



Corporate reporting

Rebuilding trust through improved transparency and insight

A review of corporate reporting trends in year to 30 June 2018 across ASX 200 and beyond



Foreword

By **John Stanhope AO**

At the Australian Financial Review (AFR) / KPMG Roundtable earlier this year, I said, "I think we pay a lot of lip service to the idea of caring about all our stakeholders, not just investors, but do we really care? At the end of the day when you sit in the boardroom, are you really talking about the financials or are you really talking about all stakeholders?"

I also said, "Every business needs to make money to stay in business, but we need to understand that there is a clear purpose far broader than making money. It is the means by which you make it. We continue to think that saying more about what we are doing is going to win back trust. But it's about how you go about your business that will do that."

Step forward to October 2018. The AFR on Saturday 20 October 2018 reported the CEO's of the Big 4 banks reflecting on 2018 and the interim findings of the Banking Royal Commission. Their comments built on the theme of rebuilding corporate trust. Improved transparency is a critical element of restoring trust – without transparency, there is no trust.

The key to regaining trust is that business needs to show a genuine shift from 'doing things right' to 'doing the right thing'. This is not just a semantic tweak, but a fundamental mindset change.

My Accounting 101 teacher told me, "you've got to make sure that you produce reports that are useful for the user." As it turned out, that is a good principle. Somewhere along the line we have lost our way and I think integrated reporting is trying to bring us back to that. At the end of the day this information has to be useful for the customer. Integrated reporting is an attempt, and it's a successful attempt, to bring back utility for the user.

Integrated reporting is a great enabler of improving transparency, and so contributing to the restoration of trust – communicating the business story to all stakeholders, including customers, employees and the broader community, as well as investors.

This report summarises the journey that many organisations are taking using the principles of integrated reporting and has useful guidance on how to get started on the journey or continue it. I commend it to you.



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Thanks to Deakin University, with whom KPMG participates in the International Integrated Reporting Council's (IIRC) accredited Integrated Reporting Education Australia Consortium, for providing valuable research support for this survey. Deakin University also chairs the oversight body of the IIRC's Global Academic Network.

Introduction

Welcome to KPMG's fifth survey of ASX 200 Corporate Reporting.

Nearly half of Australia's largest listed organisations and many large scale non-listed organisations are now using the principles of integrated reporting to better communicate how they create value for their shareholders and/or stakeholders, including investors, customers and employees. This is a dramatic rise from the first edition of this report, four years ago.

This report explores the drivers of change in Australia and provides a brief update on global developments. It focuses on the next steps, aiming to assist organisations understand the business opportunity in taking voluntary action now. In particular, it assesses how corporate reports can be used to communicate an organisation's strategy and explain more meaningfully not only its profitability but also the underlying drivers behind it, including innovation, intellectual property, technology, people, business relationships, governance, strategic management and key business processes.

It is important to make a distinction - integrated reporting is a business initiative; the integrated report is an outcome. Deriving benefits from more integrated thinking does not require full application of the International

Integrated Reporting Council's (IIRC) Integrated Reporting Framework (<IR> Framework). That can come later. The focus now is on leveraging the principles of integrated reporting to provide more insightful business reporting.

Background

The failures in governance shown in the Global Financial Crisis (GFC) a decade ago led to the formation of the IIRC in an effort to increase focus on creating, preserving and reporting on longer-term business value.

It has often been stated that Australia was relatively unaffected by the GFC. Yet the behaviours demonstrated back then have also been highlighted this year in the findings from a number of regulatory and other publicised investigations and enquiries, which have revealed fundamental flaws in areas such as governance and business processes. It has again shown that the focus has been on maximising short-term financial returns, often to the detriment of staff, customers and the broader community.

These behaviours – which are not limited to one sector - have contributed to the reduction in public trust in corporate Australia, as reflected in the Edelman Trust Barometer.

We believe this backdrop of falling public trust has contributed to the significant rise in the number of ASX companies now seeking to adopt the principles behind integrated reporting. There are also other drivers – the opportunities presented to business from rapid technological innovation are compelling. Business strategies and models have evolved, and must continue to do so, as change occurs even more rapidly. Disrupting rather than being disrupted is a key challenge and opportunity.

