

Integrated Reporting – For Better Performance Insight



Historically, corporate reporting focusing mainly on financial performance of companies, their historic performance and their key financial indicators, provided pointers to stakeholders about present and potential performance of the companies. Of late, these reports have started including sections on corporate strategies, social and environment concerns and actions being taken up by the companies. Integrated Reporting is, in part, an outgrowth of a view that present corporate reporting does not meet the evolving information needs of stakeholders in the globalised capital market. Major changes in the way business is conducted and businesses create value have been reported; the context in which the businesses operate has also changed. The author duo in their article reports that these changes are interdependent and reflect trends in globalisation, rising expectations for corporate transparency and accountability, among others. They argue that the acceptability of the Integrated Reporting concept is delayed. Read on to understand the authors' perspective on acceptability of Integrated Reporting and its scope that would ultimately help the companies in connecting better to their stakeholders and thereby in spreading the wings...

“The world is changing...corporate reporting too must change.”

The Perspective

Historically, corporate reporting has been focused mainly on the financial performance of companies. It provided investors with basic insight into the historic performance of the companies evaluated on key financial indicators. This helped provide the readers with indication of the companies present



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An integrated report provides readers with a complete picture of how an organisation is performing by including non-financial information on environmental, social and governance performance along with financial information.

and potential future performance. However, in today's volatile, uncertain, complex and ambiguous business scenario, explaining 'business as usual' is not enough. Stakeholders need the information to assess the value impact of business plans and changes in the business environment. Of late, increasingly, annual reports have attempted to include sections on corporate strategies, social and environment concerns and actions being taken by the company to work responsibly in these areas.

Despite addition of information relating to Social and environmental, most financial reports still do not address the information needs of all stakeholders. In order to assess fulfillment of the environmental, social and governance responsibilities of listed entities, SEBI has mandated listed entities to submit Business Responsibility Reports, as a part of their Annual Reports, describing measures taken by them along the key principles enunciated in the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' framed by the Ministry of Corporate Affairs (MCA).

Integrated reporting is the integration of a company's financial report and its corporate social responsibility or sustainability report into a single document. An integrated report provides readers with a complete picture of how an organisation is performing by including non-financial information on environmental, social and governance performance along with financial information. Integrated Reporting is based on Integrated thinking involving consideration of various types of capital, their interaction and impact on short, medium and long term prospects of the company and linkage with strategy, performance and governance.

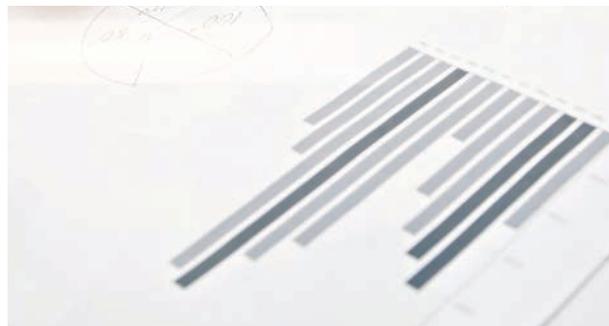
A key aspect of Integrated Reporting is that it addresses those resources (referred to as Capitals) which the business consumes and creates - financial, manufactured, human, intellectual, natural and social. Integrated Reporting offers the opportunity to centre business reporting on strategy and value creation, to demonstrate how the business uses capital and the extent to which they should continue

to be invested in the business. In short, it is about developing an effective integrated management and reporting process for the entire business.

The reality for many companies is that environmental, social and governance issues are having an increasing impact on their ability to operate and generate a profit. As part of its overall objectives, Integrated Reporting recognises that shareholders have a valid interest in understanding how these issues are being managed and the impact they have on the value and sustainability of the business.

Reporting in 21st Century

Integrated Reporting is, in part, an outgrowth of the view that today's corporate reporting will not meet the evolving information needs of stakeholders in the global capital markets. There have been major changes in the way business is conducted, how businesses create value, and the context in which they operate. These changes are interdependent and reflect trends in globalisation, heightened expectations of corporate transparency and accountability, resource scarcity, and environmental concerns, among others. Integrated Reporting is sometimes articulated as being simply the integration of corporate responsibility reporting into existing financial reporting models. Integrated Reporting is more than creating a comprehensive annual report. It can be used as an effective governance tool for performance-oriented management.



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Management

Integrated reports have supplanted corporate annual financial statements and connect the dots on how corporations draw on six sources of capital: natural, manufactured, social, intellectual, human and financial. Integrated Reporting differs from the current reporting practices as under:

Feature	Current reporting	Integrated Reporting
Trust	Narrow disclosures	Greater transparency
Stewardship	Financial	All forms of capital
Thinking	Isolated	Integrated
Focus	Past, financial	Past and future; connected; strategic
Time frame	Short term	Short, medium and long term
Adaptive circumstances	Rule bound	Responsive to individual
Concise	Long and complex	Concise and material
Technology enabled	Paper based	Technology enabled

The profile of corporate stakeholders and their ability to influence business has changed. Today, stakeholders expect to get information about corporate vision and objectives with actions monitored against targets and expectations explicitly identifying and explaining performance variances. Integrated reporting builds on the existing financial reporting model to incorporate non-financial information that can help stakeholders to look beyond companies' short-term results and understand how a company creates and sustains value over the long-term. An integrated report attempts to tell a story about an organisation's journey towards reaching its vision, reporting about its historical and intended performance.

