

Integrated thinking and reporting <IR>  
**Focusing on value  
creation in the  
public sector**  
An introduction for leaders

INTEGRATED REPORTING <IR>

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This introductory guide to integrated thinking and reporting has been produced by the International Integrated Reporting Council, and the Chartered Institute of Public Finance & Accountancy with support from the World Bank.

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## Quotes inside front cover

**Bertrand Badre, Former CFO, World Bank:**

*“The pillars of Integrated Reporting resonate with what the World Bank Group is aiming to achieve. We believe that better information can help to improve governance, accountability, and rebuild trust in a post-crisis global economy where raising capital and promoting sustainable growth are essential.”*

**Rob Whiteman, CEO, CIPFA:**

*“Through giving a much clearer view of how and where public resources are used, as more and more public sector organizations from across the world take up the transformational challenge of Integrated Reporting, the understanding and trust of citizens can only increase.”*

**Professor Mervyn King, Chairman, IIRC:**

*“Public sector organizations are increasingly challenged with maintaining or improving outcomes within the same or reducing resources. Communicating how, and how well prepared they are, to achieve this is critical to public accountability.”*

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## Introduction

This introductory guide has been developed by the **International Integrated Reporting Council (IIRC)**, the **Chartered Institute of Public Finance and Accountancy (CIPFA)** with the support of the **World Bank** to explain to public sector leaders and their teams how integrated thinking and reporting can help the sector consider how make the most of resources, encourage the right behaviours and demonstrate to stakeholders how they are achieving the strategy and creating value over the short and longer term.

The Guide outlines the fundamental concepts at the heart of Integrated Reporting (<IR>) and provides case studies of entities and organizations implementing <IR> to help them achieve the outcomes they are aiming for. It illustrates the impact <IR> has had.

Further information about integrated thinking and reporting is available, in particular the International Integrated Reporting Framework (<IR> Framework), the Integrated Reporting Examples Database and further case studies can be found at [www.integratedreporting.org](http://www.integratedreporting.org)

Further practical guidance on implementation of the <IR> Framework in the public sector will be available from CIPFA later in 2016 [www.cipfa.org](http://www.cipfa.org)

To find out more and have your questions answered, please contact the IIRC:  
[info@integratedreporting.org](mailto:info@integratedreporting.org)

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## Overview: the case for change

### Focusing on value creation in the public sector

**Never before have there been so many constraints on time and resources. We are living in an age of increasing organizational complexity – and none more so than in the public sector where there are some of the largest reporting entities in the world. There are more and more demands for scrutiny and transparency to demonstrate the efficient use of resources and value for money. We have reached a tipping point in which public sector investment can no longer be accounted for in a series of financial transactions on a balance sheet.**

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is efficient infrastructure, good education opportunities and reliable health care. In many ways it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations. Public sector leaders are looking for tools and frameworks to help them demonstrate effective resource allocation, and accountability - communicating not just for the sake of 'being transparent' - but to ensure all stakeholders understand how their organization is creating value in the short, medium and long term.

#### **How can public sector organizations demonstrate the value they are creating?**

In an age of resource constraints, public sector organizations need ways of broadening the conversation about the services they deliver and the value they create, not only to meet short-term demands but for the longer term. Integrated Reporting is a model for achieving this and for promoting trust and confidence with key stakeholders. Traditional reporting frameworks, focused only on historic financial information, are not fit for purpose for modern, multi-dimensional public sector organizations.

Integrated Reporting is shaped by a diverse global coalition of regulators, business and public sector leaders, standard setters, investors, the accounting profession and NGOs – they are driving a global evolution in reporting that supports sustainable development and financial stability. Public sector organizations participated in a global pilot programme that helped to develop and test the International Integrated Reporting Framework, which was released in December 2013 and is now used by over 1,000 organizations worldwide to communicate their value creation story.

#### **What is Integrated Reporting (<IR>)?**

Integrated Reporting is not “another reporting initiative”: it is part of an evolution in the mind-set of leaders. Its effect, as the evidence is starting to show, is to refocus decision-making on value creation over the short, medium and long term; it is about managing the complex interconnections between people, ideas, finance and the natural environment. It delivers openness and transparency with a purpose.

- **<IR> is integrated thinking and reporting based on the International <IR> Framework, which is enhancing the way organizations think, plan and report on how they create value.**
- **<IR> helps organizations to think holistically about their strategy and plans, make informed decisions and manage key risks to build stakeholder confidence and improve future performance.**
- **Integrated thinking brings all the resources and relationships an organization depends on**

(called capitals in the <IR> Framework) into everyday decision-making. It looks at the broader social and natural impacts of decisions, as well as the effect on the financial bottom line.

- An integrated report is the outcome of this integrated thinking within the business – it is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.
- To make <IR> easy to embrace and consistent across organizations, the International <IR> Framework has been developed to explain the fundamental concepts alongside guiding principles and eight practical content elements for the report. The Framework enables an organization to bring these elements together through the concept of 'connectivity of information', to explain how it creates value.
- The primary purpose of an integrated report is to explain how an organization manages its resources and relationships (or 'capitals') to create value over time. All the capitals that an organization uses or affects should be considered – financial, manufactured, intellectual, human, social and relationship, and natural capitals – but only those that are material to the business need to be included in the integrated report.
- An integrated report, through quantitative and qualitative information, looks at how the activities and capabilities of an organization transforms the relevant capitals into outcomes for the organization and for others.

### **Integrated thinking and decision-making**

Focusing on outcomes is important in the public sector and by using the multi-capital International <IR> Framework public sector organizations can demonstrate that their strategy is delivering not only the outputs, but the outcomes they were aiming for. Integrated Reporting is a process based on integrated thinking – the report is just the physical output of this evolution in the way organizations think, plan and report on their organization. Through integrated thinking everyone has a common understanding – they are speaking the same language. The result is that silos are minimised and effective information flows are created within the organization.

The <IR> Framework is principles-based, which allows organizations to innovate and develop their reporting in the context of their own strategy, goals and objectives. This means organizations move away from the box-ticking, compliance-only approach to reporting and are encouraged to really understand and communicate how the organization creates value. The Framework is also the umbrella that can help bring together different reporting requirements and initiatives, so that the metrics and data provided to stakeholders are those that are most relevant (and clearly linked) to the particular capitals the organization relies on and the strategy it is pursuing.

### **How does Integrated Reporting help?**

- It provides a framework to focus reporting on the entity's principal objectives.
- It helps entities explain their strategies, operational models and governance, and demonstrates performance against these strategies.
- It shows how the (often conflicting) needs of different stakeholder groups are being addressed and balanced.
- It offers the opportunity to align reporting with risks and opportunities and management accountability.

## Realizing the benefits in the public sector

Public sector leaders are discovering a range of benefits through adopting Integrated Reporting, which are explored in greater detail later in this paper. In summary, these were some of the main impacts reported by 60 organizations implementing <IR>, according to Black Sun research “Realizing the benefits”:

- **92%** said it increased understanding of performance and value creation at leadership level and employee level, as well as with the growing external stakeholder base
- **79%** reported improvements in decision making to deliver sustainable outcomes, largely because of improved management information (84%)
- **87%** of organizations that publish an integrated report believe providers of financial capital better understood their strategy
- **96%** saw better connections across the organization and broader, longer-term perspectives while delivering in the short term

These benefits come from a shift in focus from the short term to developing a business model and strategy that is viable in the short, medium and long term and delivers the desired outcomes.

The starting gun was fired on a range of initiatives in 2015 that has focused people around the world on delivering in ways that are financially viable and sustainable over time. Initiatives such as the Sustainable Development Goals and COP21 have demonstrated that private and public organizations will need to work together to deliver many of the outcomes the world needs in these volatile times. Changes in reporting practices may not be the answer to all of the challenges that are facing us in the 21<sup>st</sup> century. But the International Integrated Reporting Council, which includes organizations such as the World Bank, is a market-led response to support organizations of all shapes and sizes around the world to begin to make the incremental changes that are necessary.

