

## 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](http://www.theiirc.org)).

**Comments should be submitted by Monday 15<sup>th</sup>, July 2013.**

Name:

Email:

Stakeholder group:

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

Organization name:

Industry sector:

Geographical region:

### 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.

CIPFA welcomes the opportunity to respond to the IIRC Consultation draft of the international integrated reporting (IR) framework, which has been considered by CIPFA's Sustainability Working Group and CIPFA's Accounting and Auditing Standards Panel.

CIPFA is a professional accountancy body in the United Kingdom which specialises in the public services. In this context we are interested in the development of reporting both as it applies to the private sector and as it might be applied in or otherwise affect reporting in the public sector and non-profit sector.

As we noted in our previous response to the IIRC discussion paper (Towards integrated reporting: Communicating value in the 21st century) we welcome the view that IR is seen by the IIRC as applicable to a wide variety of types of organisations. A consistent theme of CIPFA's responses to standard setters is that the public sector, not-for-profit and for-profit sectors are each very economically significant and transact enormous volumes of business with each other. Ideally frameworks, standards and other guidance would be developed in a sector neutral manner, so that differences in the application of standards to reporting entities in different sectors reflect systematic and properly

understood differences in the economic characteristics of those entities, and also the differing requirements and priorities of the users of financial reporting in the sectors.

Against this background, we accept that the IIRC is developing the framework initially for investor owned companies, while also seeking engagement with other sectors.

CIPFA supports initiatives designed to improve the quality and effectiveness of reporting and recognises the challenge posed in developing an appropriate IR framework that extends beyond current practice both in terms of financial and non-financial reporting. While IR is not the whole solution it is an important ingredient in supporting action aimed at developing a more balanced approach to reporting and decision making and improving the transparency of organisations.

## 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.*

CIPFA welcomes the principles based approach adopted in the IR framework.

On the question of further additions or changes to the principles based requirements included in the framework, we would see this as part of a longer term process of building on lessons learned from participants in the pilot program as well as drawing on ongoing work on other existing conceptual frameworks including those of the IASB and IPSASB.

Current and future development of the IR framework's principles based requirements must be responsive and allow for further revisions grounded in lessons learned and developments in financial and non-financial reporting, including sector specific developments. In support of further development of IR, CIPFA has produced an initial discussion paper (Integrated Reporting and Public Sector Organisations: Issues for Consideration) with a view to raising issues and encouraging discourse on the application of IR to public service organisations.

Linked to this, CIPFA welcomes the inclusion of some public sector organisations in the IR pilot programme while recognising that real benefits would result from an increase in the extent of public sector participation in applying and testing the IR framework.

### ***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?*

This part of the framework would benefit from further clarity regarding how IR interacts with other existing reporting requirements. In particular further work is needed to identify opportunities to reduce rather than increase reporting requirements and to

describe how IR can contribute to this process, while also providing tangible improvements in the quality of reporting.

It is our view that the long term success of IR depends to some extent on addressing these challenges early on and to avoid being perceived as yet another additional reporting requirement. It is an opportunity to be seen as a positive and necessary step towards a more concise form of 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?*

We would caution against the creation of an online database implying that certain standard setters, sources of indicators or measurement methods represent an approved approach. There are a number of reasons for caution including:

- The variability of current take-up of existing voluntary guidance including variations between countries and between sectors.
- The extent to which organisations may already be subject to local reporting requirements which will differ in some respects to international voluntary standards and guidance.
- The mixed evidence in regard to the effectiveness of existing voluntary standards and guidance in improving: performance, accountability, planning and decision making.
- The importance of focusing on a more concise form of reporting which avoids adding yet more content generated by other forms of guidance, including long lists of performance indicators.
- The prospect of an ever lengthening list of reporting standards and guidance due to the problem of deciding which would merit inclusion and which would not

As already mentioned, a key feature of IR is that it promises a more concise form of reporting while providing a more coherent picture of an organisation, its activities and its value creation processes. If this is to succeed it will require a reversal of the trend for ever lengthening reporting. It is hard to see how this can be achieved without a clear break from current approaches to reporting evidenced in, for example, many sustainability reports.

**Other**

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

CIPFA welcomes the reference to public sector and not-for-profit organisations in paragraph 1.10 although we would welcome further work on the language used within the framework in order to avoid sector specific terms and with a view to strengthening a shared understanding of IR across the different sectors.

We support the approach adopted where the actual framework content (the bolded parts of the IR framework document) seeks to use sector neutral language although we also recognise the need to develop different versions of the supporting explanatory text, in order to improve its applicability to the different main sectors (eg private, public and not-for-profit sectors).

Examples of the sorts of changes that may be required to the explanatory supporting text in order to make it relevant to public benefit organisations (i.e. public sector and

not-for profit organisations) include:

- Replacing 'business' with 'organisation' in some (but not all) of the supporting explanatory text.
- Replacing 'customer' with 'service or product user or purchaser' in some of the explanatory text.

Furthermore, in regard to the audience for IR and the statement in paragraph 1.6 that the report is intended '... primarily for providers of financial capital', this would require amending in the context of public benefit organisations.

CIPFA is engaging in discourse on the issues discussed above (including workshops and the production of a CIPFA discussion paper on IR). It is our expectation that public sector and not-for-profit organisations would also benefit from guidance that would interpret IR descriptions and definitions of, for example: the six 'capitals', 'business models', and 'value creation', within a public benefit context.

## 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?*

CIPFA sees the six capitals as a useful starting point while agreeing with the view expressed within the framework that this '... categorization is not required to be adopted by organizations preparing an integrated report' (2.12). We see this flexibility as an important ingredient of the framework which avoids a 'one size fits all' or tick box approach when applying the capitals idea to a particular organisation.

Furthermore we recognise that this is a developing field and it may be that other forms or descriptions of 'capital' not covered in the framework will be articulated and considered key to an organisation's health and performance, particularly as the framework is extended to cover wider classes of organisation. It is right therefore that the framework is not constrained by the six types of 'capital' set out so far.

CIPFA also recognises that each organisation will face difficulties in attaching values to each of these capitals and in assessing their relevance and relative importance to the organisation. As such it is important that the explanatory notes attached to the framework make clear the challenges as well as the limitations of the capitals approach in understanding an organisations activities and impact.

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

No further comments to add regarding section 2B

## ***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?*

CIPFA considers the IR framework definition of 'business model' as applicable to private benefit organisations although the language used in the definition would need modification in order to make it relevant to public benefit organisations (ie public sector and not-for-profit organisations).

In particular, sector specific interpretations and/or alternatives to the terms 'business activities' and 'create value' will be required, as part of a broader process of applying the ideas of integrated reporting to the differing goals and characteristics of public benefit organisations.

