

### ENHANCING ORGANIZATIONAL REPORTING

### **IFAC:**

- Supports organizational reporting of broad-based information that is important to stakeholders for managing and directing operations, decision making, promoting transparency, and the discharge of accountability;
- Supports such reporting in accordance with robust international reporting frameworks that produce information on which assurance conclusions can be expressed, in accordance with high-quality international assurance standards;
- Recognizes that the accountancy profession has a significant contribution to make, and an important role to play, in developing and implementing enhanced organizational reporting.
   Professional accountants also play an important role in organizations' broad-based organizational reporting arrangements, and in providing assurance;
- Strongly supports the International Integrated Reporting Council (IIRC) and the development of the Integrated Reporting (<IR>) Framework; and
- Recognizes that there is a range of different frameworks and regulations available, and being developed, and considers it important to examine the relationship between these frameworks and to promote global consistency and convergence<sup>1</sup>.

### Introduction

All organizations, regardless of size and whether they operate in the private or public sector, prepare and use information to inform important decisions regarding their business. Organizational leadership use financial and non-financial information to manage and direct their operations.

Over many years, external stakeholders—investors, suppliers, creditors, banks, and regulators—have demanded increasing amounts of information and disclosure about organizations' operations and decisions. This permits, for example, investors to make more informed investment decisions, allows suppliers to make better business decisions when undertaking transactions, and provides regulators with information to assess whether organizations are complying with requirements.

During the last century, great strides were made in the reporting of one of the primary sources of information for all key stakeholders; that is, organizations' financial statements and associated notes and disclosures. In essence, these financial statements capture much of the financial information that organizations prepare and use in their operations. In some jurisdictions, financial statements are prepared (in full, or in an abbreviated fashion) more frequently than once a year, such as quarterly or half-yearly. Financial statements prepared in accordance with internationally accepted financial reporting standards play an invaluable role in capital markets and the decision making of market participants.

However, there is growing recognition that in addition to capturing the financial information organizations prepare and use in managing and directing their business, it is important to capture and report other,

<sup>&</sup>lt;sup>1</sup> Refer to Policy Position Paper 6, Global Regulatory Convergence and the Accountancy Profession

largely non-financial, information. Many key organizational stakeholders recognize that financial reporting cannot satisfy all of their information needs and continue to seek more and different information. There are calls for the reporting and disclosure of other information that stakeholders could find relevant to their decision making. This includes, but is not limited to, information pertaining to an organization's strategy, governance, risk management, human resources, and approach to broader sustainability issues, including environmental and social issues. Much of this information can be provided by enhancing organizational reporting.

Increasingly, regulators are becoming aware of the need for a broad range of information about how organizations run their businesses in order to fulfill their regulatory objectives. They are also paying greater attention to enhanced organizational reporting, and are increasingly of the view that assessments of an organization—for example, its performance or its compliance with regulatory requirements—depend on a wider range of information than is available from traditional financial reports. Recognizing the importance of the issue, many regulators are considering the best ways to encourage organizations to produce and publish more broad-based information.

High-quality organizational reporting is important for all types of organizations. In a number of countries, the importance of public sector entities reporting more broad-based information is already evident by the range of reporting and associated assurance that is currently in place.

#### **Public Interest**

IFAC is of the view that it is in the public interest for organizations to report more broad-based information that is important to, and useful for, stakeholders, and that:

- promotes transparency and accountability, and assists management of organizations and those charged with governance in making important business decisions and demonstrating their stewardship responsibilities;
- provides a more complete view of an organization's position, performance, and longer term potential and sustainability than financial reporting alone; and
- provides critical information for external stakeholders to make decisions, in particular with respect to those aspects of an organization's operations that are not fully reflected in financial statements, such as the perceived value of human resources, intellectual capital, and other intangibles.

### What is Enhanced Organizational Reporting?

Various groups have different views on how to enhance organizational reporting, including how such reporting should be prepared and presented. Such reporting has been described in many ways, including: social and environmental accounting and reporting; corporate social responsibility (CSR) reporting; environmental social, and governance (ESG) reporting; sustainability reporting; and integrated reporting.