### Call to action

We invite you, as leaders in the public sector, to explore how integrated thinking and reporting can support your organization with delivering its strategy and ensuring stakeholders understand the value that your organization creates and the outcomes it achieves - not just for people today, but for the longer term as well.

The Public Sector Pioneer Network (the Pioneer Network) has been set up for those public sector organizations who wish to explore <IR> in their own reporting. For more information, see the IIRC website ([www.integratedreporting.org](http://www.integratedreporting.org)) or e-mail ([info@theiirc.org](mailto:info@theiirc.org)).

[ADD further quotes from Public Sector organizations where available and appropriate]

***“Our stakeholders are gaining new insights from the information that we are producing in our report. For the first time, they are seeing an easy to understand, holistic view of the whole business”***

Dawn Baggaley, Group Sustainability Manager at New Zealand Post

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# 1. Why <IR> for the public sector?

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Public sector entities are tasked with delivering high quality services in a financially, economically, socially and environmentally sustainable manner. Communicating how they achieve this, and how well prepared they are to continue doing so, is critical to public accountability and transparency. However, conventional reporting only tells us a limited story about the impact that governments or public service organizations are having and how well equipped they are to meet future challenges. <IR> seeks to address these limitations by providing a framework for connected thinking and reporting. It helps management to gain more insight, resulting in more cohesive strategies, better execution of programmes, greater efficiencies and profound effects on outcomes.

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**“Public sector entities are some of the largest, if not the largest, reporting entities in the world, so...transparency...is of importance to us all. Integrated Reporting would enable governments and their stakeholders to gain a better understanding of resources available and help them to manage these more effectively.”**

Bertrand Badre, Managing director and Group Chief Financial Officer at the World Bank Group

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## Multiple challenges facing the public sector

Public sector organizations face many challenges. These arise from the complex activities public sector entities undertake, their many different stakeholders, the need to plan for the longer term, and the wide definition of the value they create.

### **Serving and being accountable to a wide stakeholder base**

Public sector entities work in the public interest in a range of ways: enacting legislation or regulations, delivering services, redistributing income through mechanisms such as taxation or social security payments, or controlling assets or entities such as state-owned enterprises. Governments also have a role in promoting fairness, peace and order, and sound international relations.

Such activities make public sector entities accountable to a wide range of stakeholders, including taxpayers, users of services, legislators and markets. They are increasingly expected to be open and transparent, particularly around how, and by whom, decisions are taken. They are also generally required to demonstrate not just that they use resources efficiently and effectively, but also that they maintain the highest standards of trustworthiness. Such accountability is all the more important given that, in most jurisdictions, public expenditure forms a significant part of

gross domestic product, with public sector entities acting as substantial employers and major capital market participants.

### **Providing integrated services with sustainable outcomes**

Governing bodies of public sector entities often face difficult strategic decisions when determining the right mix of interventions needed to achieve intended outcomes. Conflicting interests can arise when seeking to achieve a number of economic, social, and environmental benefits. Public sector entities therefore need robust decision-making mechanisms to ensure they achieve their defined outcomes in a way that provides the best trade-off between available resources and the consequences (intended or otherwise). They also need to establish effective, efficient and sustainable operations.

### **Maintaining a longer-term perspective, while delivering in the short term**

Many public sector responsibilities are longer term, so entities need to define and plan the delivery of outcomes carefully and make sure that operations will be sustainable. The intergenerational nature of finances means that decisions taken today can impose burdens on future taxpayers and service users. Future generations of citizens will want to inherit well maintained services and well managed public finances.

### **Demonstrating the sustainable value of services provided beyond finance**

The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. Consequently, their performance can only partially be evaluated by examining their financial position, financial performance and cash flows. Current reports only tell us a limited amount about how well a public entity is equipped to deal with the challenges ahead and to continue delivering services and supporting communities.

## **How <IR> can help meet these challenges**

<IR> has certain qualities and strengths that enable it to support public entities in addressing the challenges they face. These include the range of stakeholder interests it addresses, its ability to take account of multiple inputs of different kinds, its focus on long-term value creation and its appreciation of the importance of non-financial value.

### **Supporting accountability to a wide stakeholder base**

Integrated Reporting can help to address diverse, and often conflicting, public accountability requirements. An integrated report provides insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests. An integrated report therefore benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policymakers.

### **Delivery of sustainable outcomes**

The <IR> Framework encourages reporting on outcomes. From a public sector perspective these are the internal and external consequences (positive and negative) that the organization's activities and outputs have for its resources and relationships. An integrated report provides insight into an organization's strategy and how it uses resources and relationships in a holistic way, demonstrating understanding of their interrelatedness and dependencies.

### **Maintaining a longer-term perspective**

At the heart of an integrated report is the ability to look beyond the 'now' to the 'near' and then to the 'far'. It requires disclosure of how an organization's governance structure supports its ability to create value in the short, medium and long term. Those responsible for governance are encouraged to articulate how the organization balances short, medium and long-term interests.

### **Demonstrating value beyond the financial**

Integrated Reporting helps entities to create a more complete picture of the resources they use and their value creating activities. Recognizing that the concept of value is highly subjective, the <IR> Framework does not suggest or require 'monetizing' value. It highlights that value created for the organization is linked to value created for others, including key stakeholders and society at large.

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**“Transparent, responsive, and accountable institutions are a vital part of what it takes to improve people’s lives and implement a sustainable development agenda”**

Helen Clark, Administrator at UNDP

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## **<IR> supports long-term planning for sustainable benefits**

The longer-term nature and impact of many of the public sector's responsibilities mean that it needs to define and plan sustainable outcomes. Governing bodies need to take decisions that further the entity's purpose, contribute to intended benefits and outcomes, and remain within the limits of its authority and available resources.

To achieve outcomes in a sustainable way, jurisdictions and individual entities of all types, including cities, towns, and even villages, are required to make decisions on:

- a) levels of income generation (taxes, fees, etc) and public expenditure;
- b) levels of performance sought in terms of, for example, service delivery or the maintenance of infrastructure; and
- c) how to manage and account for their assets and liabilities, including public debt.

In addition, they must manage expectations about the services they can provide with the resources available to them. Resource allocations among different levels of government and individual public sector entities are determined in many ways, depending on both constitutional arrangements and legal and institutional structures (de facto and de jure). These, in turn, drive delivery management and accountability frameworks, which can be articulated through mechanisms such as fiscal rules, budget frameworks, and input, output, and outcome targets.

Public sector entities therefore need to consider the combined economic, social, and environmental impact of their policies, plans, and decisions—for example, by taking demographic factors into account - when making decisions that have long term impact (e.g., social policy commitments).

Integrated Reporting provides a Framework to help public sector organizations meet these complex challenges in a structured and insightful way. We look at how it does this in Section 2.

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**“Integrated reporting has provided us with a framework to measure and report on the extensive non-financial capital that as a state owned enterprise we have built over the years... Our stakeholders are gaining new insights from the information that we are producing in our report. For the first time, they are seeing an easy to understand, holistic view of the whole business ”**

Dawn Baggaley, Group Sustainability Manager, NZ Post

**“We have developed a new approach to business strategy incorporating integrated thinking, materiality and our business model. Material issues have to be part of a business planning process, in order to address the things that will impact our business.”**

John Lelliott, Finance Director, The Crown Estate

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## <IR> Benefits

Early adopters of <IR>, including many public sector organizations, have identified a number of benefits. A survey of the <IR> Pilot Programme participants conducted by corporate communications agency Black Sun found that integrated reporting impacts and benefits all levels of an organization, from the operational level to the board level, as well as investors and other stakeholders.