In addition we are uncertain as to the validity of the inclusion of the word 'chosen' in regard to the statement that 'a business model is defined as an organisation's chosen system of inputs ...' It is not clear that all reporting organisations will have complete choice in regard to inputs, activities and required outputs. Furthermore it risks an oversimplification of business models which doesn't reflect the day to day reality and decision making processes of organisations.

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?*

IFAC and CIPFA recently issued a Consultation Draft for an International Framework to promote the development of robust governance in the public sector (Good Governance in the Public sector (June 2013): <https://www.ifac.org/publications-resources/good-governance-public-sector> ).

In regard to defining outcomes in the context of sustainable economic, social and environmental benefits, the draft includes the following:

'Outcomes may be viewed as the impact of the goods and services, including the redistribution of resources, provided by a public sector entity in delivering its objectives. Defining outcomes, therefore, involves the specification of the intended impact or changes outside the entity. This may be immediate or over the course of a year or longer. Achievement of those intended outcomes may be affected by factors beyond the control of the entity concerned.'

(Good Governance in the Public Sector, 2013, Page 21, C1 Defining outcomes, second paragraph)

In a similar vein we also draw your attention to International Public Sector Accounting Standards Board (IPSASB) definitions of inputs and outputs:

Inputs - the resources of a reporting entity used to produce outputs that are used in achieving its objectives.

Outputs - the goods and services, including transfers to others, provided by a reporting entity that are used in achieving its objectives

We recommend consideration of the above three definitions of outcomes, inputs and outputs as part of a process of assessing the alignment of the proposed IR framework with definitions produced by standards setters including IPSASB.

CIPFA also recognises the emphasis placed in the IR framework on accounting for both positive and negative outcomes (or consequences) although we do not underestimate the challenge for the framework and for the reporting organisations themselves in ensuring both positive and negative consequences (where material) are fairly represented within IR reports.

*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 regard to the Content Elements Chapter of the framework we welcome the inclusion of '4G Future Outlook' and support a stronger emphasis on forward looking reporting, including the need to consider and plan for changes and developments in the social, environmental and economic spheres which are likely to affect the organisation and its stakeholders.

The Content Elements identified in the framework are a useful starting point and are appropriate. We would expect these to be further developed as the programme proceeds and as lessons are learned from the pilots and from further research.

### **Other**

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

CIPFA would welcome further discourse on what exactly is meant by 'value creation' and how its meaning may differ when applied to public benefit entities (ie the public and not-for-profit sectors).

We recognise that that this is a developing field and that currently there is no universally agreed definition or methodology for identifying and reporting on value creation. It may be that the way forward is to require organisations to make clear what they mean by value creation and flowing from that, there method for quantifying and describing it in the context of their goals, strategic planning and activities.

Also see our discussion paper (Integrated Reporting and Public Sector Organisations: Issues for Consideration) included with this response.

## **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?*

CIPFA considers the definition of materiality to be acceptable in the context of private sector, for profit organisations, while recognising that when applied to public benefit organisations then further work is required to clarify differences in regard to:

- 'the primary intended report users' and
- 'ability to create value'

In regard to the materiality determination process it might be helpful to clarify the role of various stakeholders (in addition to the primary intended report users) in terms of the reporting organisation's effect on capitals as well as the stakeholders' potential role in helping identify relevant matters, while recognising that senior management and those charged with governance would have the lead role in deciding which matters were a priority for the reporting organisation.

It would also be useful to indicate the linkages between materiality and strategy.

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

CIPFA would welcome further explanations regarding conciseness

### ***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?*

This in part links to discussions on where IR sits in relation to the other reporting already done by the organisation as well as the extent to which the IR report draws on other reports that may themselves be subject to internal or external assurance processes.

There needs to be greater clarity as to the extent to which IR will be an additional report or whether it draws on or is integrated into existing reporting produced by the organisation. Because of this, it is not possible to provide a comprehensive answer in regard to how reliability will be demonstrated.

We would caution against hasty adoption of assurance requirements already applied to other forms of reporting. Further work on the issue of assurance is required.

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

We have no other comments re section 3E.

### ***Other***

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

We have no other comments re section chapter 3.

## 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).*

We have no other comments re chapter 4.

## 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?*

Any statement attached to the integrated report will need to take account of existing local statutory and regulatory requirements linked to reporting.

Consideration also needs to be given to the nature of the statement and whether it would represent an acknowledgement of responsibility for the report or some form of endorsement or support for the report content.

Further discussion is required on this subject.

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

We have no other comments re Section 5D.

### ***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?*

CIPFA believes that the answer to this question, in part, depends on where the IR sits in relation to other forms of reporting produced by the organisation. If IR replaces some of the existing mandatory reporting then yes assurance would be required to cover the report as a whole. If, however, the IR sits outside of existing reporting then it is open to debate.

Where the IR report includes material drawn from sources where assurance is required then it may be appropriate to disclose those items included in the report which have been subject to some form of assurance, including a description of the nature of assurance.



It is also important that the content of the IR report should not conflict with any other reporting produced by the organisation and which has been subject to external scrutiny and assurance.

CIPFA believes that further discussion is required regarding the options for assurance of IR reports.

*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.*

We have no other comments re Section 5E.

### **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).*

We have no other comments re chapter 5.

### **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?*

Please see our earlier comments regarding the use of sector neutral language in the framework, the work needed on sector specific supporting explanatory text, and the need to interpret such concepts and ideas as: 'value creation', 'capitals', 'business model' in order to successfully apply IR to public benefit organisations (ie public sector and not-for-profit organisations).

Also, as mentioned earlier, see the CIPFA discussion document included with this response.

### **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?*

Please see response to Q22. In relation to interpreting the framework for public benefit organisations we would recommend:

- i. The adoption of sector neutral language where possible
- ii. Work is needed on interpreting some of the concepts and ideas for application in the public sector and not-for-profit sector.
- iii. Longer term - two other versions of the explanatory material included in the framework document are required (one for the public sector and one for not-for-profit

organisations)

## Other

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

The framework and explanatory notes should be reviewed with a view to removing/replacing language which is unlikely to be universally understood by an international audience and may present problems for ease of translation to other languages. We would recommend, for example, the removal/replacement of such terms as:

- “Boilerplate”
- “Tone at the top”
- “Silo thinking”

As mentioned in a number of responses to earlier questions, we consider that it is vital to broaden the discourse with and involvement of sectors outside of the investor owned business sector, in order to further understand potential differences in the application of integrated reporting to:

- Public sector organisations
- Charities
- Other not-for-profit organisations
- Co-operative and mutual organisations

Identifying such differences and their relevance to the concepts of integrated reporting (and related guidance) would help shape and promote the introduction of integrated reporting across sectors. CIPFA is already engaging in this wider discourse and will continue to work with others with a view to further developing our understanding of IR and its application to public benefit organisations.

Throughout the process it will be vital that there is transparency regarding sharing information including lessons learned through the pilot programme.

