



#### **INTRODUCTION: KEY NOTE SPEECH BY ARNO VISSER (PRESIDENT NETHERLANDS COURT OF AUDIT)**

*“Action without vision is only passing time, vision without action is merely day dreaming, but vision with action can change the world.”* This quote from Nelson Mandela during the Apartheid in South Africa is inspiring for the Integrated Reporting journey. By combining vision and action, a governance code can form a basis for a development towards an integrated way of doing business and reporting.

*According to the International Integrated Reporting Framework, integrated reporting applies principles and concepts that are focused on bringing greater cohesion and efficiency to the reporting process, and adopting ‘integrated thinking’ as a way of breaking down internal silos and reducing duplication. It improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital. Its focus on value creation, and the ‘capitals’ used by the business to create value over time, contributes towards a more financially stable global economy. This framework is popular in the private sector but only in Australia and New Zealand the government is taking it seriously. This is a surprise as we would think that politics and government in the first place have an eye for value creation in the broadest sense.*

*In the Netherlands, large companies such as Coca-Cola and Railway Company have embraced the integrated thinking in their business decision (eg; CO2 emission for new investments,..).*

Nevertheless, there are also initiatives in the public sector to take a broader view. For example, the so-called Broad Welfare Monitor was developed on request of a committee of the House of Representatives. The Dutch statistical office CBS has worked out this idea professionally and publishes it annually – on ‘Accountability Day’, the 3d Wednesday of May. The Broad Welfare Monitor, which includes the Sustainable Development Goals, paints an integral picture of our welfare and well-being. It describes our level of education, crime victimization and many other things that contribute

to our overall sense of welfare. However, the monitor is now a separate document and not part of the decision-making process about policy and public money. The matters mentioned in the monitor are no part of the plans in the budget. The House of Representatives has asked the government to 'map out how the Broad Welfare Monitor can be integrated into the overall decision-making process, as well as at the departmental level.'

That's where it gets interesting: because that's how the connection is made between the use of public money, the policy, the measures that are taken and the social effects to be achieved. Moreover, according to that motion, it concerns 'general decision-making' - that is, beforehand, and not just about the annual reports and accountability afterwards.

To make a wise decision, you must be able to learn from what has been tried in the past. And improve things based on experience, or do things differently. That sounds logical, but it is far from it in practice. In February this year three Dutch planning offices have presented a joint approach to anchor the Monitor in the central government budgeting system by focusing on a limited set of key broad welfare indicators. These economic, social-cultural and environmental indicators comprise the 'here and now', 'later' (future generations) and 'elsewhere' (other countries). This is of course a meaningful step into the right direction. When the indicators from the monitor are linked to vision and action in a budget and later come back in reflection and learning in an accountability, a lot can change - to speak with Mandela.

Conclusion: the journey towards integrated reporting by the government and by public entities in general deserves all support, also from the audit community. It has the potential to end the current practice of 'compartmentalized reporting'. It has the promising perspective of a concise, comprehensive accountability story on public resources and policy effects. Like a tragedy as analyzed by Aristoteles in his book 'Poetica', marked by unity of time, place and action, and resulting in a catharsis.

The cooperation between EUROSAI and ECIIA on this important topic, and their public call is key for a joined journey.

## **DISCUSSION / ROUNDTABLE**

The objectives of the upcoming document are: to identify, to share and to promote best practices. 28 countries answered to the survey. Some of the best practices have been gathered in webinars. The Non-financial reporting initiative was driven by climate change. It is now important to report on both financial and non-financial information and to adopt an integrated thinking. It is the way to demonstrate how enterprises create value and the way they plan at long term.

*What types of information are included in the non-financial reporting?*

There is a long tradition in Netherlands to include NF information in the annual report: performance, activities, outputs and outcomes. Quantity and quality of that type of information must be defined and is crucial for some public information such as staff and salaries. A lot of people already started their journey with non-financial reporting.

