

POLICY STATEMENT

**INTEGRATED REPORTING AND THE EVOLVING CONNECTIVITY
OF FINANCIAL AND NON-FINANCIAL REPORTING**

Prepared in collaboration with CPA Australia's ESG and External Reporting Centres of Excellence

This policy statement has been developed to assist organisations navigate ongoing complexity in the corporate reporting environment and provide insights into future developments and initiatives that will shape the behaviour of Australia's corporations and their regulation. In addition, this policy statement is aimed at CPA Australia members who are involved in the preparation, auditing and assurance of corporate reporting - both financial and non-financial - or who advise directors and boards on matters of governance and risk. Many observations in this statement are also applicable to reporting by not-for-profit entities and aspects of public sector accounting standard setting.

The policy statement seeks to provide a wide range of insights but uses as its basis, two key developments:

- The current state of play in Integrated Reporting
- Measures towards interconnected standard setting for corporate reporting

INTEGRATED REPORTING – CURRENT STATE OF PLAY

CPA Australia has over many years invested in high quality applied academic research associated with the emergence of what is now broadly termed 'extended corporate reporting' within which, amongst other attributes, is acceptance that the financial and non-financial aspects of a business are deeply intertwined and should thus be expressed as such in the development of reporting. Most recently we published in 2020 the **Future of Environmental, Social and Governance Reporting: Sustainable development Goals, Integrated Reporting and Global reporting Initiative** (Future of ESG Reporting).

This research informed CPA Australia's approach to the 2020 **consultation on draft revised International <IR> Framework**. The research was conducted by *Associate Professor Wendy Stubbs, Monash University and Associate Professor Colin Higgins, Deakin University*, with the following objectives:

- To explore how companies are using multiple reporting frameworks - in particular, the GRI, <IR> and SDGs.
- To understand how companies reconcile the multiple reporting frameworks; the decision-making process for assessing and choosing environmental, social and governance (ESG) reporting frameworks; and
- To understand the impacts and implications of implementing multiple frameworks.

When it was developed more than ten years ago, Integrated Reporting (<IR>) promised to offer a new way to capture organisational value creation, communicate the integrated nature of company performance, and rationalise the reporting frameworks to which organisations were exposed.

Rather than witnessing simplification and consolidation of reporting expectations, organisations confront a complex reporting environment that is expanding, rather than consolidating, in terms of the reporting opportunities that exist. To date, beyond the largest listed organisations in Australia, the uptake of <IR> remains slow and the reporting landscape remains crowded, largely due to the proliferation of non-financial reporting standards and metrics. Nevertheless, according to KPMG's ASX200 FY19 Corporate Reporting Survey, at least 74 per cent of the ASX200 adopted what, prima facie, would appear to be some attributes of integrated reporting principles at 30 June 2019, significantly up from 48 per cent in 2018. This, at a minimum, points to both interest and capacity which can readily be drawn upon to advance transformation in corporate reporting.

WHAT OUR RESEARCH SHOWS

Alongside <IR>, the Global Reporting Initiative (GRI) remains prominent and continues to influence reporting practice. This framework, founded in 1987, has recently evolved into a “standard” which is utilised by about 93% of the world’s largest 250 corporations.

More recently, organisations have moved quickly to embrace the United Nations Sustainable Development Goals (SDGs). Evidence suggests these will play an increasing role in corporate reporting going forward.

KEY FINDINGS FROM THE FUTURE OF ESG REPORTING RESEARCH INCLUDE:

1. The use of multiple frameworks has led to significant complexity;
2. The TCFD (Taskforce on Climate-related Financial Disclosures) is a major reporting driver despite some resistance to its uptake;
3. Reporting frameworks facilitate communication to internal and external stakeholders, helping to tell a company’s story, and inform or test its strategy;
4. Participants held mixed views about the relevance of the GRI:
 - for some - less relevant and useful;
 - for others - a comprehensive global reporting tool.
5. While <IR> is seen as complex and difficult to implement, it provides a progressive framework for integration of other frameworks, and for driving integrated thinking;
6. While the SDGs are seen as a useful communication tool to tell an organisation’s sustainability story, participants held mixed views about its usefulness in driving change. At this stage reporting is confined to aligning, or retrofitting, the goals to sections in reports.
7. The four major factors that influence organisations adopting, or dropping, frameworks include:
 - the Board or C-suite;
 - sustainability teams or similar internal groups
 - pressure from external stakeholders; and
 - peer pressure.
8. All participants saw a substantive role for the accounting profession in the reporting framework space, particularly in providing practice guidance;
9. The major challenges identified by participants were:
 - complexity due to a “cacophony” of non-financial frameworks;
 - lack of integration;
 - compliance mentality;
 - translating frameworks for internal stakeholders; and
 - resourcing.