This reporting involves providing decision-useful information to organizational stakeholders beyond what is included in traditional financial reporting, and may provide important links between that financial reporting and other organizational reporting. Some organizations already prepare and use the type of broader-based information in their business decision making that is now being requested by others. Enhanced organizational reporting to external stakeholders requires these organizations to shape their reporting for the intended users of that information. Other organizations may need to consider the capacity and capability of current financial reporting processes to determine what changes may need to be made to ensure that organizational reporting is effective.

In practice, organizational reporting that goes beyond traditional financial reporting may often involve the presentation and disclosure of information that is both quantitative and qualitative in nature. It is more likely to include forward-looking or prospective information that is not contained in "traditional" financial reporting, which tends to focus on historical information. Typically, quantitative reporting would not be presented in monetary terms, and may involve the reporting of volumes, number counts, ratios, comparisons, percentages, and so on. Importantly, this type of reporting can assist organizations in identifying and reporting organizational performance, including the effectiveness of corporate governance, risk management, and internal control<sup>2</sup>.

### **Developing and Implementing Organizational Reporting Frameworks**

The accountancy profession has a great deal to contribute to, and a key role to play in, enhancing organizational reporting. The profession has a long history of involvement in a number of key areas—for example, developing and improving financial reporting processes and controls, and identifying, measuring, and reporting key financial and other information—that are important to the development and implementation of organizational reporting frameworks that go beyond traditional financial reporting.

# Key Considerations for Reporting Frameworks

In developing and implementing robust organizational reporting frameworks, IFAC believes it is necessary to consider:

- Materiality— materiality in financial reporting may more easily depicted as a quantitative amount. However, determining materiality for organizational reporting that goes beyond traditional financial reporting will often involve a qualitative assessment, or a quantitative assessment of non-monetary amounts. IFAC recognizes that this is a topic where a broad range of views exists and hence it is an important topic of debate;
- Relevance—given the growing number of frameworks being developed, IFAC recognizes that there is a broad range of views on what items are most important to include when enhancing organizational reporting. Factors such as the primary users of the information, the legal and cultural environment, and the capacity of the organization and the jurisdiction are several matters that are integral to the debate on relevance;
- Reliability—information that is not reliable cannot be typically considered decision-useful. It is important that information be sufficiently reliable so as to provide added value to users. A prerequisite for reliable information is that it is subject to appropriate evidence-gathering procedures such that management can be held accountable for the information reported;
- Comparability—as well as providing information that assists stakeholders in making assessments about individual organizations, robust organizational reporting frameworks should be developed in a manner that permits appropriate comparisons to be made over time, as well as between organizations;
- Timeframe—organizational reporting frameworks often address issues pertaining to longer-term sustainable value creation and preservation, as well as current and short-term matters. As such, it may not always be consistent with the generally shorter-term focus of most financial reporting. Consideration needs to be given to how these different, and yet both very important, types of reporting can be presented in a complementary manner.

Refer to Policy Position Paper 7, Effective Governance, Risk Management, and Internal Control

### **Proportionality**

In developing, adopting, and implementing enhanced organizational reporting frameworks and arrangements, consideration needs to be given to the:

- · impacts of such reporting—especially if it is mandated within a jurisdiction—on organizations of different sizes; and
- · users of information provided by organizations of different sizes.

For small- and medium-sized entities (SMEs) the cost-benefit considerations of implementing new and additional organizational reporting requirements are particularly important.

Principles-based approaches to such organizational reporting are typically easier to adopt and apply to a broader range of organizations.

### Voluntary or Mandated

In some jurisdictions, organizational reporting that goes beyond traditional financial reporting forms part of an organization's regulatory reporting requirements. IFAC recognizes that jurisdictions around the world are at different stages of development (e.g., in terms of securities legislation and regulation, standards of reporting, and the capacity of the accountancy profession and preparers of business reports). Coupled with cultural, political, legal, and other environmental factors, this means that, from a global perspective, it is not possible at this stage to recommend whether such enhanced organizational reporting should be mandated or should be driven by market requirements and expectations. However, regardless of the approach chosen, success depends on:

- the perceived benefits that will accrue to information users (e.g., better decision making) and ultimately to society as a whole (e.g., sustainable growth and employment), and whether these outweigh the costs of reporting;
- acceptance of its value as an important decision-making and accountability tool;
- the robustness of the reporting and assurance arrangements:
- the guidance and supporting material made available to organizations when implementing these organizational reporting arrangements; and
- clarity around the relationship between various reporting requirements both nationally and internationally.