Linked to the above is the importance of encouraging research on the effectiveness of IR longer term. This should include assessment of the usefulness of IR to key stakeholders and the extent to which this improves on information provided through other channels and forms of reporting.

# Integrated Reporting and Public Sector Organisations

Issues for Consideration

July 2013

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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## Summary

Integrated Reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the economic, social and environmental context within which it operates. It aims to provide a clear and concise representation of the organization's stewardship and how it creates and sustains value. This paper considers the relevance of integrated reporting to the public sector. It has been developed by CIPFA with input on behalf of IPSASB from John Stanford and a brief review by Jeanine Poggiolini.

Integrated reporting spans financial and non-financial information and draws on existing reporting including: financial reporting, narrative reporting, governance and remuneration, and sustainability reporting. Its benefits are expected to include improved effectiveness and efficiency through a more rounded understanding of an organization's activities and its impact.

Work is needed to consider the applicability in the public sector perspective of integrated reporting. This should include consideration of the ongoing work of the IIRC in developing the Framework as well as identifying points of potential difference if integrated reporting principles are to be applied to public sector entities. These include:

- The nature of public sector accountability
- The role of taxpayers
- The intergenerational financing of services
- Diversity of accounting and reporting approaches including the application of accrual accounting.

Public sector entities already publish a wide range of data on their non-financial impacts and performance. One of the key challenges is for public sector organisations to understand and clarify the connectivity of all of this information.

The paper considers what 'value' means in the context of public wellbeing and public sector goals, as well as further development of the six 'capitals' described in the IIRC consultation draft of the international <IR> framework (see diagram later in this paper).

Views are split on whether public sector entities that have not adopted accrual accounting need to do so before attempting to take on integrated reporting. Some consider that integrated reporting can be applied where accrual accounting is absent, where appropriate and robust management information is available. Others consider that it could distract from the need to strengthen public financial management through adopting accrual accounting.

A series of questions is included in Section 4 of this paper to stimulate discussion. The Appendix summarises comments made in response to these questions by representatives of a range of public sector organisations at a roundtable discussion (in October 2012) and workshops (in June 2013) held by the International Integrated Reporting Council (IIRC) and the UK Consultative Committee of Accounting Bodies (CCAB), hosted by CIPFA.

# 1 What is Integrated Reporting?

*'An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.'*

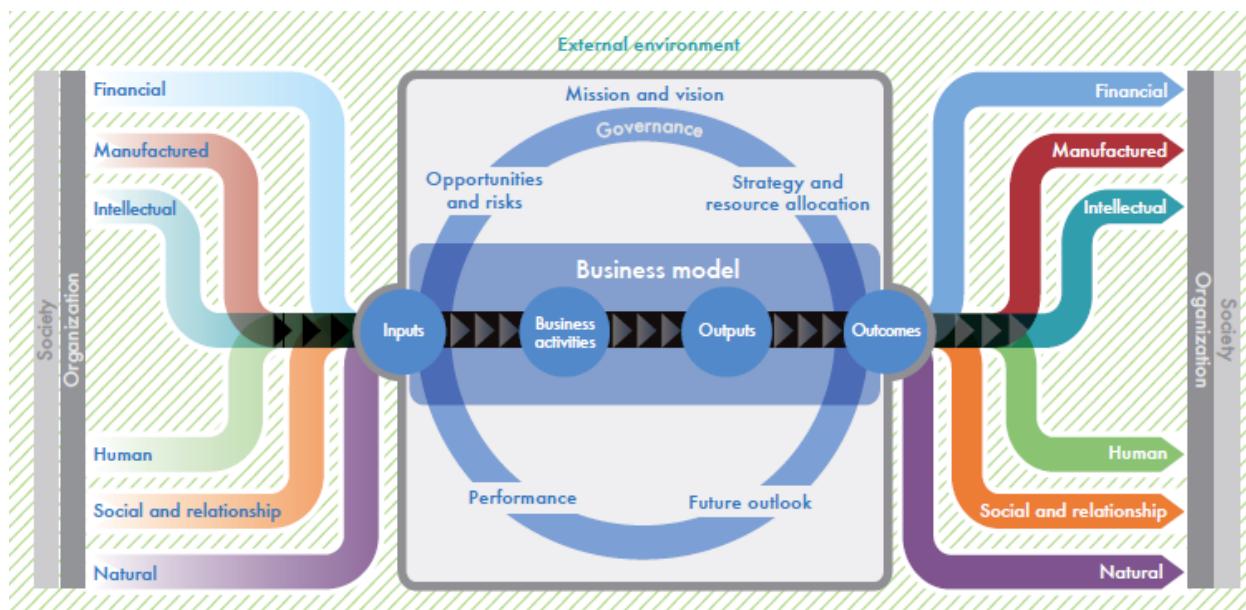
Source IIRC website: [www.theiirc.org](http://www.theiirc.org)

- 1.1 The main focus of the IIRC is currently on corporate reporting and investors, although the consultation draft of international <IR> framework does also recognise its potential wider application: 'The Framework is intended primarily for application by private sector, for profit companies of any size but can also be applied, adapted as necessary, by public sector and not-for-profit organizations'<sup>1</sup>.
- 1.2 Part of the argument for integrated reporting is that while reporting continues to grow in complexity, it fails to fully capture the value created by an organisation's activities. Integrated reporting seeks to address this by bringing together diverse but currently disconnected strands of reporting into a coherent integrated whole.
- 1.3 Integrated reporting spans financial and non-financial information, and connects strategy and planning with information on governance, key drivers, risk, change, performance and impact. It draws on areas covered in existing reporting including:
  - Financial reporting
  - Narrative reporting
  - Governance and remuneration
  - Sustainability reporting
- 1.4 The goal is a more coherent and integrated explanation of an organisation's ability to create and sustain value. The benefits resulting from this process are expected to include improved effectiveness and efficiency through a more rounded understanding of an organization's activities and its impact.
- 1.5 Integrated reporting builds, in part, on the work already undertaken in the field of sustainability reporting, but should not be confused with it. It is not simply about adding sustainability reporting into the mix. It draws on various developments including:
  - Global convergence of accounting standards
  - Sustainability reporting guidance including sector specific guidance
  - Non-financial reporting methodologies
  - Discourse on the evolving nature of financial reporting
  - Existing work done on integrated reporting including reporting requirements introduced in South Africa

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<sup>1</sup> IIRC (2013) *Consultation draft of the international <IR> framework*. Available at: <http://www.theiirc.org/consultationdraft2013/>

- 1.6 A key element of the integrated reporting approach is the reporting organisation's creation of 'value' through its use of a number of 'capitals' (financial, manufactured, intellectual, human, social and relationship, and natural). Integrated reporting seeks to clarify the relationships between the six capitals, the organisation's business model, external factors and strategic thinking, in understanding how the capitals are used by the organisation as well as how these capitals, the business and society are impacted through the process of value creation.



