# Corporate reporting

## A significant shift towards adoption of the principles of integrated reporting

A review of corporate reporting trends in the year to 30 June 2017 across the ASX 200 and beyond

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# Foreword

## Welcome to KPMG's fourth survey of ASX 200 Corporate Reporting.

Although the local rate of adoption lags many major capital markets, we sense a significant shift towards adoption of the principles of integrated reporting in Australia. This report explores the local and global momentum for adoption, and the evidence of the benefits of adoption for reporting organisations and investors alike.

### Local status

Australia has made significant progress since our 2016 report. More companies are adopting the principles of integrated reporting, if not fully adopting the International Integrated Reporting Framework (<IR> Framework).

The Group of 100 continues to support a voluntary move towards integrated reporting.

The Australian Institute of Company Directors (AICD) has shifted its policy stance. It is more positive in support of adoption of integrated reporting principles, although still notes potential liability concerns with respect to making forward-oriented statements.

The Australian Council of Superannuation Investors (ACSI) are strong advocates for a move to integrated reporting.

This report illustrates aspects of good Australian corporate reports across all three stages of the integrated reporting journey, or what we call the Reporting Continuum. It focuses on the ASX 200, but also shows examples from non-listed organisations, including not-for-profits. Our commentary summarises the current state in Australia and maps changes made over the last year.

### Global drivers

Global momentum for integrated reporting has grown rapidly since our last survey. Some 1,600 companies are preparing integrated reports, and the International Integrated Reporting Council (IIRC) believes we are moving from the 'break-though' towards the 'adoption' phase.

GE issued its second integrated report earlier in 2017, demonstrating continued support by a North American global business leader. Critical mass has been achieved in the UK under its Strategic Report regime, and now also in Japan at the encouragement of its Ministry for Economy, Trade and Industry. South Africa continues to lead in the scale of adoption. India and China have now also joined the integrated reporting movement. The New Zealand External Reporting Board has adopted extended external reporting as a priority.

There is a global trend towards recognising that integrated reporting is a key tool of good corporate governance and effective investor stewardship, as promoted by the investor-led International Corporate Governance Network. The King IV Code of Corporate Governance in South Africa has taken this to the next level by integrating its governance and investor stewardship codes, and introducing a requirement for integrated thinking.

Investor demand for and use of integrated reports is growing. In September 2017, 12 leading international investors signed a statement emphasising the value of integrated reporting and recognising its importance in their capital allocation decisions. The signatories include Cbus, VicSuper Aberdeen, Hermes and Aegon.

The statement adds to earlier calls for integrated reporting by Blackrock, CalPERS and others.

More reporting organisations are providing evidence of improved internal strategic alignment, and better engagement with customers, employees and other stakeholders arising from integrated reporting.

There is significant academic evidence of the benefits to individual organisations of moving to or towards integrated reporting. Leading academics, including from Stanford and Harvard Universities, have reported on quantitative research demonstrating improvements in capital allocation resulting from good integrated reports.

### What's next?

There is still much work to be done locally and globally. This report summarises our recommendations as to how individual organisations can further improve their own reporting, adopting a more strategic focus, with business benefits in mind.

I hope the results of this survey, our recommendations and an environment increasingly supportive of integrated reporting provide you with ideas and inspiration to consider as you continue your journey towards better business reporting.

**Andrew Yates**
**National Managing Partner, Audit, Assurance & Risk Consulting**

"The AICD encourages directors to consider the aims and principles of the Integrated Reporting Framework in corporate reporting as relevant to their organisation and stakeholder needs."

**AICD Policy Position, October 2017**

+ See page 19 for full text

"… we find a positive association between IRQ [integrated reporting quality] and [stock] liquidity… and expected future cash flows…"

**Mary Barth (Stanford University), August 2017**

+ See page 20 for full text

"Better reporting and effective communication of how the business works in the long-term, through Integrated Reporting or other approaches, is valued by us and is important in how we allocate capital."

**Investor declaration: September 2017**

+ See page 21 for full text

Thanks to Deakin University, with whom KPMG participates in the IIRC-accredited Integrated Reporting Education Australia Consortium, for providing valuable research support for this publication.

# Contents

# Key findings

## The stages of the Reporting Continuum

### Stage 1

**Cutting the clutter** in the annual report.

### Stage 2

**More insightful reporting**, moving beyond cutting the clutter to focus on value creation in the short, medium and long term, by using the principles of integrated reporting.

### Stage 3

**Integrated Reporting**, with reference to the International Integrated Reporting Council (IIRC)'s International Integrated Reporting <IR> Framework (<IR> Framework).

This report is the fourth survey of ASX 200 Corporate Reporting in Australia, and follows on from KPMG's 2016 survey *Corporate Reporting – evolution and integration, a review of corporate reporting trends in the year to 30 June 2016 across the ASX 200 and beyond.*

This year we have focused on the progress being made by organisations in 'Stage 2' of what we call the *Reporting Continuum*. These organisations have moved beyond cutting the clutter (Stage 1), to provide more insightful reporting by focusing on how the organisation creates value over the short, medium and long term.

In addition to the ASX 200, we have looked at the reports of a number of large scale Australian non-listed organisations, including not for profit organisations, who strive to achieve better practice reporting and have made advancements during the year.

## A significant shift towards adoption of the principles of integrated reporting

The majority of listed organisations, over 75% of the ASX 200, have now 'cut the clutter' in their financial reports, and many have also de-cluttered other parts of their annual report (e.g. remuneration reports and operating and financial reviews (OFRs)). This is encouraging to see as these annual reports are now clearer and more readable.

Building on the benefits achieved, many organisations are now moving beyond Stage 1 of 'cutting the clutter' and directing their attention at enhancing the narrative in their corporate reporting to better focus on explaining how they create value over the longer term in a more connected way. At the same time, they are re-visiting their corporate reporting portfolio to identify and remove superfluous or duplicated disclosures.