Integrated reporting provides a way to grasp these opportunities and manage the challenges. It also offers the opportunity for organisations to package the business story and what this means for its future in a way that investors, customers, employees and others can quickly understand, consider and ultimately trust.

Globally, the IIRC believes that integrated reporting has achieved the ‘break-through’ stage of global implementation. Accordingly, it announced in October 2018 that it is moving to the ‘Momentum Phase’, preceding a move to the Global Adoption Phase in 2021. The Momentum Phase recognises that there is a wide variation in the pace and scale of adoption of integrated reporting around the world, from jurisdictions where it is already the corporate reporting norm, to jurisdictions that are just getting started on their integrated reporting journeys.

What is next?

The findings in this report give Australian organisations a good starting point. They provide benchmarking information to gauge the maturity of an entity’s corporate reporting against the ASX 200 and include suggestions on how to enhance core areas of that reporting to provide deeper insight.

Action is required now as the proposed corporate reporting recommendation in the ASX Corporate Governance Council’s revised Corporate Governance Principles & Recommendations (draft 4th Edition) is about the rigour of the processes underpinning what is reported in corporate reports rather than just the reports themselves. Claiming adoption of the recommendation will likely require some changes to internal practices and processes. For this reason, the time between now and when the 4th Edition becomes effective will go quickly.

KPMG has focused on better business reporting for 20 years and has been assisting pioneering organisations in implementing the principles of integrated reporting for a number of years. Please refer to the section on ‘How KPMG is helping’ for more information. If you would like more information on a practical approach to improve your corporate reporting, please contact us.



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Key findings

The stages of the Reporting Continuum



Stage 1
Cutting the clutter
in the annual report.



Stage 2
More insightful reporting,
moving beyond cutting
the clutter to focus on
value creation in the short,
medium and long term,
by using the principles of
integrated reporting.



Stage 3
Integrated Reporting,
with reference to the
International Integrated
Reporting Council (IIRC)'s
International Integrated
Reporting <IR> Framework
(<IR> Framework).

This report is KPMG's fifth survey on the ASX200's Corporate Reporting in Australia, and follows on from KPMG's 2017 survey *Corporate Reporting – a significant shift towards adoption of the principles of integrated reporting.*

This year we have seen a significant increase in the number of organisations that have moved into 'Stage 2' of what we call the *Reporting Continuum*, as well as progress by those already in Stage 2 in providing more insightful corporate reporting. These organisations are leveraging the principles of integrated reporting when designing and writing their reports. This is helping them to provide deeper insight into the performance of the organisation and how value is created and preserved over the short, medium and long term. They are demonstrating the integrated thinking that is occurring within the organisation.

The drivers of change

The Edelman Trust Barometer 2018 made for gloomy reading for Australian businesses – the Australian public's trust in business sits at 45 percent in 2018, down from 48 percent in 2017 and below the global average of 52 percent.

The findings from recent regulatory and other publicised investigations and enquiries in Australia revolve around a focus on maximising financial returns, often to the detriment of staff, customers and the broader community. These behaviours have contributed to the reduction in public trust in corporate Australia.

The contemporary business issues identified by these investigations and enquiries have been known for some time and most have already been addressed in the Consultation Draft of the 4th Edition of the ASX Corporate Governance Principles and Recommendations (draft 4th Edition) which was released in May 2018 for public comment.

The issues addressed in the draft 4th Edition relate to improved Board processes and practices, including how the organisation's purpose, code of conduct and values have been embedded within the business and how the Board monitors breaches and actions taken. It also addresses the Board's requirement to better align executive remuneration with the creation of value for shareholders over the short, medium and longer term.

1. http://cms.edelman.com/sites/default/files/2018-02/2018_Edelman_Trust_Barometer_Global_Report_FEB.pdf

Other areas of focus include diversity, culture, risk management and risk appetite, whistle-blower, anti-bribery and corruption policies, climate change and social licence. All these areas are underlying value drivers for all organisations and align with the principles of integrated reporting, being the effective use and nurture of not just financial capital and tangible assets, but also the following, to create and report on long-term value:

- people and their behaviours
- brand, knowledge and know-how, processes and systems (intellectual capital)
- relationships (customers, suppliers, regulators and the community)
- supply chains and access to and affordability of natural resources, and the business's impact on the environment.

