

The non-executive director view on Integrated Reporting

Introduction

The key driver behind the move towards Integrated Reporting is said to be the need to provide a holistic view of a business enterprise, focusing on the financial, environmental, social and governance frameworks (ESG) in order for key stakeholders to make economic decisions.

Globally much work has been done to align international accounting standards, which form the basis of reporting of the annual financial statements; however at present that task is incomplete. There is increased focus on developing a robust global framework to align ESG, with the International Integrated Reporting Committee (IIRC) driving forward this body of work. Their goal is to create a framework that brings together the varying reporting requirements in a “clear, concise, consistent and comparable format”, which will “support transition to a more sustainable global economy”.

The vision of the IIRC in principle has all the elements to drive forward Integrated Reporting; however the global realities in applying this vision may limit its success given the challenges identified.

Non-executive directors are the gatekeepers of governance and provide the link between the shareholders and the management of the entity. Below are some of their views on the above.

What should Integrated Reporting provide users?

- Concise, simple and focused reports that identify the material business risks that an entity faces, how that entity manages those risks and how they determine their success in managing those risks.
- A principles-based, non-regulatory “if not, why not” styled approach that allows entities to report on issues that are relevant to their business and allows directors to apply their collective expertise in managing the strategic objectives of the entity.
- A framework that reduces the reporting burden on an entity and provides relevant and reliable information that is useful to the key stakeholders of an entity.

The key challenges in achieving an Integrated Reporting framework and accompanying guidance:

- Need to understand, recognise and provide for varying jurisdictional and pre-existing business reporting requirements, for example listed entities within Australia are required to disclose information on a continuous basis to the market any price sensitive information.
- Potential for increased regulatory supervision requirements, as many entities are required to comply with multiple regulators and regulations.

- Potential to significantly increase the cost burden of compliance for entities, through the need to engage with subject matter experts to assist in the preparation of disclosures, increased audit costs for external auditors or other 3rd party accreditation organisations to verify the disclosures; increased investment in information technology to record and maintain information for inclusion in disclosures.
- Increased expectation that directors can realistically take responsibility for these disclosures, especially in large complex corporations and the consequent impact on directors' liability. Given that globally directors' liability differs from country to country, there is a need to provide a robust strategy on how to address liability issues, whether this is through the provision of a globally accepted and harmonised safe harbours or a broad business judgement rule.
- Need to acknowledge that certain information within an entity provides a strategic and competitive advantage and should not be required to be disclosed.
- Increased focus on the audit committee and the procedures undertaken by this committee in its relationship with the external auditors in providing external assurance on the disclosures.
- Increasing the compliance load on directors has the potential to reduce the time available for them to provide strategic guidance about business performance, for the benefit of the stakeholders.
- A risk that the framework and accompanying guidance result in boilerplate disclosures within industries, thus defeating the main aim of Integrated Reporting.
- The additional complexities that face multinational entities, both in terms of compliance with an Integrated Reporting framework should global consensus not be obtained, but also with respect to the varying governance frameworks within the countries in which they operate.
- Constricting the ability of smaller business to potentially access capital markets.

Priority issues:

- Setting robust **materiality criteria**. Developing a clear definition of materiality is critically important to the success of developing the Integrated Reporting framework.
- Identifying the **types of entities** that would apply an Integrated Reporting framework. As International Financial Reporting Standards (IFRS) identified a need for "IFRS for SME's" there is the risk that the framework would require a similar carve-out for SME's.
- Ensuring **global consistency**, which we note has not been achieved for financial reporting under IFRS.
- Ensure that the framework addresses the **directors' liability** issue.
- Providing guidance on how the Integrated Reporting framework would fit within individual countries corporate governance framework, tax and corporate laws.
- Determining the **cost/benefits and implementation implications** for entities and their shareholders.

Encompassing all the above within a principles-based, non-regulatory, "if not, why not" style framework that recognises the diversity of business, encourages innovation and promotes entrepreneurial activity.