FROM THE FINDINGS OF THIS RESEARCH, CPA AUSTRALIA DRAWS THE FOLLOWING CONCLUSIONS:

- The “jury is out” as to what contribution <IR> has made, to date, to Australian business
- Nevertheless, strong indications are that <IR> can make a worthwhile contribution in the future to the entities using the <IR> Framework and the users of <IR>, subject to the development of a more universally accepted framework of corporate reporting, promoted through existing Corporate Law requirements.

MAIN PROBLEMS

THE MAIN PROBLEMS IDENTIFIED BY THE RESEARCH ARE:

- Some users find that (parts of) Integrated Reports are useful, but many find they do not provide enough depth and detail to fully meet their needs. There is doubt that a single report can meet all users' needs
- Institutional investors (amongst providers of financial capital as the primary target of <IR>) often enjoy direct access to companies to get the non-financial information they need. Therefore, many do not 'use' the reports in ways that drive their main interactions. In this way, <IR> is limited in terms of securing direct and specific benefits (e.g. better access to capital, cheaper capital) for companies, although stakeholders suggest that Integrated Reports play a role in broader transparency
- Understanding the expectations of regulators in an environment where preparers are hesitant to present information that does not fall squarely within filings-type requirements for fear of presenting information that is either incomplete or possibly misleading
- Preparers attempt to both communicate the company's 'story' and share concrete data – but the reports become alternatively too long or not sufficiently granular for users.

SEVERAL WAYS FORWARD HAVE BEEN IDENTIFIED. THESE INCLUDE:

- Advancing practices which build the linkages between integrated *thinking* and integrated *reporting*
- Advancing understanding which either reconciles or makes more transparent the trade-off between materiality and inter-organisational consistency
- Enhancing more *consistency* in approaches to *materiality* through specific guidance on key categories of *risk*
- Re-framing Integrated Reporting as an *overarching* framework that *integrates* the suite of corporate reports, *reporting frameworks*, and communication activities, rather than it being pursued as a new, replacement or singular reporting framework.

INTEGRATED REPORTING AS AN OVERARCHING FRAMEWORK AND ROADMAP FOR THE FUTURE OF CORPORATE REPORTING

CPA Australia is well positioned to contribute to these developments consistent with its core strengths and constituency of interest, with the last of these 'ways forward' being identified as the focus of advocacy and further research endeavours within the short to medium term. This rationale for this focus is as follows:











1. 'Integrated Reporting' becomes the 'roadmap' that integrates and co-ordinates the different external reporting and communication activities of the organisation (including existing financial reports, sustainability reports, governance and other similar narrative reports).
2. The <IR> roadmap will potentially identify gaps in current reporting and communication activities and provide a guide for users about how to find the information they require, to the depth that they require.
3. A 'roadmap' approach will enable an organisation to tell its story of how inputs, outputs and outcomes come together, in order to make appropriate judgements about the organisation's performance.
4. A 'roadmap' approach appears to be the approach being taken by more experienced and mature reporters – in which reporting managers select from and incorporate aspects of various reporting frameworks – who go beyond replacing data generated with a map of how it fits together.
5. A 'roadmap' approach potentially assists standard-setters in prioritising which reporting frameworks they are prepared to support or promote. This, in turn, potentially contributing to enhancing regulatory community confidence in organisational reporting processes, which will have an overall impact on market integrity.

INTERCONNECTED STANDARD SETTING FOR CORPORATE REPORTING

The world continues to change with ever increasing rapidity and complexity. There is, in CPA Australia's view, and that of many others including influential groups such as the **World Economic Forum**, an imperative for a global approach to corporate reporting standard setting that incorporates financial and non-financial reporting frameworks under one umbrella.

