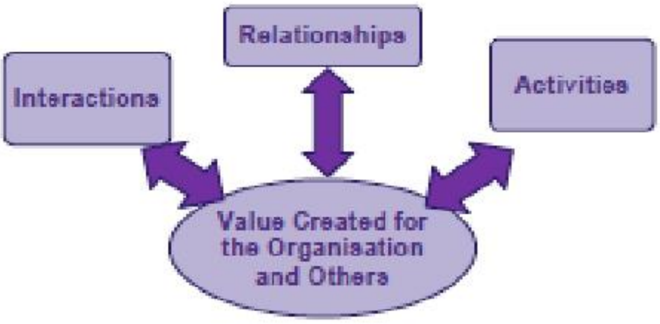
(c) Financial and Non-financial Items

The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. It, therefore, contains relevant information, both financial and other.

(d) Value Creation

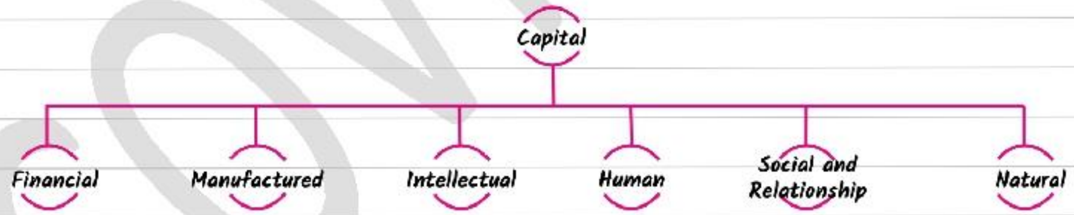
Value created by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs. That value has two interrelated aspects – value created for:

- The organization itself, which enables financial returns to the providers of financial capital
- Others (i.e., stakeholders and society at large)



THE CAPITALS

The concept of capitals seeks to assist an organisation in identifying all the resources and relationships it uses and affects to report in a comprehensive manner.
The Framework has categorise the capital into 6 main forms. However, at the same time, it stresses upon that not necessary the same categorisation of capital be followed by the entities in their integrated reporting.



a. Financial Capital

The pool of funds

- available to an organization for use in the production of goods or the provision of services
- obtained through financing, such as:
  - Debt, equity or grants; or
  - Generated through operations or investments

b. Manufactured Capital

Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including:

- Buildings
- Equipment
- Infrastructure (such as roads, ports, bridges, and waste and water treatment plants)

Note: Manufactured capital is often created by other organizations, but includes assets manufactured by the reporting organization for sale or when they are retained for its own use.

c. Intellectual Capital

Organizational, knowledge-based intangibles, including:

- Intellectual property, such as patents, copyrights, software, rights and licences
- "Organizational capital" such as tacit knowledge, systems, procedures and protocols

d. Human Capital

People's competencies, capabilities and experience, and their motivations to innovate, including their:

- Alignment with and support for an organization's governance framework, risk management approach, and ethical values
- Ability to understand, develop and implement an organization's strategy
- Loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate

e. Social and Relationship Capital

The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being.

Social and relationship capital includes:

- Shared norms, and common values and behaviours
- Key stakeholder relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with external stakeholders
- Intangibles associated with the brand and reputation that an organization has developed
- An organization's social licence to operate

under this, entity has to explain about there social activites, it may include spending on social programs etc

f. Natural Capital

All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization.

It includes:

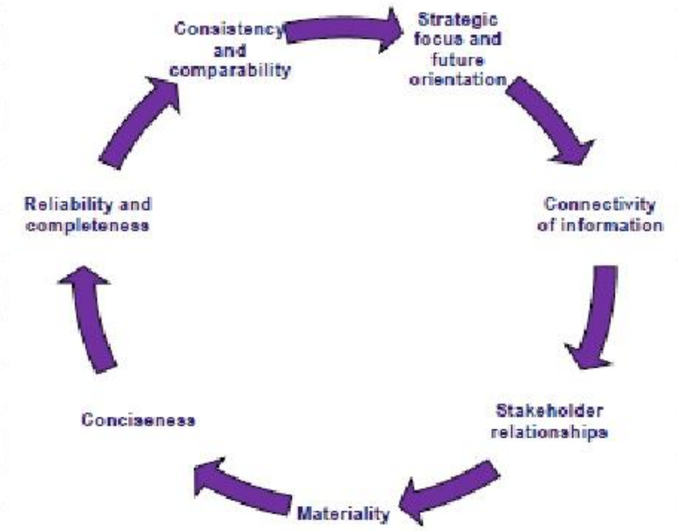
- Air, water, land, minerals and forests
- Biodiversity and eco-system health

Note: Not all capitals are equally relevant or applicable to all organizations. While most organizations interact with all capitals to some extent, these interactions might be relatively minor or so indirect that they are not sufficiently important to include in the integrated report.

GUIDING PRINCIPLES FOR PREPARATION AND PRESENTATION OF INTEGRATED REPORT

Every report must be built around the unique business model of the preparer. This requires a very different mind -set when looking at examples of good reporting.

The following Guiding Principles underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented:



(a) Strategic Focus and Future Orientation
(b) Connectivity of Information
(c) Stakeholder Relationships
(d) Materiality
(e) Conciseness

(f) Reliability and Completeness

(g) Consistency and Comparability

INTERNATIONAL ACCOUNTING STANDARDS BOARD LOOKING AT THE ROLE OF WIDER REPORTING

The International Accounting Standards Board (IASB) as part of its 'better communication' work is studying and consulting on wider corporate reporting, including developments in Integrated Reporting, as it considers the role the IASB may take going forward.

One possibility is that the IASB might consider a project to revise and update its existing Practice Statement Management Commentary.

Businesses that are looking to communicate a broader story of value creation can use the International IR Framework alongside IFRS.

SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

SEBI vide its circular no. SEBI/HO/CFD/CMD/CIR/P/2017/10 February 6, 2017 has advised top 500 companies [to whom Business Responsibility Report ('BRR') have been mandated under Regulation 34(2)(f) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 ("SEBI LODR")], to adopt Integrated Reporting on a voluntary basis from the financial year 2017-18.

The objective behind recommending voluntary adoption of Integrated Reporting is to improve disclosure standards. An integrated report aims to provide a concise communication about how an organisation's strategy, governance, performance and prospects create value over time so that interested stakeholders may make investment decisions accordingly. Today an investor seeks both financial as well as non-financial information to take a well-informed investment decision.

Questions

Q458.

State the categories defined in the International IR Framework for capitals. Comment whether an organisation has to follow these categories rigidly.

Solution:

Various categories of capital are:

- Financial
- Manufactured
- Intellectual
- Human
- Social and Relationship
- Natural

Organizations preparing an integrated report are not required to adopt this categorization or to structure their report along the above lines of the capitals.

Q459.

Can a Not-for Profit organisation do the Integrated Reporting as per the Framework?

Answer:

The Framework is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organizations.

Q460.

Can an Integrated reporting be done in compliance to the requirements of the local laws to prepare a management commentary or other reports?

Answer:

An integrated report may be prepared in response to existing compliance requirements. For example, an organization may be required by local law to prepare a management commentary or other report that provides context for its financial statements. If that report is also prepared in accordance with this Framework it can be considered an integrated report. If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework.

Student Notes:-

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