Emerging Professional Opportunities in the Wake of Developments in the Field of Integrated Reporting (<IR>)

It has often been asked of the accountancy fraternity if the time has come for the professionals to reconsider their existing professional relevance and reinvent themselves in that light. Over the last few years, there have been huge disruptions caused not only due to the regulatory changes but also due to a paradigm shift in the stakeholders' expectations. While financial statements and their credibility remain necessary, they are no longer sufficient, as they depict historical information. Stakeholders are looking for more concise, inter-connected, understandable and forward looking information. This article attempts to partly address this glaring issue that is staring at us as professionals. Read on...

Hitherto, it was generally perceived that 'the business of business is business.' Today, fulfilling social responsibility has become a key essential for corporates which has a far reaching impact than just focussing on generating profits and investor returns. This has compelled organisations to imbibe and demonstrate a responsible corporate behaviour. Global research has indicated that the customers and other stakeholders prefer to conduct business and support the organisations which are more sustainable than others. Companies which transparently communicate its value creation through a combination of financial and non-financial capitals (value drivers) over the short, medium, and long term enjoy better investor and stakeholder confidence, and remain

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engaged with the organisations. Consequently, monetary benefits accrue more to the sustainable organisations in medium to long term as more complete information reduces the uncertainty faced by the investors, and therefore the company's cost of capital.

On the other hand, reporting generally meant reporting financial performance, which was primarily a reflection and the financial outcomes of the business activities that they carried out in the previous year. Consequently, the focus was on accounting. But as the economic world evolved, the accounting standard setters started identifying and addressing more complex matters. This has resulted in greater quantum of notes and disclosures in the pursuit of increasing transparency in reporting.

Contemporaneously, just as accounting was developing at a rapid pace, corporate reporting followed suit. From reporting financial results, financial position, and cash flows, it has evolved to reporting by management in the form of Directors' Report, Management Discussion and Analysis, Corporate Governance Report, and Business Responsibility Report (sustainability considerations) etc. But, there is a strong belief that this is still not enough - perhaps in the way it is being currently presented - in a disaggregated manner rather than in a cohesive form.

Since the time current business reporting model was designed by the statute, there have been notable changes particularly in the way business is conducted and how businesses create value in the geo-socio-economic context in which they operate. Businesses are getting impacted due to globalisation, impact of monetary and fiscal policies, political changes, growing policy activity around the world in response to financial, governance, and other crises, heightened expectations of corporate transparency and accountability, current and prospective resource scarcity, population growth, environmental concerns, and rapid pace of disruption due to technological advancements etc. At the same time, globalisation has resulted in the need to have stronger and regular channels of communications with global stakeholders for e.g. international stock exchanges, foreign investors, international business partners, foreign customers, etc.

Paul Druckman, ex-CEO of the International Integrated Reporting Council (IIRC), highlighted that over the years, the percentage of market capitalisation represented by physical and financial assets has dropped significantly. He states that in the US Standard & Poor's 500 companies this had dropped from 83% in 1975 to only 19% in 2009 thereby indicating that a large component of the company value is no longer represented on an entity's balance sheet.

The Board and those charged with governance (TCWG) of companies are increasingly becoming sensitive to these imperatives - of managing and communicating both business performance and commitment towards society and environment and thereby effectively addressing the stakeholders' expectations.

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Against this background, the type of information that is needed to assess the past and current performance and the future resilience of organisations is much wider than is provided for by the existing business reporting model. While there has been a notable increase in the information provided, key disclosures needs still remain unaddressed. Having said this, to report on the financial capital, which is the key value creation driver and also helps reflect value creation, through preparation of financial statements, India has successfully moved to align itself to the International Financial Reporting Standards (IFRS) through implementation of Ind AS (effective from 1st April 2017 - except certain sectors like banking and insurance companies and very small entities).

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or amended standards in line with the IFRSs, recent ones being revenue recognition (Ind AS 115), lease accounting (proposed) (Ind AS 116), Insurance contracts (proposed) (Ind AS 117).