Stage 2 of the Reporting Continuum is characterised by organisations whose OFRs in their annual report, or other narrative reporting, goes beyond ASIC's *Regulatory Guide 247: Effective disclosures in an operating and financial review (RG247)* to focus on explaining how they are set-up to create long term value.

The transition by organisations from Stage 1 to Stage 2 is primarily being achieved through application of the principles of 'integrated reporting'[1]. These organisations are better explaining how their Boards and management are focused on creating sustainable value over the short,

1. The International Integrated Reporting Council (IIRC) issued the International Integrated Reporting <IR> Framework (<IR> Framework) in December 2013. The <IR> Framework is being adopted by many countries and organisations as good governance practice, and used by investors as part of effective stewardship; in Australia limited organisations to date have applied the framework completely (Stage 3) but many are now adopting some or all of the underlying principles.

medium and long term, and not just on short term financial earnings. They are grasping opportunities to better engage customers and employees through their reporting, as well as responding to pressure from long term investors (especially superannuation funds), governments, regulators and civil society to be more transparent in their reporting about governance, resource use and exposure, strategic performance, risk and longer term prospects.

It is important to note, that while many organisations are using their annual report as their primary report to communicate their value creation story, this is not the only option. Some organisations are choosing to issue a regulatory compliant annual report, with a separate voluntary annual review as their 'flagship' report to shareholders and other stakeholders.

This year our survey has examined the progress made by the ASX 200 in key report content areas. These seven areas are the ones that organisations are typically focusing on when transitioning from Stage 1 to Stage 2 of the Reporting Continuum.

## Longer term value creation

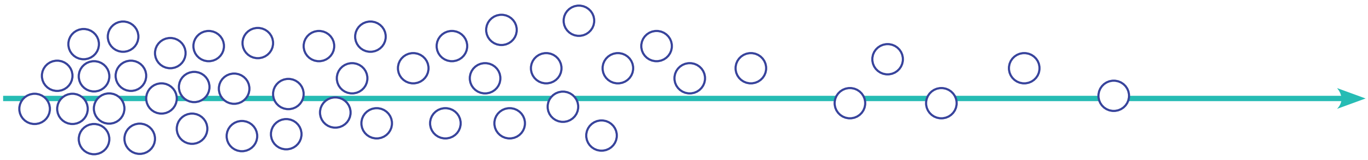
In Stage 2, longer term value creation should be central to the narrative discussion. Historically, the narrative in annual reports has focused on explaining the change to past financial performance and current financial position of the organisation. There has been little discussion on the broader health of the organisation as at the reporting date (i.e. quality of its relationships with customers and employees, and how it is using innovation and technology to enhance the customer and employee experience) and the challenges and opportunities it faces into the future. The reader is not provided with sufficient information to assess the organisation's ability to execute its strategy in the future, and so whether past earnings levels are likely to be sustainable over the medium to long term.

This year approximately 25% of organisations focused their reporting on value creation for shareholders and/or other stakeholders and not just past financial earnings. The theme of value creation is often being communicated at a high level through the Chairman's letter, as well as through the way the organisation describes its purpose and strategy.

25%

25% of organisations focused reporting on value creation and not just past financial earnings.

**An illustration of the ASX200 advancing along the Reporting Continuum**



**Stage 1** → Cutting the clutter in the annual report

**Stage 2** → More insightful reporting

**Stage 3** Integrated Reporting <IR>

12%

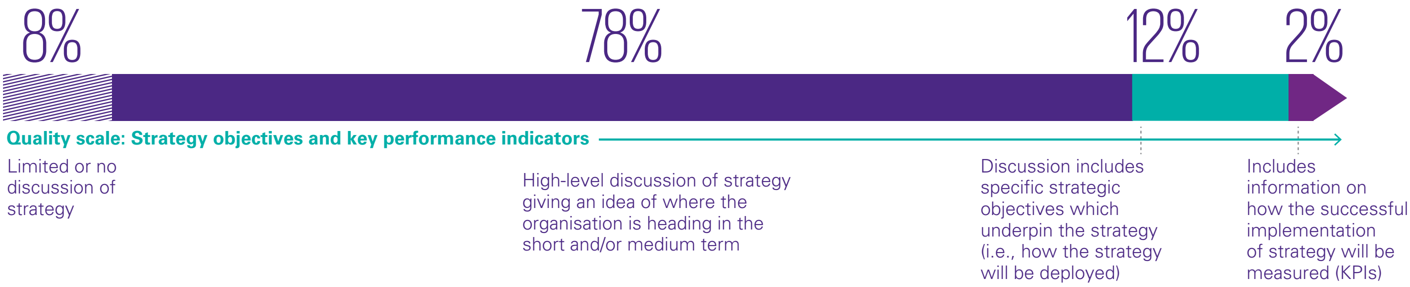
12% of organisations disclosed specific objectives which underpin their high level strategy to give the reader insight into how they intend to deploy the strategy.

## Strategic objectives and key performance indicators

When describing an organisation's strategy, the disclosure should give the reader enough information to understand where the organisation is headed, how it intends to get there and how it will measure progress and success. This can be helped by including specific strategic objectives that underpin the organisation's purpose, vision and mission, the key value drivers (inputs) required to deliver on each strategic objective and the KPI(s) that will be used to measure performance.

This year 12% of organisations disclosed specific objectives which underpin their high level strategies to give the reader insight into how they intend to deploy their strategy.

Being more specific in the strategy section will help to improve the overall connectivity of the report. In the subsequent performance section of the report, these KPIs and associated narrative can be used to help explain the organisation's performance in achieving the specific strategic objectives and its resultant impact on the ongoing availability of key resources to sustain longer term value.




3%

3% of organisations are connecting the risk disclosure to other parts of the report (i.e. strategy).

