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CHALLENGES OF PREPARING AN INTEGRATED REPORT

In recent years, the call for companies to account for their activities to a wide group of stakeholders has grown. It is now widely accepted that traditional financial reporting no longer meets the needs of businesses seeking to develop and maintain resilient and responsible transactions, not just in the immediate future but also in the medium and long term.

Financial statements draw on historical information and are therefore backward looking. They also focus heavily on financial capital, whereas success for many organisations today depends on other resources – such as the expertise of their people, their intellectual property developed through research and development, and their interaction with the environment and the societies in which they operate. Integrated reporting was developed to fill such reporting gaps.

Integrated reporting provides a platform for such stakeholder communication. Recent studies have, however, concluded that integrated reporting is viewed merely as an exercise to be undertaken to ensure compliance.

Since the release of the International Framework in December 2013, the pace and scale of adoption by organisations has steadily increased. From 2018, the IIRC plans that will enter its "Global Adoption Phase" are firmly at the centre of corporate governance and corporate reporting.

In the result of analysis of scientific works concerning peculiarities of preparing integrated report benefits from adopting Integrated Reporting have been identified. They are as follows: more integrated thinking and management; greater clarity on business issues and performance; improved corporate reputation and stakeholder relationships; more efficient reporting; employee engagement; improved gross margins.

In our research we will explore the challenges faced by those charged with the preparation of the integrated report.

As the result of our research we identified several common areas of weakness while preparing integrated report: value creation – particularly in relation to business models, capitals and the concept of connectivity; connectivity – showing a holistic picture of factors that affect value creation over time; materiality – determining and applying from the perspective of value creation; conciseness – keeping page numbers down; reliability and completeness – balancing good and bad news; consistency and comparability – allowing comparisons to be made over time and with other organisations.

Describing company's business model in relation to the Framework is the hardest aspect of to implement, because of the Framework's capitals-based approach.

The connectivity challenge stems in part from how its approach to has developed over time. Connectivity is more than producing a report and drawing lines between things; it's how you build that understanding within each level of the business.

One more challenge is reconciling the needs of different stakeholders when determining materiality – in particular, one issue may be more material to one stakeholder than another; applying the definitions of materiality in the Framework and other standards/ frameworks, in order to meet reporting requirements efficiently and effectively – and without confusing readers. One of the key challenges for integrated reporters when applying the materiality filter centres on identifying the organisation's key stakeholders.

Conciseness is also a challenge when reporters want to include new information, either to meet regulatory requirements or because additional content could be helpful to readers. Many reporters find conciseness difficult as they try to provide sufficient context to help readers understand the organisation's value-creation process and performance.

Achieving reliability and completeness is important for a report's credibility in the eyes of investors and other stakeholders. Financial information must be reported in accordance with generally accepted accounting standards, and for larger entities is generally audited in accordance with international auditing standards. Companies are aware that the non-financial, or pre-financial, information they include in an integrated report should be subject to similar levels of rigour if investors are to see it as useful. However, non-financial reporting is not yet mature. There remains a lack of coherence among the many non-financial reporting frameworks and standards that exist, and the widely recognised mechanisms that provide assurance over financial information are yet to emerge in non-financial reporting.

The information in an integrated report should be presented: on a basis that is consistent over time as well as in a way that enables comparison with other organisations to the extent it is material to the organisation's own ability to create value over time. The problem is that investors like to see comparative information going back over perhaps 10 years. Providing meaningful information over such a long period can be challenging.

Taking into consideration challenges determined during performed analysis the suggestions on solving them while preparing an integrated report will be prospects for our further research.