

Deloitte.



Integrated Reporting:
A business priority to
adopt integrated thinking





Contents

1) Executive summary	4
2) Some limitations of current corporate reporting that can be siloed, and may not always meet the needs of investors and stakeholders	6
3) Adopting integrated thinking and reporting as a foundational solution	8
4) The integrated reporting journey	9
5) How Deloitte can help support an organization's integrated reporting journey	11
Contacts	12



This report is electronic – please use the navigation bar top right.
The contents page is interactive and linked to the relevant pages.
References underlined within the report are hyperlinked.





1) Executive summary

The increasing impact of societal and environmental priorities on business models is accelerating the need for organizations to recognize the importance of integrating sustainability efforts into their core strategies. **What may have been once considered an option, to strengthen corporate reputation and social responsibility, is now considered by many as a business priority**, to secure a social license to operate that is inextricably linked to generating financial returns over time.

As organizations look to integrate sustainability considerations into the development and execution of their strategies, there is a need for transparent corporate reporting that can help provide comprehensive insight into business performance and outlook alongside financial performance.

Now is a great time to embrace a holistic approach to corporate reporting—one that integrates financial and nonfinancial information cohesively and helps an organization tell its complete value creation narrative.

Sustainability matters have become increasingly urgent business priorities with climate change and social imperatives receiving heightened attention from investors and other stakeholders around the world. It should be important for organizations to consider and use the concept of integrated thinking to better help understand the interconnectivity between the full spectrum of sustainability risks and opportunities and effectively manage and report on such matters with an integrated perspective.

Sustainability and value creation

In 2022, the International Sustainability Standards Board (ISSB) agreed how to describe the context of sustainability to help guide its work moving forward.

The ISSB explicitly links sustainability and value creation, noting that a company's ability to deliver value for its investors is inextricably linked to the stakeholders it works with, the society it serves and operates in, and the natural resources it draws on. The ISSB further describes sustainability as:

“The ability for a company to sustainably maintain resources and relationships with and manage its dependencies and impacts within its whole business ecosystem over the short-, medium-, and long-term. Sustainability is a condition for a company to access over time the resources and relationships needed (such as financial, human, and natural), ensuring their proper preservation, development, and regeneration, to achieve its goals.”¹

¹ <https://www.ifrs.org/news-and-events/news/2022/12/issb-describes-the-concept-of-sustainability/>



This article will explore the following:



How the changing rules and regulations can, at times, create challenges for traditional corporate reporting approaches, and some limitations of siloed or individual-item sustainability reporting.



How businesses can respond to these challenges and evolve their corporate reporting systems to embrace integrated thinking and integrated reporting.



What organizations should consider before preparing an integrated report.



How to begin an integrated reporting journey today and how Deloitte can help.





2) Some limitations of current corporate reporting that can be siloed, and may not always meet the needs of investors and stakeholders

Sustainability reporting is rapidly moving into the mainstream in response to the growing demand from investors, regulators, and other stakeholders seeking consistent, reliable, and comparable information on sustainability matters that can affect an organization’s ability to create and sustain value.

There is recognition of the need to report to a broader range of stakeholders and on broader information. Listed below are the stakeholders and description.

 <p>Investors</p>	<p>Looking for decision-useful information that should be consistent, comparable, and reliable helping lead to greater transparency on relevant business factors, including sustainability, which can affect value creation, connected to financial information.</p>
 <p>Consumers and customers</p>	<p>Becoming increasingly aware of companies’ sustainability commitments, seeking to purchase products/services viewed as sustainable. Also expecting to access information that can help determine whether and how consumption habits could negatively affect the environment, as well as to understand an organization’s stance on societal impact.</p>
 <p>Employees</p>	<p>Wanting to be part of an organization seen as achieving a positive impact and expecting transparency from their leaders when it comes to sustainability commitments and performance.</p>
 <p>Regulators</p>	<p>Responding to investor and market demands, increasingly setting expectations on the need for transparency, and introducing mandatory sustainability disclosure requirements, which may be accompanied by mandatory assurance.</p>
 <p>Governments</p>	<p>Increasingly recognizing the societal, financial, and economic impacts of sustainability. In response to climate change, the transition to low carbon economies could lead to the implementation of policies and regulations that may include binding net-zero commitments.</p>



The historical practice of piecemeal reporting on sustainability matters, often in separate sustainability reports, may have fostered siloed thinking and management structures, which can create inefficiencies and blind spots when making critical business decisions. This siloed approach could stand in the way of incorporating sustainability risks and opportunities into an organization's strategic thinking and can impede its ability to evolve its business model and improve its resilience in a holistic and integrated manner.

