International Integrated Reporting Committee
By email: dpresponses@theiirc.org

INVITATION TO COMMENT – TOWARDS INTEGRATED REPORTING
Communicating Value in the 21st Century

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to make a submission on the discussion paper ‘Towards Integrated Reporting Communicating Value in the 21st Century’. Detailed responses to the consultation questions, along with additional comments, are provided in Attachment A.

HoTARAC is an intergovernmental committee that advises the Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

The submission represents a consensus view of all HoTARAC members. We broadly support integrated reporting as proposed in the discussion paper, subject to the issues raised in the attachment, as well as the consultation process outlined in developing the framework.

We feel that integrated reporting will be an overarching report that provides a clear high level view of the organisation, with links to more detailed information, for example the financial statements.

If you have any queries regarding this submission, please contact Mr Peter Gibson, at the Australian Government’s Department of Finance and Deregulation, on +61 2 6215 3551.

Yours sincerely

Grant Hehir
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE
15 December 2011
The World has Changed – Reporting Must Too (page 4)

Q1. (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

HoTARAC acknowledges the premise that traditional reporting means need to change to keep pace with a changing global context. While maintaining that some elements of reporting are independently useful in their own right, for example financial reporting for past performance, stewardship etc, HoTARAC considers that it would be beneficial to align disparate reporting trends. HoTARAC does not believe that this format will replace more detailed financial reporting, but will provide a useful overview that could serve as a starting point for those that require more detailed information.

HoTARAC is a public sector advisory committee and while the initial stages of implementation are planned to be directed at the private sector, we hold the view that the public sector should be strongly engaged.

One distinction between the public and private sectors is the predominantly intangible aspects that form part of value creation in the public sector. While the private sector encompasses these as well, through use of human and intellectual capital for example, these intangible aspects are much easier to distinguish and measure as the intangible aspects can arguably be reflected through the more tangible financial outcomes. In contrast, public sector value creation is predominantly measured in terms of delivering efficient and effective operations to the public, being aware of risks in its environment and dealing appropriately with these, and being transparent and accountable to its ‘shareholders’ – the public it serves.

Furthermore, many organisations come and go, either through financial failure, merger, or some other reason. Governments, on the whole, continue indefinitely. While the executive and its policies change over time, the government entity continues with generally the same operations, the same assets and liabilities, and the same shareholders, the public. It is this longevity, and its potential for impact on the various capitals over time, that makes it vital for governments to report clearly on their operations.

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

Having a global framework will provide uniform reporting across jurisdictions. This will improve transparency of reporting and also facilitate comparability between operations globally as well as reduce the costs for organisations that operate in a number of different jurisdictions. HoTARAC promotes the work of international accounting standards and supports the work of the International Accounting Standards Board and the International Public Sector Accounting Standards Board. The development of international accounting standards is an internationally coordinated exercise and HoTARAC believes any integrated reporting framework/standards should follow a similar path.
Having a global framework for integrated reporting, developed by an independent standard-setter, will provide consistency in principles and the approach to integrated reporting by organisations. This will facilitate users’ understanding and confidence in the information provided in integrated reports.

Towards Integrated Reporting (page 6)

Q2. Do you agree with the definition of Integrated Reporting on page 6? Why/why not?

Generally, HoTARAC sees merit in the concepts put forward in the proposed definition. It combines the most material information currently reported through different means into one report, providing an overall picture of an entity’s operations and impacts, and will serve as a starting point for more detailed information if desired.

It demonstrates the new dimension of reporting whereby an organisation has responsibilities with respect to society generally in addition to the traditional reporting between management and owner.

It reflects the increasing demand for more and varied information by stakeholders, yet proposes to present the most relevant and material information in an easily digestible format.

Users’ expectations will need to be managed. It should be made clear that the integrated report is not the sole report. It is not capable of containing all of the information that a wide variety of users will think is relevant and material.

HoTARAC suggests that accountability is equally as important as stewardship in the public sector. The inclusion of accountability in the definition would help to more accurately reflect the nature of the broad range of entities that are intended to be included within the scope of integrated reporting.

An International Integrated Reporting Framework (page 8)

Q3. Do you support the development of an International Integrated Reporting Framework? Why/why not?

As commented above, an international framework will bring enhanced consistency and comparability across jurisdictions. Having a global framework for integrated reporting, developed by an independent standard-setter, will provide consistency in principles and the approach to integrated reporting by organisations. This will facilitate users’ understanding and confidence in the information provided in integrated reports.