**Figure 1: Extract from the IIRC/Black Sun Report ‘Realizing the benefits: The impact of Integrated Reporting’**

### Realizing the benefits: The Impact of Integrated Reporting

KEY FINDINGS FROM FULL RESEARCH REPORT

Reporters see internal benefits, including better decision making, as well as positive changes in external relations	<b>Breakthroughs in understanding value creation</b>	<b>Improving what is measured</b>	<b>Improving management information and decision making</b>	<b>A new approach to stakeholder relations</b>	<b>Connecting departments and broadening perspectives</b>
	As organizations work together differently, and use new information to assess their performance they have a clearer view of how they create value	Nearly all organizations interviewed said they had either significantly changed what they measured or had plans to do so in the future	Improvements in decision making were largely attributed to changes in management information	More evidence of Integrated Reporting having an impact on engagements with external stakeholders	One of earliest benefits is breaking down silos and increasing respect and understanding between departments
<b>POSITIVE EXPERIENCES</b> All respondents were extremely positive about the impact that their journey towards Integrated Reporting is having	<b>92%</b> SEE INCREASED UNDERSTANDING OF VALUE CREATION AS CURRENT BENEFIT	<b>84%</b> SEE A CURRENT BENEFIT REGARDING DATA QUALITY	<b>79%</b> REPORT IMPROVEMENTS IN DECISION MAKING	<b>91%</b> SEE AN IMPACT ON EXTERNAL ENGAGEMENT	<b>96%</b> SEE AN IMPACT ON INTERNAL ENGAGEMENT
<b>STRATEGIC BENEFITS</b> Many noted that the most important benefit they experienced was a change in conversations between the board and management	<b>71%</b> SEE BENEFIT TO THEIR BOARD OF BETTER UNDERSTANDING OF HOW THE ORGANIZATION CREATES VALUE	<b>71%</b> SEE A CURRENT BENEFIT OF GREATER FOCUS ON MEASURING THE LONGER-TERM SUCCESS OF THE BUSINESS	<b>65%</b> SEE A CURRENT BENEFIT OF BETTER LONG-TERM DECISION MAKING	<b>68%</b> SEE A BETTER UNDERSTANDING OF THE BUSINESS RISKS AND OPPORTUNITIES, PARTICULARLY THOSE WITH LONG-TERM IMPLICATIONS	<b>78%</b> SEE A CURRENT BENEFIT OF MORE COLLABORATIVE THINKING ABOUT GOALS AND TARGETS BY THE BOARD, EXECUTIVES AND STRATEGY DEPARTMENTS

## Conclusion: growing demand for better information and reporting

There is growing demand in all sectors for more user-friendly information that combines financial and non-financial performance indicators to support better decision making. Adopting integrated thinking and reporting <IR>, which incorporates both financial and non-financial information, can help public sector entities address the challenges they face and gain greater understanding of the ways in which they create value.

<IR> can also help enhance governance, transparency and accountability through more holistic disclosures and a focus on explaining how sustainable outcomes will be delivered for a range of stakeholders over time.

Through <IR>, leaders, employees, government officials and tax payers can all gain insight into how organizations are performing against their strategies, and what resources and relationships are needed to contribute to their current and future success.



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## 2. What is Integrated Reporting?

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**Integrated Reporting helps public sector organizations to understand and explain how they create value in the widest sense. It is based on the International <IR> Framework that encourages integrated thinking across the organization. Organizations that adopt <IR> work towards producing an integrated report: a concise communication about how an entity'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.**

### **Integrated thinking underpins <IR>**

Integrated Reporting begins with integrated thinking. Integrated thinking is the active consideration by an organization of the relationships between its various operating and functional units and the resources and relationships that the organization 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.

Many public sector organizations already emphasize the importance of integrated thinking. <IR> reinforces this message and helps entities to embed integrated thinking and encourage closer working across departments. In this way, organizations are better placed to consider the interests of their many stakeholders and respond to changing expectations, opportunities and threats.

The benefits of integrated thinking include:

- A more cohesive approach to decision-making which focuses on value creation in the short, medium and long term
- A more robust and integrated strategy and objectives
- Better strategic perspectives and a wider view of risks and opportunities
- Deeper understanding of business processes and identification of gaps in processes
  - More connected internal and external communication

Integrated thinking brings all the resources and relationships an organization depends on (called capitals in the <IR> Framework) into everyday decision-making. It looks at the broader social and natural impacts of decisions, as well as the effect on the financial bottom line.

The more that integrated thinking is embedded in an entity, the easier it is to prepare an integrated report, and the higher the quality of the report produced.

## An integrated report results from integrated thinking

An integrated report is the portal through which an entity communicates a holistic view of its current position, where it's going, and how it intends to get there in a clear, concise, and understandable way. The integrated report enables readers to make an assessment of the entity's ability to create value in the future for both the entity and for others.

An integrated report may be prepared in response to existing compliance requirements, and may be either a standalone report or be included as a distinguishable, prominent and accessible part of another report or communication.

Many organizations already publish a large amount of information, but often in isolated reports prepared by a range of departments:

- Finance and accounting functions prepare financial reports
- Those involved in sustainability and environmental management report on the sustainability impacts of an organization
- General and legal counsel report on regulatory and compliance disclosures
- Those in planning and risk management report on risk issues

Meaningful integrated reports are not created by merely bolting together information from these and other internal and external reports. Instead they stem from the integrated thinking within the organization. They are generated from the information used by internal decision makers, meaning that <IR> should lead to better – not necessarily more – disclosure.

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### Case study extract: Eskom Holdings SOC Ltd

One key outcome of <IR> is a move towards integrated internal business reporting. Eskom has applied <IR> principles to the quarterly report submitted to the South African Government (as its shareholder) and uses the same teams, processes and systems to produce the quarterly shareholder report and the interim and integrated reports. This has led to the shareholder report being more streamlined and focused on material items with a move away from divisional silo reporting and duplication of content.

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## The International <IR> Framework

Integrated Reporting is based on the International <IR> Framework, which was published in December 2013 by the International Integrated Reporting Council (IIRC). Public sector organizations played an important part in the thinking that underpins the <IR> Framework, taking part in the pilot programme and experimenting with the reporting model. For example, the South African State Owned Company Transnet, New Zealand Post, the World Bank, the UK's National Health Service and the city of Johannesburg all made important contributions to the Framework's development, ensuring its relevance for public sector entities of all kinds. The IIRC continues to work closely with public sector entities as experience of applying the Framework grows.

The purpose of the <IR> Framework is to establish Guiding Principles and Content Elements (see Figure 2) that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them. The <IR> Framework takes a principles-based approach, aiming to strike an appropriate balance between flexibility and prescription. This recognizes the wide variation in the circumstances of individual organizations, while enabling a sufficient degree of comparability to help users of integrated reports.

The <IR> Framework identifies information to be included in an integrated report for use in assessing the organization’s ability to create value. It does not prescribe specific key performance indicators, measurement methods, or the disclosure of individual matters, but does include a small number of requirements that are to be applied before an integrated report can be said to be in accordance with the <IR> Framework.

**Figure 2: Summary of the <IR> Framework's Guiding Principles and Content Elements**

**Guiding Principles**

- **Strategic focus and future orientation:**  
Description of the strategy of the company and its relation to value creation and capitals.
- **Connectivity of information:**  
Relates to the interrelatedness of the factors that affect the organization’s ability to create value over time.
- **Stakeholder relationships:**  
Description of the key stakeholders, including how the stakeholder’s interests are taken into account.
- **Materiality:**  
Relates to the number of disclosures about matters that affect the organization’s ability to create value.
- **Conciseness:**  
Relates to the concise format of the report.
- **Reliability and completeness:**  
Relates to the balanced, complete character of the report, which should not include any material errors.
- **Consistency and comparability:**  
Relates to the consistency and comparability of the information within the report.



The 7 Guiding Principles and 8 Content Elements from the IIRC (reproduced from the <IR> framework)

**Content Elements**

- **Organizational overview and external environment:**  
Description of the organization and the external environment (e.g. competition).
- **Governance:**  
Description of the governance structure and its relation to value creation.
- **Business model:**  
Description of the business model with input, output and capitals included.
- **Risks and opportunities:**  
Description of the risks and opportunities and the risk mitigation system.
- **Strategy and resource allocation:**  
Description of the concrete strategy of the company, both short-term and long-term focused.
- **Performance:**  
Description of the results, compared with targets, previous years and capitals.
- **Outlook:**  
Description of the future challenges in relation to the company.
- **Basis of preparation and presentation:**  
Description of the materiality determination process, reporting boundaries and frameworks used.