Source: IIRC (2013) Consultation draft of the international <IR> framework

- 1.7 The earlier IIRC discussion paper (published in 2011)<sup>2</sup> highlights a number of areas where integrated reporting is expected to challenge current practice:
- **Thinking** - Integrated Reporting supports thinking outside of silos and recognises the complexity of an organisation's value creation process.
  - **Stewardship** - An Integrated Report provides information on an organisation's accountability not only for financial capital, but also of the other 'capitals' (manufactured, human, intellectual, natural and social).
  - **Focus** - An Integrated Report connects past performance and financial risks with an organisation's strategic objectives and its ability to create and sustain value in the future, thereby providing a more complete perspective.
  - **Timeframe** - Integrated Reporting factors in short, medium and long term considerations, avoiding an excessively short term perspective.
  - **Trust** - Integrated Reporting emphasises transparency, covering a broad range of

<sup>2</sup> IIRC (2011) Towards integrated reporting: Communicating value in the 21<sup>st</sup> Century: [www.theiirc.org/resources-2/discussion-paper](http://www.theiirc.org/resources-2/discussion-paper)



issues and disclosing both positive and negative information.

- **Adaptive** - Integrated Reporting promotes a principles-based approach with an emphasis on an organisation identifying what is material to its particular sector and activities.
- **Concise** – By focusing on only the most material information, Integrated Reporting aims to be concise, clear and readily understandable. The prospect is a more accessible report that clarifies key aspects and activities.
- **Technology enabled** – Integrated Reporting seeks to take advantage of new and emerging technologies to link information within the integrated report and to facilitate access to further detail online.

## 2 Public Sector Differences

- 2.1 There are important differences between public sector and private sector organisations that need to be taken into account when developing a framework for integrated reporting for public service organisations. A number of these are discussed below.
- 2.2 The International Public Sector Accounting Standards Board (IPSASB) Exposure Draft document: *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*<sup>3</sup> highlights a number of characteristics that distinguish the public sector from the private sector and, in particular, investor owned businesses. The characteristics identified are:
- The volume and financial significance of non-exchange transactions, including taxation and other non-exchange transfers and the provision of goods and services in a non-market or limited-market environment;
  - The importance of the budget as, effectively, a primary financial report;
  - The nature of property, plant, and equipment;
  - Responsibility for national and local heritage;
  - The longevity of the public sector;
  - The regulatory role of government;
  - Ownership or control of rights to natural resources and phenomena; and
  - Statistical bases of accounting.
- 2.3 A number of issues arising from these key characteristics are relevant to integrated reporting. These include:
- The nature of public sector accountability
  - The role of taxpayers
  - The intergenerational financing of services
  - Diversity of accounting and reporting approaches including the application of accrual accounting.

### **Accountability**

- 2.4 Public sector organisations are required to work in the public interest. That means being accountable to a very wide range of stakeholders including taxpayers and users of services. Given the nature of public services, users will frequently encompass all citizens. There is even an accountability obligation to future generations of citizens who may hope to inherit well maintained services and well managed public finances.
- 2.5 There is a crucial additional political dimension to public sector and public service organisations when considering accountability. Public sector bodies are continuously required to demonstrate not just that they use resources efficiently and effectively, but also that they maintain the highest standards of probity.

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<sup>3</sup> For more information see IPSASB (2011) *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*. Website: <http://www.ifac.org/publications-resources/key-characteristics-public-sector-potential-implications-financial-reporting>

- 2.6 Views on fairness and ethics play an important part in debates on public policy, public service delivery and the allocation of and access to resources. There is an increasing expectation of openness and transparency, particularly around how and by whom decisions are taken.

### **Taxpayers rather than investors bearing financial risk**

- 2.7 Public sector organisations depend upon the general consent of taxpayers to pay their taxes in order to fund services. Accountability is therefore strongly linked to ensuring value for money, effective delivery and in maintaining taxpayers' confidence in financial management.
- 2.8 The financial risks faced by public sector organisations can include risk of failure of national or local public services and also the failure of civil society organisations supported by government agencies. Over recent years, a number of governments and international institutions have played a crucial role in supporting private sector financial institutions, with additional financial risk to the taxpayer. This reinforces the importance of public sector accountability and transparency in the management of public money.

### **Intergenerational financing of services**

- 2.9 Current government spending must be financed by either taxation or borrowing. Borrowing imposes a burden on future taxpayers and service users either in the form of taxation to finance accumulated deficits or a reduction in the volume and/or quality of public goods and services provided or both.
- 2.10 There is therefore a need for information on the long-term impacts of decisions that have been made at the reporting date, but may not be fully reflected in the financial statements.

### **Diversity of accounting and reporting approaches including the application of accrual accounting**

- 2.11 Accrual accounting has been adopted by some governments in recent decades, but many other countries still account on a cash basis. There has been a move towards global convergence of the financial reporting standards applied to investor owned businesses, and there is a growing list of countries that have implemented or plan to implement International Public Sector Accounting Standards (IPSASs). Yet, there is still considerable variation between countries in terms of public sector accounting and reporting practices.

### **3 What does this mean for Integrated Reporting in the Public Sector?**

- 3.1 Generally current reports tell us little about how well a public service organisation is equipped to meet the challenges ahead and continue meeting its obligations in terms of delivering services and supporting communities.
- 3.2 In addition there is currently no requirement for a single published document which pulls together all the various aspects of a public sector entity's activities, or interprets for users what all of the information currently reported by public service organisations means holistically. Furthermore, there is an extent to which public sector reporting frequently lives in the shadow of the budget. In the public sector, the budget is usually a public document setting out the organization's plans for the provision of services and/or regulatory activities and their funding. In many parts of the world it is the subject of extensive and sometimes heated public debate, often including the consideration of alternative plans and proposals put forward by political parties in opposition. The adoption of integrated reporting may provide a way of increasing interest and engagement in other aspects of reporting beyond the budget.
- 3.3 The IPSASB's recent work on its Conceptual Framework and on projects on long-term fiscal sustainability and reporting service performance reinforces the view that general purpose financial statements cannot satisfy all the needs of users in assessing the efficiency and effectiveness and future viability of programs providing social benefits.<sup>4</sup>
- 3.4 Furthermore the IFAC Sustainability Framework<sup>5</sup> identifies a key role for the accountancy profession in: challenging conventional assumptions, integrating sustainability issues, redefining success, establishing appropriate performance goals and targets and ensuring the necessary information, analysis and insights are available to support decision making.
- 3.5 Integrated reporting provides a way for public service organisations to enhance their strategic planning and consider the long term fiscal (as well as social and environmental) sustainability of the organisation. Organisations need to understand likely future risks and drivers and identify their options in order to be equipped to respond to and manage change.
- 3.6 Integrated reporting also offers an opportunity to consider and review the interconnectedness of complex multi-service delivery and to clarify goals and identify preferred outcomes within the wider context of promoting public wellbeing. The question of at what level to apply integrated reporting is of relevance here.