HoTARAC places particular emphasis on sufficient consultations being undertaken with a variety of stakeholders as this will significantly assist in the development of a framework that meets the needs and concerns of those in differing organisations and jurisdictions.
In addition, HoTARAC believes that the framework should be principles based rather than rules based allowing it to take into account a variety of circumstances/situations without impairing understanding, consistency and comparability.

**Q4. (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?**

HoTARAC seeks clarification on the reason(s) for focusing on larger companies initially. If the reason is due to the fact that these organisations have significant impacts on the economy, society, resources and natural resources, HoTARAC is of the view that the scope should be broadened to also include governments and large not-for-profit organisations. Governments have significant impacts on the economy, society and resources, and generally set the agenda and policy. Implementing integrated reporting at this level could also set an example for the private sector.

However, HoTARAC acknowledges that the organisations chosen for the initial focus are likely to have a greater impact on the various ‘capitals’ and a greater capacity to implement the framework. This will allow any issues that arise to be addressed before it is applied to small-to-medium sized organisations. It will also assist in gradual implementation of the framework, as these companies will begin to require that the smaller organisations with which they interact produce this type of reporting as well.

**b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?**

As mentioned above HoTARAC support the inclusion of public sector and not-for-profit organisations. If broad terminology is used, these concepts are equally applicable to these organisations. To do so, the framework must be flexible and adaptable so that it can be applied to different organisations (refer to HoTARAC’s comments on Question 2). Implementing integrated reporting in the public sector will enhance accountability and transparency and ultimately facilitate organisational change by increasing focus on the more intangible aspects of an organisation.

For the public sector, there has been increasing pressure for additional transparency and accountability, due to increasing scrutiny of government operations. In this light, HoTARAC is supportive of these concepts as they will enhance disclosures and lead to greater efficiencies and effectiveness.

HoTARAC is unable to comment on this matter for private sector small and medium enterprises.

**Business Model and Value Creation (page 10)**

**Q5. Are: (a) the organization’s business model; and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?**
These are appropriate to be central themes for the direction of integrated reporting. Public sector organisations have ‘business’ models built on delivering services to the public over the short, medium and long term.

In particular, it provides the context and the way an organisation manages externalities to create value in a sustainable way. It also explains management decisions and should align with the entity’s objectives.

It is useful for users of information to understand how the public sector operates and creates value, implements policy and allocates scarce resources.

The short, medium and long term focus provides transparency on the sustainability and viability of the organisation.

Q6. Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

These are important aspects of the value creation process. Traditional reporting focuses solely on the tangible capitals and can obscure others. Australian governments, though, are increasingly reporting on human and intellectual capital elements. For example, Australian jurisdictions now report on environmental performance to some degree and the social capital reporting elements are beginning to emerge, for example reporting of workforce training, retention rates etc. An integrated reporting framework will serve to give greater relevance and understanding as to how these elements contribute to value creation. HoTARAC notes that there may be issues on identifying the effect of performance in these areas.

Guiding Principles (page 13)

Q7. Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

- Strategic Focus: This is appropriate. For the public sector the strategy of the organisation is driven by the government of the day as well as the relevant minister, leaving the strategy of an organisation susceptible to change. It is therefore important that current strategy is clear and well communicated. It is critical as this is usually one of the management performance assessment criteria.
- Connectivity of Information: This is appropriate. Showing linkages will help explain to users how the organisation is operating. It will demonstrate to users how the differing capitals in use within the organisation interact to achieve business goals. For example, it will allow users to see the environmental effect of a capital investment in energy efficient devices, in a more transparent way, showing direct cause and effect.
Attachment A

- Future Orientation: This is appropriate as it shows stakeholders that future prospects and risks to the organisation have been considered and are being addressed, helping them to make informed decisions based on the direction the organisation is taking.
- Responsiveness and stakeholder inclusiveness: Appropriate. As outlined earlier, more traditional reporting identifying the profit of an entity etc, while still important, is less relevant to the public sector. Responsiveness and stakeholder inclusiveness are vital and should be reported upon. Noting that the relationships with key stakeholders should include governments, even for private sector organisations.
- Conciseness, reliability and materiality: HoTARAC believes that it would be appropriate for the information to be at a high level and focus on relevant information for the particular organisation to avoid the report being cumbersome for the user and the ‘overload’ information syndrome. We hold the view that integrated reporting would serve as the starting point, providing a broad overview of the organisation, with more details being found in the financial statements, for example. The issue of reliability is a challenge particularly for non-financial elements of reporting. One way to address this may be to require additional information to be disclosed to explain the level of uncertainty or type of assumptions considered. This will enable users to make their own decision as to whether they rely on this information.

