



INTEGRATED REPORTING 101

By **LIM AI LEEN AND MIAO BIN**
Institute of Singapore Chartered Accountants

As defined in the International Integrated Reporting Framework, an integrated report “is a concise communication about how an organisation’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term”.

From this definition, we can see that Integrated Reporting, abbreviated and stylised as <IR>, goes beyond the traditional number-filled, historical-oriented financial reporting by encouraging companies to disclose non-financial, forward-looking information about the essential aspects of their business, including strategy, corporate governance, risk and opportunity, and outlook for future performance. These information, together with financial statements, provides investors with a complete view of the value creation process inside the company, and therefore is important for their investment decisions.

While the catchword “integrated reporting” is relatively new, investors, regulators, and company management have long been aware

of the inadequacy of financial statements alone to communicate fundamental firm value. The value of a company is jointly determined by a wide range of factors. Some of these factors, such as cash, property, plant and equipment, are tangible assets and easy to measure, and therefore can be properly reflected in balance sheets. On the other hand, many intangible factors, such as human capital and intellectual property, are difficult to value and usually left unaccounted for in the financial statements. Recognising this problem, most companies provide supplemental information about their organisational structure, governance, and business environment in annual reports to help investors better understand the risk and return potential of their investments. Such disclosures, however, are often made on an ad hoc basis and lack the necessary quality for users to make better-informed decisions. For example, some companies adopt a simplistic “check-box” approach to reporting, and not surprisingly, the annual reports produced are unorganised, hard to read, and of limited use to an average investor.

<IR> aims to change that. By logically connecting information about individual elements of the business, it enables a company to communicate in a clear, articulate way how it is utilising its



resources and relationships to create value over time, helping investors to manage risks and allocate resources most efficiently. It is important to note that <IR> is not about more reporting. On the contrary, conciseness has always been one of the guiding principles for preparing integrated reports, and is repeatedly emphasised in the recent <IR> Framework. Therefore, adopting <IR> will not incur significant information gathering costs for companies. Instead, what it does is to draw on different existing reporting strands and strategically integrate these information to tell a more cohesive story about the company's value creation process.

The global authority on <IR> is the International Integrated Reporting Council (IIRC), a worldwide coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. It was co-founded by the Prince's Accounting for Sustainability Project, A4S, and the Global Reporting Initiative (GRI) in 2010, with an aim to create a globally accepted integrated reporting framework. In 2011 the IIRC started a pilot programme to support the development of the <IR> framework.

In December 2013, after extensive consultation and testing, the IIRC published the International

<IR> Framework, the purpose of which is "to establish the guiding principles and content elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them."

<IR> and Sustainability Reporting

Integrated reporting and sustainability reporting share many commonalities, most notably that they both promote the disclosure of non-financial information that matters for companies' long-term prospects. Perhaps for that reason, investors and preparers of financial reports are sometimes confused about the difference, given that many companies already have high quality sustainability reporting in place.

<IR> and sustainability reporting are fundamentally different concepts. Sustainability reporting's focus is on the disclosure of information regarding a company's performance in the environmental, social, and governance dimensions, while the emphasis of <IR> is the strategic integration of these information with other key performance indicators to provide a coherent representation of the process through which the company creates value for its investors. In this sense, sustainability reporting could be considered as an intrinsic element of integrated

reporting. This view is shared by both the IIRC and GRI, which signed a MOU in February 2013 to make it their official stance. It is stated in the MOU that “Sustainability reporting delivers components that are integral to <IR> and is a key pillar on which <IR> is based.”

Simply put, if we consider an integrated report as the main dish served to investors, then sustainability report is one of its key ingredients. Just as a chef’s capability is constrained by the quality of ingredients, <IR> will not reach its fullest potential without the incorporation of high quality sustainability reporting.

<IR> in Singapore

To date, SGX has yet to come up with any formal statement on the adoption of <IR> for listed companies. SGX may adopt a wait-and-see approach and gather the market’s receptivity towards <IR>. Currently, DBS Bank and Singapore Accountancy Commission have joined the IIRC Pilot Programme and there is growing interest among others.

As the national accountancy body, the Institute of Singapore Chartered Accountants (ISCA) has been playing an important role in shaping and influencing the evolution of corporate reporting landscape in Singapore. In this

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regard, ISCA views <IR> as a timely innovation, or even a potential game changer, in the future of corporate reporting. In promoting <IR> adoption, the Institute saw that it was imperative to bring all key stakeholders in Singapore together. Thus, a Steering Committee was set up to spearhead this project. This is to collectively move forward the efforts on <IR> in a concerted and coordinated manner.

In this endeavour, Singapore is keen to be a hub for <IR>, and as an influential and authoritative thought leader to shape the continuing development of the <IR> Framework at the global level. These developments signal the growing importance of <IR> to key stakeholders in Singapore.

As a communication medium, <IR> does not only help external investors to make better investments, but also enhances the transmission of information within the company, and therefore improves the quality of decision-making internally. It can be particularly valuable to independent directors by highlighting the information that is most important for them to consider, thus making board meetings more productive.

In addition, at a more advanced level of implementation, <IR> is more than just a new corporate reporting format. It can also become a powerful management tool. The successful company of tomorrow will have an integrated strategy to achieve sustainable value-creation for its stakeholders. The integrated thinking process underlying <IR> will help senior management and directors of the company to better understand the strategic links between its business segments, and identify the key elements on their strategy map for more efficient resource deployment. In this sense <IR> shares the same fundamental principle with the balanced scorecard: what you measure is what you get, because what you measure is what you are likely to pay attention to. ■