

IIRC Discussion Paper Towards integrated reporting: Communicating value in the 21st century

Consultation response

13 December 2011

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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General Comment

CIPFA welcomes the opportunity to respond to the IIRC discussion paper - *Towards integrated reporting: Communicating value in the 21st Century*, which has been considered by CIPFA's Sustainability Working Group, CIPFA's Accounting and Auditing Standards panel, and other stakeholders in wider reporting.

CIPFA is a professional accountancy body in the United Kingdom which specialises in the public services. In this context we are interested in the development of reporting both as it applies to the private sector and as it might be applied in or otherwise affect reporting in the public sector and non-profit sector.

We are very pleased to see that the development of Integrated Reporting by the IIRC has regard to application in a wide variety of types of organisations. A consistent theme of CIPFA's responses to standard setters is that the public sector, not-for-profit and for-profit sectors are each very economically significant and transact enormous volumes of business with each other. Ideally frameworks, standards and other guidance would be developed in a sector neutral manner, so that differences in the application of standards to reporting entities in different sectors reflect systematic and properly understood differences in the economic characteristics of those entities, and also the differing requirements and priorities of the users of financial reporting in the sectors.

Against this background, we accept that the IIRC will be developing the framework initially for investor owned companies. We can see why the Board has taken this approach, and we comment on the implications for sector neutrality in our answer to Question 4(b)

CIPFA supports initiatives designed to improve the quality and effectiveness of reporting and recognises the challenge posed in developing an appropriate integrated reporting framework that extends beyond current practice both in terms of financial and sustainability reporting.

While improved and integrated reporting is not the whole solution it is an important ingredient in supporting action aimed at addressing a more balanced approach to reporting and improving the transparency of organisations in respect of their effectiveness and their impact.

Responses to questions included in the discussion paper

Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

CIPFA agrees that action is needed to help improve how organizations represent their value-creation process

The Discussion Paper represents an important development in an approach that looks to bring in and integrate reporting on other aspects of the organisation's activity which are critical to the success and sustainability of the organisation but are missing from financial reporting.

Integrated reporting is, among other things, part of a process of understanding those elements of an organisation's activities which add value but which are not fully captured and expressed through the conventional financial statements. It can help identify and report on, for example: human resource potential, the quality of management, efficient use of finite resources, and the nature and quality of the relationships between the board, managers, employees, customers, service users, suppliers, investors and funders. It can also highlight areas of risk.

Integrated reporting has the potential to contribute to a more complete understanding of an organisation and its impacts which can in turn inform and improve planning, decision making and accountability.

Q1. (b) Do you agree that this action should be international in scope? Why/why not?

Yes. CIPFA agrees that development of international guidance or standards would be beneficial, as long as this has sufficient regard to differing sectoral, geographical, jurisdiction and cultural contexts.

As noted in our answer to Question 4(b), there are likely to be issues to be resolved if a framework developed for investor led businesses is to be applied more widely to other types of organization such as those in the public and not for profit sectors.

Q2. Do you agree with the definition of Integrated Reporting? Why/why not?

We do not agree with the definition of Integrated Reporting.

The definition included in the discussion paper appears to be more a description of parts of the process as well as outlining some of the content.

We recommend that the definition undergo further development and that this could be linked to development of an integrated reporting framework. This work could be undertaken as lessons are learned from the pilot programme that IIRC is embarking on.

Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?

CIPFA supports the development of an integrated reporting framework.

However, we do not underestimate the challenge in developing a framework which meshes with other existing reporting requirements, both mandatory and voluntary, while effectively engaging with the various stakeholders through clear and succinct messaging, remaining manageable and cost effective, and taking due account of differing views and approaches.

Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?

CIPFA agrees with the proposed initial focus.

