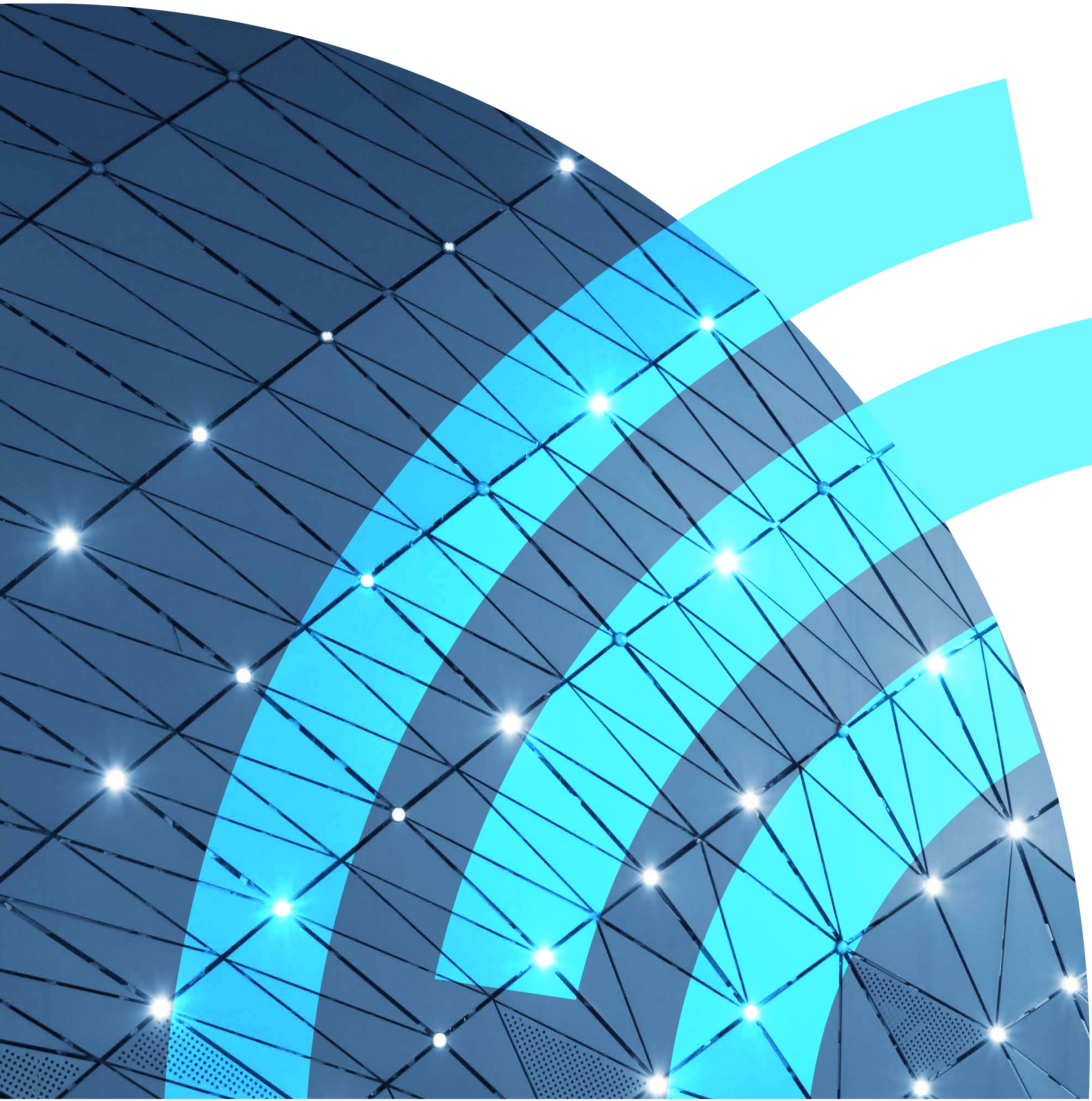
Chartered Governance Institute

INTEGRATED REPORTING ⟨IR⟩

An overview of integrated reporting for Chartered Secretaries and Chartered Governance Professionals

March 2020



About The Chartered Governance Institute

The Chartered Governance Institute is the premier global qualifying organisation for professionals aspiring to become a Chartered Secretary and/or a Chartered Governance Professional. With over 125 years of history, we assist company secretaries, governance advisers, non-executive directors and others in the development of their skills, knowledge and experience.

The Institute is an international organisation with nine divisional institutes in its network and 29,000 members working in over 80 countries. Most importantly, it brings its influence to bear on international trade bodies, governments, regulators, non-government organisations (NGOs) and companies to represent the views and current thinking of those involved in governance institutes.

About the International Integrated Reporting Council

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting.

The IIRC's mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors. The IIRC's vision is to align capital allocation and corporate behaviour with the wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking.

The IIRC is currently in the Momentum Phase of its strategy, delivering accelerated action towards its goal for integrated thinking and reporting to be the global norm, and leveraging the support of its partners to create the scale and pace to deliver a step change in adoption.

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Acknowledgments

The Chartered Governance Institute would like to thank the International Integrated Reporting Council (IIRC) for permission to reprint their material that informs Chapters 1 and 2 of this guide.

All text from the International <IR> Framework includes page or paragraph references in bold where relevant. For consistency of style, the IIRC has agreed for its house-style use of 'z' to be amended and the use of 's' spelling to be adopted where necessary.

The Chartered Governance Institute is grateful to the following individuals for their contribution in developing this publication.