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<sup>4</sup> IPSASB (2011) ED46 Recommended Practice Guideline, Reporting on the long term sustainability of public finances. Available at: <http://www.ifac.org/public-sector/projects/reporting-long-term-sustainability-public-finances> and Consultation Paper (2011), Reporting service performance. Available at:

<sup>5</sup> IFAC (2011) Sustainability framework 2.0. Available at: [www.ifac.org/publications-resources/ifac-sustainability-framework-20](http://www.ifac.org/publications-resources/ifac-sustainability-framework-20)

- 3.7 Should integrated reporting focus on those government bodies engaged in shaping policy and service choices rather than the individual entities (internal or external) commissioned to deliver specific services for specific periods? If this is the case then perhaps integrated reporting has firstly to be embraced at whole of government level and then taken to the entity level through the various intermediate levels of government.
- 3.8 Public bodies already disclose a great deal of information and produce a multitude of reports for different service areas and activities. Integrated reporting can draw on this material and the expertise already developed by public service organisations in this area. It has the potential to provide a way of giving citizens and other users of public entity reports a single place where they can gain a more complete and holistic picture of the organisation and its performance across a range of dimensions. Key to this approach is providing transparent information which is contextualised as opposed to simply providing data without context. The objectives of public sector organisations are clearly different from investor owned business objectives and, as already mentioned in respect of IPSASB's work, there is already recognition in accounting of differences between public and private sectors.
- 3.9 There is also recognition of differences in non-financial reporting. Global Reporting Initiative (GRI) who produce sustainability reporting guidelines, for example, have produced a sector supplement for public agencies<sup>6</sup> which seeks to address aspects of public service difference.
- 3.10 What needs further discussion, however, is which differences matter in relation to applying integrated reporting and to what extent these differences affect the scope and structure of integrated reporting in public service organisations.

### **When should integrated reporting be applied?**

- 3.11 A number of points need to be considered in deciding when to apply integrated reporting in the public sector.
- 3.12 There is an argument that public sector entities that have not adopted accrual accounting need to do so before attempting to take on integrated reporting. Connected to that is the need to ensure that robust performance management systems are in place. Without accrual accounting and sound performance reporting, the financial and non-financial pieces of the integrated jigsaw will be incomplete.
- 3.13 However there is also a counter view that there are users for integrated reports even if accrual accounting has not been implemented provided that appropriate and robust management information is available. Many governments who apply cash or a modified version of cash or accrual accounting, also produce performance information on service delivery and other achievements, albeit that without accrual accounting certain costs may not be available.

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<sup>6</sup> GRI (2005) Sector supplement. For public agencies Pilot Version 1.0. Available from GRI; email: [guidelines@globalreporting.org](mailto:guidelines@globalreporting.org)

- 3.14 Consideration also needs to be given to the existing reporting commitments of particular public sector entities. Existing commitments and content must be taken account of in deciding on both the form and content as well as when it would be appropriate to introduce integrated reporting.
- 3.15 In addition, in the longer term, the question of whether integrated reporting is voluntary or mandatory is relevant. If it is voluntary then the decision of when to apply integrated reporting remains to some extent with the particular public entity. They would need to decide if it is the right time for them to adopt it. Furthermore it is likely that local legislative requirements would also impact on this.

### **Next steps?**

- 3.16 Work is needed on developing a public sector perspective on integrated reporting. This includes consideration of the ongoing work of the IIRC in developing the Framework as well as identifying points of potential difference in applying integrated reporting to public sector entities.
- 3.17 Although the six 'capitals' approach (see diagram earlier in this paper) described in the IIRC consultation draft framework appears to be a helpful way of thinking about how an integrated report might be constructed, it would require further development for use in the public sector. In particular, there may be significant measurement and reporting issues arising from attempting to usefully report on an entity's use of and impact on 'natural' and 'social and relationship' capitals. It also includes consideration of what is meant by 'value' and value creation in the context of public wellbeing and public service goals.
- 3.18 As already mentioned in this paper, we should also recognise that public sector entities do already publish a wide range of data on their non-financial impacts and performance. One of the challenges arising from this is for public service organisations to understand and clarify the connectivity of all of this information.
- 3.19 The next section sets out a number of questions with the aim of stimulating further discourse on this subject.

## **4 Discussion Issues**

The following is not an exhaustive list, but is offered as a starting point for further discussion and development of a public sector approach to integrated reporting.

### **4.1 Relevance to public sector**

- 1 How do the objectives of integrated reporting fit or contrast with other types of public sector reporting?
- 2 Who would be the users of integrated reports produced by public sector organisations?
- 3 Are all the components of the proposed integrated framework relevant to the public sector?
- 4 Can an integrated report provide a complete and balanced view of a complex multi-service organisation?
- 5 Could integrated reporting be designed to ensure that all relevant material information is included and properly disclosed?

### **4.2 Approach if applied to the public sector**

- 6 What are the fundamental differences between public and private sector entities that would need to be taken into account in developing integrated reporting for public service organisations?
- 7 Would there need to be a different balance between financial and non-financial information and quantitative and qualitative information?
- 8 At what level or levels of public sector should integrated reporting be applied; e.g. individual public service organisations, and/or local, regional or central government departments and/or central government level?
- 9 Would 'value' creation mean something different in public service organisations compared to investor owned businesses?
- 10 If so, would these and other terms (such as 'capital') used in integrated reporting, need to be redefined in relation to the context of public sector goals and characteristics?
- 11 Is accrual accounting a prerequisite for integrated reporting by public sector organisations?

### **4.3 Accountability issues**

- 12 To what extent is there a need for comparability of information supplied in an integrated report between organisations or services?
- 13 Should integrated reporting be on an annual basis or are there more appropriate reporting cycles which better reflect specific services, activities and outcomes analysis?
- 14 What are the challenges in reporting on outcomes that are dependent on the actions of more than one reporting entity and how can they be addressed?
- 15 Is an internationally agreed good governance code for public service organisations a necessary requirement for developing integrated reporting for the public sector?
- 16 Should independent assurance be a requirement for integrated reporting and if so what shape should that assurance take?