It seems a sensible approach to initially focus on a sector of the economy for which a relatively coherent approach can be developed, having regard both to the benefit which may be achieved through Integrated Reporting, the relative costs of such reporting, and the likely compliance or levels of take-up. Focusing on large companies it fits well with the current international financial reporting approach, and appears to be a good choice in the light of the other factors noted above.

Q4(b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

In principle, we would expect that the concepts underlying Integrated Reporting can be developed in a way which is equally applicable to small and medium enterprises, the public sector and not-for-profit organizations. However, we would not expect this to happen automatically - care will be required in articulating a framework developed initially for investor owned businesses in a way which is 'sector neutral' and addresses the broader and more complex accountability requirements of public and not for profit sectors.

In particular, it will be essential to confirm wider applicability by consultation across the relevant wider stakeholder groups and through representative pilots.

We would also note that, just as different businesses may apply the concepts to produce reporting which differs in ways which reflect the different priorities and context of their operations, there may be systematic differences in the types of reporting produced by organisations with very different models of ownership and stewardship, even though their reporting is grounded in common concepts.

Q5. Are: (a) the organization's business model; and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

Business model information is likely to be useful in the context of investor owned companies. A more balanced and rounded picture of the business model and its effectiveness in both the short and long term should provide more useful information, both in itself, and as context for other reporting.

Business models and wider concepts of operating model may differ significantly between sectors. As noted in the answer to 4(b) above, this may impact on their reporting. However, subject to a broad and sector relevant view of value creation, we would still expect these to be appropriate as central themes in all sectors.

Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

CIPFA agrees that the 'capitals' described in the Discussion Paper are a useful starting point. We would also note that this is a developing field. It may be that other forms or descriptions of 'capital' not covered in the paper will be articulated and considered key to an organisation's health, particularly as the framework is extended to cover wider classes of organisation. The framework should therefore not be limited by those types of 'capital' set out so far.

Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

They provide a starting point although there is scope for further clarifying a number of areas in preparation for moving from the framework to more specific guidance. It may be useful to draw on the structure of the IASB and IPSASB conceptual framework projects, ensuring that coverage is given to:

- Purpose
- Objectives and qualitative characteristics
- Elements and recognition
- Measurement
- Reporting entity
- Presentation and Disclosure

Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

The Content Elements identified in the Discussion Paper are a useful starting point and are appropriate. We would expect these to be further developed as the programme proceeds and as discourse on the integrated reporting approach develops. There is an important role here for further research, building on existing work done in this area.

Q9. From your perspective as a key stakeholder:

(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?

We agree that the benefits presented in the Discussion Paper may be realized in some cases.

However, they reflect the specific implementation in particular organisations, and it is by no means clear that the benefits accrue automatically. For example, research on the benefits of sustainability reporting suggests that it is not proven that sustainability reporting is strongly linked to better and more effective organisations.

Having said that, if integrated reporting leads to less red tape (assuming it is unnecessary red tape) through harmonisation then that is a clear benefit which would be welcome.

(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?

We agree with the challenges outlined. They are significant but the potential resulting gains are equally significant.

Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?

CIPFA agrees that the actions listed in the paper are very useful in focusing activity on a number of essential steps. Throughout the process it will be vital that there is transparency regarding sharing information including lessons learned through the pilot programme.

(b) What priority should be afforded to each action? Why??

We would prefer not to suggest priorities at this stage, given the possibility that other necessary actions may be identified during the pilot phase. .

Q11. Do you have any other comments that you would like the IIRC to consider?

As mentioned in a number of responses to earlier questions, we consider that it is vital to initiate discussions with sectors outside of the investor owned business sector, in order to further understand potential differences in the application of integrated reporting to:

- Public sector organisations
- Member owned businesses (mutuals including co-operatives)
- Charities
- Other non-profit associations and societies

Identifying such differences and their relevance to the concepts of integrated reporting (and related guidance) would help shape and promote the introduction of integrated reporting across sectors. Without such consideration we consider that there would be a significant risk that the framework would not be a useful or effective basis for reporting in other sectors.