The growing consensus is for an institutionally-based 'systems solution' consistent with urgent action to address global challenges such as climate change, biodiversity loss and the severity, and reach of, natural disasters. Accountancy Europe presents this context in the following manner:

FIGURE 1: GLOBAL RISK RANKING (LIKELIHOOD AND IMPACT)*

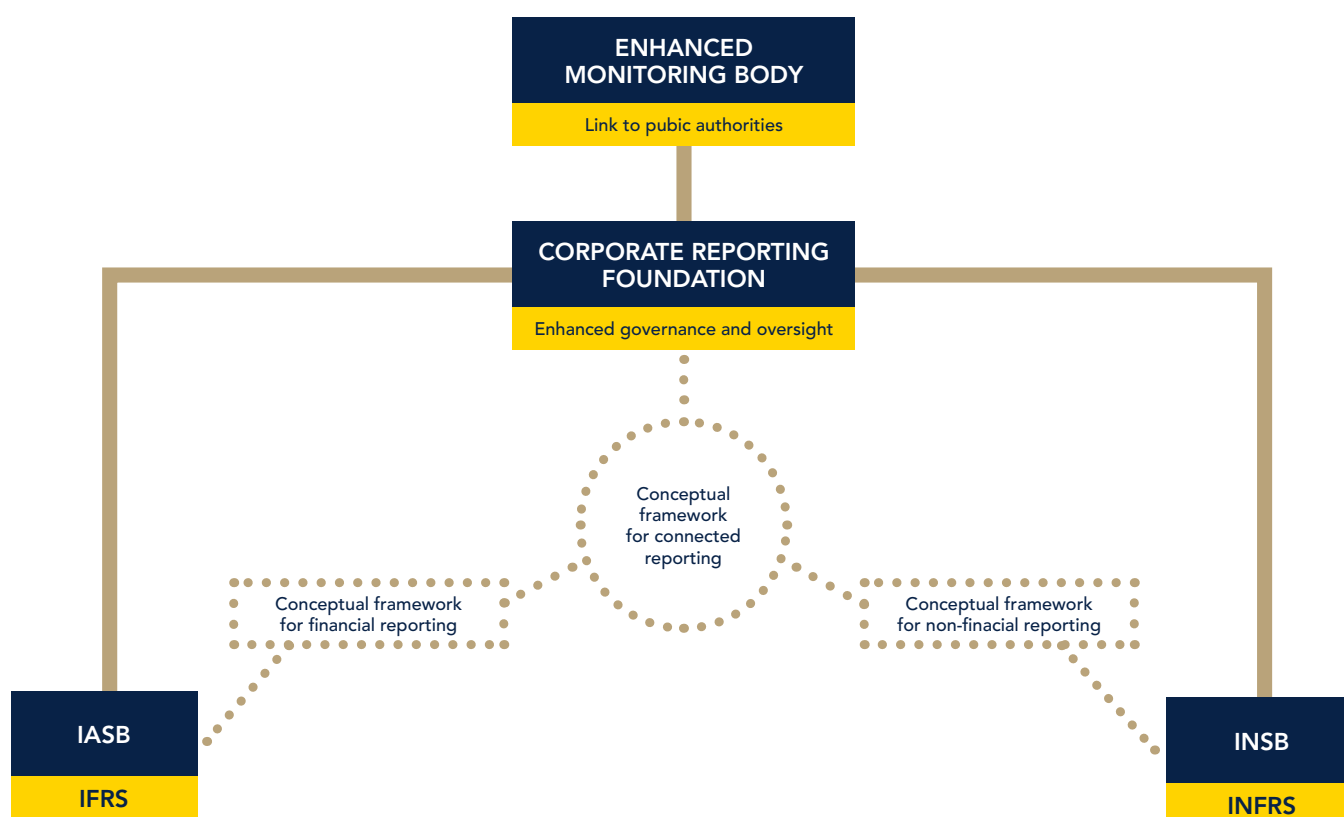
	LIKELIHOOD	IMPACT
RANKING	 Extreme weather	 Climate action failure
	 Climate action failure	 Weapons of mass destruction
	 Natural disasters	 Biodiversity loss
	 Biodiversity loss	 Extreme weather
	 Human-made environmental disasters	 Water crisis

*Adapted from The Global Risks Report 2020, World Economic Forum

The WEF annual survey of forward-looking global risk assessments has been an important factor in development of CPA Australia's **Business and the Environment Policy Statement** and provided impetus to the development of the global accounting bodies' **Call to Action in Response to Climate Change**.

To advance both the <IR> Framework revision and the overall effectiveness of corporate reporting, CPA Australia engages with Australian and international regulators, businesses and professional bodies to develop an interconnected approach to financial and non-financial standard setting.

To this end, as a long-term aspiration, CPA Australia supports the form of overarching governance of corporate reporting development promoted in the Accountancy Europe discussion paper **Interconnected standard setting for corporate reporting** (December 2019). The approach preferred by CPA Australia is illustrated below:



In advocating for this integrated approach to broadly defined corporate reporting developments, CPA Australia emphasises the following themes:

- In its **submission** to Accountancy Europe CPA Australia supported measures being taken towards this form of global corporate reporting institutional and developmental structure. We noted the significant prominence given to conceptual frameworks, and in so doing emphasised the relative nascent development of a conceptual framework for connected reporting, when compared the **Conceptual Framework for Financial Reporting**.