The draft 4th Edition includes a new corporate reporting process recommendation, sitting within Principle 4, requiring disclosure of the process to validate corporate reports and to provide investors with appropriate information to make informed investment decisions ('corporate reporting process recommendation').

"A listed entity should have and disclose its process to validate that its annual directors' report and any other corporate reports it releases to the market are accurate, balanced and understandable and provide investors with appropriate information to make informed investment decisions."

The commentary to the corporate reporting process recommendation notes that some entities use the principles of integrated reporting as a useful framework for preparing operating and financial reviews in Directors reports.

We understand that the exact wording of this draft recommendation may change prior to release of the final 4th Edition, but the sentiment will not. This recommendation will likely drive a significant change in not only what Australian companies report, but when and how they report it. It will also influence how Boards define what constitutes their corporate reports portfolio and then report on how they ensure the credibility of published information through independent external assurance or other means such as through management controls or internal audit (their three lines of defence).

Leading organisations are already taking action

This year there was a significant increase in the number of organisations focusing their reporting on value creation for shareholders and other stakeholders. Many of these organisations are not only improving disclosures to address contemporary business issues but in doing so are being innovative in how they present the information. They are already taking action to help re-build public trust through enhanced transparency. A number of examples of innovation in reporting and emerging practices from both listed and non-listed organisations have been included in this report.

63%

of organisations surveyed outline their corporate purpose (and/or mission and vision).

47%

of organisations surveyed set out their corporate values.

48%

of organisations surveyed focused their reporting on value creation for shareholders and/ or other stakeholders and not just historic financial earnings. (2017: 25%)

Integrated thinking is the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation 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.

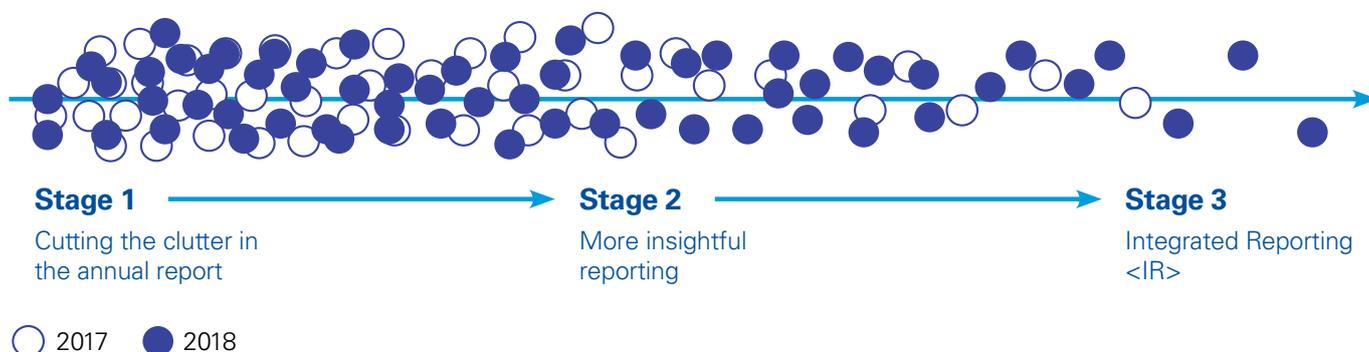
Source: <IR> Framework.

Although the draft 4th Edition will not be effective for some time, we encourage listed organisations to consider the likely impact of the proposed changes on their current governance and reporting practices now. This is because the proposed corporate reporting process recommendation is process-based, rather than focussed on the content of corporate reports.

Financial reporting processes have ‘audit-strength’ rigour from being developed and refined over many years. Processes and controls over reporting of other information – non-financial metrics, narratives, strategy and business model diagrams, risks and risk management measures – are not yet as mature. Organisations should start getting ready now as it will take time to get processes into a state where the Board can confidently make a positive statement under the corporate reporting process recommendation.

There are also significant opportunities from taking early action to develop a clear reporting strategy and make the required voluntary changes in advance of the release of the final 4th Edition. Adoption of the principles of integrated reporting can demonstrate a positive response in the current environment, enabling more effective communications with customers, employees and other key stakeholders, as well as investors.

An illustration of the ASX200 advancing along the Reporting Continuum



Key report content areas

This year our survey has once again examined the progress made by the ASX 200 in seven key report content areas. These are the areas that organisations typically focus on when moving along the Corporate Reporting Continuum. Leading reporters in each of these areas are using the principles of integrated reporting to help improve the quality of their disclosures and show a more holistic picture of how they are creating long-term value.