**Source:** Diagram from Deloitte's report: 'Integrated Reporting as a driver for Integrated Thinking? – Maturity of <IR> in the Netherlands 2015'

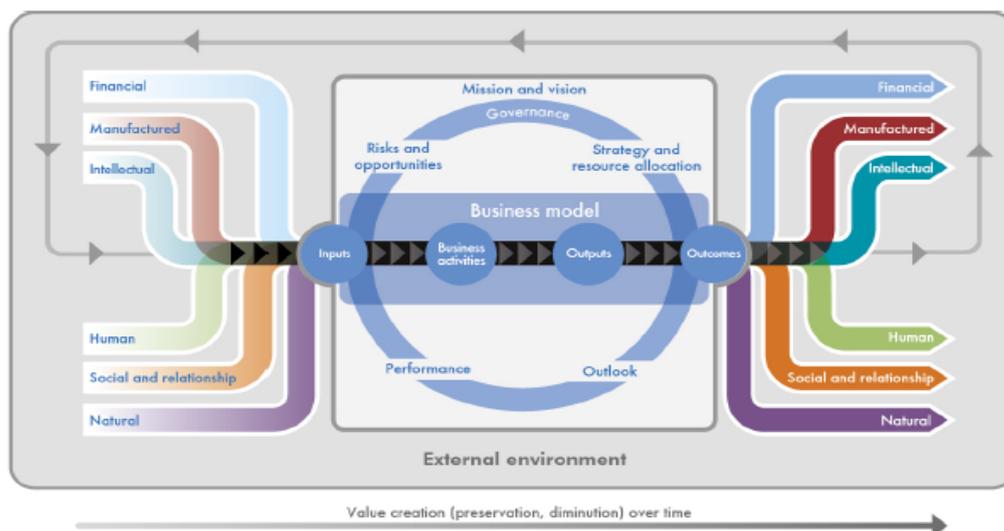
**The value creation process**

An integrated report aims to provide insight about how an organization creates value through making use of resources and relationships – collectively referred to as ‘the capitals’ in the <IR> Framework. The IIRC has defined six different types of capitals that represent stocks of value that are increased, decreased, or transformed through the activities and outputs of an organization. These capitals are: financial, manufactured, intellectual, human, social & relationship, and natural.

Not all capitals are equally relevant or applicable to all organizations. While most organizations interact with all capitals to some extent, these interactions might be relatively minor or so indirect that they are not sufficiently important to include in integrated thinking (and therefore value creation) and, ultimately, in an integrated report.

The value creation process is different for public and private sector entities. Nevertheless the key concepts of the value creation process as portrayed in the <IR> Framework (see Figure 3) have direct application for both public and private sector organizations.

**Figure 3: The value creation process**



Source: [www.integratedreporting.org](http://www.integratedreporting.org)

**The external environment**, including economic conditions, technological change, societal issues and environmental challenges, sets the context within which the organization operates. **The mission and vision** encompass the whole organization, identifying its purpose and intention in clear, concise terms. Governments generally have broader powers than private sector organizations, including the ability to establish and enforce legal requirements, and to change those requirements. Accountability is not only to shareholders but also to other parts of government, citizens, and the global community.

At the core of the organization is its business model, which draws on **various capitals as inputs and, through its activities, converts them to outputs** (products, services, by-products and waste). The organization'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 (e.g., in the availability, quality and affordability of inputs) can affect the organization's longer-term viability.

## A closer look at the capitals

Public sector entities depend on a variety of resources and relationships for their success: the six 'capitals' in the <IR> Framework. These six categories, whether belonging to an entity itself, to other entities, or to society more broadly, provide the inputs needed to achieve that entity's outcomes. They are increased, decreased or transformed through the activities of the organization in that they are enhanced, consumed, modified or otherwise affected by those

activities. For example, an organization's financial capital is increased when it makes a surplus/profit and its human capital is increased when employees become better trained.

As already noted, not all capitals are equally relevant or applicable to all organizations. The <IR> Framework therefore allows other terms to be used where this is more appropriate. Initial experience in the public sector indicates that while the types of capital described in the <IR> Framework will broadly be applicable to some extent, it may be helpful to modify the terminology used. For example, 'manufactured' capital might be more appropriately termed 'infrastructure'. Table 1 provides examples of the various capitals in the public sector context.

**Table 1: Examples of capitals in the public sector context**

<IR> Framework capitals and (where different) public sector 'resource' interpretations	Examples
Financial	The pool of funds available to an organization for use in the production of goods or the provision of services which are obtained through financing, such as debt, tax or grants, or generated through operations or investments.
Manufactured e.g. infrastructure	Physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including buildings (such as schools, hospitals and offices), equipment and infrastructure (such as roads, ports, bridges, and waste and water treatment plants).
Intellectual	Organizational, knowledge-based intangibles, including intellectual property, such as patents, copyrights, software, rights and licenses, and 'organizational capital' such as tacit knowledge, systems, procedures and protocols.
Human	People's competencies, capabilities and experience, and their motivations to innovate, including their alignment with and support for an organization's governance framework, risk management approach, and ethical values along with the ability to understand, develop and implement an organization's strategy and loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.
Social and relationship e.g. societal	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 organization has developed and strives to build and protect with external stakeholders. Also, intangibles associated with the brand and reputation that an organization has developed. An organization's regulatory license to operate.
Natural	All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization. It includes air, water, land, minerals and forests, along with biodiversity and eco-system health.

## Key reported content

Integrated Reporting enables organizations to address the material factors that influence value creation over time, so that they are either quantified or reported on in narrative form, or both. Public sector entities don't have to explain all the complex relationships between all the various capitals that would be necessary to reflect a complete picture of an organization's overall effect on the world's stock of all the capitals. However, it is important to report on material trade-offs, including:

- Between capitals or between components of a capital (e.g., creating employment, which increases human capital, through an activity that negatively affects the environment and therefore decreases natural capital)
- Over time (e.g., choosing a course of action when it is likely that a different course would result in a greater capital increment but not until a later period)
- Between capitals owned by the organization and those owned by others or not owned at all.

In such ways <IR> offers the opportunity to consider and review the interconnectedness of complex multi-service delivery and to clarify goals and identify preferred outcomes within the wider context of promoting public wellbeing.

## <IR>'s place in the corporate reporting landscape

The corporate reporting landscape contains a variety of reporting frameworks, standards and related requirements. The <IR> Framework is not intended to replace these. Instead, <IR> provides an umbrella that can encompass other standards and frameworks to help provide a more complete and coherent picture of value creation by an organization.

Getting to grips with the range of existing frameworks and standards can still be challenging, triggering calls for greater coherence, consistency and comparability. In response, the IIRC convened The Corporate Reporting Dialogue (CRD) to bring together organizations (see Table 2) with significant international influence on the corporate reporting landscape.

**Table 2: Participants in the Corporate Reporting Dialogue**

CDP (formerly the Carbon Disclosure Project)	International Accounting Standards Board (IASB)
Climate Disclosure Standards Board (CDSP)	International Integrated Reporting Council (IIRC)
Financial Accounting Standards Board (FASB)	International Organization for Standardization (ISO)
Global Reporting Initiative (GRI)	Sustainability Accounting Standards Board (SASB)

The Dialogue has developed an online mapping tool to show the links between participants' reporting initiatives to help organizations navigate the different standards. See <http://corporatereportingdialogue.com/landscape-map>

## Integrated Thinking: An Exploratory Survey by SAICA

In its 2015 paper - *Integrated thinking: An exploratory survey* - the South African Institute of Chartered Accountants (SAICA) shared the South African experience of how implementing Integrated Reporting is having an impact on and contributing to integrated thinking. The study focused on establishing if organizations in South Africa were embracing integrated thinking and if they saw it to be of benefit.