The evolving reporting standards may require integrated thinking

There has been positive movement internationally to coalesce around the set of global sustainability reporting standards **issued by the ISSB**. These new standards, intended for reporting to investors and other providers of financial capital, help address how sustainability reporting connects to financial reporting and management commentary to help create a more cohesive narrative—further solidifying integrated thinking as an essential foundation for corporate reporting.

The adoption of integrated thinking by organizations should facilitate consistent and transparent application of the ISSB's standards and compliance with jurisdictional requirements, to meet sustainability standards.





3) Adopting integrated thinking and reporting as a foundational solution

Enhancing corporate reporting through integrated thinking

Integrated thinking is the active approach by an organization to understand and embed the consideration and application of relevant sustainability factors into its governance, business strategy, risk management, and metrics and targets. Embedding integrated thinking into the foundation of an organization often leads to structural change, business model transformation, and a shift to reflect purpose-driven values and accountability, underpinned by corporate reporting.

Integrated thinking helps break down silos and encourages different areas and functions of a business to proactively, consistently consider how it creates and drives value. This, in turn, can enable a holistic and integrated narrative, one that reflects an organization's integrated thinking.

There is no specific formula or template for defining value creation in the broadest sense; every business will have its unique perspective of what value creation means in its specific context and how its purpose and strategy respond to the needs of its stakeholders. Equally, organizations should consider relevant interdependencies or trade-offs across value drivers.

At-a-glance

Integrated thinking: The active consideration by an organization of the relationships between its various operating and functional units and the capitals – resources – the organization uses or affects, such as financial, manufactured, intellectual, human, social and relationship, natural.² Integrated thinking can lead to integrated decision-making and actions that support value creation over the short-, medium-, and long-term.

Integrated reporting: A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation, preservation, or erosion over time.

Integrated report: A communication about how an organization's strategy, governance, performance, and prospects, in the context of its external environment, leads to the creation, preservation or erosion of value in the short-, medium-, and long-term.³

Integrated reporting is designed to tell an organization's value creation narrative while remaining agnostic to reporting standards. It aims to create a foundation that can support reporting on a wide range of sustainability themes that may be required by different laws or regulations by outlining principles and concepts that provide for more coherent adoption of multiple reporting requirements. It provides a framework to report on business model, governance, risks and opportunities, and performance against strategic objectives.

² <https://www.integratedreporting.org/what-the-tool-for-better-reporting/get-to-grips-with-the-six-capitals/>

³ <https://www.integratedreporting.org/resource/international-ir-framework/>



4) The integrated reporting journey

Evolving an organization's integrated reporting to comply with new standards and regulations

Published in 2013 and revised in 2021, **the Integrated Reporting Framework (The <IR> Framework)** was designed to be agnostic of specific regulatory reporting requirements and standards, with the intention that it could be used alongside multiple regulatory reporting frameworks and standards. For instance, organizations in the EU and US adopted integrated reporting as a foundation for their disclosures alongside compliance with different reporting standards and regulatory requirements. The <IR> Framework is designed to allow organizations to draw on content from financial reporting and other sustainability or performance measurement standards to support and augment their reporting on value creation. The approach to the principles and content elements in the Integrated Reporting Framework allows specific disclosure requirements arising from mandated standards and regulations (e.g., on aspects of governance, risk, strategy, and metrics) to be accommodated within the integrated report.

