

# IMPLEMENTATION ISSUES OF INTEGRATED REPORTING

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## **Abstract**

Integrated reporting aims to integrate financial and non-financial information and provide a concise overall value of the organization in complete picture. In practice, this practice is early stage of development. There are doubts among many companies about what an integrated reporting is, what significance it has, and how to report it. These areas were discussed during 2014 Global Accountants' Forum (Italy), 2015 Asia-Pacific Accountants International Conference (Korea), 2018 International Integrated Reporting Councils and the Corporate Governance International Conference (Japan). During these conferences and meetings, the pioneers of the initiative, representatives of coordinating organizations, and researchers, based on their research studies, analyzed the current situation of the integrated reporting and how some countries are implementing it in the world.

**Key words.** Integrated reporting, International Integrated Reporting Councils, concept of Integrated Reporting, creating value, non-financial information, economic, social and environmental setting, governance reporting

## **About reporting**

Nowadays, the primary purpose of any business entity is no longer only for profit-seeking, and on the top of the company's economic and financial benefits, they seek ways of running environmentally friendly business activities, bring positive changes in surrounding environment, practice social responsibility, and emphasize sustainable development. In this regard, an integrated reporting on the company's financial statements, governance, business model, society, environment and perspectives is high in demand in the society. This demand comes from all interested parties, including investors, regulators, suppliers, consumers and employees (KPMG 2013). In the past, the financial statement report has showed only the financial position of the company,

but today's integrated reporting provides a comprehensive overview of the company's value in bigger picture. Integrated reporting enables the company's strategy to be more transparent and creates stability of the company's business model. In recent years, demand for transparency is still increasing, but in the United States, Australia and Japan, only handful of companies develop integrated reporting (IIRC 2016). In Japan, 385 companies develop integrated reporting (ICGN-IIRC Conference 2018). In Russia, 166 companies report their non-financial information (rspp.ru/simplepage/157. 2017).

### **What is integrated reporting?**

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting professions such as the International Federation of Accountants (IFAC), Global Reporting Initiative (GRI), and Prince's Accounting for Sustainability Project (A4S). The coalition is led by Professor Mervin King. Reporting the value creation should be the next evolution of the company's reporting (IIRC 2015). The IIRC is a "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" (IIRC 2015). The integrated report aims to integrate non-financial information on environmental and social performance with traditional financial information. Non-financial information creates business value in integrated reporting. Integrated reporting has been a lever to change the traditional reporting (Hoppman 2014). This report demonstrates the value of financial capital, manufactured capital, intellectual capital, human capital, social relationship capital, and the use of natural capital and its growth and decline. If the integrated report is fully implemented, it can bring the comprehensive picture of the company to investors and all other interested parties. There are many different types of reporting templates. Therefore, companies face difficulties with how to report their financial and non-financial information. The traditional annual report contains small portion of non-financial information. However, non-financial reports (governance reporting, social accountability reporting, greenhouse gas emissions reporting, extraction reporting, transparency reporting, etc.) tend to focus on a particular issue. Integrated reporting includes non-financial information to report business strategies; therefore, it plays a role of bridge between multi-stakeholders. Annex 1 and Annex 2 show seven different types of reports. These include Annual Financial Report, Integrated Reporting, Social Accountability Report, Greenhouse Gas Emissions Report, Sustainability Report, Governance Report, and

Transparency Report of Extractive Industries.

### **Acceptance of Integrated Reporting**

Up until now, the only country that all its open companies develop integrated reporting is the Republic of South Africa. It is agreed that it is vital to create synergy for the companies of the above mentioned country when defining their business model while developing their integrated reporting (Roberts 2014). In the United States, integrated reporting is in the early stages of development, for example 51 per cent of the top 100 companies incorporate financial and non-financial information into their annual reports. This is done for a specific purpose (KPMG 2013). This form of integration is a step towards preparing further integrated reporting. In Japan, over the last 5 years, some companies have already undergone this experiment (ICGN-IIRC 2018). However, with the framework of the IIRC, it does not show a complete picture of the company's business. About 5 percent of companies that report their corporate social responsibility develop their integrated report consistent with the IIRC concept. The research illustrates that the companies that develop integrated reporting, 71 percent of the companies in Asia and 73 percent of the companies in Europe have already begun to develop certain non-financial information in their reporting. In addition, stock exchanges in Republic of South Africa, Brazil and Australia have started recommending their companies to develop integrated reporting (KPMG 2012). The IIRC concept was formally adopted which creates an environment that supports the rapid development of integrated report in these regions and in other countries. It is, therefore, important to understand the concept of integrated reporting and its reporting process.