CPA Australia is of the view that Integrated Reporting can, with suitable development and understanding (from standard setters, regulators, preparers and users alike), offer itself as the 'conceptual bridge' between financial and non-financial reporting. We believe that in Australia this may coalesce around developments in narrative disclosures such as those required of listed company directors. CPA Australia has also emphasised in both its submission to Accountancy Europe, and in other forums, that a universal approach to standard-setting must include associated developments in public-sector accounting standards.

- CPA Australia has previously conducted 'mapping' of <IR> Framework Content Elements to categories of disclosure and paragraphs in ASIC's **Regulatory Guide 247 Effective disclosures in an operating and financial review** which includes requirements for listed company directors under section 299A of the Corporations Act. RG 247 was updated in August 2019 to reflect shareholder expectations and developments in climate changes as a widely acknowledged systemic risk. CPA Australia will proactively examine the <IR> Framework revision and the forthcoming consultation on the IFRS Management Commentary Practice Statement, and, where appropriate, seek further alignment within RG 247.
- In January 2020 CPA Australia released significant research on **Australia's international climate change commitments – Associated accounting assumptions and auditing of climate risk disclosures**. This work continues into 2021 with participation in the Climate Disclosure Standards Board's working-group project on climate-related financial reporting. A second tranche of research is proposed which will aim at financial risk guidance associated with climate change that may materially impact accounting estimates and notes disclosures. These initiatives will examine each of physical climate change risk, assessments of emissions reduction trajectories and policies driving decarbonisation, as triggers of financial accounting and broader corporate disclosure.
- In November 2019, the IASB issued **In Brief IFRS Standards and climate-related disclosures**. Also in what some might interpret as an attempt to bridge the polarised 'trans-Atlantic' approaches to sustainability standard setting, it was **announced** in September that the IIRC along with four other framework - and standard setting institutions – CDP, the Climate Disclosure Standards Board (CDSB), GRI and the Sustainability Accounting Standards Board (SASB) – will collaborate in endeavours towards achieving a comprehensive corporate reporting system spanning financial accounting and sustainability disclosure. Each of these developments is indicative of a global momentum with far-reaching implications for the Australian corporate reporting landscape. CPA Australia remains committed to supporting and positively influencing, where appropriate, such international developments, along with assisting awareness and capacity building across Australian policymakers, standard setters, preparers and users.
- More broadly, CPA Australia will continue its work in driving wider knowledge and capacity around the impact of climate change on financial statement disclosures. In doing so, we seek, for example, to influence the finance sector through the **Australian Sustainable Finance Initiative** to actively engage with accounting and audit standard setters to ensure that respective financial and non-financial climate change related disclosures are drawn from a common understanding of the economic implications of both mitigation and adaptation.
- CPA Australia is of the view that the constraining of global warming can only be achieved through international collaboration to which central banks have, and will continue, to play a key role. This is complementary to the adoption of meaningful national net-zero emission targets under the Paris Agreement. CPA Australia's targeted efforts towards driving coherence in practices between the 'financial' and 'real' economies will centre on engagement with **central banks** and rely on authoritative initiatives such as those from the **Network for Greening the Financial System** and the **European Union Technical Expert Group on Sustainable Finance**.
- Audit and assurance standard setting continues to show a highly commendable propensity to address, in tandem, traditional financial and emerging non-financial disclosures. Particularly noteworthy is the **International Audit and Assurance Standards Board's Guidance for the assurance on "extended external reporting"** – CPA Australia provided **submissions** on the two consultations on the guidance and welcomes its release later in 2020. CPA Australia has long advocated for the importance of assurance on non-financial reporting to provide and enhance credibility and trust. Our **submission** to the Parliamentary Joint Committee Inquiry into the Regulation of Auditing in Australia (and Brydon Review¹) calls for assurance on the entire annual report and exclusion of information which is not assured, to provide clarity and transparency for users regarding the status of that information. This would include management commentary and the operating and financial review required for listed companies in Australia, and integrated reports in so far as they are included in annual reports. CPA Australia also seeks to build understanding and capacity within the auditor and wider corporate reporting community, having released **analysis examining climate change and professional liability risk for auditors**.

¹Report of the Independent Review into the Quality and Effectiveness of Audit Sir Donald Brydon CBE London December 2019