## Risks and risk mitigation

70% of organisations are now identifying their material business risks as well as explaining how they are being managed or mitigated by the organisation, including 3% who are connecting the risks to other parts of the report.

The next step which some organisations are taking, in line with integrated reporting principles, is to show the alignment of the material business risks to strategic objectives, key value drivers and the material or key concerns of stakeholders which were identified through the organisation's stakeholder engagement process.

We noted that there was sometimes a disconnect between the material risks disclosed in the annual report and those disclosed in the sustainability report. This inconsistency is confusing for the reader, who needs to understand those risks that are likely to have a material impact on the organisation's ability to continue to create value over the longer term.

## Performance and future prospects

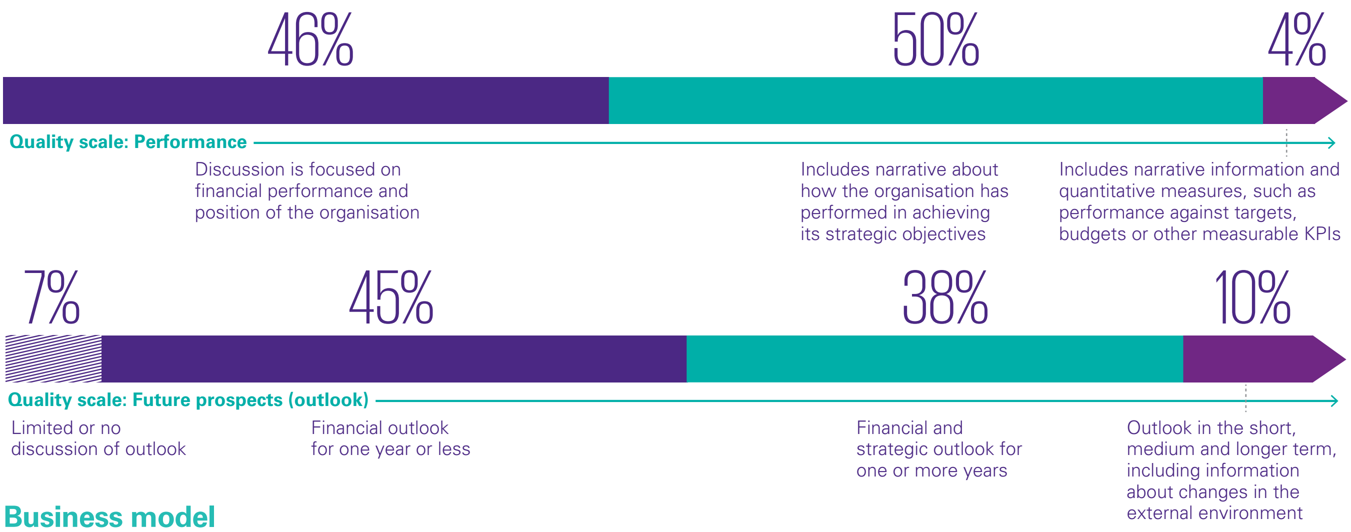
Over 50% of organisations have moved on from purely talking about financial position and performance, and are now also including narrative and in some cases quantitative disclosure on non-financial performance without specifically connecting it to strategy or strategic objectives. The leading reporters are also showing performance against targets, budgets and using measurable KPIs.

As organisations transition to Stage 2, discussion of future prospects continues to be an area requiring focus and improvement.

It is worth noting that the AICD's policy is now encouraging directors to consider the aims and principles of integrated reporting when developing their annual reports. They do not recommend full application of the <IR> Framework due to director liability concerns with forward looking statements, however the <IR> Framework does not require organisations to include forward looking forecasts or projections. Some organisations (especially those in Stage 3) have nevertheless provided more information this year on their external environment, business outlook and the potential or actual impact global megatrends or other market risks. Their reporting is providing readers with more insight about the business's future whilst not subjecting directors to any further exposure.

4%

4% of organisation's include narrative information and quantitative measures, such as performance against targets, budgets or other measurable KPIs.




## Business model

Clear articulation of the organisational business model is critical to helping the reader understand: what the organisation does, and how the organisation makes money, delivers capital growth and so creates value for shareholders and other key stakeholders. However many organisations are currently only disclosing their business activities, without providing insight into the key inputs (value drivers) they rely upon, the availability of these inputs, or clearly defining what their outputs are. Good reporters use a diagram, followed by brief narrative, to communicate their business model more effectively.

This year 9% of organisations have described their business model with enough detail for readers to understand the key inputs, business activities and outputs of the organisation, with another 4% discussing the outcomes in terms of the impact of the business activities on the continual availability of key inputs.

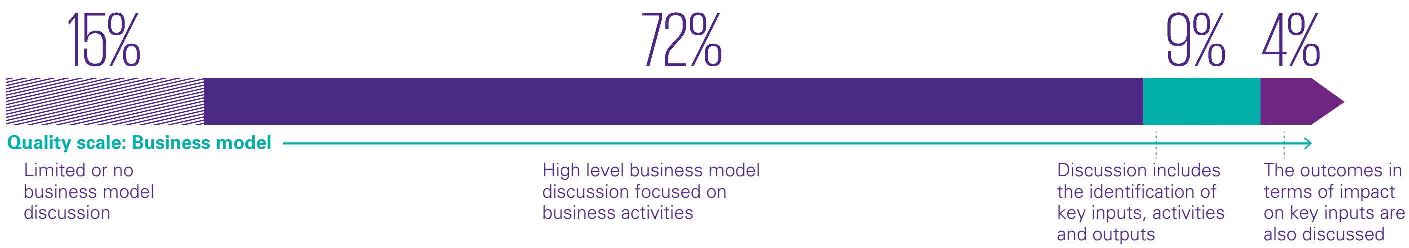
9%

9% of organisations describe their business model in enough detail for the reader to understand the key inputs, business activities and outputs of the organisation.