Aligning reporting processes and systems to support integrated reporting

The rapidly evolving geopolitical, macroeconomic, and societal landscape means that business leaders are often required to understand and address a wide range of issues that may go beyond traditional financial risks and opportunities and include various sustainability matters. This requires the organization to measure and monitor a broad range of nonfinancial data that is directly relevant to its performance and prospects and is of the same robust quality as financial information. Organizations need to take stock of what non-financial information is required to be disclosed against what they already have and conduct analysis to assess what enhancements are needed to address identified data quality and information gaps. A significant investment is often needed to establish appropriate processes, systems, governance, and controls to ensure the information is assurance-ready. Consideration should be given to integration of data into enterprise systems, automation of data feeds, and interventions to reduce sustainability program administrative costs.

Technology is a critical enabler of integrated thinking, providing essential data to inform the organization's strategy and decision making. Today, many organizations use cloud technologies, automation, and collaboration platforms to connect and integrate reporting across their operations. A shared digital reporting platform can help an organization to transcend typical data silos, enabling data to be collected and exchanged in real time across different parts and disciplines of the organization to support connected, well-informed, and timely decision-making.



Prioritizing change management for improved collaboration and outcomes

First-time adopters of integrated thinking and reporting often underestimate the training and change management required to support teams as they prepare to build an integrated and cohesive reporting journey. Rather, the focus is often placed on the data collection, report preparation, and output. Actions to help teams collaborate, and report against an integrated strategy for the first time are often overlooked.

Integrated thinking often requires a shift and un-learning process from “how things have always been done” that promoted siloed behaviors to one of integrated thinking across the entire organization. The overall objective of integrated thinking is to shift cultural behaviors, upskill teams, and embed a new way of working in response to an integrated strategy and value creation model. To level-set a common understanding of the new way of working, share data and information, make more informed integrated decisions, enhance collective accountability, incentivize teams to collaborate to achieve shared goals, and define the measure the benefits of integrated thinking and reporting.

As integrated thinking becomes embedded into an organization's way of working, it is more likely it will achieve better integration of the information systems that support both internal and external reporting and communication, including preparation of the integrated report.⁴ This could enhance the connectivity of information in management reporting, analysis, and decision making.

Assurance readiness

The completeness and transparency of corporate disclosures, as well as the quality and accuracy of data, are often top of mind for many organizations.

Internal and external assurance aims to enhance the credibility and trust in the data and reported information. Independent assurance of sustainability reporting has already become a regulatory requirement in the EU and will likely expand to other regions in the near-term. The requirement under the EU's Corporate Sustainability Reporting Directive is for limited scope assurance upon initial adoption of standards, with the expectation that it will be extended to reasonable assurance in the medium term. The International Auditing and Assurance Standards Board (IAASB) has issued its proposed **International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements** providing an overarching standard for assurance on sustainability reporting to support delivery of high-quality sustainability assurance engagements, which is intended to be practitioner and reporting framework agnostic.

As independent external assurance of sustainability reporting rapidly becomes a regulatory requirement, organizations should consider their assurance readiness. Appropriate and effective governance, controls, processes, and systems can be critical success factors.

