



NEW ZEALAND
INSTITUTE OF
CHARTERED
ACCOUNTANTS

Submission on

The International Integrated Reporting Committee Discussion Paper

14 December 2011

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Sir Michael Peat
Chairman
The International Integrated Reporting Committee
C/o The Prince's Accounting for Sustainability Project
Clarence House
London, SW1A 1BA
United Kingdom

Submitted online to: dpresponses@theiirc.org

Dear Sir Michael

RE: Comments on the International Integrated Reporting Committee (IIRC) Discussion Paper "Towards Integrated Reporting: Communicating Value in the 21st Century"

The New Zealand Institute of Chartered Accountants (NZICA) welcomes the opportunity to comment on the *International Integrated Reporting Committee Discussion Paper*. NZICA is the membership body of choice for more than 32,000 accounting and business professionals who work across New Zealand and the world. In canvassing our membership several salient themes arose.

First, the provision of a single international authority with the oversight to provide a complete reporting framework, including social and environmental elements, is supported. Among the opportunities cited in developing a framework is the basis to lend credibility to New Zealand's 'clean and green' branding.

Second, New Zealand is a nation largely comprised of small to medium enterprises (SME), so the focus of any framework is particularly relevant for this group. While NZICA acknowledges the reasons behind the pilot consisting of large entities, we welcome further attention to the SME group.

Third, in the course of collating our response, consideration was given to the level of independent assurance associated with an Integrated Reporting Framework. The *Discussion Paper* places significant emphasis on management in the construction of a report. While not problematic in itself, NZICA supports greater exploration of appropriate assurance mechanisms to preserve the credibility of producing an Integrated Report.

Further to the above themes, more comprehensive comments are provided in **Addendum A**. If you have any queries or require clarification of any matters in this submission, please contact Dr Michael Fraser (Michael.Fraser@nzica.com).

Yours sincerely

Signed Copy Attached

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Addendum: A

1.0 The World has Changed – Reporting Must Too

Q1

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

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

- 1.1 NZICA notes an increasing recognition of social and environmental elements not previously considered taking a more central role nationally and abroad. Research undertaken by the New Zealand Sustainable Future Institute supports this assertion and highlights the potential for Integrated Reporting in a New Zealand context¹. The exploration of frameworks that capture and report these aspects is worthy of greater attention.
- 1.2 The New Zealand economy is reliant on export-led activities such as agriculture and tourism. An attribute underpinning both of these export activities is a 'clean and green' branding. With limited information available to defend (or address) social and environmental aspects relating to these activities the branding remains vulnerable. A recent example was criticism of New Zealand's long-haul food products contributing to greenhouse gas emissions. Subsequent research suggests that higher-than-average carbon emissions in exporting food are offset by lower-than-average emissions in production. It is envisaged that Integrated Reporting would facilitate a more proactive role in the decision making process and dissemination of accurate non-financial information.
- 1.3 NZICA supports an internationalised scope as social and environmental issues are not constrained within geographical boundaries. The support for an internationalised scope is compounded by the finding that over 50% of New Zealand's largest 200 companies have overseas controlling interests². This high-level of international influence means that national undertakings will be limited in effectiveness. International harmonisation projects mirrored in financial reporting must occur if the principles of Integrated Reporting are to remain uncompromised (that is, integration with multiple frameworks).

¹ Sustainable Future Institute 'Integrated Annual Report Survey of new Zealand's Top Companies: Exploring Responses from Chief Financial Officers on Emerging Reporting Issues' (2011)

² Sustainable Future Institute 'Integrated Annual Report Survey of new Zealand's Top Companies: Exploring Responses from Chief Financial Officers on Emerging Reporting Issues' (2011)

2.0 Towards Integrated Reporting

Q2

Do you agree with the definition of Integrated Reporting on page 6? Why/why not?