On the reporting front, SEBI had issued a circular in November 2015 mandating listed companies to present a Business Responsibility Report describing the initiatives taken by the listed entity from an environmental, social, and governance perspective as part of a company's annual report. In February 2017, SEBI issued another circular urging the top 500 companies (by market capitalisation) to adopt the Integrated Reporting Framework set out by the IIRC. SEBI believes that the shareholders and other stakeholders seek both financial as well as non-financial information to take a well-informed investment decision and an integrated report serves this purpose because an integrated report aims to provide a concise communication about how an organisation's strategy, governance, performance and prospects create value over time.

Further, SEBI has also accepted most of the recommendations of the Uday Kotak Committee on corporate governance and have incorporated them in the SEBI regulations to strengthen governance and improve disclosures. Some of these regulations relating to reporting requirements are perfectly aligned with requirements to comply with the IIRC framework for e.g. disclosure of the organisation's medium and long term strategy along with the long term metrics (key performance indicators) against which it will measure progress.

New Opportunities Awaiting Professionals:

Environmental, social and governance (ESG) risks increasingly demand the attention of organisations. Whilst there is a debate on who, within the organisation, would be responsible to monitor and report on these risks, the general consensus amongst the regulators seem to suggest that finance executives such as CFOs, chief accounting officers, finance controllers are best suited to don this hat. Reporting has been the forte of professionals in the finance department and this extension, from only financial matters to non-financial matters and metrics also seem to be falling within their domain. Mary Schapiro, a former U.S. Securities and Exchange Commission chairperson, has quoted:

"I think the natural evolution will be for CFOs to become more deeply engaged in evaluating these issues and whether they could have a material impact on the company's operations and financial situation."

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Finance executives are expected to generate financial value for the company by identifying opportunities for cost savings, revenue generation and risk mitigation. Transforming the finance function to include non-financial (including sustainability and other aspects of <IR>) can help improve the CFO's contribution to overall company value through four critical roles that they would play: a catalyst, a strategist, a steward and an operator. In the book "The Chief Value Officer", the author Judge Professor Mervyn King looks at the CFO in the role of the Chief Value Officer.

How Can Professionals Participate in this Change?

Change in a professional's life is not new. Our professionals in the audit profession and in the finance function of companies have remarkably responded to this "change in accounting language" by transitioning into the International Accounting Standards framework. Coterminous with the change in accounting language, there was a significant thrust on understanding and managing risks and setting up controls to effectively and efficiently mitigate those risks, and the auditors were cast with the responsibility to report on the Internal Financial Controls over Financial Reporting (IFCOFR). Both these changes necessitated professionals to gain in-depth business and sectoral insights to correctly gauge the substance of transactions, understand the nature of assets, both tangible and intangible which contribute to value creation of the organisation and reflect the same at their fair values, and understand the risks relevant to the company and how those risks are mitigated effectively.

It is proven beyond doubt that our professionals have dealt with change of far reaching implications. But that is not enough. There is a relentless need to be agile and nimble to changes that are coming in the reporting frameworks, both through adoption of IFRS and IIRC Frameworks. Our professionals

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are brilliantly poised to seize the opportunities emanating from the new reporting frameworks due to their deep understanding of the business and core values based on which the profession stands.

Some of opportunities which help us foray into these avenues of change in reporting language are discussed below:

> An organisation, in its integrated report is required to showcase its business model which consists of **inputs**, **process**, **outputs,** and **outcomes**. The inputs and outcomes are expected to be reported based on the **use of and impact on** the following six categories of capitals: (1) financial, (2) manufactured (3) human (4) intellectual (5) social & relationship and (6) natural capitals. The business model is expected to be aligned with the strategic priorities set out to address the risks and opportunities relevant to the organisation. It is, therefore, imperative to have a deep understanding of transformation of one capital to another which results in monetisation of non-financial capitals over a period of time and report the same in the integrated report. Whilst measurement of these capitals will require technical validation from experts other than accountants, these cannot be validated and presented unless they are viewed holistically with a financial lens. Our profession has the necessary skill-sets and can significantly contribute to this process - for e.g. implication of climate change is being discussed globally and how companies can use financial accounting standards to deliver on climate related financial impact assessment (including accounting for carbon credits) is being deliberated by the Task Force on Climate-related Financial Disclosures (TCFD).