## Summary of key points raised during the IR roundtable in October 2012 and workshop discussions in June 2013

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
<p><b>Relevance to public sector</b></p> <p>1 How do the objectives of integrated reporting fit or contrast with other types of public sector reporting?</p>	<p>There was general agreement that the principles were relevant to the public sector.</p> <p>The financial statements of public sector bodies can be difficult to understand – something that brings together financial and performance information is needed.</p> <p>Positives for integrated reporting are that it can help the transparency agenda and can encourage integrated thinking by developing skills and competence.</p> <p>The principles are ‘just good business’ and therefore would underpin how an effective public sector organisation works.</p>
<p>2 Who would be the users of integrated reports produced by public sector organisations?</p>	<p>The information provided should be able to be used to inform electorates but there is a question as to how achievable this is.</p> <p>Public sector organisations need to demonstrate clearly for stakeholders how efficiently they have used the resources they were given or earned. Stakeholders include government, donors of material funds, investors and the general public. Each of these stakeholders having differing information needs, different levels of understanding and ability to understand the information in an IR. Therefore the reporting body must understand the needs of its potential users. This understanding might be more diverse than that required for the investor.</p> <p>The current financial statements issued by many public sector organisations are generally complicated for non-accountants to use. The use of summary financial statements may be a suitable</p>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<p>alternative.</p> <p>There is a need to step back and consider:</p> <ul style="list-style-type: none"> <li>▪ Who is the audience for the accounts?</li> <li>▪ Be aware of the politics</li> <li>▪ How to bring together all things mandated?</li> </ul> <p>There is a need to consider what stakeholders will do with the information – how will they drive value? In considering this, need to define who / what stakeholders, and what values – and move people there.</p> <p>How to make it something that is embedded?</p> <p>Information needs to drive changes in behaviour. What do business managers need? We need to get past what they want to know to what they need to know. Systems are key, and investment will be needed.</p> <p>There is a risk that the commitment to integrated reporting could change as political pressures change. To avoid this, integrated reporting needs to be embedded by providing information that managers want to manage their business.</p> <p>The 'Anytown taxpayer' might ask "...do I understand what is going on from the existing information provided?" The current position is a patchwork of lots of bits of stories and a focus on the current year as opposed to the long term strategy, goals and objectives and performance linked to these.</p> <p>Stewardship has to include sustainability, governance, environment and economic development, and so on in order to provide a clearer picture.</p> <p>The taxpayer should have a clearer picture of the broader view of what government does locally and nationally and what the choices are going forward regarding services, etc.</p>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<p>In terms of the relationship between central and local government, the potential benefits for, say, DCLG include: improved local accountability and transparency, an approach to reporting which could support localism. But linked to this are the questions regarding how you do this in a way that makes information accessible and useful to stakeholders and without introducing additional bureaucracy. Experience to date suggests that the audience may not be a big challenge when compiling the &lt;IR&gt; report. However the process underneath the report can be much more complex than the resulting report.</p>
<p>3 Are all the components of the proposed integrated framework of relevance to the public sector?</p>	<p>To operate efficiently public sector organisations need access to the information that would be required by IR and to have a strategic focus which consider the future approach and performance of the organisation. An effective integrated reporting approach should therefore assist with the efficient use of resources.</p> <p>However, how relevant is IR where a high level of ongoing organisational change is likely and where those involved in running the organisation do not control the future shape of organisation?</p> <p>The approach can be to take the general concepts of &lt;IR&gt; and apply to the particular context of the public service organisation, its goals and objectives.</p> <p>The organisation can decide which elements are more important but without all of content it may cease to be the whole story.</p> <p>Accountability is strong driver of public sector reporting, but in the current austerity climate many tough decisions are needed in respect of future services. So IR needs to address the future as well as the linkages between the different parts of the organisation and its various activities and services.</p>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
<p>4 Can an integrated report provide a complete and balanced view of a complex multi-service organisation?</p>	<p>There is a tendency to measure what can be measured rather than what is required. There will be a lot of information to fit into a relatively short report and if this isn't done well, politicians may lose interest. In local authorities, councillors often relate to the smaller figures more easily than the larger figures.</p> <p>Not all the answers are available in the financial statements that would be required for reporting forward looking information under an IR reporting framework. Information provided by economists would be essential to set out the resources issues for future public service entities. An example cited was property market information.</p> <p>Not easy in the current environment to predict future resource issues</p> <p>The advantages of integrated reporting would be:</p> <ul style="list-style-type: none"> <li>▪ Focus on the long term rather than the short term (move away from election cycles)</li> <li>▪ Governance and accountability</li> </ul> <p>A summarised document, signposting key information in, for example, the financial statements would be of benefit.</p> <p>A challenge for integrated reporting would be to remove the political bias.</p> <p>Organisations often don't understand the links between finance and performance; there is weak understanding of costs and cost drivers in the public sector. This is exacerbated by the fact that value is a more complex concept in the public sector and the strategic focus can change overnight with a change of minister or government.</p> <p>To deliver more integrated reporting (and other reporting such as balanced scorecards), some organisations are developing more expert functions that can produce combined financial management information and data analysis, drawing on information from various sources.</p>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<p>Most if not all the existing documents and reports do not provide the whole picture. This is where integrated reporting fits, in terms of providing a more balanced and complete picture and including an assessment of relevant future changes and strategies addressing these. Also the idea of 'value creation' goes beyond basic reporting models. One of the pilot examples, for instance, has taken elements of their existing financial reports and sustainability reports and combined the information in an integrated report. It involves connecting the dots.</p> <p>A major benefit could be the pulling together of information which currently is often seen in isolation and so only provides a partial view of the organisation's performance. Also, there may be potential to streamline reporting as part of process of pulling information together in one report.</p> <p>Central to this is how to make use IR as a catalyst to check on what is already there and what is actually needed. There is a real benefit from revisiting existing reporting and reviewing current reporting commitments and identifying scope for streamlining and focusing future reporting.</p> <p>IR should link with all of the existing reporting. IFAC work on governance, for example, fits well with aspects of &lt;IR&gt;.</p>
<p>5 Could integrated reporting be designed to ensure that all relevant material information is included and properly disclosed?</p>	<p>An integrated team will be required to promote integrated thinking. This would need a strategic focus and would need to make judgement calls to produce balanced and objective reports.</p> <p>The building blocks to a future IR were considered to be in the 'front end' of the Annual Report in the business or operating review or the management commentary on the financial statements. The focus of these is particularly important for the public sector as the nature of public sector organisations being budget driven means that for an IR report the emphasis would be on the forward looking nature of the information requirements rather than outturn. This was a matter of</p>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<p>emphasis as there was a vital role in reported information providing the starting point for the future aspirations of an entity.</p> <p>There was a debate about whether the framework should be principles based or provide a template</p> <p>Use of e.g. risk registers and mitigations could be made more transparent as part of IR. However there is a fear of misuse, and could end up with a 'private' version, or the risk register being worded so that it is not informative.</p> <p>Keep in mind that the &lt;IR&gt; conceptual framework is principles based and is not intended to provide detailed guidance. This allows for organisations to interpret the framework within the parameters set by the guiding principles.</p>
<p><b>Approach if applied to public sector</b></p> <p>6 What are the fundamental differences between public and private sector entities that would need to be taken into account in developing integrated reporting for public service organisations?</p>	<p>The political dimension and the pressure this creates.</p> <p>The nature of resource allocation in the public sector meant that it was vitally important that systems and information were developed that would identify the resource issues for the public sector in the future. For example, understanding the nature of demographic change and the other needs evolving for public services were essential to ensure the equity of resource distribution and maintain intergenerational equity of this distribution. Whole of Government Accounts provide an essential starting point or baseline for this process.</p> <p>Central government reports on whether objectives have been achieved or not achieved. This is more difficult in the longer term. Objectives can be non-quantifiable especially if there is no financial outcome or behavioural change.</p> <p>Necessary for public sector reports to emphasise the stewardship functions for the organisations in question.</p>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<p>There is a multiplicity of stakeholders across the public sector. How will they identify benefits? Targeting investors is fine for the private sector but how applicable would this be for the public sector?</p> <p>The public sector already undertakes a substantial amount and variety of reporting and perhaps IR can assist in integrating that information to present a more complete picture while avoiding duplication and additional resource costs.</p> <p>There are differing drivers within public sector and they need carefully considering within the context of IR</p> <p>There are differences in stakeholder relationships and the breadth of stakeholders responsible to. This needs to be recognised and assessed for their impact on the IR model.</p> <p>The role of the budget in the public sector as, in effect, a primary financial statement and one that undergoes considerable public scrutiny needs to be considered. Main public and stakeholder interest is in budget projections rather than accounts.</p> <p>Much information is now provided through Freedom of Information requests; more focused and more quickly</p> <p>It is an opportunity to use information already generated and make better use of it in producing a more complete picture and improving decision making. This needs to be done in a way that recognises the existing economic climate and constrained budgets. It has to deliver real benefits while also recognising that there will be some resource requirements.</p> <p>A potential benefit would be achieving greater goal congruence between management and those engaged in the governance of the organisation. &lt;IR&gt; could provide management and the governing body with an agreed common understanding of the organisation, what it does, how it is performing and where it hopes to be in, say, ten years.</p> <p>The principles of the IR framework can be applied and adapted for</p>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<p>private, public and third sectors. To some extent, public sector issues are linked to IFRS reporting requirements which are considerable.</p>
<p>7 Will there need to be a different balance between financial and non-financial information and quantitative and qualitative information?</p>	<p>Technology such as the iPhone has seen changes in how people access information. Short presentations rather than large documents are likely to be the preferred option. Integrated reporting needs to be different and less dense than financial statements or annual reports.</p> <p>In the 1980s annual reports included substantial narrative and financial elements. Annual accounts now dominate and are very large. There is a risk that combining with IR will add to an already large unmanageable document. Need to make sure IR is clear and concise.</p> <p>One approach is to use a summarised format for the integrated report which is then linked to other electronic documents and data. &lt;IR&gt; can assist with moving to that approach.</p> <p>New technology is increasingly useful here. It is now possible to design an online report in such a way that different stakeholders are able to access information in different ways.</p> <p>Challenge is thinking carefully about &lt;IR&gt; in order to arrive at a concise clear overview but with the ability to drill down for those that have particular or specialist interests and questions.</p> <p>IR can help think through existing reporting too as well as integrate. It does take time and thought to produce a more concise form of report but &lt;IR&gt; can help support moves in that direction. The result should be a far more useful document.</p>
<p>8 At what level or levels of public sector should integrated reporting be applied; e.g. individual public service organisations, and/or local, regional or central government departments and/or central government level?</p>	<p>One question that needs to be addressed is whether we are looking at organisations or systems. For example, are we looking at the Department for Education, the Department and the 2,000+ academy schools or the Department, the 2,000+ academy schools, local</p>



Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<p>authorities and the thousands of maintained schools?</p> <p>There is a discussion to be had regarding the applicability of IR in the public sector at the level of:</p> <ul style="list-style-type: none"> <li>▪ Sector</li> <li>▪ Service</li> <li>▪ Organisation</li> </ul> <p>Is the long term sustainability of the service rather than the organisation of greater relevance and does IR make most sense at the central core and commissioning level?</p> <p>There needs to be scaling in regard to reporting. It is quite reasonable to do a smaller &lt;IR&gt; report relative to the size, activities and resources of the reporting organisation.</p> <p>IR has initially been designed for larger companies but can be applicable to smaller organisations. Irrelevant of the size of the organisation it can be a useful management tool to assist with asking the right questions and delivering on outcomes. It can be scaled down and used to improve service delivery in smaller organisations. There is an example of a relatively small charity looking to adopt the IR framework and interpreting it for their particular activities and goals.</p>
<p>9 Would 'value' creation mean something different in public service organisations compared to investor owned businesses?</p>	<p>The idea of 'creating value' needs defining in the context of public service delivery; including taking account of organisations that are not income generating and so do not create value in the same way as an investor owned business (IOB).</p> <p>'Value' in the context of &lt;IR&gt; is best understood as a concept within a principles based, non-prescriptive, approach to reporting. One way to understand 'value' is that it can be either:</p> <ul style="list-style-type: none"> <li>a. used or</li> <li>b. built up</li> </ul>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<p>One of the things we need to do is to contextualise 'value' and 'value creation' for the public sector. More broadly, the approach can be to keep the existing &lt;IR&gt; model but interpret and explain it within a public sector context.</p> <p>What 'value creation' is and whether it is the same for the public sector are important issues.</p> <p>Value creation links to the idea that if the organisation is not adding value to someone then it won't have viable business because it won't get used by stakeholders. In the public sector context this can be about solving problems effectively and achieving desired outcomes. This is value creation. It is also about having a resilient and sustainable organisation.</p> <p>Do we need a public sector language for this or is it more than that?</p>
<p>10 If so, do we need to define these and other terms (such as 'capital') used in integrated reporting, in relation to the context of public sector goals and characteristics?</p>	<p>There are examples to draw on. In South Africa &lt;IR&gt; is mandated and is now in its third year. There we see a variety of examples, from clear signs of organisations adopting an integrated approach, to those moving towards integrated reporting to those who are taking more limited approach and ensuring basic compliance with requirements.</p> <p>The &lt;IR&gt; framework also acknowledges the concept of 'trade-offs', recognising that an improvement in regard to one of the 'capitals' may result in an associated cost in one or more other 'capitals'. The &lt;IR&gt; approach will enable the organisation to communicate this in a way that recognises and builds support among stakeholders for difficult decisions.</p> <p>There are also UK public sector examples including: NHS London and The Crown estate.</p> <p>A balanced approach is needed which is based on applying good models and learning from others experience.</p> <p>The NAO have produced a report which looks at reports produced by</p>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<p>participants in central government sustainability reporting and based on the connected reporting framework. The report indicates that there are some very strong examples of integrated/connected reporting and thinking including forward looking commentary and strategy although a significant number had failed to adequately explain their long term sustainability strategy.</p> <p>There is also a different dynamic to consider in the public sector, where evaluation of performance is not linked to the 'bottom line' and share price. Thought needs to be given to how performance and outcomes are best communicated and what this means in terms of making it understandable and useful to the target audiences.</p>
11 Is accrual accounting a prerequisite for integrated reporting by public sector organisations?	There are challenges in regard to public sector reporting requirements and the size of the reporting organisations. In addition, internationally there is an ongoing debate on public sector reporting in regard to the merits of accruals v cash accounting. In addition because of the variety and complexity found in the public sector there are issues around the comparability and accountability of reporting.
<b>Accountability issues</b>  12 To what extent is there a need for comparability of information supplied in an integrated report between organisations or services?	'Benchmarkability' was seen as important – integrated reporting should provide the opportunity to compare performance across organisations and over time.
13 Should integrated reporting be on an annual basis or are there more appropriate reporting cycles which better reflect specific services, activities and outcomes analysis?	
14 What are the challenges in reporting on outcomes that are dependent on the actions of more than one reporting entity and how can they be addressed?	Some companies are looking at valuing environmental impact. Puma, for example, are doing it and are putting a number to it in terms of loss/cost. Measuring impact raises complex questions.