## Assurance

IFAC is of the view that organizational reporting should be undertaken in accordance with robust international reporting frameworks, and that such reporting should be subjected to an assurance engagement in accordance with high-quality international assurance standards. Therefore, it is important that frameworks for organizational reporting are developed in a manner that provides suitable criteria against which preparers can determine the content of the report <u>and</u> assurance conclusions can be provided by assurance professionals. Reporting frameworks and arrangements should aim to provide that the reporting delivered by organizations exhibits appropriate characteristics; generally, it must be relevant, complete, reliable, neutral, understandable, and derived from verifiable sources.

Independent assurance enhances users' confidence in the information being provided. It can also assist organizations in developing their systems and processes to provide high-quality organizational reporting.

This may be especially important in the formative years of such reporting, as preparers' and users' confidence in the information being reported continues to grow.

IFAC recognizes that the International Auditing and Assurance Standards Board (IAASB) has issued standards relevant to the provision of assurance of broad-based organizational reporting; namely International Standard on Assurance Engagement (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information. The IAASB has also issued some subject-specific standards, such as ISAE 3410, Assurance Engagements on Greenhouse Gas Statements. IFAC considers it important for the IAASB to continue to develop assurance standards relevant to organizational reporting that go beyond traditional financial reporting, and encourages the IAASB to monitor developments and liaise closely with organizations such as the International Integrated Reporting Council (IIRC).

## Integrated Reporting <IR>

Integrated Reporting (<IR>) is described as "a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time. 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." It aims to be most relevant for financial capital allocation decisions; hence <IR> is primarily directed toward those who provide financial capital to organizations.

The IIRC aims to issue a reporting framework that promotes the communication of factors that are most important for organizations with respect to the creation of value over time. Rather than being a substitute for other reporting arrangements, including financial reporting frameworks and standards, <IR> aims to supplement and build upon developments in these areas. The <IR> process is also intended to be applied continuously to all relevant reports and communications including analyst calls and the investor relations section of an organization's website.

#### The Relationships Between Different Reporting Frameworks

IFAC recognizes that there is a range of different organizational reporting frameworks and regulations available and being developed; and considers it important to examine the relationship between these frameworks and promote global consistency and convergence. IFAC is encouraged by regulators' interest in this general topic, but notes that this high level of interest is also contributing to the growing number of differing requirements across jurisdictions.

While these other organizational reporting frameworks are not as developed as financial reporting, there is a risk that having numerous frameworks, whether they are topic- or country-focused, will potentially present significant problems in coming years, especially for organizations that operate across borders and in numerous jurisdictions. It potentially diminishes the ability of stakeholders to make proper assessments and resource allocation decisions about multi-national organizations, and creates potential regulatory arbitrage opportunities when such reporting is mandated.

Consequently, IFAC considers it vital that regulators, standard setters, and others involved in the development of reporting frameworks recognize and promote not just the need for enhancing organizational reporting, but also the need for globally consistent and convergent practices and arrangements. The challenges associated with convergence of financial reporting arrangements in the

Refer to paragraphs 1.2 and 1.3 of Consultation Draft of the International <IR> Framework Integrated Reporting, April 2013.

last decade provides a sound reason for all parties to aim to agree on a consensus, or at least the identification of the relationships and consistency between the different frameworks, at the earliest possible time.

Several of the key organizational reporting frameworks and arrangements in existence, or being developed, include:

- Integrated Reporting <IR> (see above);
- Global Reporting Initiative (GRI)—aiming to provide organizations with a comprehensive sustainability reporting framework that enables them to disclose their governance approach and the environmental, social, and economic performance and impacts of their organizations;
- UN Global Compact—a strategic policy initiative for organizations committed to aligning operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment, and anti-corruption. A key aim is that organizations operating in a globalized economy can help markets, commerce, technology, and finance advance in ways that benefit economies and societies everywhere;
- Carbon Disclosure Project and Climate Disclosure Standards Board (CDSB)—aiming to provide a
  global framework for companies to measure, disclose, manage, and share vital environmental
  information. It offers a global climate change reporting framework that aims to link financial and
  climate change-related reporting to provide policy-makers and investors with clear, reliable
  information for robust decision making;
- International Public Sector Accounting Standards Board (IPSASB)—working to develop a
  conceptual framework for general purpose financial reporting by public sector entities, which
  underpins the development of International Public Sector Accounting Standards and
  Recommended Practice Guidelines. Specific topics being addressed by the IPSASB include
  reporting service performance information and the long-term sustainability of public sector finances;
- Sustainability Accounting Standards Board—with an aim to develop and disseminate industryspecific accounting standards that address sustainability issues; these address the unique needs of the US market, in particular, for publicly listed companies;
- OECD Guidelines for Multinational Enterprises—aiming to be far-reaching recommendations for governments to direct to multinational enterprises, and providing voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation; and
- Various reporting requirements currently included in corporations, securities, and other legislation and regulation.

