

Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

| | |
|--------------------|---|
| Name: | <input type="text" value="Nigel Davies"/> |
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| Stakeholder group: | <input type="text" value="Policy makers, regulators and standard setters"/> |

If replying on behalf of an Organization please complete the following:

| | |
|----------------------|---|
| Organization name: | <input type="text" value="Charity Commission for England and Wales"/> |
| Industry sector: | <input type="text" value="Not applicable"/> |
| Geographical region: | <input type="text" value="Western Europe"/> |

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

The Charity Commission for England and Wales is established by law as the regulator and registrar of charities in England and Wales. Our aim is to provide the best possible regulation of these charities in order to increase charities' efficiency and effectiveness and public confidence and trust in them. We welcome the opportunity to respond to the consultation on your exposure draft on Integrated reporting. Our detailed response to the consultation questions is submitted via the e-form.

We recognise that the Exposure Draft is framed with reference to for-profit companies but note that the authors intend it be adapted for use by public sector and not-for-profit organisations. Insofar as integrated reporting comes to influence statutory reporting, the proposals in the Exposure Draft may in time come to influence charity reporting in the UK and we comment upon the proposals in the light of existing practice in trustees' annual reporting.

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

We welcome a principles based approach and the emphasis on entity relevant reporting and materiality. The six principles and the concept of value are sufficiently flexible to incorporate charitable activity but in place of an emphasis on cash flows, charities would consider service potential and in place of customers their beneficiaries.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

The bridging of the gap between the form and content of information used to run a business/ charity and the information required by external stakeholders is problematic. The level of aggregation differs and the internal information tends to be more segmented and at a more detailed level. Whilst there should be a congruence of overall strategy, aims and activities, it is doubtful that the information needs of the entity for management purposes and external stakeholders will coincide.

The framework is aimed at external stakeholders and this approach complements the objective of statutory reporting.

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

No comment

Other

4. Please provide any other comments you have about Chapter 1.

It is important that the reporting entity considers who the integrated report is aimed to serve and states this as part of the context for its reporting. In the context of charities, although donors and financial supporters are analogous to providers of capital, many see external reporting as needing to equally inform beneficiaries and the wider public as well as donors of the charity's activities and funding.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. Do you agree with this approach to the capitals? Why/why not?

The concept of six capitals is well expressed and flexible in application. In the context of charities, the aim is often to enrich the social capital of the country rather than to grow the holdings of capital of the charity itself. A reference to societal capital or human wellbeing might therefore usefully be added to 'social and relationship capital'.

6. Please provide any other comments you have about Section 2B?

No comment

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. Do you agree with this definition? Why/why not?

In the context of charities and wider not-for-profit the definition should be amended:
'an organisation's business model is its chosen system of inputs, business activities, outputs and outcomes, that aims to fulfil the entity's strategic purposes and create value over the short, medium and long term'.

Charities are established in law to fulfil their charitable purposes.

Business model (Section 2C) continued

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. *Do you agree with this definition? Why/why not?*

Yes

9. *Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?*

In the last bullet point to paragraph 2.28 the reporting entity is to 'explain how secure the availability...of natural capital are'. This asks a lot of an entity in the context of broader environmental, economic and political factors that may affect the supply of clean air, water, biological assets and land. However an entity can be reasonably asked to disclose its key assumptions and the basis for them about the availability of components of natural capital.

Other

10. *Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.*

None

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. *Do you agree with this approach to materiality? If not, how would you change it?*

Yes

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

None

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

No comment

14. Please provide any other comments you have about Section 3E.

None

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

None

Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).

A key disclosure is who is charged with governance. Charities name the trustees who served in the reporting period. Company reporting also requires the disclosure of the names of the Board and key management personnel.

The entity should also disclose what it has been established to do. Charities disclose their charitable purposes. This enables stakeholders to put the charity's activities in the context of what the charity was set up to do and thereby assists stakeholders assess how well the charity is performing in fulfilling its purposes for the public benefit.

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?

No comment

18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).

No comment

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

No comment

20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

No comment

Other

21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).

Paragraph 5.11 might be taken to imply that low risk events with a catastrophic impact are not worthy of mention. In the context of occasional disasters with oil production facilities which have had huge environmental impact and effects on the company and returns to shareholders, such risks need to be managed and mentioned. This will assure stakeholders that the entity's management have considered and taken action to mitigate such low probability but catastrophic risks.

Overall view

22. *Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?*

The framework appears well designed for larger entities with sophisticated management systems and skilled staff. It may benefit from being simplified and reduced in scope for smaller entities in a manner similar to the simplification produced by the International Accounting Standards Board of the IFRS for SMEs vs full IFRS.

Development of <IR>

23. *If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?*

No comment

Other

24. *Please provide any other comments not already addressed by your responses to Questions 1-23.*

The framework makes reference to withholding information on the grounds of commercial sensitivity (paragraphs 3.42 to 3.45). Whilst this may be defensible in the context of protecting the interests of the providers of capital to for-profit businesses, this arguably not the case for not-for-profits. In the UK the need to maintain public confidence in charities, by government, the public, donors, funders and beneficiaries, has led to a high level of disclosure and detailed disclosures are not withheld on the grounds of commercial sensitivity. If the integrated reporting framework is to have a wider application then the reference to commercial sensitivity should be limited in its application to for-profit entities.

Please save the completed PDF form to your computer and submit via the IIRC website at www.theiirc.org/consultationdraft2013