- Paul Chan, President, Malaysian Alliance of Corporate Directors and IIRC Ambassador
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Foreword

The Chartered Governance Institute, supported by the International Integrated Reporting Council (IIRC), is pleased to have produced this guide to integrated reporting for Chartered Secretaries and Chartered Governance Professionals. Reporting to stakeholders is a key aspect of good governance, and all organisations and their stakeholders gain from the benefits that stem from integrated reporting and integrated thinking.

We are committed to improving the quality of reporting to stakeholders and to embedding integrated thinking into organisations so that long-term value creation is an organisation's key focus, stakeholders are better informed and value creation is maximised.

Following a series of breakthroughs that have seen integrated reporting emerge as a permanent fixture in the global reporting landscape, the IIRC continues to work towards global adoption of integrated reporting. The Chartered Governance Institute welcomes this opportunity to bring the benefits of integrated reporting and integrated thinking to the attention of its members, and encourages all members to consider adoption for their own organisation.

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International President
The Chartered Governance Institute

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Purpose of this guide

This guide is designed to give Chartered Secretaries and Chartered Governance Professionals an overview of integrated reporting and integrated thinking, and the role they can play in embedding them into their organisation.

Preparing an integrated report requires a holistic approach, bringing together contributions from across an organisation to provide a clear understanding of its overall strategy, governance, performance and prospects. Because of their unique role within organisations, Chartered Secretaries and Chartered Governance Professionals can add significant value to the process if they have a working knowledge of integrated reporting and integrated thinking.

This guide is not intended to provide a complete understanding of integrated reporting and integrated thinking, or of the International <IR> Framework, which underpins both. Chapters 1 and 2 provide an introduction to the fundamental concepts, objectives and purpose of integrated reporting. There is much more to understand about the fundamental concepts, including the six capitals[1] and the value creation process, as well as the Guiding Principles and Content Elements. Accordingly, readers of this guide are encouraged to read, in its entirety, *The International <IR> Framework* (the <IR> Framework) published by the IIRC and accessible on their website.

Chapters 3–5 were written by experienced Chartered Secretaries, who have played key roles in implementing integrated reporting and integrated thinking in their own organisations. As made clear in these chapters, practical experience shows there are some key factors to successfully implementing integrated reporting, such as the support of a key internal champion, involving the board from the beginning of the process, and understanding that moving to integrated reporting and producing an integrated report will take more than one reporting cycle.

Chapter 6, also written by experienced practitioners, clearly outlines the role that a Chartered Secretary or Chartered Governance Professional can assume in their organisation's integrated reporting journey. While a range of internal participants must be involved, a Chartered Secretary or Chartered Governance Professional has an opportunity to take a leadership role.

This practitioner's guide also demonstrates how integrated reporting can be an important part of an organisation's governance framework. There is a great deal to understand, but there is also much to be gained from the journey.

1 The six capitals are: financial, manufactured, intellectual, human, social and relationship, and natural capital.

Chapter 1 — About integrated reporting

1.1 Key definitions

Integrated reporting promotes a more cohesive and efficient approach to corporate reporting. It aims to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

Integrated reporting is defined as a process founded on integrated thinking that results in a periodic integrated report by an organisation about value creation over time and related communications regarding aspects of value creation **(FW page 33)**.

Integrated thinking is the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term **(FW page 33)**.

An integrated report is a concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term **(FW page 33)**.

An integrated report aims to tell the organisation's value creation 'story' in a more holistic and comprehensive way than, for example, an annual report, with its focus largely on historical financial data. An integrated report thus provides insight into all the resources and relationships, financial and other, used and impacted on by an organisation. These are collectively referred to as 'the capitals' in the <IR> Framework, or stocks of value that are increased, decreased or transformed through the activities and outputs of the organisation, The capitals and value creation are explained further in Chapter 2.

1.2 Integrated reports — purpose and users

Purpose of the <IR> Framework

The purpose of the <IR> Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them. An integrated report should be prepared in accordance with the <IR> Framework.

The <IR> Framework identifies information to be included in an integrated report for assessing an organisation's ability to create value; it does not set benchmarks for things such as the quality of an organisation's strategy or the level of its performance.

The <IR> Framework is written primarily in the context of private sector, for-profit companies of any size but it can also be applied (and adapted as necessary) by public sector and not for profit organisations.

Purpose and users of an integrated report

The primary purpose of an integrated report is to explain how an organisation creates value over time. It therefore contains information, both financial and other, that is material to value creation.

An integrated report also benefits all stakeholders interested in an organisation's ability to create value over time, including providers of financial capital, employees, customers, suppliers, business partners, local communities, legislators, regulators and policymakers.

1.3 Principles-based approach

The <IR> Framework is principles-based. The intent is to strike an appropriate balance between flexibility and prescription, which recognises the wide variety in the individual circumstances of different organisations, while enabling a sufficient degree of comparability across organisations to meet relevant information needs.

The <IR> Framework does not prescribe specific key performance indicators (KPIs), measurement methods or the disclosure of individual matters, but does include a small number of requirements, which are to be applied before an integrated report can be said to be presented in accordance with the Framework.

Those responsible for the preparation and presentation of the integrated report therefore need to exercise judgment, given the specific circumstances of the organisation, to determine:

- which matters are material
- how those matters are disclosed, including the application of generally accepted measurement and disclosure methods as appropriate. When information in an integrated report is similar to, or based on, other information published by the organisation, it should be prepared in the same way, or should be easily reconcilable with, that other information **(FW 1.10)**.

