Financial Accounting & Reporting

[AA31]

Supplementary for Chapter 02

Regulatory Framework

2. Regulatory Framework

2.9 Introduction To Integrated Reporting

1. What is Integrated Reporting (IR)

Integrated Reporting (IR) has widely recognized as a process of creating corporate value and sustainability to organizations. It is influencing the way organizations think, plan and report the activities of their businesses.

As per framework

Integrated Reporting (IR): A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.

Key Objectives of Integrated reporting

- To improve quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital
- Provide a more cohesive and efficient approach to corporate reporting that draws on different reporting standards and communicates the full range of factors that materially affect the ability of an organization to create value overtime
- Enhance accountability and stewardship for the broad base of capitals (financial, manufacture red, natural, human etc) and promote understanding of their interdependencies.
- Support integrated thinking, decision making and actions that focus on the creation of value over short, medium and long term.

2. What is an integrated report?

As set out in the International IR Framework, an integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.

Integrated reporting explains how the various capitals contribute to the value creation strategy of the organization. As such IR expands the explanation of the capital beyond the traditional financial capital. That could be identified as the multiple capitals approach which includes; Natural capital, Social and relationship capital, Intellectual capital, Human capital, manufactured capital and financial capital as well.

International Integrated Reporting Council (IIRC)

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting.

3. Purpose of the Integrated Report

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.

4. Key Components of an Integrated Report

An integrated report includes eight Content Components that are fundamentally linked to each other and are not mutually exclusive:

1. **Business model:**

   Key areas

   - Vision and mission of the organistaion
   - The organization structure, business activities and processes
   - Key inputs into the business and the resulting outputs and outcomes
   - The strategic objectives, key risks and opportunities
   - All six capital

   The business models are likely to be significantly different for business segments, hence ideally should be presented separately

2. **Organizational overview and external environment:**

   Key areas

   Organizational overview

   - Ownership and operating structure
   - Principal activities and markets
   - Market positioning
   - Key quantitative information (eg- Revenue, No of employees)

   External Environment

   - The legitimate needs and interests of key stakeholders
   - Macro and micro economic conditions
   - Market forces (Strength and weaknesses of competitors and customers demand)
   - Effects of Technology change
   - Environmental challenges
   - The legislative and regulatory environment in which the organisation operates
   - Political environment in country

3. Capital Management

<u>Key areas</u>

- Quantitative indicators with respect to targets , risks and opportunities
- Positive and negative of the organization's effects
- The linkages between past and current performance and between current performance and the organisation's outlook
- Key performance indicators (KPIs)
- Instances where regulations have a significant effect on performance

4. Stakeholder Relationships

<u>Key areas</u>

- How the company has identified its stakeholders
- Stakeholder engagement methodology
- Identification of material matters of the stakeholders
- How stakeholders are engaged in assessing impacts, implications and outlook in respect of company's business model

5. Strategy and resource allocation:

<u>Key areas</u>

- The organization's short, medium and long term strategic objectives
- How the entity has positioned in the wider market
- How the long term strategies relate to the current business model
- The resource allocation plan
- How to measure achievements and target outcomes for the short, medium and long term
- Performance against strategic targets

6. Outlook:

<u>Key areas</u>

- The organization's expectations about the external environment
- How that will affect the organization
- How the organization is currently equipped to respond to the critical challenges and uncertainties that are likely to arise

7. **Governance:**

Key areas

- The organization's leadership structure
- Mandatory and voluntary code of corporate governance adopted by the company
- Code of ethical conduct adopted by the company
- Specific processes used to make strategic decisions and to establish and monitor the compliance with the code of corporate governance code

8. **Risks Management and Internal control**

Key areas

- Specific source of risks and opportunities
- The organization's assessment of the likelihood of risk or opportunity
- Specific steps being taken to mitigate or manage key risks
- Report on the effectiveness of the internal controls and the board's responsibility for the disclosure on internal controls to safeguard the stakeholder interest.

2.10 Introduction To Sustainability Reporting

Sustainability reporting can be considered as synonymous with other terms for non-financial reporting; triple bottom line reporting, corporate social responsibility (CSR) reporting, and more. It is also an intrinsic element of integrated reporting; a more recent development that combines the analysis of financial and non-financial performance.

1. What is a sustainability report?

A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy.

A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions.

This helps organizations to measure, understand and communicate their economic, environmental, and social and governance performance, and then set goals, and manages change more effectively.

A **sustainability report** is an organizational report that gives information about economic, environmental, social and governance performance.

2. Purpose of the Sustainability Report

The main purpose of the Sustainability Report is to **provide information to stakeholders on past performance of the organization and a view to the future in respect of environmental, social and governance (ESG) initiatives.**

With the dawn of integrated reporting, the specific purpose of a sustainability report should be determined by the IR process.

Reports can be used for the **following purposes**, among others:

1) **Benchmarking and assessing sustainability performance** with respect to laws, norms, codes, performance standards, and voluntary initiatives;

2) **Demonstrating how the organization influences** and is influenced by expectations about sustainable development; and

3) **Comparing performance within an organization and between different organizations** over time