Integrated Reporting brings together the material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future. Integrated Reporting combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a coherent whole, and importantly:

- shows the connectivity between them; and*
- explains how they affect the ability of an organization to create and sustain value in the short, medium and long term.*

- 2.1 The above definition provides a visionary objective that is necessary to achieve. In particular, reference to the importance of *strategy* and *connectively* are supported.
- 2.2 The short, medium and long-term reporting aspects of the above definition take place in a context of increased awareness of reporting limitations. The New Zealand Government has considered issues of *how* to report long-term complex 'outcomes' and has responded primarily in the area of Local Government Accounting. In particular, the New Zealand Local Government Act 2002 requires *integrated reporting and planning* under four *wellbeing* categories; social, environmental, cultural and economic³.

³ New Zealand's Office of the Auditor-General, 'Country paper for the XX INCOSAI South Africa 2010' (2010)

3.0 An International Integrated Reporting Framework

Q3

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

- 3.1 NZICA supports the development of an International Integrated Reporting Framework for the reasons cited under sections 1.1 -1.3.
- 3.2 The international aspect of the framework is considered favourable because issues of communicating value are not bound by geographical boundaries. However, as with the internationalisation of financial accounting there are a variety of actions that might take place at a regional level. Further development of the pilot studies may represent different priorities and dynamics existing in different regions. NZICA supports an international approach with the provision for localised input, such as regional roundtable forums.
- 3.3 NZICA supports the development of an international framework as institutional and authoritative backing is necessary to avoid issues of credibility.

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?

(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?

- 3.4 The emphasis on larger entities for the pilot study is logistically understandable as an initial focal point. Large entities have greater direct and indirect influence in terms of resources controlled and influence on the supply chain.
- 3.5 International interest in ethical or socially responsible investment is increasingly important and investors seeking ethical funds are considered a legitimate stakeholder. NZICA acknowledges this legitimacy and the *decision-usefulness role* performed, and encourages this to be balanced with the *accountability function* serving broader stakeholder groups.
- 3.6 Integrated Reporting has the potential to be adapted and applied in a variety of organisational settings. This reporting would be equally applicable in situations where principal and agent are separated. Thus, Integrated Reporting would be of value to external shareholders/investors/donors or where there is explicit public responsibility, such as the Public Sector.
- 3.7 NZICA notes that New Zealand business is largely comprised of small and medium enterprises and there is significant interest in how such a pilot might relate to these smaller businesses. Support is given to undertaking a pilot that is specifically focused

on these smaller businesses. It is noted that smaller entities might be subject to greater relative compliance costs when compared to larger entities.

- 3.8 In addition to a SME pilot study, the possibility of a Public Sector pilot was one of significant interest. As noted earlier, New Zealand has local government legislation with significant overlap of Integrated Reporting content and principles. This overlap might provide an opportunity to disseminate applicable findings from one sector to another.

4.0 Business Model and Value Creation

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?*

Q6.

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

- 4.1 An organisation-centric business model appears most closely aligned with traditional financial accounting mechanisms and is a suitable basis to progress. The term *business model* was taken to mean *organisational model* rather than specific adherence of a private sector firm with a profit motive. This broader interpretation was used because NZICA recognises the composition of our membership base (and their clients) is significantly wider than one type of entity or stakeholder. Such diversity is likely to be mirrored elsewhere and may provide suitable grounds to consider changing the term to *organisational model*.
- 4.2 The concept of multiple capitals is one avenue to explain the creation (or otherwise) of *organisational value*. NZICA notes there is a vast literature regarding the use of capitals and the necessary process of monetisation. The mixed results of the monetisation literature may warrant the complementary use of qualitative measures. A qualitative and quantitative approach is frequently used in more established forms of reporting, such as financial reporting.
- 4.3 Support for a mixture of qualitative and quantitative measures is provided by research published by the NZICA Technical Team⁴. The use of multiple capitals has been explored with the application of the Sustainability Assessment Model to a variety of organisational settings in New Zealand and abroad. The main findings from this research indicated that the use of such a model raised visibility, created a frame of

⁴ Fraser, M, 'Experimenting with Sustainability Assessment Models' *Journal of Chartered Accountants of New Zealand*, 90(3) (2011), pp. 36-38.