Identification and reporting value drivers for business in order to achieve the short, medium and long term strategies is a critical part of articulating performance. As discussed above, most of these value drivers are non-financial intangibles, of which a significant part of them are self-generated assets. Integrated report requires organisation to consider and discuss the forms of capital they use or affect. A deep understanding of the principles enunciated in the standard on Business Combinations helps in identifying intangible assets and the basis of its measurement. This positions our professionals uniquely to contribute significantly in setting the systems and processes within an organisation to achieve integrated reporting.

The key to integrated reporting is integrated thinking, which is an organisation's active consideration of relationships between its various units (both operating and functional) and the capitals that the organisation uses and affects. This entails setting up an ecosystem comprising robust systems and processes to create a conducive environment to enable integrated thinking.

Setting-up tools such as integrated dashboards, business scorecard and reports to facilitate TCWG and the Board by taking a multiple-capital approach to decision making by identifying, monitoring and measuring key performance indicators to achieve strategic objectives. This enables in participating and creating strong processes and controls around developing outlook for the business.

Cradle-to-grave understanding of the business processes uniquely places our professionals to embed Integrated Thinking which is the bed-rock of integrated reporting. There are significant opportunities awaiting our professionals, who can assume techno-functional roles due to their deep understanding of accounting and technology including ERPs and other technology enabled tools, to set up IT platforms and processes to address the requirements of new accounting standards such as revenue recognition, leases, etc. Within the avenues available under integrated reporting, opportunities such as identification of relevant KPIs and facilitating data collation in the most efficient and effective manner and setting-up internal controls around generation and reporting of the KPIs awaits our professionals. Audit of financial statements is only a sub-set of a wider service, namely the provision of "Assurance services". Experience abroad shows that the scope for the extension of assurance services generally

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is immense and avenues such as Integrated Reporting should be explored. The International Auditing and Assurance Standards Board (IAASB) is working on a project on developing assurance standards over Emerging Forms of External Reporting (EER)– Integrated Report being one such form of external reporting. This is will open up newer opportunities in the assurance space.

The experience of providing detailed disclosures in Ind AS helps in upholding the spirit of reporting when integrated reports are prepared using integrated reporting framework. Having gained experience in implementing the IFRS principles, which is single global accounting framework, the accountants in India are at par with any other global accountant. Indian professionals were already tech savvy, and complementing this with uniform accounting language being understood across the world, enhances talent fungibility significantly, thereby opening up global opportunities. As a logical corollary, many global companies prefer to set up their captive accounting centres in India, not only to capitalise on the cost arbitrage but also due to better linguistic capabilities and techno-functional knowledge our professionals possess.

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In Conclusion:

To summarise, the change in the accounting language and other reporting obligations has resulted in our professionals developing a deep understanding of business of the organisation and the external economic environment in which it operates. This has also resulted in understanding, from an accounting perspective, the implications on the recognition and measurement of components of financial statements. In the process, this has resulted in identifying and measuring components (or capitals) used in value creation.

The Institute of Chartered Accountants of India (ICAI) has not only made significant changes in the learning curriculum of the Chartered Accountancy course, but also through a range of certificate and diploma courses, is equipping its members and students with the most relevant skills required to provide the highest order of professional services to the organisations.

These, in my view, have created a remarkable push and pull effect for our professionals to reckon with:

> **Push factor**, as it provides opportunities for our professionals across the globe; and **Pull factor**, as global companies look at India to set up their accounting centres of excellence.

An eminent member of our profession had recently stated, and in the context of this article, I found it extremely relevant to share it with you. He said that the regulatory winds of change gives our profession a track to run on and the ICAI equips us with the shoes to sprint towards the burgeoning opportunities coming our way.

As India emerges as an economic powerhouse, it only provides more and better avenues for our professionals to ride this incredible wave of change – to contribute to themselves, to their organisations, to the society, and above all towards nation building. ■

The only tyrant I accept in this world is the still voice within. - *Mahatma Gandhi*