Collectively the principles above are broadly appropriate to use as a foundation that integrated reporting can be built upon.

Content Elements (page 14)

Q8. Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

These are appropriate, particularly given that they are principles based, and incorporate the elements of reporting that HoTARAC considers important. The public sector in Australia already includes many of the elements expressed here to some degree.

However, HoTARAC raises the concern that it is difficult to differentiate between the Contents Elements identified for an Integrated Report and the Management Commentary section of a financial report. IIRC should better explain how an Integrated Report would add further value to corporate reporting when a Management Commentary section of a financial report is generally provided by organisations.

Q9. From your perspective:
(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?

As an overall comment: the report attempts to address an increasing need for additional information on stewardship, including good corporate citizenship, from investors, communities and regulators.

Reporting Organisations

HoTARAC broadly supports the benefits put forward. Clear, tangible benefits will assist reporting organisations to embrace this type of reporting.

HoTARAC is in favour of further consideration being given to understanding and expressing benefits from a government and not-for-profit sector perspective.

In addition, benefits should include positive engagement with the community and being recognised as a better corporate citizen.

Investors (the public)/Other perspectives

For public sector organisations, its 'investors' are the public that they serve. Additionally, various stakeholders e.g. suppliers and partners from private enterprises and non-government organisations may be closely involved with the public sector. It is important for public sector organisations to be transparent and accountable, and integrated reporting is a valuable step in this direction.

Regulator

Government are increasingly requesting additional information on environmental and social aspects of the organisation. It is likely that having an international standard setter will reduce costs in developing a framework for this type of information.

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

Overall comment: even for such a comprehensive report, there is a need to manage expectations and inform users that not all their information needs will be met with this report and they need to seek information in other location as required.

Timing will also be a challenge as users expect their needs to be met now rather than in 10 years time and there may be a proliferation of reports to satisfy this need.

Reporting Organisations

While HoTARAC agrees with the challenges put forward, another challenge that we believe is important to consider is the reservation of organisations to embrace this type of reporting. It may be seen as a further regulatory burden, not bringing with it any real benefits. To help overcome this, benefits will need to be clearly articulated.
Investors (the public)

One of the challenges facing integrated reporting will be users' ability to understand the new reporting format and disclosures. It is therefore important that the integrated report is clear, concise, relevant and provides clear links to further information.

Regulator

One of the challenges would be to satisfy the information requested by the various regulators throughout the jurisdictions.

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

Future Direction (page 25)

Q10. (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?
HoTARAC supports the IIRC approach.

(b) What priority should be afforded to each action? Why?
Each of the actions is appropriate and necessary. We note that consultation is a significant part of the IIRC’s approach. This is important to ensure that a relevant, understandable and transparent reporting framework, that is internationally applicable and able to be implemented, is developed.

Q11. Do you have any other comments?
HoTARAC supports the premise that integrated reporting may benefit users by bringing different reporting strands together and showing the linkages between these. It will be an overarching report that provides a clear high level view of the organisation, with links to more detailed information, for example the financial statements.

However, integrated reporting will not of itself simplify the reporting process or reduce the burden on preparers, indeed, it has the potential to be ‘another report’. The introduction of integrated reporting must be accompanied by proposals that address the need for rationalisation of the volume and type of financial and non-financial information that entities are required to produce.

HoTARAC notes that other regulatory bodies are in the process of producing reporting guidelines that fall within the scope of integrated reporting. For example, the International Public Sector Accounting Standards Board (IPSASB) consultation paper on 'Reporting Service Performance Information'. The primary objective of the paper is to present a principles-based approach to developing a consistent
framework for reporting service performance information of public sector entities, a framework that focuses on meeting the needs of users.

Another example by the IPSASB is Exposure Draft 46 ‘Recommended Practice Guideline, Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances’. This exposure draft provides users with information on the impact of decisions made by the reporting date under current policy, but not fully reflected in the general purpose financial statements.

For the benefit of both preparers and users of this information, it is preferable that there be coherency of both the reporting requirements/principles in these different frameworks, as well as the resulting information that is published by reporting organisations.