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Dear Tony

Thank you for the opportunity to provide some comments on integrated reporting.

We believe that there is an imperative for “integrated reporting” in New Zealand and would encourage the XRB to advance progress in this area.

Our view is that it is vital New Zealand entities enhance the quality of their reporting on environmental, social and economic well being, not only by Central and local government but also by other significant entities within New Zealand. We see this best occurring within a “integrated reporting” framework – a framework that takes into account both vertical and horizontal integration.

While it is vital to maintain and enhance the quality of financial reporting we are not certain that the full picture about an organisation can be provided without the accompaniment of other information such as that which would be contained in an integrated report.

### **Current observations**

Internationally (and within New Zealand) we are seeing the spread of integrated reporting.

An integrated report is a single document which provides a clear assessment of an entity’s financial, social and environmental performance.

Various New Zealanders have been involved with the International Integrated Reporting Committee – a body that has been tasked with developing a standardised global framework for integrated reporting.

In France, the recently passed Grenalles II legislation will require all companies, listed and private, with more than 500 employees to provide a form of integrated report from 2012. The legislation is part of a government-driven initiative to position France as a leader in sustainability, promoting sustainable energy use, carbon emissions reductions and other socially and environmentally sustainable practices.

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Argentina and Denmark both require companies with more than 300 and 1,000 employees respectively to report on their sustainability.

Since 2007 all companies listed on the Malaysian stock exchange are required to provide integrated reports, and South Africa introduced the same measure for the Johannesburg Stock Exchange in 2010.

In Sweden, since 2007 all state-owned companies have been required to provide sustainability reports.

We see clear advantages for New Zealand business, but also government in New Zealand, in adopting integrated reporting

The ties between New Zealand's environment and economic sustainability are undeniable with key industries such as agriculture, farming, wine and tourism.

The state of our forests, rivers, coastline and oceans is also of great importance to all New Zealanders.

Integrated reporting establishes a clear and transparent platform for monitoring and disclosing the levels of sustainability achieved in our treatment of natural resources. It also offers a consistent, unifying framework, which can be adopted by organisations, government departments, local government agencies and so on.

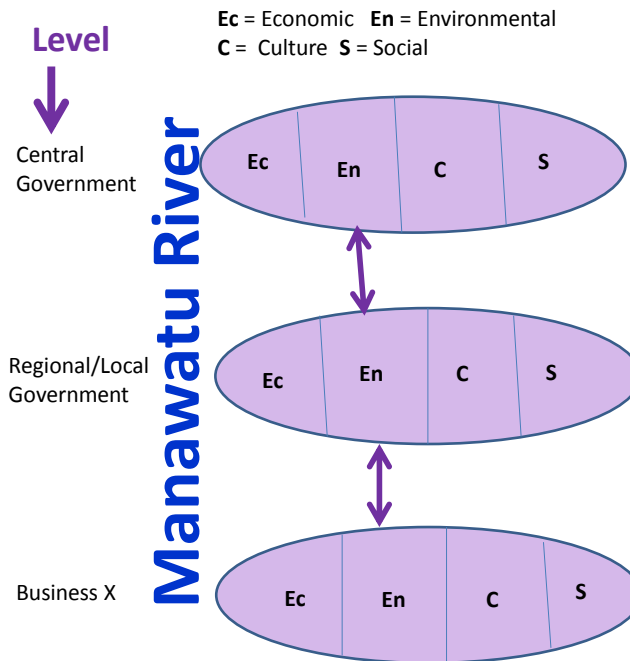
This allows for better-informed planning, monitoring, and (importantly) greater accountability because a key principle underlying integrated reporting is that it reports on what has been, but equally, what has not been achieved. In a nutshell integrated reporting should be viewed as a reporting process that closes the loop on strategy.

### **Horizontal and vertical integration**

Our vision for integrated reporting in New Zealand is that such reporting occurs at the various levels eg central government, local government, Not for Profits and at the business entity level – but that there are clear linkages between these levels with ownership for common outcomes being sought, shared objectives and underlying data. Local authority legislation also embodies a cultural element.

We have visualised this in the following diagram:

## INTEGRATED REPORTING



An example of how this would all work is as follows – we provide the following hypothetical example.

- The shared outcome is improving the quality of water quality in the Manawatu River.
- This is identified as a national issue but with local implications. So this would appear in the Central Government national integrated report.
- Local government has a role with this issue so the same matter would appear in their integrated reports.
- Business X that operates on the banks of the river and makes discharges into the river would then pick up the outcome, any intermediate outcomes and objectives plus the associated measures in their integrated report.
  - Integrated reporting for this business becomes easier because collectively government (central and local) and local businesses have identified the issue for the area.
  - Also the issue of reliable data collection becomes easier for the business as they will be able to source nationally collected data.

So we end up with vertical and horizontal integration on sustainability efforts in New Zealand and greater consistency and reliability on integrated reporting.

### **Integrated reporting and Not for Profits**

Not For Profits (NFPs) are another significant sector of the New Zealand economy that can contribute to, but also benefit from, integrated thinking on solutions and from the use of integrated reporting.