1.4 Relationship with other information

An integrated report is intended to be more than a summary of information in other communications (for example, financial statements, sustainability reports, analyst calls or information on a website); rather, it should make explicit the connectivity of information to communicate how value is created over time **(FW 1.13)**. It uniquely ties together all of the value creators in conjunction with an organisation's long-term strategy.

An integrated report may be prepared in response to existing compliance requirements. For example, an organisation may be required by local law to prepare a management commentary or other report that provides context for its financial statements. If that report is also prepared in accordance with the <IR> Framework, it can be considered an integrated report.[2]

If the report is required to include information beyond that required by the <IR> Framework, the report can still be considered an integrated report so long as that other information does not obscure the concise information required by the Framework **(FW 1.14)**.

An integrated report may either be a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication. For example, it may be included at the front of a report that also includes the organisation's financial statements **(FW 1.15)**.

An integrated report can provide an 'entry point' to more detailed information outside the designated communication, to which it may be linked. The form of the link will depend on the form of the integrated report (for example, for a paper-based report, links may involve attaching other information as an appendix; for a web-based report, it may involve hyperlinking to that other information) **(FW 1.16)**.

2 For example, the Operating and Financial Review in Australia, or in the UK, the Strategic Report.

Chapter 2 — Fundamental concepts of the <IR> Framework

2.1 Value creation for the organisation and for others

An integrated report explains how an organisation creates value over time. Value is not just created by or within an organisation. It is:

- influenced by the external environment
- created through relationships with stakeholders
- dependent on various resources **(FW 2.2)**.

Value created by an organisation over time, through its business activities and outputs, manifests itself in increases, decreases or transformations of the capitals. That value is created for two interrelated aspects:

- the organisation itself, which enables financial returns to the providers of financial capital
- others (that is, stakeholders and society at large) **(FW 2.4)**.

Providers of financial capital are interested in the value that an organisation creates for itself. They are also interested in the value that an organisation creates for others when it affects the ability of the organisation to create value for itself, or relates to a stated objective of the organisation (for example, an explicit social purpose) that affects their assessments **(FW 2.5)**.

Because value is created over different time horizons and for different stakeholders through different capitals, it is unlikely to be created through the maximisation of one capital while disregarding the others. For example, the maximisation of financial capital (for example, profit) at the expense of human capital (for example, through inappropriate human resource policies and practices) is unlikely to maximise value for the organisation in the longer term **(FW 2.9)**.

2.2 Six capitals

An integrated report seeks to explain how the organisation interacts with both the external environment and the six capitals to create value over the short, medium and long term. The six capitals are financial, manufactured, intellectual, human, social and relationship, and natural: see Figure 1 below. The capitals provide a lens through which to consider all resources and relationships used by the organisation to create value, and are to be applied as appropriate to each individual organisation.

Figure 1 — The six capitals

Organisations preparing an integrated report are not required to adopt the terminology of the capitals as presented in the <IR> Framework and may choose other, more suitable, terminology. Nor are they required to structure their integrated report along the lines of the capitals, or even report on all six capitals if some are not material to the organisation's ability to create value over time. Regardless of how an organisation categorises the capitals for its own purposes, the categories identified are to be used as a guideline to ensure the organisation does not overlook a capital that it uses or affects **(FW 2.19)**.

The capitals are categorised and described in the <IR> Framework as follows:

Financial capital

The pool of funds that is:

- available to an organisation for use in the production of goods or the provision of services
- obtained through financing, such as debt, equity or grants, or generated through operations or investments.

Manufactured capital

Manufactured physical objects (as distinct from natural physical objects) that are available to an organisation for use in the production of goods or the provision of services, including:

- buildings
- equipment
- infrastructure (such as roads, ports, bridges, and waste and water treatment plants).

Manufactured capital is often created by other organisations, but includes assets manufactured by the reporting organisation for sale or when they are retained for its own use.

Intellectual capital

Organisational knowledge-based intangibles, including:

- intellectual property, such as patents, copyrights, software, rights and licences
- 'organisational capital' such as tacit knowledge, systems, procedures and protocols.

Human capital

People's competencies, capabilities and experience, and their motivations to innovate, including their:

- alignment with and support for an organisation's governance framework, risk management approach, and ethical values
- ability to understand, develop and implement an organisation's strategy
- loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

Social and relationship capital

The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective wellbeing. Social and relationship capital includes:

- shared norms, and common values and behaviours
- key stakeholder relationships, and the trust and willingness to engage that an organisation has developed and strives to build and protect with external stakeholders
- intangibles associated with the brand and reputation that an organisation has developed
- an organisation's social licence to operate.

Natural capital

All renewable and non-renewable environmental resources and processes, which provide goods or services that support the past, current or future prosperity of an organisation. It includes:

- air, water, land, minerals and forests
- biodiversity and eco-system health **(FW2.15)**.