The extract below highlights the main drivers of integrated thinking identified in the report:

### What are the main drivers of integrated thinking in organisations?

Over 70% of executive and non-executive director respondents felt integrated reporting was a catalyst to enhancing integrated thinking in organisations. Some respondents indicated that their organisations had already achieved integrated thinking before integrated reporting was launched, with some suggesting that integrated thinking was evident in all successful organisations and flowed from their strategies. Most respondents, however, felt that integrated reporting had assisted in refining and improving integrated thinking in their organisations.

Some of the other key drivers of integrated thinking mentioned by respondents included:

- changing business circumstances that required a significant change in strategy
- enlightened leadership at board or chief executive officer level
- meeting the needs of stakeholders, especially with regard to social and environmental issues
- the complexity of the business
- a need to enhance risk management
- adoption of matrix organisation structures
- a remuneration strategy linked to improved integration, coupled with appropriate key performance indicators (KPIs).



The project has highlighted that many aspects of integrated thinking are not yet understood but, looking to the future, organizations will increasingly recognise the significant benefits of integrated thinking to enhance their competitiveness and support their sustainability from all perspectives.

**Source:** SAICA report: *Integrated Thinking - An Exploratory Survey*.

## Putting <IR> into practice

Many organizations have now begun applying the <IR> Framework, seeing how its principles and concepts can help improve internal decision making as well as internal and external reporting. Their experiences can help other organizations just beginning their <IR> journey, which we consider in Section 3.

# 3. The <IR> Journey

The experience of implementing <IR> will differ between entities depending on their governance structures, processes and the information they currently collect. Although the details will vary, the work programme or 'journey' for any entity will often involve five steps:

- Deciding to adopt integrated thinking and reporting
- Planning the process
- Gathering the information
- Preparing Integrated Reporting
- Learning the lessons

Throughout all five stages, communication with key internal and external stakeholders is essential. The information provided must be determined by what is material for the specific stakeholder group.

The <IR> Framework can be applied, adapted as necessary, by public sector and not-for-profit organizations. There is no one 'right way' to go about this, as illustrated by the varied experiences of five entities are shared in this section. Further case studies are available at [www.integratedreporting.org](http://www.integratedreporting.org)

## Deciding to adopt <IR>

The first stage in the <IR> journey is the decision to adopt. Organizations adopting <IR> do so because they value the 'umbrella' framework it provides, enabling them to focus their reporting on the issues that are most material to the entity and its stakeholders. Through <IR> they can present an integrated picture of their organization's activities, rather than producing standalone reports that address isolated issues.

Although the IIRC's long-term vision is that <IR> becomes the corporate reporting norm, this does not mean that it will replace other forms of reporting. These remain important for providing specific stakeholders with particular, detailed information. They also provide much information relevant to <IR>. This is particularly the case with sustainability reports, which many public sector entities already produce, either voluntarily or as a result of policy and regulation. Entities applying the GRI 4 and SASB initiatives will find that these cover at least three of the six capitals within the <IR> Framework. Sustainability reporting can therefore provide a platform for gathering the sustainability data needed in an integrated report. Organizations with experience in sustainability reporting are also more likely to have the systems and assurance processes in place to give comfort to senior management that there is robust 'non-financial' data to support the development of an integrated report.

### Gaining senior backing

It is important that the decision to adopt <IR> and the resulting programme of work are backed by the highest governing body. This is because the process requires breaking down silos, collaboration, resources and agreement on how capitals are used for value creation – the integrated thinking highlighted in Section 2.

The decision makers and other key stakeholders for <IR> will vary according to whether the reporting entity is operating at the federal, region or municipal level or is an SOE. Factors to consider when identifying decision makers and key stakeholders include the specific operational responsibilities of chief executives (heads of department, agencies or other entities), the extent of scrutiny by legislative committees, and ministerial accountability.

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**“Integrated reporting has provided us with a framework to measure and report on the extensive non-financial capital that as a state-owned enterprise we have built over the years.”**

Dawn Baggaley, Group Sustainability Manager, NZ Post

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## Case Study: New Zealand Post

The New Zealand Post was the first business in its country to use Integrated Reporting – a particularly bold decision given that it was simultaneously launching an organization-wide change programme.

With the support of its CFO, NZ Post’s first step in its <IR> journey was to join the IIRC’s Pilot Programme. It then formed an internal stakeholder group in order to gain broader organizational support. The group discussed the merits of NZ Post adopting the <IR> Framework and how it would do so. The steering group brought together departmental representatives from legal, communications, finance, investor relations, strategy and sustainability, as well as business representatives from Kiwibank and the Mail and Logistics businesses. This group became the IR Steering Group, sharing responsibility and demonstrating corporate support for formal adoption of the <IR> Framework for the Annual Report when this was proposed to the Board.

“Reporting was seen as just something that we had to do and a compliance exercise with limited additional value,” says Dawn Baggaley, Group Sustainability Manager, NZ Post. “We faced a huge change programme where we had to fundamentally restructure the business. <IR> helped us to take stock of the value of all our assets (financial and non-financial) and consider how the change might impact them. Integrated reporting has provided us with a framework to measure and report on the extensive non-financial capital that as a state-owned enterprise we have built over the years.”

Dawn believes the switch to <IR> has not only benefited stakeholders, but NZ Post people too. “Our stakeholders are gaining new insights from the information that we are producing in our report,” she says. “For the first time, they are seeing an easy to understand, holistic view of the whole business. Our commitment to <IR> has changed the look and feel of the report we now produce. We have split it into two, with reporting on the six capitals at the front and the required financial information in the second volume.

“The six capitals model is also helping our people understand the long-term material issues affecting our business and the non-financial impacts of certain decisions. It is also easier for them to contribute to the report and we are finding that there is a growing feeling amongst our senior leaders that the integrated reporting process is creating something of value to stakeholders.

“IR has helped us break down silos and take stock of everything we have achieved and accomplished as a business.”

## Planning the process

Planning for an integrated report should cover all aspects of the process. It helps to work backwards from the date on which the report has to be released and to include in the timetable dates for the governance approval procedures. Setting clear instructions with firm timelines will help the smooth running of the reporting process.

The following questions can help focus attention on key decisions, actions and timings:

**Table 3: Questions that can assist with planning**

Who?	What?
<ul style="list-style-type: none"> <li>Who are the intended readers / external stakeholders?</li> <li>Who will develop and distribute the reporting system / documentation, and is training required for those involved?</li> <li>Who will write the integrated report?</li> <li>Who, of the senior managers, will review the report before it is submitted to the executive team?</li> <li>Who will approve the final report (audit committee or sustainability committee before going to the board)?</li> <li>Who will design, typeset and print (internal, external or a combination)?</li> <li>Who will provide the budget?</li> </ul>	<ul style="list-style-type: none"> <li>What report/reports should be produced (integrated annual, financial etc) and will they be printed or only published on the website or both?</li> <li>What information will be included in the integrated report?</li> <li>What gap analysis will be undertaken?</li> <li>What information will be assured – internally and/or externally – and when will this take place and what are the requirements?</li> <li>What is the budget for the reports (consider any cost saving measures on design, printing, etc.)?</li> </ul>
How?	When?
<ul style="list-style-type: none"> <li>How will the information for the report be collated (pay specific attention to multiple divisions/subsidiaries) and is it a standard or individual process of collating?</li> <li>How will the report be structured?</li> <li>How will the material matters be identified?</li> <li>How will the report be released?</li> <li>How will the quality/accuracy within the report be ensured?</li> </ul>	<ul style="list-style-type: none"> <li>When will the core team meet (to schedule meetings in advance)?</li> <li>When will interviews with senior management and the board be scheduled?</li> <li>When will the material matters be approved?</li> <li>How long will it take to compile the information for the report?</li> <li>How long will it take to write the report?</li> <li>When will the report be released?</li> </ul>

