

Framework for Integrated Reporting

CS(Dr.) S K Gupta Group, CEO, AIHP Gurgaon | cbst.sk Gupta@gmail.com

In an era in which news spreads as it happens through the Internet and social media networks, investors, society, and governments are increasingly demanding that organizations be accountable to stakeholders, not merely shareholders, and be transparent about their activities. The change in investor landscape from a typical investor whose only focus was financial return to investors with a broad focus on sustainable responsible performance, has not only demanded that organizations re-think their use of resources but also how the information should be reported to those concerned. These ultimate investors are aware that action falling short of taking care of society and the environment can cost them via taxes to repair damage caused by organizations that reap short-term benefits.

On 7 February 2017, SEBI issued a circular in exercise of the powers conferred under Section 11 read with Section 11A of the Securities and Exchange Board of India Act, 1992 where under the listed entities are advised to adhere to the following:

- a. Integrated Reporting may be adopted on a voluntary basis from the financial year 2017-18 by top 500 companies which are required to prepare BRR.
- b. The information related to Integrated Reporting may be provided in the annual report separately or by incorporating in Management Discussion & Analysis or by preparing a separate report (annual report prepared as per IR framework).
- c. In case the company has already provided the relevant information in any other report prepared in accordance with national/international requirement / framework, it may provide appropriate reference to the same in its Integrated Report so as to avoid duplication of information.
- d. As a green initiative, the companies may host the Integrated Report on their website and provide appropriate reference to the same in their Annual Report.

While some Indian companies have already been following IR on a voluntary basis, SEBI's recent circular is likely to encourage other listed companies to include non-financial disclosures in their annual report, hereby adopting international best practices.

This paper proposes an integrated reporting framework including the suggested elements to be addressed which may be used by the organizations to develop Integrated Report.

Suggested elements to be addressed in the integrated report

The elements listed below are those that are seen as being appropriate to consider for inclusion in the suggested elements to be addressed in

the integrated report. The elements listed below are those that are seen as being appropriate to consider for inclusion in the integrated report if the report is to meet the stated objectives of integrated reporting. The suggested elements are neither prescriptive nor intended to limit what is included in the report. Judgment should be exercised in determining which elements the organization should report on, as well as the structure of the report. The following is provided for broad guidance purposes only.

A) Report profile

(What is the scope and boundary of the report?)

The report should include a brief description of the scope and boundary of the integrated report.

Some examples of what could be considered for inclusion in the report are:

- ◆ The reporting cycle (e.g. annual) and the period covered by the report.
- ◆ The reporting boundary, noting the geographic scope, the entities represented in the report (e.g. subsidiaries, JVs, franchisees), and the nature of the information provided for each entity (e.g. operational performance, management performance or general narrative description).
- ◆ The process used for identifying the reporting boundary.
- ◆ The reporting principles that have been applied
- ◆ The policy and practice relating to seeking assurance on the report, the nature and scope of assurance provided for this particular report, any qualifications arising from the assurance, and the nature of the relationship between the organization and the assurance providers.
- ◆ Significant restatements from prior reporting periods.
- ◆ Reference to major supporting documentation that may be separately available (e.g. the annual financial statements, sustainability report, and other communications with stakeholders).

B) Organizational overview, business model, and governance structure

(How do we create value and make decisions?)

The report should include an overview of the organization, the manner in which it currently creates value, and a description of

*The views expressed are personal views of the author and it should not be taken as views of the NIRC-ICSI.

its governance structure. The level of detail provided should be sufficient for stakeholders to make an informed assessment on the organization's ability to create and sustain value over the short-, medium- and long-term, and on how efficiently and effectively the organization's executive team and governing structure have discharged their responsibilities to use the organization's resources responsibly.

Some examples of what could be considered for inclusion in the report are:

- ◆ A brief *organizational overview* noting:
 - The organization's name, size and the location of its operations and activities.
 - The principal activities of the organization, including its products and services.
 - The organizational structure, including the principal divisions, subsidiaries, associates
- ◆ A concise statement of the *business model* describing the manner in which the organization currently creates value.
- ◆ Information about the existing resources of the organization and any claims against it.
- ◆ A brief description of the material aspects of the *governance structure*, which may include the following:
 - A diagram of the governance structure, including the authority levels.
 - An outline of general governance aspects, including the key policies, ethical approaches, and
 - commitments approved by the organization's governing structure, as well as the ancillary processes for determining key strategic and tactical approaches.

C) Understanding the operating context

(What are the circumstances under which we operate?)

