Integrated Reporting and Externalities - A Response to the "Towards Integrated Reporting" Discussion Paper

This short response to the IR Discussion Paper is about one issue. I would like to suggest, and to stress the importance of, there being some form of cross reference between the conventional financial statements and the integrated report.

Such a cross reference could be based on a statement in the financial statements, possibly in the note on accounting policies, to the effect that environmental externalities are not recognised in conventional financial statements. This note could of course be elaborated but even such a short acknowledgment would be a key step forward.

Such a statement seems to be the least that accounting standard setters could do to acknowledge a fundamental limitation in conventional financial information. This limitation was arguably the key driver for the Prince of Wales’ Accounting for Sustainability Project. Arguably this important part of the provenance of integrated reporting has been unduly diluted in the development of the Integrated Reporting Discussion Paper, and such a cross reference would be a simple but important way of redressing the balance – at least to some extent.

Of course such a development would require collaboration between accounting standard setters and the IIRC, but the membership of the IIRC is such that it could be uniquely influential in achieving such a step which would of course be in keeping with its declared aims.

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