1. Strategic focus and key performance indicators

When describing an organisation’s strategy, the disclosure should give the reader enough information to understand what the organisation wants to achieve and how it will measure progress and success.

43%

of organisations surveyed disclosed specific objectives, which underpin their high-level strategy thereby giving the reader insight into how they intend to deploy the strategy. (2017:12%)

Opportunities to provide deeper insight

Insight can be added by including:

- specific strategic objectives that underpin the organisation’s purpose (vision and/or mission)
- the key value drivers required to deliver on each strategic objective (staff, IP, natural resources, customer and community buy-in)
- the KPIs that will be used to measure performance, including the delivery of products or services (outputs) and the protection of key value drivers for use in the future outcomes.

Being more specific in the strategy section will help to improve the overall connectivity of the report. The subsequent performance section can then include the performance against the KPIs identified, accompanied by narrative explaining how the organisation has performed in achieving its strategic objectives and the resultant impact business activities have had on the availability of key value drivers for use in the future.



6%

of organisations surveyed are connecting the risk disclosure to other parts of their annual report (i.e. strategy). (2017: 3%)

2. Risks and risk mitigation, opportunities and opportunity realisation

Of the organisations surveyed 70 percent (2017: 70 percent) are now identifying their material business risks as well as explaining how they are being managed or mitigated by the organisation. Only 6 percent (2017: 3 percent) of these organisations are connecting the risks to other parts of the annual report.

Very few organisations are referring to future business opportunities arising from a changing global business environment and how those opportunities are expected to be realised.

Opportunities to provide deeper insight

The next step which some organisations are taking, in line with the principles of integrated reporting, is to show the connectivity of the material business risks to both the organisation’s strategic objectives, and the material matters or key concerns of stakeholders which were identified through the organisation’s stakeholder engagement process.

We noted that there was sometimes a disconnect between the material risks disclosed in the annual report and the material matters disclosed in the sustainability report. This inconsistency can be confusing for the reader who needs to understand those risks that are likely to have a material impact on the organisation’s ability to create value over the longer term.

There should only be one integrated summary of material business risks and opportunities included in the annual report. It should include those that are material to the delivery of business strategy and creation of longer-term value. Other disclosures that are important to specific stakeholders, but not considered to be material to value creation (for example, certain sustainability KPIs and related case studies) can be included on the organisation’s website and referenced in the annual report.

See page 17 for an example of how ANZ have aligned their stakeholders’ material issues to the Material Risk categories used in their Risk Management Framework.



Quality scale: Risk and risk mitigation, opportunities and opportunity realisation

- Limited or no discussion of material business risks
- Identification and description of material business risks
- Includes information on how the material business risks are being managed or mitigated by the organisation
- Risks are connected to other parts of the report (i.e. strategy)

3. Business model

Clear articulation of how the organisation creates value, including the organisation’s business model is critical to helping the reader understand how the organisation puts its strategy into effect, how its value drivers operate and therefore how it creates long-term value for shareholders and other key stakeholders.

The majority of organisations are still only disclosing their business activities at a high level. However this year 12 percent of organisations surveyed are also providing insight into how the key value drivers they rely upon are being employed in key business activities.

12%

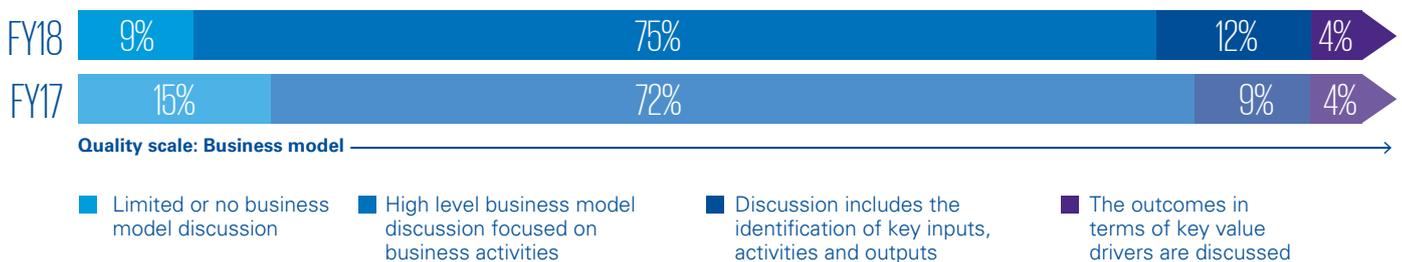
of organisations surveyed describe their business model in enough detail for the reader to understand the key inputs, business activities and outputs of the organisation. (2017: 9%).