The report should provide information to allow stakeholders to assess the extent to which the organization's ability to create and sustain value (in the short-, medium- and long-term) is based on financial, social, environmental and economic systems and its relationships with key stakeholders. Some examples of what could be considered for inclusion in the report are:

Identifying material issues, impacts and relationships

- A brief description of the financial, social, environmental, economic and governance *issues and trends* that are relevant to the organization's current and anticipated activities. In identifying these, the organization should consider and identify issues and trends that are relevant to its sector, its products and services, the markets and regions where it operates, as well as the issues and trends that may be specific to the organization itself. In doing this, the organization could

consider:

- Global issues and trends (e.g. exchange rate fluctuations, commodity prices, climate change and demographic developments), as well as local issues and trends (e.g. broad-based black economic empowerment, HIV/Aids and socio-economic inequality).
- Issues and trends that have an immediate bearing on the organization, as well as those that have an anticipated future impact.
- A concise statement of the significant *impacts* – both positive and negative – of the organization's decisions and activities on financial, social, environmental and economic systems, identifying those that have material implications for its ability to create and sustain value, and where the organization has the potential to optimise or lessen these impacts.
 - Direct impacts could include the direct economic value generated and distributed, the significant use of (or impact on) natural resources, and the material contribution to societal challenges such as skills development and broad-based black economic empowerment.
 - Indirect impacts could include the influence on the performance and material impacts of other organizations and individuals within the value chain, and the indirect contribution to employment generation and wealth distribution.
- The organization should consider the quality of its *relationships* with stakeholders and the potential to impact on the organization's ability to create and sustain value. The report should briefly:
 - Identify the key stakeholder groups and describe how the organization's relationship with each group may impact on its ability to create and sustain value.
 - Describe the organization's current and anticipated approach to developing and maintaining an effective relationship with each stakeholder group.
- A description of the process that has been followed to identify the *issues, impacts and relationships* and to determine those that are material to the organization and its ability to create and sustain value. To avoid concerns about being selective in identifying material issues, the organization should explain why any issues that are often considered relevant to its sector or location have not been identified as material. A more detailed explanation of the process for determining materiality may be made available separately.

Identifying risks and opportunities

- A concise statement of the principal *risks and opportunities* having a bearing on the organization's current and anticipated activities based on its material issues, impacts and relationships. A table could be included listing the risks and

opportunities with a summary of the organization's response to each and perhaps a cross-reference to a more detailed response elsewhere in the report or in other reports.

- Where there is any doubt that the organization, or a major component of the organization, may be a going concern, the reasons for that concern and the factors that may influence the outcome should be communicated.

D) Strategic objectives, competencies, KPIs and KRIs

(Where do we want to go and how do we intend to get there?)

Informed by the analysis outlined above, the organization should provide a statement of its strategic objectives and targets, an indication of the organizational competencies required to realize these objectives, and a succinct list of KPIs and KRIs that will track performance against the strategic objectives and competency requirements. This should cover the short-, medium- and long-term periods.

Some examples of what could be considered for inclusion in the report are:

- ◆ A concise statement of the *strategic objectives* that have been made with the aim of creating and sustaining value over the short-, medium- and long-term. The statement should clearly demonstrate how these strategic objectives are connected with the organization's business model, its material issues, impacts and relationships, and its identified risks and opportunities.
- ◆ An indication of the organizational *competencies* (internal systems, personnel and culture) required to realize its strategic objectives in the context of the material issues, impacts and relationships. This may include the systems, personnel and culture relating to compliance management, trends analysis, data management, stakeholder relationships, risk management and innovation.
- ◆ A list of priority *KPIs and KRIs* with a brief description of each outlining how they have been determined, including any frameworks used.

Account of the organization's performance

(How have we fared over the reporting period?)

An important part of the integrated report is an account of the organization's performance. This includes current financial performance and other appropriate measures of performance. This should include a brief description of the organization's activities taken in respect of its strategic objectives and targets, as well as a concise review of the outcome of these activities. While the performance review should be primarily at a group level, depending on the nature of the organization it might also entail a high-level review of performance for each of the significant business units. The performance review should be integrated in a holistic manner throughout the report.

Some examples of what could be considered for inclusion in the report are:

- A concise account of the activities undertaken during the reporting period to address the strategic objectives and material impacts, and to ensure the organization has the required organizational competencies to deliver on its strategic commitments.
- A concise description of the outcome (noting both successes and failures) of its activities in terms of its strategic objectives and targets, material impacts, KPIs and KRIs. Sufficient information should be provided to enable an assessment of performance trends and key patterns in terms of the organization's strategic commitment areas and material impacts.