2.3 Value creation process

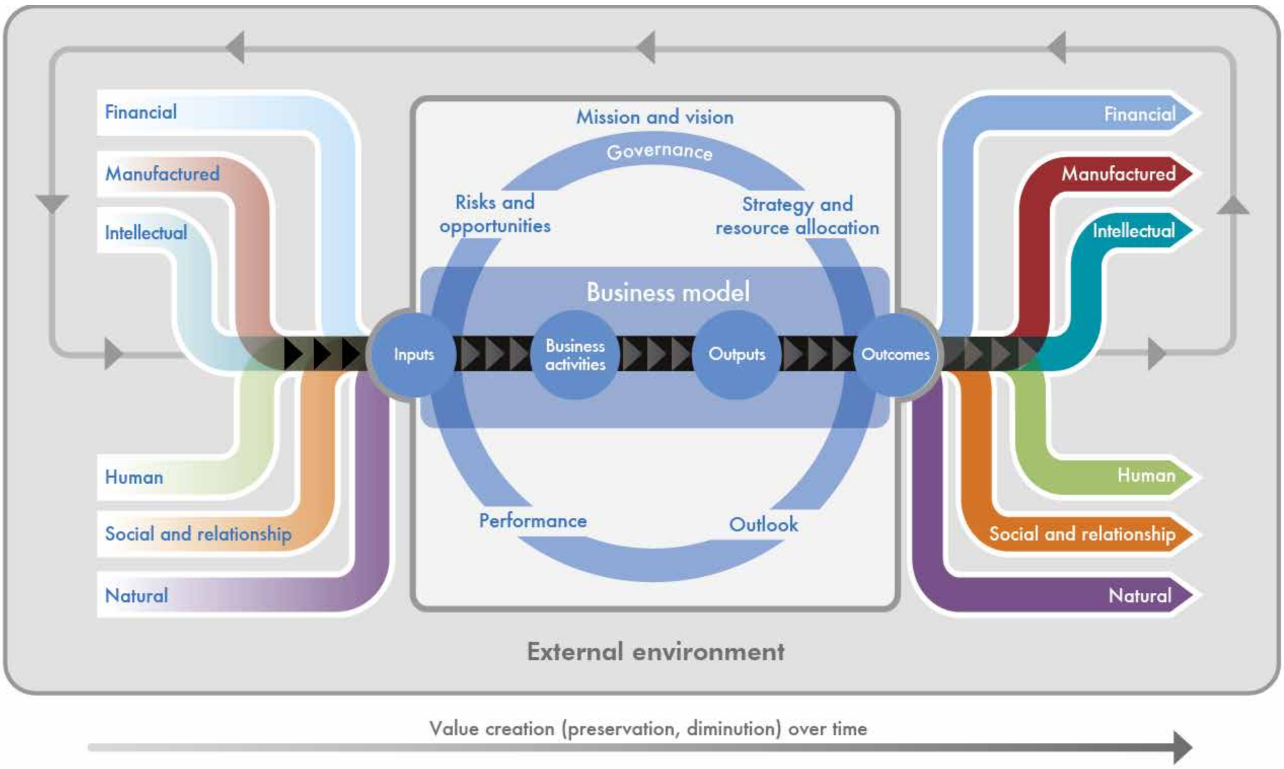
The external environment, including economic conditions, technological change, societal issues and environmental challenges, sets the context within which an organisation operates **(FW2.20)**. Those charged with governance are responsible for creating an appropriate oversight structure to support the ability of the organisation to create value **(FW 2.22)** within the context in which it operates.

At the core of the organisation is its business model, which draws on various capitals as inputs and, through its business activities, converts them to outputs (products, services, by products and waste). The organisation's activities and its outputs lead to outcomes in terms of effects on the capitals. The capacity of the business model to adapt to changes (for example, in the availability, quality and affordability of inputs) can affect the organisation's longer term viability **(FW 2.23)**.

The value creation process is depicted in Figure 2 below and illustrates how the six capitals and the business model of the organisation are interconnected.

Finally, the value creation process is not static; regular review of each component and its interactions with other components, and a focus on the organisation's outlook, lead to revision and refinement to improve all the components **(FW 2.29)**.

Figure 2 — The value creation process



Chapter 3 — How integrated reporting fits into the governance framework and benefits an organisation

3.1 Four pillars of governance

Governance has sometimes been characterised as a set of processes that is limited to boardroom activities and the application of a 'tick the box' approach to compliance and regulatory requirements. There was a perception that 'good governance' was well-run board meetings with clear agendas and papers, comprehensive minutes and clearly defined board roles, powers and responsibilities.

Governance today has evolved beyond the boardroom, as shareholders and other stakeholders take a greater interest in the affairs of organisations that have an impact on their lives. Critical issues around sustainability and the effective use of capital have put pressure on organisations to be more open and transparent in their reporting and to report on aspects other than just the financial 'bottom line'.

The governance framework of an organisation comprises the regulatory environment it operates in, its internal processes, and its organisational culture and values. Modern governance is underpinned by four interrelated pillars — accountability, transparency, integrity and stewardship. These four pillars are inter-dependent and, in total, have an internal and external focus. They also focus on the longer term.

Where does integrated reporting come in? Integrated reporting provides a framework that can bring together these four pillars in a way that provides a clear and concise explanation of how an organisation utilises capital to create value now and into the future.

3.2 Integrated reporting and governance

Integrated reporting can facilitate the effective communication of the overall governance framework to stakeholders. It involves the consolidation of multiple aspects of an organisation's activities and operations, and encourages articulation of how an organisation's strategy, governance, performance and prospects, in the context of its operating environment, can lead to value creation over time. An integrated report should therefore embody all four pillars of governance.

Accountability

Accountability refers to the clarity of roles and responsibilities throughout an organisation. Defining who does what and how each role adds value is critical to a well-run organisation. Accountability involves tools, such as position descriptions and key performance indicators aligned to strategic objectives, as well as an understanding of the skills required in an organisation to support its strategy.

