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cutting through complexity

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Introducing Integrated Reporting

By David Matthews, KPMG in the UK

Integrated Reporting is about better communication between companies and the capital markets.

As Michael Bray explains, by '...convincingly telling their organization's story to the markets....they can obtain capital at a reasonable cost, enhance their corporate reputations and maintain their licences to operate.'

What this means in practice is that an Integrated Report will provide a range of information, presented concisely in a way that demonstrates the interdependencies:

- relevant information about the organization's strategy, business model and the context in which the organization operates
- historic performance (defined more holistically than simply by reference to standard financial metrics)
- information to allow users to better understand the pressures (including risks) around achieving those performance measures and the sustainability of the business into the short, medium and longer term.

This might appear to be describing what should be happening at the moment, but that is not the case. Different sources of reported information, the increasing length and complexity of reporting, the omission of important information and inclusion of irrelevant information all contribute to a lack of transparency and cause frustration for both preparers and stakeholders. Integrated Reporting aims to cut through the muddle to present a clear, concise and joined-up account of a business.

Many people discussing Integrated Reporting for the first time want to 'see' an example of an Integrated Report. However, there is no standard format for an Integrated Report and no specific disclosure requirements. Instead, the Discussion Paper issued by the IIRC sets out five Guiding Principles and six Content Elements for an Integrated Report:

Guiding Principles
Strategic Focus
Future Orientation
Connectivity of Information
Responsiveness and Stakeholder Inclusiveness
Conciseness, Reliability and Materiality

Content Elements
Organizational overview and business model
Operating context, including risks and opportunities
Strategic objectives
Governance and remuneration
Performance
Future outlook

In order to help users and preparers understand how Integrated Reporting differs from traditional corporate reporting, the IIRC also contrasts eight differences between current and Integrated Reporting. A key aspect of Integrated Reporting is that it addresses those resources (referred to as Capitals) which the business consumes and creates - financial, manufactured, human, intellectual, natural and social.

Feature	Current Reporting	Integrated Reporting
Trust	Narrow disclosures	Greater transparency
Stewardship	Past, financial	Past and future; connected; strategic
Thinking	Isolated	Integrated
Focus	Past, financial	Past and future; connected; strategic
Time frame	Short term	Short, medium and long term
Adaptive	Rule bound	Responsive to individual circumstances
Concise	Long and complex	Concise and material
Technology enabled	Paper based	Technology enabled

Throughout this publication we refer to 'companies' for convenience. However, because of the principles-based nature of the framework, there is no reason why the principles of Integrated Reporting would not be appropriate for other organizations including public bodies and government agencies.

As Mark Hoffman explains on page10, Integrating Reporting is already underway in South Africa, but it remains an area that, in practice, is still very much under development. For the first time we have a clear opportunity for companies to experiment and innovate with the principles of Integrated Reporting, and explore the benefits that it will bring.

...a clear opportunity for companies to experiment and innovate and to explore the potential benefits…

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