### **First Implementer – Republic of South Africa (RSA)**

History of the Integrated Reporting of South Africa is in the prime attentions of researchers. In fact, South Africa is home to an integrated reporting. The 2008 economic crisis proved that traditional annual reports of companies could not meet the needs of future stakeholders. The King III code accepted the distrust of public to businesses and it offered to provide information on financial and stability in a more integrated manner. Moreover, King-III code has provided a recommendation of "report or explain". Afterwards, the companies listed on the Stock Exchange were required to submit an integrated report. Since 2010, companies were required to develop integrated reports and in the case of not reporting, they have to explain the reason of not developing the integrated report. Now, the recommendation "Report or Explain" is

in line with countries like Brazil, South Africa, Japan, Denmark and Australia (ICGN-IIRC Conference 2018).

### **Why has Integrated Reporting been brought to the center of attention?**

Researchers and analysts have been discussing the importance of this report in recent years. The aim of the report is to integrate the environment, social and governance information with traditional annual reports. It also creates the internal and external benefits of the organization. It also recognizes and accepts the company's integrity and external and internal reports send information on the value of the company to its customers. It creates a possibility of gaining information that contributes to cost reduction by increasing the flow and quality of internal information and communication and create value. On the external side, it provides information on real value of the company to its current and future investors and all other interested parties. It could be concluded that Integrated Reporting is a big step forward and a new step in the reporting revolution. In the future, it will be a big step forward in building a business that will integrate business complexity and social significance into business and creating tools that are required to understand, manage, and measure the business.

### **Internal and external efficiency of integrated reporting**

**Internal.** From the discussions and researches of regulators, speakers, and researchers, it was found that there are many benefits for internal efficiency. First, better understanding of value creation is helpful in decision making. The study of IIRC, EY and KPMG also proven this. Innovation and learning attitude will become a cornerstone. Non-financial reporting is also a fundamental guide to the company's operations. Second, Integrated reporting will start when inter-departmental collaboration, understanding, and coordination are emerging. Integrated reporting allows companies to bring their issues together and work together. Third, the integrated report will improve the measurement.

**External.** Integrated reporting is a simplified reporting about the company value. During a number of international conferences, experts and researchers are discussing the application of integrated reporting, including shareholder decisions, law regulations, measurement indicators, reporting templates, and regulations of regulators. This reporting is used to communicate with many interested parties, such as current and future employees, partners, board of directors, regulatory organization, and so on. In other words, first, it reports the company's value. It also provides information on the

company's financial value, production, and growth and decline of intellectual, human, social, and natural capital. Second, interested stakeholders and parties shall provide comprehensive information on the same time.

### **Considerations of transition period to an integrated reporting:**

#### **1. Develop a unified and common ideas and thinking**

Integrity creates stimulation in business processes. Integrated and unified thinking refers to the relationship between business operations and individual entities. It reduces the separation of departments and provides completeness and wholeness in business. Integrated and unified thinking brings many internal benefits. For example, it considers the value of business within the business model and preparing and developing integrated reporting improves state of the company and its reporting. Different reports are not important, but simplified and concise reports attract consumers and interested parties. Integrated concepts can run deep in the company's future activities, so the information can flow freely between departments, management decisions, and external reporting.