Transparency

Transparency refers to openness and clarity in internal and external reporting. Stakeholders have increasing expectations of organisations' reporting being more transparent than in the past.

Integrity

Integrity is at the heart of good governance practice and drives how decisions are made, the values the organisation adheres to and its culture. When an organisation effectively builds integrity internally, this will drive the quality of relationships it has with all stakeholders, both internal and external.

Stewardship

Stewardship refers to how the organisation is 'steered' or guided, in order to achieve long term sustainability. Stewardship is a key responsibility of the board and involves maximising the employment of human, financial, natural, intellectual, social and relationship as well as manufactured capital to add value and support the future prosperity of the organisation.

3.3 How integrated reporting benefits the organisation

Integrated reporting focuses on the ability of an organisation to create value in the short, medium and long term. Some of the benefits of integrated reporting include the following:

Overarching

- greater focus on value creation and preservation
- increased focus and awareness of senior management through a better articulation of an organisation's strategy and business model, and consistency of messaging to the market
- changed focus from viewing corporate reporting as a regulatory burden or compliance exercise, to a way of attracting long term investors.

Internal practical advantages

- connects different functions and business units by integrating thinking across the organisation
- improves internal processes through integration and the removal of content duplication within and across reports, as well as decluttering and simplifying reporting
- eliminates inefficiencies and duplication of work, which are common side effects of a 'siloed' reporting approach
- removes the issue of 'time lags' between multiple reports
- ensures consistent verification of report content to market.

Stakeholder benefits

- more effective stakeholder communication, such as to investors, governance advisers and proxy advisers (if a listed company), as well as employees
- highlights to all stakeholders the extent to which financial performance for investors can impose unintended consequences on other stakeholders.

Chapter 4 — Implementation and structures that need to be in place

4.1 Support from the top — Role of the board

Transitioning to integrated reporting is an incremental process, which will evolve over time. Organisations may set multi-year plans to produce an integrated report presented in accordance with the <IR> Framework, and must ensure that there is a robust change management plan in place.

It is important that there is strong support at board level to articulate how the integrated report will add value. Outlined below are some critical success factors, which will assist in transitioning to integrated reporting.

As the board has the ultimate responsibility for governing an organisation, a commitment to integrated reporting from the board, as well as their participation in the planning process, is vital. This does not, however, work in a vacuum. For integrated reporting to be successful in an organisation, a strong, cross-functional project team that also has management support/ participation needs to be established to ultimately deliver the integrated report.

Once a board understands the value of transitioning to integrated reporting, the degree of board involvement will vary. Some of the options available to a board in terms of involvement in the integrated reporting process include:

- drafting sections of the document
- regular monitoring of the process through status reports received from the project team
- appointing a representative member from the board to provide feedback to the management team as the process develops.

Ultimately, the willingness of a board to support the transition to integrated reporting, to endorse the approach and foster the required organisational culture by encouraging organisation-wide support for the transition, will have a strong impact on its success.

4.2 Establishing a project team

Integrated reporting requires the synthesis of complex information from a wide variety of sources across an organisation.

One of the benefits of preparing an integrated report is that through the process of integrating thinking, there is a real opportunity for an organisation to connect different functions and business units to articulate clearly the organisation's strategic direction.

An essential element in the successful implementation of integrated reporting is the establishment of a strong and committed project team, reporting to a board sponsor or sub committee, to take responsibility for moving the project forward. The composition of the project team will have a significant impact on the final content of the integrated report.

One way to achieve an optimal result on implementation is to establish a cross-functional project team. This team may consist of staff from the governance, risk management, legal, finance, human resources, strategy, brand, communications, internal audit, sustainability and/ or investor relations sections of the organisation, among others. Individual team members will be contributing in their own capacity, but also need to be dedicated to the cross-functional project team.

Once the move to integrated reporting is endorsed by the board, the process of implementation can enable the project team to present the organisation's strategy in a manner that can be better understood by all. This is also a way for the board to be fully involved in the articulation of strategy for the organisation — a critical responsibility of the board. A common language can be developed around the presentation of the strategy in the organisation's value-creation process. An organisation should see this as a unifying process, helping to create consensus around the drivers of value for an organisation.

Implementation of integrated reporting and development of the integrated report will help people within an organisation to think holistically about how the business model, operating context, strategy, governance, remuneration, performance and future outlook are currently presented. The organisation has the opportunity to review the entire corporate reporting suite and determine what an organisation's 'future state' reporting will look like. The project team can consider the types of reports an organisation currently produces, such as financial statements, sustainability reports, investors' briefings, other statutory reporting and so on, and develop a 'connected story' for the organisation as a whole. For example, organisations can leverage the structure and messaging from an integrated report into all market and investor updates.

The reporting landscape can be complex and despite all the information provided by an organisation, investors are usually seeking one place to find an organisation's value creation story. The integrated report draws material information from all corporate communications and other information, and provides connectivity to the value-creation story by bringing together disparate parts of an organisation.

Everyone will have a role to play in the move to integrated reporting. The role of the board will be important in that it endorses the move and provides cues to the project team. The board sponsor or board sub-committee should be invited to engage in regular update sessions, with status reports provided to the full board as necessary.

However, one should never underestimate that even with board endorsement and a project team in place, it will take time to align the team and subsequently the whole organisation in a clear direction. As stated previously, integrated reporting is an incremental process.

Having a project team is central to giving the integrated report traction by establishing the 'what' — the narrative for the organisation, and the 'how' — how that story is going to be told.