E) Summary financial information

The integrated report may, depending on the volume of material information and the complexity of the organization, be separate from the more detailed annual financial statements. The integrated report, however, should be able to stand alone and thus should provide sufficient financial information to enable an informed opinion to be made. It is suggested that the following financial information should be included in the integrated report:

- ◆ Abridged financial statements (e.g. statement of financial position, statement of changes in equity, and statement of cash flow).
- ◆ Explanation of factors influencing change in profits (e.g. changes in volume of inputs or outputs, selling price, input costs, exchange rates, acquisitions or disposals of business or discontinued operations).
- ◆ Identification of unusual/non-operating items included in the results – a reconciliation to
- ◆ headline earnings/core earnings or whatever measure management believes is the most
- ◆ meaningful measure of financial performance.
- ◆ Segmented information where relevant.
- ◆ Financial investment in future capacity (e.g. capital expenditure, research and development
- ◆ expenditure, acquisition of business).
- ◆ Factors that may influence future cash flows, such as capital commitments and contingencies.
- ◆ Financial value added by the business and how it was applied (e.g. employee benefits, taxes
- ◆ paid, providers of capital and reinvested).
- ◆ Economic value (as opposed to financial issues) should be specifically addressed – i.e. value

- ◆ added to the community, sharing of wealth, distribution of wealth etc.

The financial information used in the integrated report should be derived from and be in alignment with the information contained in the audited annual financial statements. Organizations should not change accounting policies for presentation of information in the integrated report

F) Future performance objectives

(Informed by our recent performance, what are our future objectives?)

In addition to reporting on the performance during the reporting period, the integrated report should include a forward-looking statement of the organization's anticipated activities and performance objectives, informed by its assessment of recent performance and understanding of societal trends and stakeholder expectations.

- ◆ The report should include a clear statement of intent regarding future performance, ideally including specific performance targets. The statement of intent and any accompanying targets should be aligned with the organization's assessment of the changing societal context, be consistent with its strategy and KPIs and KRIs, and be responsive to the expectations of key stakeholders.
- ◆ The report should include a forward-looking reflection on the internal systems, personnel and culture that the organization has identified as being required to address its identified risks and opportunities and to ensure delivery on its strategy. It should outline the anticipated activities being considered to develop the required systems, personnel and culture.

G) Remuneration policies

(What is our approach towards remuneration?)

An integrated report should provide information on how employees in general and senior executives in particular are remunerated.

Disclosure should include how they have been remunerated in the current period, as well as factors that will influence future remuneration. The disclosure in respect of current remuneration should indicate the extent to which the remuneration is fixed and variable and the factors that influence the variable element. Consideration should also be given to disclosing comparatives for the total cost to the organization per employee at the different levels. As senior executives are instrumental in determining the strategy of the organization, it is important to understand how that strategy could influence their future remuneration. KPIs that could influence senior executive remuneration should be identified and the extent to which that could influence remuneration disclosed.

H) Analytical commentary

(What are the views of the leadership about the organization?)

The report should include a brief analytical commentary that reflects the understanding of the organization's governing structure and executive team regarding the nature of the organization's current and anticipated performance in the context of the organization's strategic objectives. The organization should report how it can improve its positive material impacts and how it can eradicate or ameliorate its negative material impacts. Inclusion of appropriate ratios of financial, economic, environmental, social and governance information, as well as summarized historic information is likely to be appropriate.

Conclusion

An integrated report attempts to tell a story about an organisation's journey towards reaching its vision, reporting about its historical and intended performance. The intended performance is presented with assumptions and the judgements underlying them. These assumptions and judgements can serve as a hedge against litigation. Most importantly an organisation should demonstrate that its focused tactics and strategies underlie its values and are enacted towards reaching the vision during the reporting period. Integrated reporting should make accountability and performance in an organisation transparent, but depends on the ethical qualities (such as honesty, fairness) embedded in the organisation's values being upheld.

COMPANY SECRETARIES BENEVOLENT FUND

MEMBERS ENROLLED FROM NIRC AS LIFE MEMBERS OF THE COMPANY SECRETARIES BENEVOLENT FUND DURING THE PERIOD 31/03/2017 TO 26/04/2017

REGION	LM NO.	NAME	MEMB NUMBER	CITY
NIRC				
1	12818	MR. MOHIT KUMAR DIXIT	ACS - 49021	NOIDA
2	12821	MR. SHASHANK KOTHIYAL	ACS - 50494	DELHI
3	12834	MR. AASHU KUMAR MANGLA	ACS - 29622	FARIDABAD