Grant Thornton released its 2011/12 survey of NFPs in March 2011 entitled *Survival: the ongoing challenge of having to deliver more with less*<sup>1</sup>. In the 2009 survey, we said that financial statements and non-financial reporting provided the road map to all results of an organisation; it is therefore understandable that when asked for in the 2011/12 survey 82% of respondents surveyed thought that there was a growing need for greater transparency especially as 'integrated reporting' initiatives are starting to take hold around the world.

As we commented in the survey publication, we see a real opportunity for NFPs, especially the larger NFPs, to actively make transparency a point of difference for their organisations. Integrated reporting is a way of achieving that greater transparency.

### **Challenges**

Moving towards integrated reporting will always be a journey – in search of the holy grail - with endless challenges. But this should not cause us to abandon the journey at its onset.

New Zealand has a lot of experience to offer in the area of broader performance reporting in the public sector. This has highlighted many of the challenges. It will presumably provide a rich pool of experience that can be shared with the rest of the world.

Please do not hesitate to contact either of us on any aspect of this submission.

Yours sincerely



Mark Hucklesby

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<sup>1</sup> <http://www.grantthornton.co.nz/Assets/documents/home/NFP-report-2011-2012.pdf>

## APPENDIX ONE - Grant Thornton “preliminary views” response to discussion questions

Our preliminary views for the assistance of the XRB in preparing a response are as follows. We are involved in the NZICA Working group that will be helping draft a NZICA response so as part of that process our views may change.

### **The World has Changed – Reporting Must Too (page 4)**

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

Yes.

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

Yes. For the sake of credibility there needs to be globally accepted standards.

### **Towards Integrated Reporting (page 6)**

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

Yes.

### **An International Integrated Reporting Framework (page 8)**

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

Yes.

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

It is probably the best place to start although the reality is that the underlying principles will still be equally applicable to other entities.

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

Yes. The conceptual foundations should still be applicable to any other type of organisation.

As we noted in our covering letter there are clear synergies when integrated reporting and the accompanying disciplines are occurring at different levels and sectors of an economy.

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

Q5. Are: (a) the organization's business model; and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

Yes - being able to understand an entities business model enables the reader of the integrated report to better understand potential risks and prospects.

This same focus is something that capital market regulators have tended to look for in offer documents. For example draft proposals issued by ASIC<sup>2</sup> in *CP 155 Prospectus disclosure: Improving disclosure for retail investors (released 12 April 2011)* discusses the need for key information in offer documents relating to an entity's business model.

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

Yes we believe that this is useful.

Economics, business, accounting, and related fields often distinguish between quantities that are stocks and those that are flows. It seems to us that the idea of multiple capitals links nicely to the idea of stocks and flows.

### **Guiding Principles (page 13)**

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

As a starting point the guiding principles seem a good set of underpinning principles.

### **Content Elements (page 14)**

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

They seem to provide a sound foundation.

### **What Will Integrated Reporting Mean for Me? (Reporting organizations – page 21, Investors – page 22, Policy-makers, regulators and standard-setters – page 23, Other perspectives – page 24)**

Q9. From your perspective:

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

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<sup>2</sup> [http://www.asic.gov.au/asic/pdfflib.nsf/LookupByFileName/CP155-Published-12-April-2011.pdf/\\$file/CP155-Published-12-April-2011.pdf](http://www.asic.gov.au/asic/pdfflib.nsf/LookupByFileName/CP155-Published-12-April-2011.pdf/$file/CP155-Published-12-April-2011.pdf)

Yes.

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

We see the move to integrated reporting as more of a journey – in search of the holy grail. There will be challenges. There will be critics. Improvements will be incremental. But this should not cause us to abandon the journey at its onset.

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

Yes.

Sometimes information in current capital market offer documents are prepared by a range of people and because of a lack of integrated thinking in the preparation and presentation of the document this leads to inconsistent messages. With integrated reporting entities will be forced to pay more attention to joining up the dots.

### **Future Direction (page 25)**

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

Yes.

In terms of other significant actions that should be added - we think that a crucial part of working towards credible integrated reports is addressing issues relating to the accompanying assurance provided by auditors. We believe that the IIRC also needs to have a priority of engaging with parties (auditors, environmental engineers) that may be providing assurance over integrated reporting information. A challenge will be that some of the best information will be qualitative/soft information that could present a challenge for auditors to provide assurance over. It would be good to start discussions relevant parties on seeking to resolve any assurance issues.

(b) What priority should be afforded to each action? Why?

All of the proposed actions are important to arriving at international credible frameworks and standards in this area. They are mutually reinforcing actions that need to happen.

In terms of outreach the most cost-effective way could be to take advantage of technology to conduct this work eg teleconferencing and webinars.

Q11. Do you have any other comments that you would like the IIRC to consider?

The establishment of globally agreed integrated reporting standards is vital and work on this should be treated with urgency. The world environment and economy are facing significant issues – continued absence of integrated reporting is not helpful.