To take the business model disclosure one step further and to provide a deeper level of insight, leading reporters are applying the principles of integrated reporting, to help them show their end to end value creation process.

Starting with the various value drivers they rely upon as inputs to their business models, these organisations explain how these value drivers are used in their business activities to deliver their products and services (outputs). However they go one step further to describe the outcomes they have achieved.

The outcomes are discussed in terms of the value that has been created (or destroyed) by the organisation in relation to each key value driver used in its operations. This could be value for the organisation itself (and shareholders) in the form of financial returns, or value for other stakeholders, for example internally for employees being up-skilled, or externally in terms of enhanced customer engagement, or reductions in emissions for the broader community.




5%

5% of organisations have included an 'active governance' summary, highlighting the key areas of focus of the Board.

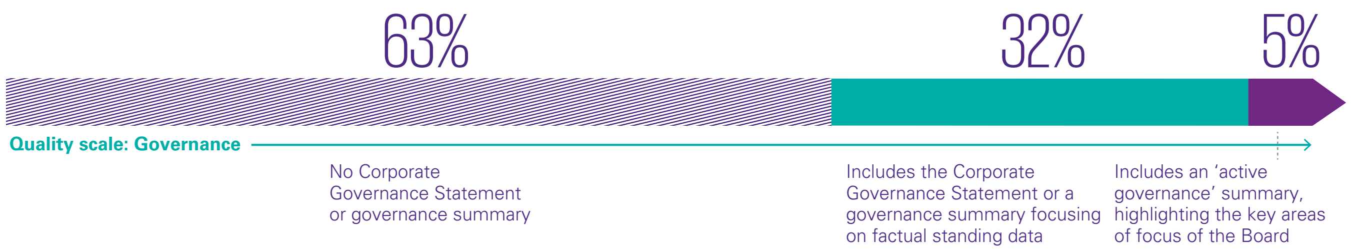
## Governance

Last year we saw 57% of organisations remove the Corporate Governance Statement from the annual report, replacing it with a link to where it could be found on the corporate website. However for many, this meant that the annual report no longer contained any information on how the organisation is governed or the areas of focus of the Board for the year and going forward.

This year 32% of organisations have included a governance summary, or Corporate Governance Statement in the flagship report. Leading reporters are using this summary to focus on 'Active Governance', being how the Board has supported value creation during the year, including:

- explaining how the Board actively oversees management's delivery against strategy, within the risk appetite of the group
- key areas of concern, activities and actions taken by the Board and its committees during the year
- how the governance structures have adapted to changes in business practices, including changes in the governance structure and frameworks.

These organisations have continued to include the Corporate Governance Statement and other standing data on the corporate website, with clear reference provided in their annual or flagship report.



## Connectivity of information

Many reports are still a collection of individual, regulatory-focused disclosures (strategy, risks, performance, business model and governance) presented as silos of information. Connecting the reports helps the reader understand how the Board has overseen and management has executed the strategy, used scarce resources effectively to deliver required products and services whilst protecting and enhancing scarce resources for future periods – their value creation story.

To help improve the connectivity of information within the report, 4% of organisations have used icons or symbols to show the connection between strategic objectives, use of resources, risks and performance. More have used tabs and links (page references) to help the reader navigate to different parts of the report (or reports portfolio) where further information can be found.

Innovation with technology will be an important aspect of better connectivity of information in the future.

4%

4% of organisations are improving connectivity and helping readers navigate their Annual Report through the use of icons, symbols, tabs, page references, and/ or links to where additional information can be found.

## In summary

Many of the organisations progressing through Stage 2 of the Reporting Continuum are not far away from preparing an integrated report. Indeed, we note above that organisations appear to be starting to apply some the principles of integrated reporting through the language and structure of their reports (i.e. the focus on value, identification of key resources as well as longer term and non-financial risks.) However, the information required in an integrated report is often currently disclosed across a number of reports – the annual report, annual review (if applicable) and the sustainability report.

The next challenge for these organisations is to determine what information is material to report on how they create value over time, and then bring it all together into a single 'flagship' report. In other words they need to prepare a flagship report in accordance with, or at least with reference to, the <IR> Framework.

This last step will help give the reader a more complete and concise picture of how the organisation uses its key resources and relationships to create sustainable value over time for its shareholders and other stakeholders.

This year 2% of organisations have entered Stage 3 of the Reporting Continuum. They are using, and explicitly referencing that they are using, the <IR> Framework to help guide their reporting.

These organisations have found the process of transitioning to integrated reporting to be positive and the benefits of 'integrated thinking' to be invaluable. A snapshot of the progress made by organisations this year is summarised in the following pages of this report, together with some of their stories, including why they started down the path towards integrated reporting and the benefits they have experienced to date in doing so.

We have also included a 'next steps' section for organisations looking to further improve their communications with their key stakeholders and so progress further down the Reporting Continuum, but are unsure as to what their next step should be.

# The shift towards integrated reporting


**Australia and New Zealand Banking Group (ANZ):**

Started on its 'progression towards integrated reporting' by drawing upon aspects of the <IR> Framework to describe how they are delivering value to their shareholders and other stakeholders, whilst further cutting the clutter in the financial statements to make them clearer and easier to read.

**+ Click to view**


**Woolworths Group:**

Further de-cluttered the Remuneration Report through restructuring the order of information, the use of tables and infographics. Woolworths brought forward the release of the annual report to results day, giving more prominence to the annual report.

**+ Click to view**


**Cbus:**

Has focused on improving its integrated reporting through more clearly explaining how it creates value for members and its business model. This year's report explains its strategy and performance for the elements of the business model that drive value creation for members.

**+ Click to view**

**+ read more about Cbus's Integrated Reporting experience on page 11**


**NRMA:**

Combined the Annual Financial Report, Members' Review and Sustainability report to form a 'flagship' report. This report was informed by the principles of integrated reporting to help them better communicate the way NRMA creates value for its members and its new strategic direction. NRMA identified the key value drivers it relies upon to create value and links to the member, business and community outcomes achieved. It also brings together how the NRMA creates shared value in terms of sustainable communities, access for all and safe mobility.