### **Usage and application of available guidance**

The future trend of integrated reporting will be its common application among business for reporting. Application and concepts of a comprehensive reporting process illustrate the process to compare, to be compared, and develop trustworthy relations among investors. These comparisons and trustworthiness can be easily implemented and applied. The integrated report being voluntary make it not feasible to compare and compile. The IIRC believes that the most important means of achieving a consistent reporting is the principle of an integrated reporting. The principle will be the main guide for the dissemination of knowledge and information of integrated reporting. The principle of the integrated reporting seeks to report, measure, examine, and verify the information and data. In the future, the implementers of the integrated reporting should develop the integrated reporting principles as a general standard. (ICGN-IIRC Conference 2018)

#### **2. Use of concise information**

Integrated reporting is a new concept corporate reporting. Consequently, reaching the unified understanding on the information pertaining to an integrated reporting has been one of the challenges faced in the development stages of integrated reporting process. Concise data and information is essential for internal and external decision-making.

Gathering concise and accurate information and data for integrated reporting is an endless process that requires time and effort. Information and data about future trend is more comprehensive than traditional data and information. Non-financial information is very messy, poorly regulated and enforced.

### **3. Understanding the consumers**

A person in charge of preparing the integrated report should be well aware of who will use the report. The principle of IIRC integrated reporting seeks to present how the value of a company is created. Interested parties include investors, consumers, suppliers, employees, state and professional regulatory organizations, land owners, etc. With the release of integrated report, there is external efficiency of creating a multi-faceted relationship with current and future investors, customers, and consumers. Consumers and interested parties receiving required information and data creates possibility of defining the scope of the report. By reporting these interested information, it ensures customer satisfaction, meet the requirement and needs, and make decisions. To integrate financial and nonfinancial information to create value, an active relationship is vital. Therefore, an integrated reporting allows investors to make their decisions optimally.

### **4. Matters related to validation and verification of reliability and validity**

The integrated report is new concept. Therefore, the issue of verification has just started. It would require time for voluntary verification. The validation and verification this reporting will take some time, but it is important that it is accurate, trustworthy, and reliable. Two issues related to integrated reporting verification. Firstly, the reports and researches reveal that there is a large variation in the data validation. There are many other validators who may be involved with the financial reporting validation. The availability of specialized professionals for the integrated report is still developing (ICGN-IIRC Conference 2018). Second, there is no standard for validation and verification. There is also a combined verification and validation. Causality validation and verification uses audit techniques. Limited validation does validation during the process.

### **Integrated reporting process**

The IIRC constitutes information database of companies's reports, data, and information of the companies that develop their reports using integrated reporting. Currently, over 100 companies in different fields from over 40 countries are involved in

experimental programs. The information database can be a leverage and support to companies that are first-time developing integrated reporting as well as companies that want to improve their reports.

### **Where are we heading**

After analyzing and evaluating the research and presentation of international conferences, speakers and coordinators mentioned above, it could be concluded that integrated report is contributing to creating company value. This is confirmed by the major changes in business modeling and reporting. It is a fact that non-financial information that generates value is accepted and recognized. Integrated report is a mean of expressing unity. The integrated report has future of becoming an official report.

### **Here is a summary of the integrated report for our country (Mongolia):**

1. There is no common understanding of integrated reporting. In other words, the concept of integrated reporting is very poor among all parties, such as society, the public, policymakers, legislators, investors, and all other parties.
2. State-owned and private companies make various reports that are unrelated and poorly coordinated at different times. These are usually financial statement reports. However, these reports include limited non-financial information such as governance, society, environment and sustainability. However, the public wants companies to make their values transparent, open and accountable way of reporting, and run socially and environmentally-friendly businesses.
3. The reports they developed do not fully report financial, industrial, intellectual, human, social, and natural capitals that are vital components to the value of the company. Most of our business organizations have a profit-driven business model. In other words, there is a lack of business model based on modern innovation and business value.
4. Legal environment for registration, measurement and reporting is inadequate and the role of government and professional regulators is lacking.

Therefore, it is proposed to adopt and implement the "National Program on the Integrated Report". This creates a possibility of implementing multi-stage activities such as conducting research, raise awareness, conduct baseline study engaging investors, open companies, and all consumers, define implementing stages, establish legal

environment, establish state and professional regulators, and engage piloting companies.

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2015 Asia-Pacific Accountants International Conference (Korea),

2018 International Integrated Reporting Councils and the Corporate Governance International Conference (Japan)

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