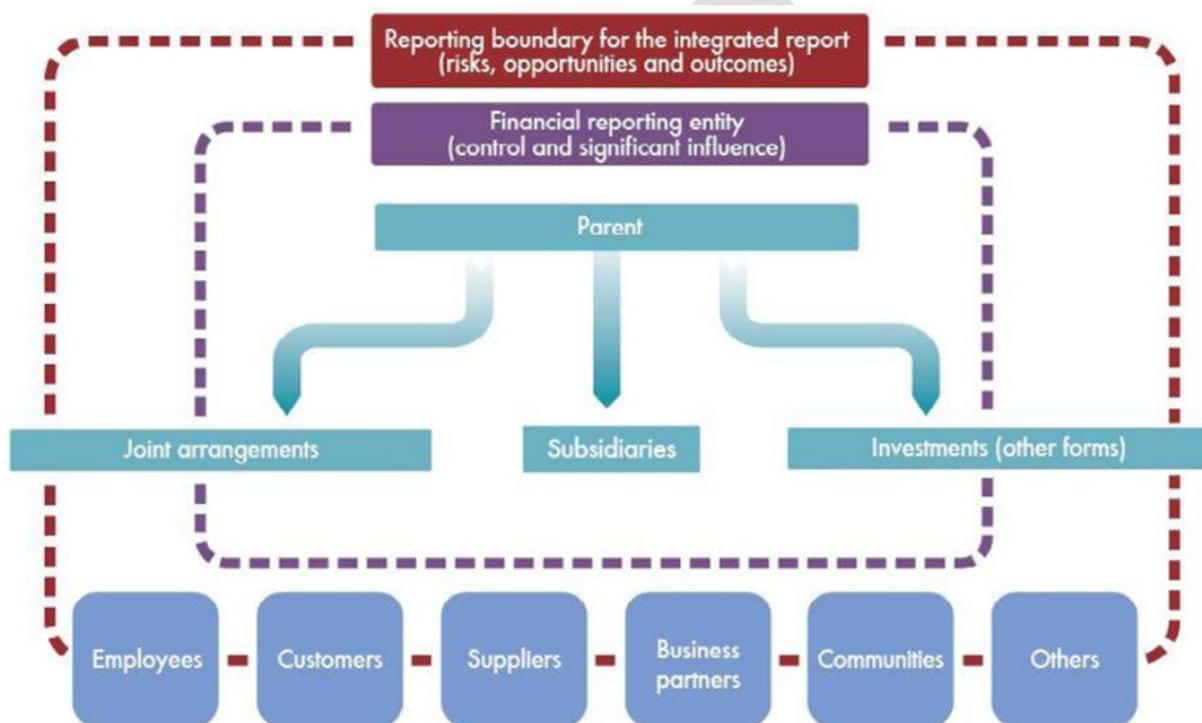
### Identifying stakeholders

Identifying key stakeholders will be one of the key challenges of the planning process. Stakeholders are defined as those groups or individuals that can reasonably be expected to be significantly affected by an organization's business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organization to create value over time. Stakeholders may include providers of financial capital, employees, customers or service users, citizens, suppliers, business partners, local communities, NGOs, environmental groups, legislators, regulators and policy-makers.

Understanding the perspectives and views of such stakeholders is useful to the organization in many ways. Insight from stakeholders can be helpful when identifying the organization’s risks and opportunities and developing its strategy. An external focus is a critical starting point for identifying and articulating how value is created and destroyed. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to successfully balance competing demands when determining priorities for the organization’s finite resources. It also helps to identify the material matters to be covered in the integrated report.

Ongoing stakeholder engagement should be a part of usual business activities and can take place in a variety of ways, including day-to-day liaison, meetings, roundtables, surveys and interviews. Guidance on ways to engage is available, such as the AA1000 Stakeholder Engagement Standard (AA1000SES). Figure 4 shows the typical stakeholders considered when determining the boundary of an integrated report – the content it needs to address in relation to risks, opportunities and outcomes.

**Figure 4: Entities/stakeholders considered in determining the reporting boundary**



Source: The International <IR> Framework

The reporting entity’s board (or equivalent) requires regular feedback so that directors are kept informed of key stakeholders’ legitimate and reasonable needs, interests and expectations and how the organization is responding to them (or not). Similarly, key stakeholders need to understand what the organization expects of them.

## Case Study: ROSATOM

Russian State Atomic Energy Corporation (ROSATOM) started its Integrated Reporting journey in 2009. For the company there were three main reasons to do so:

1. ROSATOM is a big organization which consists of about 350 enterprises situated in Russia and abroad. The activities of these enterprises are wide ranging – from uranium mining to nuclear power plant construction. The integrated report helps to create a single, big picture (profile) of the company in a short, consistent form and contributes to ROSATOM’s brand recognition.
2. Nuclear industry development is sensitive to public opinion. An integrated report is a tool for communicating with the company’s stakeholders that can build trust and demonstrate accountability.
3. As a global company ROSATOM needs to compete globally and demonstrate appropriate use of international standards, including those in the field of corporate reporting (i.e. GRI, International <IR> Framework).

In ROSATOM’s experience, key elements that helped establish successful reporting practices were:

**Tone from the top:** It is important to get the support of senior management. In the case of ROSATOM it was the CEO’s decision to start public reporting.

**Establishing a permanent working group:** This group was responsible for preparing the report, supported by a group of middle-level managers which co-ordinated the report preparation and made proposals for the report’s content. In ROSATOM’s case, the Working Group was positioned within the Communications Department and also the Public Reporting Committee, which was chaired by the CEO’s deputy and consisted of representatives of finance, strategy, nuclear and radiation safety, operations, investment and other departments.

**Sustainability of reporting practices:** For reporting to not be a one-year special project, it’s crucial to think in advance about how to sustain the initiative. ROSATOM adopted a corporate policy and standards which set the requirements for the public reports of ROSATOM and its subsidiaries. To monitor and control the quality of the reports, ROSATOM holds an annual corporate public reporting award (about 50 ROSATOM organizations participate in this competition) and arranges training for employees involved in public report preparation to improve their skills.

**Engagement with stakeholders:** This is vital for public report preparation. ROSATOM follows international standards (AA 1000, GRI, <IR>) and tries to use all possible ways of communication (questionnaires, surveys of opinion among key stakeholders, public dialogues, presentations, interviews, communication on the base of the report’s web-version etc.).

As a result of adopting the <IR> Framework as the overarching architecture of its public reporting, many readers of ROSATOM’s report say that they use it as a source (or the “reference book”) of verified information about the Russian nuclear industry.

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## Gathering the information

To decide what information to gather for an integrated report, organizations need to consider materiality (see 'Preparing the Report' later in this section). They also need to look at how existing reporting processes and reports (such as internal reports, sustainability reports and financial statements) will fit into the integrated reporting process so as to avoid duplication and overburdening resources.

### The value of quantitative data

Quantitative indicators, such as Key Performance Indicators (KPIs) and monetized metrics, and the context in which they are provided, can help to explain how an organization creates value and how it uses and affects various capitals (resources and relationships). While quantitative indicators are included in an integrated report whenever it is practicable and relevant to do so, it is important to note that the ability of the organization to create value can best be reported through a combination of quantitative and qualitative

information. It is not the purpose of an integrated report to quantify or monetize the value of the organization at a point in time.

### Gap analysis

New preparers often undertake a 'gap analysis' between their current reporting and the <IR> Framework help decide what information (quantitative and qualitative) to include in their integrated report and to identify new KPIs where the entity has previously not set them or has only used financial KPIs. The following four questions can help this analysis:

- What is the entity's strategy and what are the priorities?
- What information is required internally?
- What information is required externally?
- What information is currently available i.e. sustainability reports?

Once the gap analysis has determined the information that already exists in the entity and what is required, decisions can be made on how quickly the gaps can be bridged, with the most critical information being prioritised.

## Case Study: The Crown Estate

The Crown Estate is a UK-based independent, commercial business, created by an Act of Parliament and returning all its profit to the Treasury. It has an extensive portfolio of assets, including London's West End, regional retail, rural land, half the foreshore and the UK seabed.