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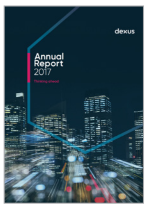


**Dexus:**

Added an Active Governance Summary focusing on the active role the Board plays in making key decisions that impact the implementation of the strategy, including a timeline showing the key decisions made by the Board each month.

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**National Australia Bank (NAB)**

Released its 7th integrated report (the Annual Review).

NAB remains committed to the principles of integrated reporting as it aligns with long term value creation and the role it plays as a bank in society.

**+ Click to view**

**+ read more about NAB's Integrated Reporting experience on page 10**


**Australia Post**

Prepared its Annual Report in accordance with the <IR> Framework and this year has included an explicit sign-off of the report by the Board… "Australia Post's Annual Report Steering Committee has guided the content of this integrated report. The approach was endorsed by the EGM, Group Services, with final approval of the Annual Report by the Australia Post Board."

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**VicSuper:**

Continued to draw upon the integrated reporting <IR> Framework when developing its report, helping it to present a balanced picture of what it has achieved, where it is heading, and the challenges it will face.

**+ Click to view**


**Camp Quality:**

Adopted an integrated reporting approach for the first time as it believes it provides a more thorough overview of how it delivers on its purpose and implements its strategy to achieve valued outcomes for its families and broader stakeholders.

**+ Click to view**

**+ read more about Camp Quality's Integrated Reporting experience on page 12**


**Lendlease:**

Building on the inaugural integrated report in 2016, Lendlease released its second integrated report, with further enhancements over the disclosure of its business model and the alignment between the pillars of value, performance and executive remuneration.

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# The integrated reporting experience

"The other unexpected benefit is that our employees have responded positively. For them it brings together what NAB is, and what we are seeking to achieve."

The following organisations are all on their own integrated reporting journey. Each is at varying stages, but all have found the process of transitioning to integrated reporting to be positive and the benefits of 'integrated thinking' to be invaluable.

Their stories, including why they started down the path towards integrated reporting, the benefits they have experienced to date and what it means for them in the longer term are shared below.

## National Australia Bank

**Gary Lennon**, Chief Financial Officer National Australia Bank

Each year we publish an integrated Annual Review. This review provides our stakeholders with concise information on the opportunities and challenges we face in our operating environment, and a summary of our strategy and performance. It's about giving our stakeholders the big picture, beyond just the numbers, and it's a chance for stakeholders to hear directly from our Chairman and Group CEO.

We originally chose to join the IIRC Pilot Programme and further develop our integrated report because we didn't feel like we were connecting with all the stakeholders we wanted to connect with. The Annual Financial Review was too financially biased and wasn't telling a holistic story - it was not concise, nor presented in a manner which allowed someone to read and fully understand what was going on and what mattered.

Since developing our integrated report, our experience has been overwhelmingly positive. Many people read our Annual Review as it is understandable and a user friendly report, which focuses on what is material to longer term success.

Initially we only received feedback from the Corporate Responsibility sector, they were the ones most interested in the report and encouraged us to keep on going.

However over the years we have seen an evolution in the users of the report and now retail investors, institutional investors, and especially superannuation funds are becoming more interested in what we are saying in our Annual Review.

The other unexpected benefit is that our employees have responded positively. For them it brings together what NAB is, and what we are seeking to achieve.

## Cbus

**David Atkin,**
Chief Executive Officer
Cbus

At Cbus we have been a part of the Global Pension Network for Integrated Reporting, and have been on a journey to incorporate integrated reporting into our Annual Report since 2013. We believe it is important to tell our members and other stakeholders how we work to create value for them and this is the central theme of our integrated report.

One of the other reasons that we started down this path, and have embraced the Integrated Reporting Framework, is because we wanted to start advocating for the use of this framework by the companies we invest in. We wanted to lead by example.

The journey for us started as a development from what we were already doing to improve our transparency beyond financial performance through preparation and disclosure of sustainability information using the GRI framework. We built on these reporting platforms to develop our own integrated report.

This process was transformative for Cbus. It required us to start thinking more holistically about how we create sustainable value, not just investment returns, but value through the way we invest and the value we create for the communities we serve.

Integrated reporting has helped us to better understand our business model and the issues we face, and for us now it is more than just a reporting framework, it is the output of the strategic integrated thinking that goes on within Cbus.

Many of the companies we invest in struggle with the short term 'earnings' focus of the market. Integrated reporting is one of the tools they can use to help them better articulate their plans for the future. If the companies we are investing in are able to show us the quality of their integrated thinking, and present a clear picture of how they will create value over the long term, then we will invest in them over that long term.

"If the companies we are investing in are able to show us the quality of their integrated thinking, and present a clear picture of how they will create value over the long term, then we will invest in them over that long term"

"We were seeking to demonstrate how we apply integrated thinking across all our decisions to deliver sustainable value."

## Camp Quality

**Kylea Tink,**
Chief Executive Officer
Camp Quality

In an important first for us as an organisation, this past year we chose to adopt an integrated reporting approach for our annual report at Camp Quality.

This was quite a shift for us and was very much driven by a belief that, whilst traditional annual reporting ensures organisations meet standard compliance requirements, the International Integrated Reporting Council's Integrated Reporting <IR> Framework better identifies what matters most to our organisation and thus provides greater transparency for our stakeholders.

By offering greater transparency to our stakeholders we are not only providing insight into how our organisation has performed but importantly how we see it performing into the future to ensure we are always developing and delivering services and programs that help every child impacted by cancer in measurable and meaningful ways.

This more thorough overview of our strategy, performance, sustainable value creation and the interrelationship between these enables us to better explain, in a more holistic manner, how we deliver on our purpose to our key stakeholders.