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
15 Is an internationally agreed good governance code for public service organisations a necessary requirement for developing integrated reporting for the public sector?	There is already work going on with IFAC on public sector governance, which can inform this discussion.
16 Should independent assurance be a requirement for integrated reporting and if so what shape should that assurance take?	<p>Assurance will be required over the information presented to prevent a positive spin being placed on the data.</p> <p>If audited – this is likely to be an extra cost</p> <p>IIRC have been looking at assurance and recognise that some form of assurance is required. It is a complex area given the range and scope of material covered in an integrated report. An IIRC paper on the topic is in process and will be published.</p> <p>There is an emphasis on completeness in IR but not assurance. There are questions of whether the report should be signed off and by whom. Options regarding the scrutiny of reports include internal and external assurance. Certainly, Directors should sign off on the IR report.</p> <p>One approach would be for assurance to focus on the 'process' rather than the final 'output' in the form of the report.</p>
<b>Implementation</b>	<ul style="list-style-type: none"> <li>▪ There is a need to consider the impact on staff. The strategy and communications thinking are often in different 'boxes', whereas the skills required for integrated reporting will require the strategic and technical skills to be brought together.</li> <li>▪ Integrated reporting will only work if it is seen as new – even if this has a cost / resource requirement. If it just replicates what is already in place, it will become a tick box exercise.</li> <li>▪ In the private sector pilots, the most successful were those that started with a blank piece of paper and drew together teams from across the organisation that often hadn't met before.</li> </ul>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<ul style="list-style-type: none"> <li>▪ Control issues could be a barrier.</li> <li>▪ Compulsion may be required, otherwise only the good organisations who are already gaining some of benefits of integrated reporting will take part.</li> <li>▪ Implementation may need to be phased – some organisations may not have the systems to deliver integrated reporting in the shorter term whereas others will.</li> <li>▪ The project might be resource intensive for entities which are not resource rich at the moment. The project seemed to be a 'big project'. It might be useful if an approach to the framework was set out in tangible milestones working and building on existing systems and frameworks with a set of staged achievable targets.</li> <li>▪ Politics is the biggest barrier – politicians will need to want to use integrated reporting to drive good long term decision making.</li> <li>▪ In some respects, in the public sector, it may be about formalising existing opportunities for linking information already produced and for standardisation of reporting. The current austerity climate is arguably the best time to apply an &lt;IR&gt; approach in the public sector.</li> <li>▪ There is a need to move away from a short term focus and &lt;IR&gt; is one part of that process but it can't be the only point of change.</li> <li>▪ &lt;IR&gt; can be used to support a move to longer term strategic thinking and some organisations will take full advantage of it in doing this but we have to accept that it will vary depending on the organisation and its management and the environment in which it is operating in at a given point in time.</li> </ul>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<ul style="list-style-type: none"> <li>▪ &lt;IR&gt; is not to be viewed in isolation and has to be part of a broader change to more integrated ways of thinking and working.</li> <li>▪ We have to also recognise that there is often resistance to change and that many people are happy within their current silos and ways of working.</li> <li>▪ There is still a long way to go and much depends on the degree of engagement by CEO's and FD's and the extent to which change management is required in the long term.</li> <li>▪ A statutory underpinning can help support drive for change but even then there is a risk of falling into basic compliance and tick boxing. Who leads on this: The CEO, the accountable officer, the leader of the council, the FD or a combination? <ul style="list-style-type: none"> <li>▪ The corporate management team</li> <li>▪ It should be driven by the board and management team, while also engaging with others.</li> <li>▪ Needs collaboration between PR, technical and finance functions.</li> <li>▪ Has to cross over various functions and activities</li> <li>▪ Has to be corporate ownership</li> </ul> </li> <li>▪ Following on from this, what professional bodies and apex organisations should promotion of &lt;IR&gt; focus on?</li> <li>▪ Going forward, &lt;IR&gt; pilots are needed in the public sector to learn from</li> <li>▪ Don't get tied down by the terms or you risk losing the ideas behind &lt;IR&gt; reporting</li> </ul>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	<ul style="list-style-type: none"> <li>▪ It can be an incremental process of building new internal structures that enable a more joined up approach to planning, decision making and operations, as well as a breaking down of silos.</li> <li>▪ There is the issue of mandatory v voluntary and whether &lt;IR&gt; can prevail on a voluntary basis. Who is driving the agenda, and where is the demand? There is nothing to stop us doing it but is there demand? Does &lt;IR&gt; need statutory underpinning?</li> <li>▪ Over time it may need regulation to back up adoption of IR.</li> <li>▪ One example of a voluntary form of guidance that has succeeded is the Greenhouse Gas Protocol which has been adopted by more than 4000 organisations.</li> </ul>
	<p>Potential barriers are:</p> <ul style="list-style-type: none"> <li>▪ Seen as finance led.</li> <li>▪ How does this fit with / alongside other frameworks?</li> <li>▪ So much else is likely to be happening in the next few years that IR could be seen as yet another burden (to overcome this IR will need to work for politicians as they inevitably have a short term focus on the next election).</li> </ul> <p>Hooks that can be used are:</p> <ul style="list-style-type: none"> <li>▪ Organisations are doing this already</li> <li>▪ Building on existing practice to make it better</li> <li>▪ Gradual move to integrated thinking / reporting</li> </ul> <p>A major challenge is in applying IR at a time of change in a public sector which is focused on achieving savings and which has seen a significant increase in accounting and reporting requirements in recent years.</p>

Questions included in issues paper (Section 4)	Key points raised in roundtable and workshop discussions
	One of the challenges is how to drive the <IR> initiative forward in the public sector without substantial additional resource commitments.