While not passing judgment on the benefits, costs, and suitability of these various reporting frameworks, IFAC strongly supports the development of <IR>, and believes that it complements the reporting requirements of the aforementioned frameworks.

### **Role of Professional Accountants**

IFAC strongly supports and encourages the involvement of professional accountants in this important emerging field. The skills and expertise of professional accountants are well suited to advancing organizational reporting; for example, in relation to managing and reporting on an organization's

performance, assessing and developing appropriate internal control reporting and governance arrangements, in matters pertaining to measurement, and in providing assurance and enhancing the credibility of reported information.

Specifically, professional accountants contribute to the advancement of organizational reporting in their roles as:

- Professional Accountants in Business (PAIBs)—who play important roles within organizations, to develop business cases, manage performance, implement reporting arrangements and systems, and assess and assist in the development of governance and risk management arrangements and strong internal controls;
- Assurance Practitioners—who play a critical role in providing assurance on, and hence enhancing the credibility of, organizational reporting by utilizing internationally accepted, high-quality assurance standards; and
- Professional Accountants Providing Professional Services—who, in many jurisdictions, play important advisory and consulting roles for organizations with respect to organizational reporting, especially for small- and medium-sized entities.

#### The Role and Work of IFAC

IFAC believes it is important for the accountancy profession to be involved in, influence, and drive the development of improved organizational reporting.

### Specifically, IFAC:

- contributes to the work undertaken by the IIRC, GRI, and CDSB, and is directly involved in <IR> at many different levels: on the IIRC, in its working group, and in the IIRC secretariat. IFAC responds to IIRC consultation and discussion papers and aims to support professional accountants in business to evaluate and improve performance management and reporting in their organizations;
- monitors developments and encourages the profession—professional accountancy organizations, accountancy firms, and individual professional accountants—to be involved in initiatives to improve organizational reporting; and
- issues a range of guidance to assist professional accountants in fulfilling their roles in enhancing organizational reporting.<sup>4</sup>

#### **Implications for IFAC Members and Associates**

The global acceptance of enhanced organizational reporting will depend strongly on its acceptance in national jurisdictions and regions. IFAC notes that many of its member organizations are actively engaged on this topic and encourages them to continue to promote the importance of organizational reporting that goes beyond traditional financial reporting in their jurisdictions and regions, and to encourage and support the need for global consistency and convergence. For those member organizations not yet actively engaged, IFAC urges them to consider becoming more involved.

Additionally, IFAC seeks to provide its members with the necessary competence and skills to be involved in this important development. This is particularly important for professional accountants working in small and medium practices (SMPs) providing services to SMEs, as new and additional organizational reporting

For example, refer to International Good Practice Guide *Principles for Effective Business Reporting Processes*, January 2013.

requirements will often significantly impact SMPs and SMEs that have little or no background or expertise in this field.

Specifically, IFAC encourages members and associates to contribute to advancing IFAC's positions presented in this paper by:

- promoting awareness of these matters, especially within their own jurisdictions;
- developing professional education and continuing professional development offerings that address topics relevant to enhancing organizational reporting; and
- utilizing their relationships, where appropriate, with governments and regulators to promote the global consistency and convergence of organizational reporting frameworks.

This Policy Position has been prepared by IFAC. The approved text of this Policy Position is published in the English language. For further information, please email: publicpolicy@ifac.org

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### **IFAC'S MISSION**

IFAC's mission is to serve the public interest by:

- Contributing to the development of high-quality standards and guidance
- Facilitating the adoption and implementation of high-quality standards and guidance
- Contributing to the development of strong professional accountancy organizations and accounting firms and to high-quality practices by professional accountants, and promoting the value of professional accountants worldwide
- Speaking out on public interest issues