4.3 Need for a project 'champion'

A project 'champion' is an integral part of sponsoring the move to integrated reporting within an organisation and, for example, could be the finance director, the company secretary or an investor relations professional. A project champion brings not only knowledge and expertise, but also leadership and the ability to influence the allocation of internal resources to get the job done, and therefore needs to be someone with appropriate seniority within the organisation.

Regardless of who is designated the project champion, the role of the finance director cannot be underestimated in ensuring the successful implementation of integrated reporting. The finance function needs to view integrated reporting as enhancing the organisation's reporting suite and is in a pivotal position to drive the process internally. While integrated reporting goes beyond a financial report, there is nevertheless a considerable amount of financial information within it. It is important that there is adequate interaction with an organisation's financial reporting system to avoid unnecessary complexity or duplication, as well as considering opportunities to consider gaps in, or strengthen reporting of, non-financial information.

4.4 Identifying and monitoring the value drivers of an organisation

A key to integrated reporting is to identify and report on the value drivers of the organisation, which should align with the organisation's strategy. Organisations that effectively implement integrated reporting have a better understanding of what kind of an organisation they are, and how their strategy maximises the potential to create value over time.

Once project governance has been established (for example, by creating a project team reporting to a sub-committee of the board as outlined in 4.2), work should commence on identifying, agreeing and describing the relevant value drivers for the organisation for inclusion in the integrated report. Identification and articulation of the value drivers helps an organisation to communicate how long term value is created for shareholders through financial and other means. The questions to be asked include –— What are the value drivers that will determine the long-term value of the organisation? Which value drivers underpin the organisation's strategy?

Each value driver should be defined in a way that explains why it creates value for the business. Key performance indicators (KPIs) should be included to support that explanation and tie back to both the overarching strategy and individual strategic objectives. It is important to remember that the KPIs should be verifiable. In agreeing on the key value drivers, an organisation needs to articulate:

- What is the material issue (or issues) relating to the value driver?
- How is the value driver delivered for the organisation?
- What is the value created?
- What are the KPIs or how is the organisation going to measure performance?

Example:

What is the value driver? Attracting and retaining the right people for the organisation.

How is the value driver delivered? By investing in developing leaders through a culture of continuous learning and recognising success.

What is the value created? Effective learning and development programs and succession planning support business continuity.

How will the organisation measure performance? By reporting on the retention of key talent and the changes compared to previous years.

It is important to note that an integrated report will evolve over time and organisations can use the value drivers and associated KPIs to measure their progress. In an organisation's first integrated report, a key objective could be to identify what drives value for the organisation in terms of both financial and other factors. Ongoing progress updates are provided in future integrated reports through a key set of measures for each value driver. As the integrated reporting journey continues, organisations can focus on providing measurement indicators to demonstrate to shareholders the full impact of the value drivers over time.

Chapter 5 — Addressing concerns and challenges

5.1 Disclosing forward-looking statements

A fundamental aspect to integrated reporting is the focus it brings to issues beyond short term financial performance — to the broader issues that lie ahead for the organisation. This involves:

- identifying key risks, uncertainties and opportunities, and in turn, those most material to value creation for the organisation
- explaining the prioritised strategies which are set on the expected longer-term performance of the organisation, and the potential impact on key stakeholders and performance
- explaining how the organisation's business model can drive change and remain resilient in the context of the external, legislative and regulatory environments
- identifying KPIs and aligning them to strategy and the business model.

From a practical perspective, the strategic focus is typically found in the chair's statement and is further elaborated in the chief executive officer's message. Other sections of the integrated report build on this initial introduction to the organisation's strategy.

Organisations should ensure that messaging is clear and consistent within and across the entire corporate communications suite, to give capital providers and key stakeholders confidence that the organisation and its management are aligned and committed to long term value creation. This may require cross-checking with previous annual reports and any inconsistencies should be clearly explained.

The importance of well-written, forward-looking statements cannot be underestimated. They should address stakeholders' questions and interests in relation to the organisation's expected future business and performance, and at the same time ensure that readers are clearly informed of any estimations and the speculative nature of the statements.

While specific guidance is often impractical because of the inherent uncertainties, qualitative statements on general direction and expectations can be useful. As a practical tip, a shareholder/stakeholder Q&A dialogue with management can be an authentic way to bring out the key issues facing the organisation's future prospects, and minimises the use of formal language commonly used in the disclosure of forward-looking statements. However, not all forward-looking statements should be in a Q&A format, and a sensible balance would greatly enhance the general readability and clarity of this type of information.

The discussion of risk is forward-looking in nature, and this should be specific and customised based on the organisation's business and evolving market conditions. It is important to avoid vague or static cautionary statements, and discussion of risk factors that may not be relevant to the organisation's current business, position or strategies.

5.2 Reliability of the content

There are important steps to be taken, and checks to be carried out, to ensure reliability of content:

Board involvement

The board or a committee delegated by the board should provide oversight of the content of the integrated report, including non-financial disclosures.

Materiality determination process

An integrated report should disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term. (FW 3.17)

A clearly defined scope is crucial for collecting relevant and verifiable information for generating reliable and balanced reporting content. This may involve a series of interviews with various internal and external stakeholders.