By taking a principles-based approach to this past year's report, we were seeking to demonstrate how we apply integrated thinking across all our decisions to deliver sustainable value.

This helps our stakeholders - families, donors, corporate partners, regulators, volunteers and the public – better understand what resources we have used, how we have interacted with the external environment, and what capital we have mobilised to create value – not only for them, but also the broader community.

The presentation of our Integrated Report in this format is only the first step in a much greater journey for us to embed integrated reporting within our organisation. We anticipate this process will take the better part of 12 months, as it necessitates the development and implementation of a number of internal structures and processes to collect, analyse and fully report the information required by the <IR> Framework, as well as embed integrated thinking principles into every decision we make.

Ultimately, integrated reporting has helped us to strengthen our business processes and performance by focusing our attention on the interrelationship between our value enablers, inputs, outputs and the outcomes achieved by mobilising not only our financial capital, but also our people (staff and volunteers), intellectual capital (systems, processes, know-how) and our standing with external parties (families, hospitals, alliance partners) and society more broadly.

# The investor perspective

## Australian Council of Superannuation Investors

**Louise Davidson**
Chief Executive Officer,
Australian Council of
Superannuation Investors

Louise Davidson closed the ACSI and Group of 100 conference on 5 May 2017 by summarising the need for integrated reporting to help bridge the gap between investors and corporates, as follows:

"We have had a great dialogue about longer term value creation, with a focus on bridging the information gap between capital market participants through integrated reporting. There is an opportunity to reform corporate reporting, increasing its utility, and reducing its volume and complexity. It will require all in the capital market system to contribute collectively.

I believe that we have heard a groundswell to fast track integrated reporting, but on a non-mandatory, best practice, basis. However, it seems that we have slipped behind global best practice in corporate reporting, particularly countries such as the UK, Japan, New Zealand and South Africa.

We already have our ASX Corporate Governance Council's Principles and Recommendations. I would encourage the ASX Corporate Governance Council to more formally and positively address integrated reporting in its Principles and Recommendations, both in defining corporate reporting and supporting integrated reporting adoption. This matter is largely in the hands of the private sector.

I believe that as investors, we are playing our part.

However, government also has a role. There has been excellent progress made in the UK, where its Financial Reporting Council is also promoter of best practice in corporate reporting. There is a strong case for the objectives of the Australian Financial Reporting Council to be broadened to encompass all corporate reporting and strengthen its resourcing to allow it to drive and support best practice. Also Treasury should take an active interest in this area – it is in the national interest.

Integrated reporting can play a significant role in helping to rebuild trust through its role in catalysing corporate focus and disclosure on matters material to the stakeholders of the business, and also through providing a framework for greater transparency on material non-financial matters."

"…Integrated reporting can play a significant role in helping to rebuild trust through its role in catalysing corporate focus and disclosure on matters material to the stakeholders of the business, and also through providing a framework for greater transparency on material non-financial matters…"

# Next steps for organisations looking to shift towards integrated reporting

1. **Establish a steering committee and corporate reporting project team**
2. **Develop a reporting strategy**
3. **Understand the organisation's 'value creation story'**
4. **Define the corporate reports portfolio and identify the 'flagship' report**
5. **Develop a blueprint of the flagship report**
6. **Develop flagship report content and draft the report**
7. **Integrated reporting management system**
8. **Assurance**

Many organisations wanting to tell a more insightful 'value-focused' story have started to adopt the principles of integrated reporting in their current reporting. This includes taking a more holistic approach to corporate reporting and focusing reporting on how the organisation creates value over the short, medium and long term.

Depending on where your organisation is currently at, possible next steps for organisations wanting to embark or continue on this journey include:

## 1

### Establish a steering committee and corporate reporting project team

The move towards integrated reporting requires identification of a senior sponsor (usually a Board member with delegation to the CEO or CFO to drive the change forward). A steering committee (senior executives from across the organisation) is then established to oversee the program of work, ensure strategic alignment and approve project deliverables.

A corporate reporting project team should also be set up with responsibility for designing the 'flagship' report structure and developing the report content (as well as the structure and content of other reports / disclosures in the reports

**A reporting strategy** is a plan owned by the CEO, usually driven by the CFO, and overseen by the Board. It explains what information the organisation aims to report, to who, when, in what format, through what distribution channels, and, most importantly, why.

portfolio). This group is usually made up of senior people from across the organisation, who can help develop a holistic picture of how all parts of the organisation work together to create long term value.

This team typically comprises representatives from Finance, Corporate Affairs, Investor Relations, Strategy, Legal, Risk, Sustainability, HR, Company Secretariat as well as from the business.

2

## Develop a reporting strategy

Developing a reporting strategy will help the Board and management clarify what reports and disclosures make up the organisation's corporate reports portfolio. This is important as under Principle 4 of the ASX Corporate Governance Principles and Recommendations (3rd edition), "a listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting." The Board is responsible for the 'integrity of all corporate reporting'. The reporting strategy will define 'corporate reporting' for the organisation.

A reporting strategy is a plan owned by the CEO, usually driven by the CFO, and overseen by the Board. It explains what information the organisation aims to report, to to who, when, in what format, through what distribution channels, and, most importantly, why. There are always mandatory reports, but the aim is to minimise the volume of reporting, whilst effectively and efficiently communicating to shareholders and other key stakeholders how the organisation creates sustainable value over time.

3

## Understand the organisation's 'value creation story'

In order to develop a flagship report, focused on value creation, organisations will need to fully understand how their business creates value, and so document their business model in a 'reportable' format. This will include:

- understanding the external environment in which the organisation operates, including any megatrends that may impact the long term value of the organisation
- identifying the key resources and relationships, or value drivers, that the origination draws upon as inputs into the business model
- identifying the outputs created by the organisation's business model (products, services)
- identifying the outcomes in terms of the effects on the key resources and relationships used
- determining how the outputs and outcomes are going to be measured (KPIs) and reported, including any specific targets.