The Crown Estate's first integrated report focused on the business model, material issues, connectivity, and the benefits of integrated thinking. Its second placed more emphasis on setting out its vision and strategic objectives, understanding the markets it works in and the relationships and resources it relies on to create value. The organization emphasises the quality of information over quantity, and its second report was more concise than the first. "<IR> is using smarter non-financial information and KPIs and integrating these with the financial data to understand the full value that we create," says John Lelliott, Finance Director.

In order to understand, measure and communicate how it creates value (to its business and society) beyond financial return, The Crown Estate has adopted an approach called Total Contribution. Since launching its initial Total Contribution report in 2013, it has been working to evolve the approach into a useful tool for decision-making, as-well as a measure of positive impact. It has:

- Deepened the classification of data falling under the headings of Economic, Social and Environmental to align with all six of its Resources and Relationships (its capitals) - financial resources, physical resources, natural resources, its people, know-how and networks.
- Increased the number of performance indicators from 12 to 62 to enhance its understanding of the impact it has and improve the balance of its data.
- Worked towards Total Contribution becoming one of its key performance indicators, allowing it to measure its relative performance against a firm baseline and understand whether it has made a positive impact in the UK by:
  - Putting a monetary value on each performance indicator to provide some means of comparison between the positive and negative impacts. This also enables The Crown Estate to use Total Contribution internally as a decision-making tool, enabling it to better understand the effects of choices and value the resources and relationships beyond the pure financial.

- Developing an approach, working with Route2Sustainability Ltd<sup>1</sup>, to calculate Total Contribution, called Adjusted Gross Value Added (aGVA). This goes beyond economic contribution (GVA) by encompassing the net contributions from all of its resources and relationships, thereby providing a fuller picture of the contribution that it makes to the UK.

The Crown Estate has found there are important steps involved in integrated thinking and integrated reporting, as illustrated in Figure 5.

Detail on the evolution of The Crown Estate approach to <IR> and Total Contribution is available on request from Jane Baptist, Deputy Head of Sustainability ([jane.baptist@thecrownestate.co.uk](mailto:jane.baptist@thecrownestate.co.uk)).

### Figure 5: Pictorial representation of the steps from integrated thinking to integrated reporting



Source: The Crown Estate

## Preparing the report

The <IR> Framework has seven Guiding Principles that underpin the preparation of an integrated report, giving guidance on content to include and how to present information. These are supported by eight Content Elements that describe the required content of an integrated report:

- Organizational overview and external environment
- Governance
- Business model
- Risks and opportunities
- Strategy and resource allocation
- Performance
- Outlook
- Basis of preparation and presentation

Because the precise content of an organization's integrated report will depend on its individual circumstances, the Content Elements are presented in the form of questions rather than as checklists of

<sup>1</sup> Route2Sustainability Ltd are corporate advisors utilizing and evolving a Total Capital Accounting framework that widens the risk lens and positions companies for long-term financial sustainability.

specific disclosures. This enables flexibility in the way that entities tell their story.

The eight Content Elements all link to and affect each other. They aim to encourage integrated performance management based on integrated thinking. The Content Element questions also serve as a completeness check – that is, does your report provide answers to each question? The <IR> Framework offers suggestions on what information could be covered by each content element.

Neither the <IR> Framework nor its Content Elements prescribe the structure of an integrated report. This is determined by the entity's unique value creation story and by the information to be included. Experienced reporters have structured their reports in a variety of ways, for example, around their strategic objectives, strategic themes, the capitals, their value chain, etc. Regardless of the chosen structure, they still ensure that all relevant Content Element information is included.

### Focusing on material matters

If an integrated report is too long, it won't get read, so entities need to restrict themselves to covering material matters only. This improves internal and external decision-making by eliminating extraneous information and focusing disclosures on the core issues managed by the organization. As explained in the IIRC/IFAC publication - *Materiality in <IR>: Guidance for the preparation of integrated reports* - deciding on report content involves:

- Establishing parameters for the materiality determination process
- Filtering matters by identifying their relevance, evaluating their importance and prioritizing them based on their relative importance
- Setting the reporting boundary
- Determining disclosures

The interpretation of materiality varies across report forms due to differences in audience, purpose and scope. In <IR>, a matter is material if it could substantively affect the organization's ability to create value in the short, medium or long term. The process of determining materiality is entity specific and based on industry and other factors, as well as multi-stakeholder perspectives.

Embedding the materiality determination process into management processes can enhance the efficiency and effectiveness of decision-making and reporting. The extent to which integrated thinking underpins the materiality determination process, and is linked to board and management discussions, is also important.

### Role of the audit committee

The audit committee has a significant role in overseeing reporting processes, related risks and accountabilities across all forms of disclosure. Under <IR>, that role has a greater focus on the importance and credibility of a broader set of information, some of which may not previously have been subject to the oversight of the board and its audit committee.

The audit committee can ensure that key information for the organization (across all the material capitals) moves towards the highest level of quality by establishing and maintaining effective risk management and internal control over the relevant reporting processes and systems.

## Case Study: Singapore Maritime Ports Authority (MPA)

The Singapore Maritime Ports Authority (MPA) initially set out to develop sustainability reporting, forming a Sustainability Office in 2014. However, this quickly evolved into a broader <IR> initiative.

When starting its <IR> journey, MPA went back to basics to determine who its stakeholders were, the materiality considerations, capitals, activities and how these aligned to the outcomes the authority wanted

to achieve. After several focus group discussions, it became clear that the <IR> journey required a stocktake of the MPA internal strategy map. As well as reporting on its sustainability initiatives, MPA decided to use the <IR> Framework to propagate its “Future ready” narrative. This brought the various Divisions - which perform their separate but important functions - together within a common strategy.

What began as the development of an externally focused report was therefore transformed into an internally focused report as well. Thus, it was decided that half would be written for MPA’s external stakeholders such as customers, suppliers, vendors, other government agencies and the public, while the second half would be for employees.

One critical success factor was the tenacity of the handpicked team that worked tirelessly to contribute the various elements of the report. There were many rounds of drafts involving discussions, disagreements, confusion, clarifications, fine tuning, internal clearance, design, infographics and photo selection. Through the process, MPA identified gaps in its strategy, activities not aligned to outcomes and outdated KPIs which needed revision. Although individually each could be seen as a challenge, the final outcome was a more robust view of areas for improvement and the strengths that MPA should continue to focus on. Cost-saving initiatives were also identified.

Ultimately, the <IR> process allowed MPA to refocus on its value proposition – and be clear about what, as a public agency, it was set up to do.

## Learning the lessons

Holding a Post Implementation Review (PIR) is best practice when introducing any new process, service or product. The introduction of <IR> is no exception, particularly as it is likely to involve collecting new sources of information and combining information in new ways through new reporting approaches and formats. Experience shows that organizations learn many lessons along the way.

By conducting a PIR, entities can make their <IR> reporting process more efficient and effective. They can also share insights into the benefits that <IR> brings. Because <IR> is a journey, organizations are likely to continue learning as their approach develops and matures over a number of reporting cycles.

### Learning from experience

Insights gained from organizations that are already experimenting with <IR> suggest that certain things have a significant impact on the speed of progress and the benefits for the organization. These include:

- **Strong Leadership:** to provide focus and energy and ensure the benefits of adopting <IR> are realized.
- **Formation of a steering group:** <IR> initiatives are more likely to make good progress if members are drawn from across the organization – for example, they often include: finance (which tends to play a key role), sustainability, strategists, internal audit, legal, communications, and people with particular expertise. Individuals with a comprehensive knowledge of the entity from cross-disciplinary functions are also valuable members.
- **Accountability allocated to a senior executive:** someone from the executive team who will ultimately be responsible for the report, helped by the steering group.
- **Engagement with stakeholders:** including employees and functional units across the organization to encourage and embed integrated thinking so that the organization can improve decision making and better understand the value it creates over time.
- **External representation:** this includes challenging the readability of an <IR> report through use of a peer reviewer (whether external consultant, stakeholder panel or internal employee group). Taking upfront advice from a ‘critical friend’ when planning the <IR> reporting process can be particularly helpful.