Evaluating information compilation systems and capturing reliable information

For each material topic, suitable metrics (for inputs/outputs/outcomes) should be identified to demonstrate how value is being created, and the information compilation systems to capture them put in place. Metrics should not be captured only for the sake of reporting. Metrics should be relevant both to readers of the report and to those using them in business decision making. Examples include input metrics, such as amounts invested in training programmes to demonstrate investment in human capital, or outcome metrics, such as improvements in service standards or intensity figures that demonstrate efficiency.

Systems should be set up to collect and compile reliable and complete information. Information collected through inconsistent reporting systems can result in unreliable or incomplete information, which will in turn make any assurance engagement subject to inherent limitations. Those charged with governance and senior management are responsible for ensuring any systems are sufficiently robust and appropriate to generate reliable information.

It is important to ensure that a periodic review of systems and controls takes place so they are continually improved as the integrated reporting process matures.

Quality assurance

It is also important to ensure the quality of non-financial information through verification and assurance. This involves clearly defining the scope of the assurance engagement. Non financial information often does not have data compilation and control systems that are as established or robust as those for financial data, and these systems may vary for different types of information. A risk-based approach to assurance helps examine the risks of misreporting, and directs focus to key procedures, or where control points should be established.

The focus should be on both the accuracy and completeness of material information (financial and non financial) that enable capital providers to apply their judgment about how the organisation creates value over the short, medium and long term.

Balanced reporting

Organisations should be committed to disclosing material information, both positive and negative, and communicating how management will maximise opportunities to create value and mitigate the risks or challenges that might destroy value. The <IR> Framework deals with completeness of information in Section 3F and recognises situations where disclosures may be impacted because:

- reliable information is unavailable
- there are specific legal prohibitions to disclosing certain information, or
- the disclosure of material information would cause significant competitive harm to the organisation.

5.3 Importance of verification of content through internal and external assurance

Internal and external assurance cannot be underestimated to ensure the success of the process.

Internal

Metrics reported should be meaningful and useful for the business. A data manual should be available internally with:

- clearly defined data providers and reviewers — and an audit trail should be maintained which reflects operational responsibility and management oversight
- clearly defined and scoped data points that enable year-on-year comparison and benchmarking with peers (standardised KPIs — at least within the same industry would be useful).

There are some inherent challenges with non-financial metrics. These include:

- lack of universal definitions for some terms (for example, an 'employee' can be part time/full time/temporary and so on, whereas monetary terms are unambiguous)
- assumptions behind calculations may vary (for example, in calculating greenhouse gas (GHG) emissions)
- usually, the lack of a unified system to manage the data

- established systems of internal controls will be needed to ensure that end-to-end oversight and checks are in place.

Mature embedded internal controls are the prerequisite for building a strong foundation for obtaining external assurance. The organisation's internal control function has an important role in adopting a risk-based approach and establishing processes to ensure data completeness and accuracy, by putting in place appropriate internal checks and balances, and reporting the results of their work directly to the board.

Even with a verification process established, a key element of integrated reporting is to ensure financial and non-financial information is consistent. In addition, it is important that internal and external assurance providers work together to help ensure coherent and reliable integrated reports are generated by the reporting organisation.

Regular reports from the internal auditors and/or group internal control function on the adequacy, robustness and effectiveness of the internal controls and reporting systems established by the company are important. This supports the credibility of data being collected for processing and analysing under the <IR> Framework. Internal auditors and group internal control functions can also provide recommendations on the systems for enhancing the coherence, relevance and reliability of integrated reporting.

External

Information based in internal judgment only is not sufficiently reliable. External assurance provides credibility, which is essential for increasing confidence in the content of integrated reports. Prior to seeking external assurance, it is also important to be clear about the benefits, for the organisation and for stakeholders, of different levels of external assurance (limited, reasonable and so on) and the scope of any assurance engagement. Early involvement of external assurance providers can assist organisations to prepare gap analyses and (where necessary) to strengthen internal controls.

5.4 Work in progress

The following illustrative list presents some of the tasks needed to move to integrated reporting:

- develop short, medium and long term SMART[3] goals for formulating strategy and creating value, rather than focusing purely on compliance
- understand the constraints of current systems used to capture information
- review and modify as necessary based on how an organisation operates and the information required
- develop a plan to progressively implement all aspects of the <IR> Framework
- provide guidelines that are tailored to the organisation
- obtain acceptance by different departments and business units
- communicate well to keep everybody on the right track.

3 Specific, Measurable, Achievable, Realistic, Timely.

Chapter 6 — Role of the Chartered Secretary and Chartered Governance Professional

6.1 The importance of good governance

Integrated reporting relies on the quality of the organisation's governance. This includes:

- oversight and monitoring
- planning
- ethical leadership
- structure and processes
- policies and procedures
- transparent disclosure and accountability.

Good governance is the foundation of the value creation process. It informs the application of integrated thinking around how the organisation contributes to creating positive outcomes for stakeholders and society. This forms an invaluable part of assessing the prospects and longer-term viability of the organisation for investors and other stakeholders. It is incumbent upon the governance professional/company secretary to ensure that disclosure of governance information is factually correct and that such governance practices translate into effective leadership on the value creation process.

The governance professional/company secretary must also ensure that they comply with any necessary regulatory reporting requirements. This includes applicable corporation legislation, corporate governance code and stock exchange requirements. Information disclosed must be timely, accurate, relevant and an honest balance between the achievement of positive and negative outcomes. Similarly, there needs to be a balance between the amount of information disclosed to meet the requirements of governance ratings/shareholder services agencies and the need to ensure the integrated report is concise.