Integrated Reporting framework is expected to:

- Support the information needs of long-term investors, by showing broader and longer-term consequences of decision making;
- Reflect the interconnections between environmental, social, governance, and financial factors in decisions that affect long term performance and condition, making clear

the link between sustainability and economic value

- Provide the necessary framework for environmental and social factors to be taken into account systematically in reporting and decision-making
- Rebalance performance metrics away from an undue emphasis on short-term financial performance; and
- Bring reporting closer to the information required by management to run the business strategically.

Early movers on Integrated Reporting concepts are already describing the benefits that they see from better business reporting. They talk of the improved organisational clarity that comes from articulating the business strategy and business model, given that reporting on these matters lies at the heart of Integrated Reporting. They also talk about the business process improvement that comes from consolidating multiple reporting processes for generating different reports into one reporting process for producing all reports, and the significant cost reduction which results.

Apprehensions Impeding Integrated Reporting

Even though the benefits of Integrated Reporting are largely understood, the development and acceptability of the concept is yet tardy. Unless the companies reach a level where they feel that apprehensions are not insurmountable they will not be able to walk the talk. Following apprehensions if addressed appropriately shall pave the way for faster assimilation of Integrated Reporting:

- How to identify what to include in the Integrated Report
- How to ensure credibility of information contained in the Integrated Report
- Who will own the process of development of the Integrated Report
- Professional assistance not available for compiling Integrated Report
- How to quantify non financial aspects of the business
- How to ensure that Integrated Report does not become a sales document
- How to ensure that both positives and negatives of the business are fairly reported
- How to ensure that Integrated Reporting provides a true and fair view of the business.

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Integrated Reporting—Getting Started

In spite of genuine apprehensions and concerns about Integrated Reporting, companies must realise that the benefits far outweigh the efforts and the stumbling blocks. Following is a suggestive approach for implementation of Integrated Reporting:

- Top management must constitute an Integrated Reporting committee with cross functional representation
- Clearly communicate that the committee shall own the process of compiling Integrated Report
- Lay down materiality thresholds for reporting information on economic, social and environmental aspects
- Involve professional content writer for clarity and conciseness in Integrated Report
- Involve a credible agency for assurance of Integrated Report
- Adopt a fair approach towards positive and negative aspects of in Integrated Reporting
- Set a time line for compilation of Integrated Report
- Look at the journey of other companies in the process of compiling Integrated Report and imbibe learning
- Acknowledge and reward the efforts of the committee in compiling Integrated Report.

Approach to Integrated Reporting

Integrated Reporting is essentially an exercise in Enterprise Performance Management and its Communication. It involves an integrated approach that looks at performance of the company and measures the value that it creates by leveraging Strategy, Organisational Structure and Governance in Social, Economic and Environmental context.

- Develop appropriate organisational performance measures/metrics
- Evaluate organisational performance across business segments in the context of Social, Economic and Environmental aspects
- Harvest actionable and relevant information from a deluge of data for developing an Integrated Report.
- Contribute to formulation of organisational structure and strategy that focuses on triple P—People, Profits and Planet and its linkage with governance and performance
- Evaluate and appraise capital value proposition through costing, revenue, profitability, non-financial and non-quantitative analysis

Corporate reporting will continue to evolve with the changing business environment and stakeholder expectations. Adding integrated reporting to management's agenda and to board strategy sessions may help companies determine how to meet these evolving expectations. The integrated reporting concepts shall provide companies a useful framework when considering how to best disclose environmental, social, and governance matters that they have decided to report.



- Write a coherent integrated business story highlighting relevant linkages, keeping it short and simple.

Going Forward

Corporate reporting will continue to evolve with the changing business environment and stakeholder expectations. Adding integrated reporting to management's agenda and to board strategy sessions may help companies determine how to meet these evolving expectations. The integrated reporting concepts shall provide companies a useful framework when considering how to best disclose environmental, social, and governance matters that they have decided to report. Companies may also improve their access to capital and achieve strategic business benefits from integrated thinking.

Integrated Reporting provides huge opportunity for the professionals to assume leadership, demonstrate their ability to facilitate Integrated Reporting and consistently drive the message – “Integrated Reporting is no longer a matter of choice. The stakeholders will in future increasingly demand information on Social and environmental aspects of business and companies which rise to the challenge of providing information required by various stakeholders shall be rewarded with higher valuations and enhanced corporate image.” ■