⁴ www.integratedreportingsa.org



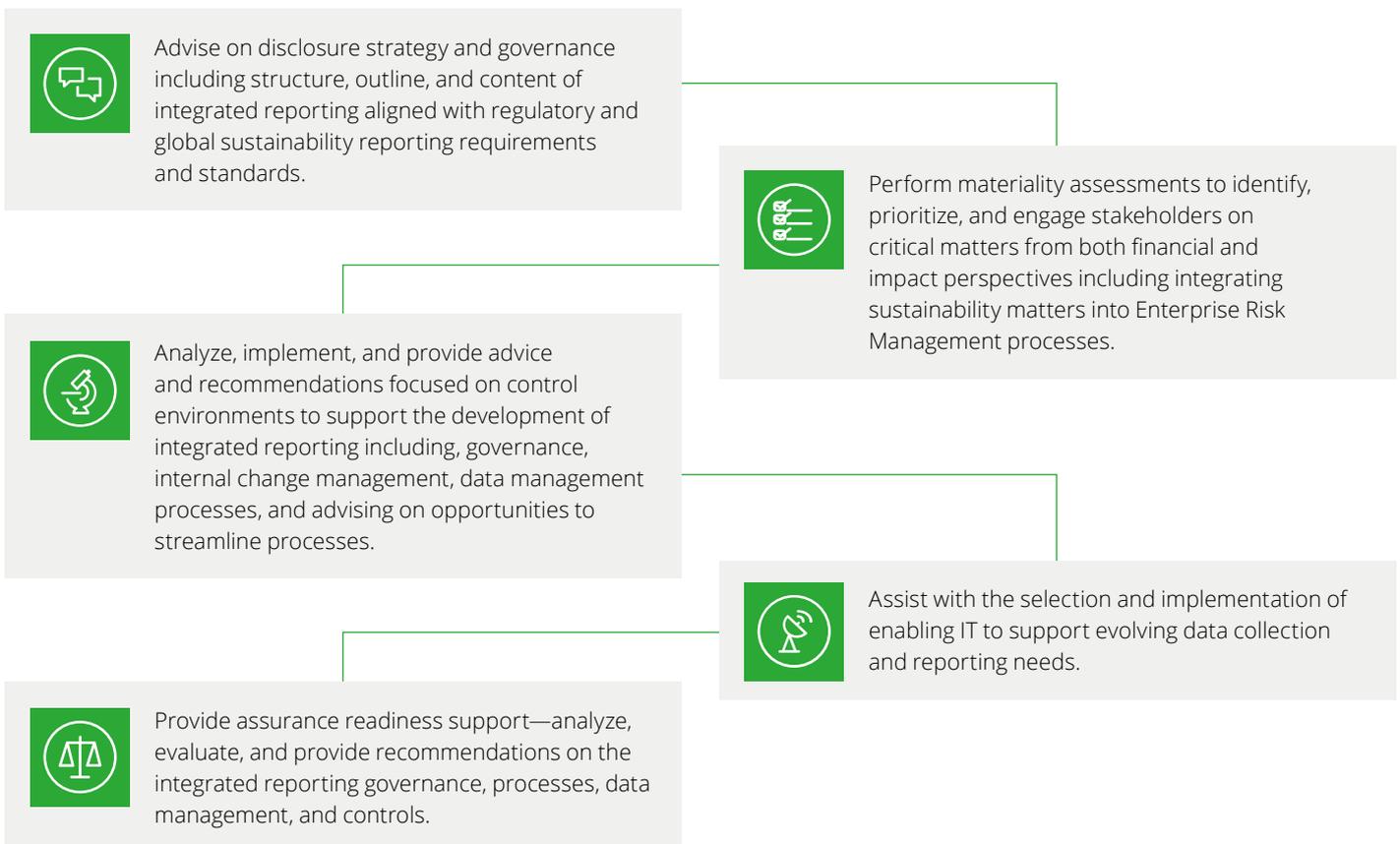
5) How Deloitte can help support an organization's integrated reporting journey

Helping an organization solve its integrated reporting needs, Deloitte can help deliver a meaningful impact. Impact beyond expectations

Communities, employees, customers, regulators, and investors increasingly expect and demand that companies align their purposes and values with the expectations of society—and look to those making authentic, transparent commitments, and delivering on those promises.

Deloitte practitioners bring together skills in risk management, financial reporting, sustainability, strategy, reporting advisory, governance, processes, controls, and assurance to help support an organization's integrated thinking and reporting journey that is aligned, optimized, and streamlined.

Examples of how Deloitte can help organizations on an integrated and sustainability reporting journey include:





Contacts

Within Deloitte, we are driven by a desire to make an impact that matters and support a well-functioning global corporate reporting system. Contact your local Deloitte office to get started.

Contacts



Mark Hoffman
Partner
Audit & Assurance Services
Deloitte South Africa



Kristen Sullivan
Partner
US Audit & Assurance
Sustainability and ESG Services
Leader



Nura Taef
Partner
Audit & Assurance Services
Deloitte Canada



Christian Bout
Partner
Accounting and Reporting
Advisory Leader
Deloitte Amsterdam



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our professionals deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society, and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte’s more than 415,000 people worldwide make an impact that matters at www.deloitte.com.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties, or undertakings (express or implied) are given as to the accuracy or completeness of the information in this publication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this publication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.