6.2 Champion or key supporter

Chartered Secretaries and Chartered Governance Professionals are an important link between the board and the organisation. They can be used effectively to bring the board and the integrated reporting project team together when included as part of the project team.

Governance professionals/company secretaries often play a role in communicating with external stakeholders. Another critical part of their role is working closely with the board to ensure effective stakeholder relationships are maintained. Many governance professionals/company secretaries also have responsibility for drafting key governance documents, including the governance section of the organisation's annual report.

Depending on the organisation, the role of the governance professional /company secretary can be either that of the champion/owner of the integrated report or one of the core project team members providing input to the report. In smaller organisations, the report is usually the responsibility of the governance professional/company secretary. In a larger organisation, a core team will work together to produce the integrated report.

The governance professional/company secretary has a larger leadership role to play to assist the board and the organisation with integrated thinking and the reporting approach for the organisation. Company boards are increasingly coming under pressure to explain in their corporate reporting how they are developing longer term, sustainable businesses and how well they are performing against longer term goals.

Integrated thinking is not something that is done just at year end. For an integrated reporting approach to be holistic and effective, integrating thinking needs to be entrenched within the organisation. This cannot be achieved overnight and will require a fundamental mind-shift, led by the board and starting with the strategy team, and then all those who contribute to implementing the strategy. A governance professional/company secretary is in the unique position to facilitate this, particularly with the compilation of agendas for board and executive committee meetings. It is important to ensure that agendas not only focus on current performance, but also encompass the following:

- the value drivers, strategic focus and outlook of the business in the short, medium and long term
- the connectivity between current performance, the risks and the opportunities to enable discussion around the key material issues
- the impact of the value drivers and strategy and using this to report to investors and other stakeholders
- establishing the legitimacy of the organisation to exist in society (that is, the 'social licence' to operate).

6.3 Key liaison role between management and the board

The governance professional /company secretary can play a significant role in embedding an integrated thinking culture to help break down the silos between teams and departments by providing dashboards and other communication tools for improved alignment across the organisation, leading to efficiencies in both external and internal reporting. This includes being part of the multidisciplinary project team within the organisation, which guides the organisation around the right data and information required.

6.4 Ensuring integrity over form

In the normal course, the governance professional/ company secretary would draft the governance statement. However, all other information in the integrated report, especially qualitative data, needs to be reviewed by the governance professional /company secretary to ensure integrity and substance over form with regard to disclosures. This assists the board, which has ultimate oversight in signing off the integrated report's content for publication.

While it has been common practice to disclose the governance information in a separate section in the integrated report, some organisations are moving towards embedding governance information throughout the integrated report.

Other organisations opt to include an abridged governance report in their integrated report with a link to a more comprehensive statement on their website. Whatever the approach, disclosure needs to be concise, articulate and meaningful.

The following are key considerations[4] for a governance statement and act as a guide for the governance professional/company secretary:

- the organisation's leadership structure, including the skills and diversity, of those charged with governance and whether regulatory requirements influenced the design of the governance structure
- specific processes used to make strategic decisions and to establish and monitor the culture of the organisation, including its attitude to risk and mechanisms for addressing integrity and ethical issues
- particular actions which those charged with governance have taken to influence and monitor the organisation's strategic direction and approach to risk management
- how the organisation's culture, ethics and values are reflected in its use of, and effects on, the capitals, including its relationships with key stakeholders
- whether the organisation is implementing governance practices that exceed legal requirements
- the responsibility those charged with governance take for promoting and enabling innovation
- how remuneration and incentives are linked to value creation in the short, medium and long term, including how they are linked to the organisation's use of, and effects on, the capitals.

4 Integrated Reporting Committee of South Africa.

Conclusion

The benefits to an organisation that embarks on the journey to prepare an integrated report cannot be overstated. In the beginning, it can be a long journey as it requires a holistic approach, bringing together contributions from all aspects of an organisation to provide a clear understanding of its overall strategy, governance, performance and prospects.

Because an integrated report can explain how an organisation interacts with both the external environment and the capitals to create value over the short, medium and long term, the process provides a mechanism to consider all resources and relationships used by the organisation to create value.

Value creation is at the heart of integrated reporting, and the multi-capital approach is unique in that it asks an organisation to consider its use and effect on manufactured, intellectual, human, social and relationship, natural and financial capital.

For those preparing the integrated report, judgment is essential. Every organisation is different and employs the capitals in different ways. There needs to be an understanding of what is material to value creation, and what is not; how to disclose the necessary information, and to what extent. The process of preparation will reveal much and will no doubt uncover metrics and key performance indicators that are not clear enough or not measured in the most effective manner. It is all part of the journey.

As outlined earlier, most organisations should not expect to have prepared the optimal integrated report in a single reporting cycle. It is a learning process for all parts of the organisation, but over time, the enhancements to both the way an organisation functions, as well as its reporting, can be powerful.

Due to their unique role within an organisation, Chartered Secretaries and Chartered Governance Professionals can add significant value to their organisation if they have a working knowledge of integrated reporting and integrated thinking. This is why this guide has been developed, and while only an overview, its intention is to demonstrate the value of the process and the role our profession can play.

Chartered Secretaries and Chartered Governance Professionals have much to offer in establishing integrated reporting and integrated thinking into the governance framework of an organisation. Transparency goes to the heart of good governance, and as governance professionals, we have the skills and experience to advise organisations on reporting frameworks that best meet the needs of both preparers and users. There is an opportunity here that will benefit the organisation, its stakeholders and the profession.

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