4

## Define the corporate reports portfolio and identify the 'flagship' report

One of the outputs of the reporting strategy, will be the identification of the various reports, presentations and websites, that form part of the corporate reports portfolio. One of these reports should be identified as the 'flagship' report, the primary report that will go to shareholders and key stakeholders which communicates the organisation's long term value proposition in a connected and concise way. It is the starting point for understanding the 'business story', and then navigating to further detail as required, using digital enablers wherever possible.

Some Australian organisations are incorporating this information into their existing Operating and Financial Review (OFR), to develop a 'flagship' annual report. Others are choosing to prepare a separate annual review as their flagship report.

There are pros and cons for each approach. For example having a single 'flagship' annual report for investors, customers, employees, regulators and other stakeholders will eliminate duplication across the reporting portfolio, reduce management review time (Lendlease reported to have saved six weeks of management time through the integration of its reports[2]) and close out the reporting season on Results Day. Alternatively having a separate annual review allows organisations to separate out the communication of their value creation story from other regulatory and compliance based reporting.

5

## Develop a blueprint of the flagship report

Developing a blueprint of the flagship report involves deciding on the high level sections and the key content to be included in the report. This will help team members (and the Board and executive management) begin to visualise what this flagship report will look like. The typical sections included in this type of

2. KPMG, Corporate Reporting – Evolution and integration, A review of corporate reporting trends in the year to 30 June 2016 across the ASX 200 and beyond, 2016

report include: value creation process (business model and governance), strategy, performance, risks and opportunities, performance and outlook.

By then comparing the flagship report blueprint to the information currently reported by the organisation, the reporting team will be able to identify any 'disclosure gaps', and areas where further work will be required to develop or improve the content for disclosure in the flagship report.

6

## Develop flagship report content and draft the report

When drafting the report, the <IR> Framework is one framework which could be used to help determine the type of information which should be included in each section of the report. Another source to consider is the IFRS Practice Statement on Management Commentary (2010) which provides guidance on the presentation of management commentary that relates to financial statements.

As the report is being written it is important to keep in mind how the different parts of the report will be connected and how the concept of materiality is going to be applied to keep the report concise and focused on what is important to long term value creation.

7

## Integrated reporting management system

An integrated reporting management system will need to be established to ensure that the financial and non-financial processes and systems driving the flagship report and corporate reports portfolio align with the enhanced reporting model to deliver key information to the Board and management internally for decision making.

Reporting should be straight through from internal reporting to reporting to relevant external stakeholders.

Each organisation's flagship report will include non-financial information to help explain the organisation's performance and its effective use of financial and other resources to deliver value. For many, this might be the first time selected non-financial KPIs are reported publicly, and so care will be required to ensure that such information has been subject to an appropriate level of internal review.

8

## Assurance

In order to apply Principle 4 of the ASX Corporate Governance Principles, Boards will need to consider how to ensure the integrity of any additional or new reported information. They will likely rely on a mix of internal controls and management review, as well as internal audit and where the disclosure is considered material to the value story, external assurance.

# How KPMG can help:

**KPMG is working with organisations across all stages of the Reporting Continuum and in particular those wanting to provide more insightful reporting through the adoption of the principles of integrated reporting.**

**KPMG is also offering introductory integrated reporting training on-line through Chartered Accountants Australia and New Zealand (CAANZ), as well through courses at Deakin University and UNSW Australia (see the following page).**

**Further information on recent developments in corporate reporting and the implications for Executives, Directors and Investors can be found on the KPMG Better Business Reporting website at:**

**kpmg.com/au/betterbusinessreporting**

**To find out how your corporate reports compare to the ASX 200, or for further information on how to improve your business reporting, please contact a member of the KPMG Better Business Reporting team. (Contact details are provided on the back cover of this publication.)**

# Integrated Reporting Education Australia

*A consortium of KPMG, UNSW Australia and Deakin University.*

KPMG in conjunction with UNSW Australia and Deakin University established Integrated Reporting Education Australia, which is one of the IIRC's foundation training partners. Through this consortium they are offering introductory and advanced integrated reporting education and training.

## Professional online education

Available for individuals in Australia and New Zealand who want to understand more about integrated reporting, Integrated Reporting Education Australia is offering corporate education on integrated reporting through a partnership with Chartered Accountants Australia and New Zealand (CAANZ) (see below for further details).

## University education

In 2017 UNSW Australia and Deakin University offered semester long introductory courses in integrated reporting to their business students. Similar courses will be available in 2018. Please contact the respective university for further details.

## Other available training

KPMG has developed a one-hour Board education pack on the background, benefits and important role of the Board in moving to integrated reporting, which can be tailored to each specific organisation.

KPMG also provides a two day workshop to show integrated report preparers how to design and build their integrated reports.

## Online education in conjunction with CAANZ

This webinar series is designed to give participants an 'Introductory' understanding of integrated reporting, including integrated thinking, and the benefits it can bring to an organisation.

Topics covered include:

- the vision for better corporate reporting – the evolution of the <IR> movement and adopting <IR>
- the fundamental principles of value creation, the capitals and the value creation process
- achieving integrated thinking
- preparing the integrated report – the guiding principles, content elements and the integrated report
- implementing integrated reporting - from financial management to value management – implementing the <IR> management system, establishing credibility and trust and the annual preparation process.

### Further information:

The training material is provided through a series of five one-hour webinars.

Participants in the webinars will be provided with a Certificate of Completion from the IIRC, and can record 8 hours of formal CPE, being 3 hours of pre-reading and 5 hours of webinar training.

**The webinar series is available for On Demand purchase on the CA ANZ Education store.**

# Appendix 1 – Review methodology

This research has been carried out by Better Business Reporting specialists at KPMG, with the assistance of academic researchers from Deakin Business School.