## Case Study: Eskom Holdings SOC Ltd

Eskom, South Africa's largest state-owned enterprise, provides more than 95% of the country's electricity. It has been reporting on non-financial performance (including sustainability information) for more than 20 years, and joined the IIRC's Pilot Programme in 2011. It has just released its fifth integrated report and, unusually for the public sector, produces both annual and interim integrated reports. The annual reports include detailed information on Eskom's business model, stakeholder engagement and material matters, leadership and governance as well as historic performance and future outlook. The interim reports are much shorter, concentrating on changes in the business and performance updates for the interim period.

Standardising processes and data is one hurdle that Eskom has successfully tackled, although it requires constant focus. The company's <IR> process is overseen by a steering committee which is chaired by the Finance Director and includes members of the executive management team. Content is gathered from a working group of numerous data and information owners from across the organization.

Eskom applies a combined assurance approach in the preparation of its integrated report. The report as a whole is not externally assured, although KPIs contained in the shareholder pack are assured by the external auditors, subject mainly to reasonable assurance, while the internal auditors assure the balance of the KPIs and the report as a whole. However, numbers that are externally sourced where Eskom cannot verify the data, such as indirect job creation or economic impact, are still proving a challenge, and remain an area of focus in its future reporting development.

Like other <IR> Pilot Programme and Business Network organizations, Eskom has found that commitment from the top is imperative. Eskom's commitment to <IR> and to transparent and balanced reporting has been driven by its executive management, which eased the way for the reporting team. Winning local reporting awards, which includes the top SOC for a number of years running, has helped raise the visibility of reporting within the organization, and increased involvement.

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## How to get involved?

<IR> is now gaining extraordinary global momentum. With over one-third of global GDP being spent by the public sector, the time is right to explore how the benefits already being experienced by businesses implementing <IR> can be extended to public sector organizations. The 'Resources Used' section at the conclusion of this report highlights a selection of resources that public sector organizations and others will find useful in facilitating integrated thinking and reporting.

In collaboration with the Chartered Institute of Public Finance and Accountancy (CIPFA) the IIRC launched the Public Sector Pioneer Network (the Pioneer Network) for those public sector organizations who wish to commit to explore <IR> in their own reporting. For more information on how to join the <IR> Public Sector Pioneer Network see the IIRC website ([www.integratedreporting.org](http://www.integratedreporting.org)) or e-mail ([publicsector@theiirc.org](mailto:publicsector@theiirc.org)).

## Glossary

For the purpose of this publication, unless stated otherwise, the following terms have the meanings attributed below:

Term	Definition
Accountability	The obligation of public sector entities to the citizens and other stakeholders to account, and be answerable to, democratically chosen supervisory bodies, for their policies, decisions, and actions, particularly in relation to public finances.
Business Model	An organization's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term.
Capitals	Stocks of value on which all organizations depend for their success as inputs to their business model, and which are increased, decreased or transformed through the organization's business activities and outputs. The capitals are categorized in the <IR> Framework as financial, manufactured, intellectual, human, social and relationship, and natural.
Content Elements	The categories of information required to be included in an integrated report; the Content Elements, which are fundamentally linked to each other and are not mutually exclusive, are stated in the form of questions to be answered in a way that makes the relationships between them apparent.
Governance	The arrangements* put in place to ensure that the intended outcomes for stakeholders are defined and achieved. *includes political, economic, social, environmental, administrative, legal, and other arrangements.
Governing Body	The person(s) or group with primary responsibility for overseeing an entity's strategic direction, operations, and accountability.
Guiding Principles	The principles that underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented.
Inputs	The capitals (resources and relationships) that the organization draws upon for its business activities.
Integrated Report	A concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.
Integrated Reporting (<IR>)	A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.
Integrated Thinking	The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization 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.
Material/materiality	A matter is material if it could substantively affect the organization's ability to create value in the short, medium or long term.
Outcomes	The internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs.

Outputs	An organization’s products and services, and any by-products and waste.
Public Sector	National governments, regional (state, provincial, territorial) governments, local (city, town) governments and related governmental entities (agencies, boards, commissions and enterprises).
Public Sector Entity	One or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for society.
Stakeholders	Those groups or individuals that can reasonably be expected to be significantly affected by an entity’s activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the entity to create value over time.
State-owned Enterprise (SoE)	A legal entity that is created by a government in order to undertake commercial activities on the government's behalf, which can be either wholly or partially owned by a government.
Sustainability	The capacity of an individual entity, community, or global population to continue to survive successfully by meeting its intended economic, environmental, and social outcomes while living within its resource limits.
Value Creation	The process that results in increases, decreases or transformations of the capitals caused by the organization’s business activities and outputs.

DRAFT

## Resources used

The listing below highlights a selection of resources that public sector organizations and others will find useful in facilitating integrated thinking and reporting. Cited resources, tools, and articles, can be found within the resources section of the on the IIRC website or via the website of the named organization.

### International Integrated Reporting Council (IIRC)

- International <IR> Framework <http://integratedreporting.org/resource/international-ir-framework/>
- IIRC Resources - <http://integratedreporting.org/resources/>
- <IR> Examples Database - <http://examples.integratedreporting.org/home>
- *Materiality in <IR>: Guidance for the preparation of integrated reports*, produced by the IIRC and the International Federation of Accountants.
- Assurance on <IR>: Overview of feedback and call to action - summarizes significant matters raised in the debate engendered by the IIRC's Assurance on <IR> publications, Assurance on <IR>: an introduction to the discussion and Assurance on <IR>: an exploration of issues (July 2014) <http://integratedreporting.org/resource/assurance/>
- <IR> *Creating Value* series brings together trends, research, market views, and case studies on integrated reporting as part of an on-going series of publications highlighting the practical outcomes of adopting integrated reporting. <http://integratedreporting.org/resource/creating-value-board/>
- *Realizing the Benefits: The Impact of Integrated Reporting* - provides a comprehensive review of lessons learned from the experiences of organizations implementing <IR>. <http://integratedreporting.org/resource/realizing-the-benefits-the-impact-of-integrated-reporting/>

### IFAC

- *Creating Value with integrated thinking – The role of professional accountants*

### International Auditing and Assurance Standards Board® (IAASB®)

- *Exploring assurance on Integrated Reporting and other emerging developments in external reporting* - informs stakeholders about the IAASB's on-going work on this topic.

### Chartered Global Management Accountant (CGMA)

- *CGMA Briefing: Integrated Thinking* - provides the business case for integrated reporting and thinking.

### Deloitte

- *A directors' guide to Integrated Reporting* - provides guidance on how to unleash the real benefits that businesses have seen behind integrated reporting.
- *Integrated Reporting as driver for Integrated Thinking – Maturity of <IR> in the Netherlands 2015* (MVO Nederland)

### EY

- *Integrated Reporting, elevating value* - a guide to Integrated Reporting through the lens of a multiple capital approach to value creation.

### Institute of Chartered Accountants of England and Wales (ICAEW)

- 'Rethinking Capitals' web pages provide resources that explore different forms of capital and their interactions.

### Integrated Reporting Committee of South Africa

- *Preparing an Integrated Report: A starter's guide* - assists new preparers of integrated reports with suggestions for planning and preparing an integrated report drawing on the wisdom of some of South Africa's most experienced reporters.

**KPMG**

- Integrated reporting collection of publications introduces the benefits of Integrated Reporting and how to implement it.

**PwC**

- *Implementing Integrated Reporting: PwC's practical guide to a new business language* - provides guidance on implementing a holistic business management system based on integrated reporting.

**South African Institute of Chartered Accountants (SAICA)**

- *Integrated thinking: An exploratory survey* - examines the benefits that South African companies are experiencing using integrated thinking

**United Kingdom Green Building Council**

- *How to implement Integrated Reporting in your organization* - records the outputs from a masterclass held in February 2015 to give guidance on how to implement integrated reporting

**UN Environment Programme (UNEP)**

- Charter of the Group of Friends of Paragraph 47 reaffirms the Group's intention to contribute to the advancement of an international culture of corporate transparency and accountability.

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