Fraser M, 'Getting under the bonnet: how accounting can help embed sustainability thinking into organisational decision making', in Frame, VB., Gordon, R. and Mortimer, C. (Eds), *Hatched: The Capacity for Sustainable Development*, Landcare Research, Lincoln, New Zealand, (2010), pp. 239-247.

reference for multiple stakeholders to interact and highlighted challenges or areas to develop.

5.0 Guiding Principles

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?

- 5.1 The Integrated Reporting principles provide a sound basis for preparing an Integrated Report and collectively are appropriate. However, greater emphasis might be given to the principles of *conciseness, reliability and materiality* and consideration of multiple perspectives. Framing these objectives with regard to multiple stakeholder perspectives could be achieved by discussing *information rights* alongside the need for *efficient capital markets*.
- 5.2 NZICA notes a heavy reliance on management to determine and construct an Integrated Report. While such reliance is not necessarily a cause for concern in itself, it does mean that any such management influence be coupled with necessary assurance mechanisms.
- 5.3 The discussion of the *connectivity* principle (p.13) makes reference to a firm's financial performance and the resources used. This reference appears to place an emphasis on *financial* performance and the possibility of referring to *value* instead is raised.

6.0 Content Elements

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?

6.1 NZICA agrees that the content and sequence of elements identified in the *Discussion Paper* provide a sound foundation for preparing an Integrated Report. Two relatively minor suggestions are raised.

6.1.1 The content element of *future outlook* covers an important aspect of integrated reporting. However, this aspect is considered in most of the content elements and might best be situated as a principle.

6.1.2 A brief statement indicating where in the overarching *reporting journey* an organisation is located may be a suitable addition. This might be best considered in the *organisational overview and business model* content category.

7.0 What will Integrated Reporting mean For Me?

Q9

From your perspective:

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

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

(c) *Do you agree that Integrated Reporting will drive the disclosure of information that is useful for integrated analysis (from the perspective of investors)? Why/why not?*

7.1 The list of benefits and challenges detailed in the *Discussion Paper* is comprehensive. NZICA members noted commercial sensitivity as the primary challenge.

7.2 NZICA has a broad membership base and members are likely be impacted in different ways. The disclosure of information would be of use for integrated analysis. However, NZICA reiterates that the *decision-usefulness* role of reporting be considered alongside the *accountability* role for a *broad* range of stakeholders.

8.0 Future Direction

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?*

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

Q11

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

- 8.1 The progression of a two year pilot study and Exposure Draft submission are well considered. However, as Integrated Reporting holds potential for a range of entities, development of a pilot might be considered alongside conceptual development and progression of a specific indicator set.
- 8.1.1 The *Discussion Paper* gives emphasis to the development of a framework, in contrast to the conceptual basis which received less emphasis. In advancing a conceptual basis, consideration might be given to the approaches currently existing in the sustainability accounting literature, such as those discussed in Brown and Fraser (2006)⁵. Greater exploration of the underlying conceptual basis may enable easier identification of *principle* and *content* elements.
- 8.1.2 In addition to advancing the conceptual basis, anecdotal evidence collected in forming this submission suggests that a specific indicator set would be well received. The development of such an indicator set may provide entities not directly involved in the pilot an opportunity to take part.
- 8.4 NZICA members possess many attributes that are necessary in constructing a credible Integrated Report and we look forward to future involvement.
- 8.5 NZICA welcomes the opportunity to provide comment and congratulates *The Committee* on collaborating with multiple institutions to produce the *Discussion Paper*.

⁵ Brown, J. and Fraser, M. 'Approaches and Perspectives in Social and Environmental Accounting: An Overview of the Conceptual Landscape', *Business Strategy and the Environment*, 15, 2 (2006), pp. 103-117.