A poll is run and shows that environment protection and social responsibility are the most popular information reported.

#### *What are the benefits of Integrated Reporting?*

Connection of accountabilities towards the Supervisory Body and the internal and external stakeholders is important. IR facilitates the decision making, creates a dialogue with stakeholders, strengthens the communication and facilitates value creation. IR increases transparency, provides a greater insight into the institution, promotes integrated thinking and helps to adopt an effective strategy.

#### *Inspiring countries*

56% of the countries involved in the survey publish integrated reporting. Some countries are more advanced than others and detailed situation is described in the report.

In the Netherlands, a High School (Avans) is publishing an integrated reporting and has organised a class on this subject. In Spain, the transposition of the European Directive has been extended to smaller companies but not to the public sector.

#### *How can we ensure that IR remains concise-given its wide scope?*

It is very important to focus on the essential, on what supervisors and the broader society see as crucial. In the case of Case of Shell, the society's expectations are changing and they needed to adapt under judicial pressure. We must take into account external stakeholders opinions and materiality aspects in that process. It is important to be concise if we want that people read the report.

#### *What type of assurance can IA give on sustainability reporting to the public sector?*

Internal audit can play an important role **during implementation** (change management process, data information and approaching the project) and **one implemented** (assessing risk, 3 lines coordination, ensuring the effectiveness and efficiency).

Example of internal information that can be used as source: intranet, internal complains, in-house magazine information, budget, social media networks internal, and whistlers blowing.

#### *What type of assurance can EA give on sustainability reporting to the public sector?*

EA are used to give a true and fair view on the financial statements. For the NF information, they can give limited assurance or reasonable assurance. The level will depend on the maturity of the organisation and on the Standards.

### *What is the dream collaboration between IA & EA?*

The essential is about cooperation and to work together to create good governance and accountability. Sustainability reporting could be promoted by internal and external auditors and that could be fruitful. Natural emphasis of internal audit profession is in the third lines. In the integrated report, mix of both, external auditor's involvement and internal auditors contribute to the credibility of the report.

External auditors and internal auditors should have a fruitful communication. External auditors may use internal auditors work when possible, rely on their work. They must collaborate to execute all audit procedures, give assurance, learn from each other and assist each other.

Stakeholders are very concerned about the quality. Auditors can play an important role in the assessment of the data and review the whole process, not just the output.

### *Main difficulties*

Incomplete information, quality of data, human resources (need people to help with this). Many stakeholders are interested by integrated reporting and need to be informed on how the organisation adds value, including the citizens.

### *The promotion of IR*

It is crucial to increase the credibility of the report for all stakeholders and auditors (external and internal) have an important role to play in promoting IR, besides their assurance and advisory roles.

## **QUESTIONS & ANSWERS**

- Transposition of the law is more demanding in Spain: EU directive is transposed with a more demanding way, the scope of companies is broader (companies with 250 people).
- Reasonable assurance is possible: there are difference pieces of cake compared to financial audit, it includes other areas of expertise to assess the information but the job can be done and represents an important area in the future, auditors will need new skills.
- Recommendation to embark everyone in the journey: connection with citizens , clear communication. It is important to give your colleagues a voice to have their views, include them in the external stakeholders dialogue, pointing the essential on what should be included in the integrating report.
- Do you have any links to some good examples of integrated reporting by public organizations ? Some links will be included in the report that will be published on the 1<sup>st</sup> July.
- Expect non-financial subject to move to financial subject? The journey is to integrate non-financial and financial in the reporting. In addition, non-financial information could have financial issues at the end. There could be a relation between the two types of information.



- The demands of NFI are very likely to increase with a focus on climate change. Public sector should lead by example in order to add value in the long term. IR is an important vehicle to achieve this objective and promote different mind-sets in the decision making. Very important role to play for auditors by actively promoting IR as a significant contributor to better decision making.