Analysis was conducted on PDF reports published by organisations listed as being within the ASX 200 as at 1 September 2017. Reports for the financial years ended between 31 July 2016 and 30 June 2017 were included in the review.

This year two sets of research were completed:

## Observations on the quality of narrative reporting

In order to make an assessment of the quality of the organisation's narrative reporting, the organisation's corporate reporting portfolio was reviewed and the apparent 'flagship' report determined. This report was either the Annual Report or the voluntary Annual Review (or similar document), whichever gave most insight into the organisation's long term value creation process, including its business model, strategy and governance, risks, performance, and outlook. This has resulted in all 200 of the ASX 200 being included in the review results.

The review findings are based on analysis of publicly available information only, and no information was submitted directly by organisations to KPMG.

## Cutting the clutter in the financial statements

In order to determine if an organisation had de-cluttered its financial statements, the Annual Report was examined. Where an organisation had not yet lodged an Annual Report at the time the review was completed, the preliminary release (Appendix 4E) was reviewed where it contained the full financial statements. This has resulted in all 200 of the ASX 200 being included in the review results.

# Appendix 2 - Further support for integrated reporting

## Australia Institute of Company Directors:

### Policy position

Integrated reporting can offer useful principles for communicating on strategy, business model and governance, risks, performance and outlook.

The AICD encourages directors to consider the aims and principles of the Integrated Reporting Framework (IRF) in corporate reporting as relevant to their organisation and stakeholder needs. Flexible, voluntary adoption of relevant content elements of integrated reporting may help directors seeking to improve the quality and usefulness of information reported to the stakeholders.

The IRF suggests content elements that companies could adopt in reporting, as relevant. Many of these content elements are similar to guidance produced by ASIC for the Operating and Financial Review (OFR) (a requirement for listed companies) or can be effectively adopted within the OFR framework.

The AICD does not recommend adoption of the full framework due to directors' liability concerns with forward-looking statements and the need for a directors' compliance statement under this formal framework.

Source: AICD policy position, Company Director. Volume 33 issue 09, October 2017.

+ Click here for full text

## Academic research:

### The Economic Consequences Associated with Integrated Report Quality: Capital Market and Real Effects


#### Abstract

The International Integrated Reporting Council's Framework identifies two goals for integrated reporting: improved information for outside providers of financial capital and better internal decision making.

We extend prior research that finds a positive association between integrated report quality (IRQ) and firm value by examining two channels through which this association may arise – a capital market channel and a real effects channel.

To conduct these tests, we disaggregate firm value into three components: liquidity, cost of capital, and expected future cash flows.

Using data from South Africa where integrated reporting is mandatory and an IRQ measure based on proprietary EY data, we find a positive association between IRQ and liquidity, which supports the capital market channel. We find no evidence of a relation between IRQ and cost of capital.

We also find a positive association between IRQ and expected future cash flows. Because this association could reflect better investor cash flow forecasts – a capital market effect, better internal decisions – a real effect, or both, we attempt to distinguish these explanations. We find higher IRQ is (not) associated with higher realized future operating cash flows (greater analyst target price forecast accuracy), and find higher IRQ is associated with higher investment efficiency.

These findings support the real effects channel. Together, our findings are consistent with integrated reporting achieving its dual objective of improved external information and better internal decisions.


Source: Mary E. Barth[a], Steven F. Cahan[b], Li Chen[a], Elmar R. Venter[c],
a Graduate School of Business, Stanford University, USA
b University of Auckland, Auckland, New Zealand
c University of Pretoria, Pretoria, South Africa
Accounting, Organizations and Society

+ Click here for full text

## Investor declaration:

**We, the undersigned, support the statement below. We have made this statement to help companies understand that, if they deliver relevant and useful information, we will use it.**

"As major investors in the world's financial markets, we are fiduciaries for millions of individuals. To perform this role, we need to understand the long-term return prospects of the businesses in which we invest. We need to build a view of how they might perform, both in the short-term and over many years ahead, and to understand the risks they might encounter, not just in the next quarter but over the coming years or decades.

"To do this we need to understand not only their immediate financial performance, but the strategy of the business, the key resources and assets to which it has access and how it intends to maintain access to these resources and maintain or improve its assets.

"This gives rise to a need for businesses to explain their business models and strategies so that we understand how they earn their returns. We need them to tell us about the key resources on which they rely, to understand the cost of maintaining or growing them or, where necessary, of switching to alternatives. We need to understand what they do to maintain their access to those resources, and how they fulfil the needs of their staff or customers.

"Many businesses already do some of this: clearly explaining their business model, their strategy and how this is applied in practice, helping us to understand the key stakeholders on which their business relies, and the utility of the most important assets, including those not visible on the balance sheet.

"We recognise that businesses are under continuing regulatory pressure both in reporting to investors and others, and we support clarity and conciseness in reporting. Nevertheless, better reporting and effective communication of how the business works in the long-term, through Integrated Reporting or other approaches, is valued by us and is important in how we allocate capital.

"We also believe that embedding such practices into the management and reporting of businesses will help to drive improved governance and stewardship practices through more comprehensive identification and management of current and future opportunities and risks. This will help businesses to move the focus on decision-making and capital allocation from the short- term to the strategic issues, risks and opportunities that determine future performance in the medium and longer term. This shift will facilitate more sustainable development and stable businesses in the longer term and the growth of more transparent and robust capital markets which will benefit us all."

Aberdeen Standard Investments | Achmea Investment Management Aegon Asset Management | Cbus Super | Eumedion | Evenlode Investment Hermes Investment Management | Martin Currie Investment Management NN Investment Partners | PGGM Investment Management Triodos Investment Management | VicSuper


Source; IIRC, Investors support Integrated Reporting as a route to better understanding of performance, September 2017.

**+ Click here for full text**

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