Opportunities to provide deeper insight

To take the business model disclosure further and to provide a deeper level of insight into how the organisation creates value, leading reporters are basing their business model disclosures on the end-to-end value creation process as described in the <IR> Framework.

The value creation process starts with the organisation explaining how its key value drivers are used in critical business activities to create value for shareholders, as well as how they are protecting or enhancing outcomes for others. Key value drivers include relationships with key stakeholders (i.e. customers, employees, impacted communities) as well as the company’s ability to leverage and access other key business resources (i.e. innovation, intellectual property, brand, technology, social licence and natural resources) to deliver long term value.

See pages 18, 22 and 26 for examples of strategy and business model disclosures developed using the principles of integrated reporting.



80%

of organisations surveyed have included an ‘active governance’ summary, highlighting the key areas of focus of the Board. (2017: 5%).

4. Governance

This year it was pleasing to see an increase in the number of organisations including a governance summary in the annual report. Now over 50 percent of organisations sampled are including governance information (FY17: 37 percent) in the annual report.

Opportunities to provide deeper insight

Leading reporters are going further and using the governance summary to focus on ‘active governance’, being how the Board has supported value creation during the year, including:

- explaining how the Board actively oversees management’s delivery against strategy, within the risk appetite of the group;
- highlighting key areas of concern, activities and actions taken by the board and its committees during the year; and
- summarising how the governance structures have adapted to changes in business practices, including changes in the governance structure and frameworks with more detail provided on the website.

These organisations have continued to include the Corporate Governance Statement and other standing data on the corporate website, with a clear link provided in their annual report.



5. Performance and future prospects

Over 70 percent (2017: 50 percent) of organisations have moved on from talking only about financial position and performance and are now including narrative on non-financial performance. Approximately 9 percent of organisations are now also showing performance against targets, budgets or other measurable KPIs.

This year as more organisations have transitioned into Stage 2, or improved the quality of their insights and reporting within Stage 2, we have seen improvements in disclosures over organisations’ future prospects. There is now greater awareness that reporting on future prospects does not necessarily mean including financial forecasts and projections in corporate reports.

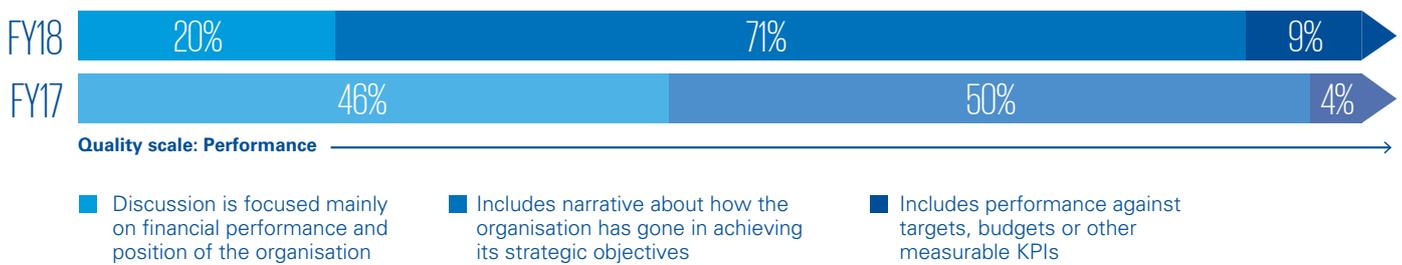
The <IR> Framework does not require the reporting of financial forecasts and projections. The focus is on explaining the health of the business through lead performance indicators (e.g. customer and staff net promoter scores, innovation and new products, environmental performance) and discussion on how the organisation is responding to changes in the external environment, including global mega trends such as technological innovation and climate change.

Reporting in this way will also enable more effective communication to investors and all other key stakeholders about how executive remuneration is linked to their performance in strategy execution and delivery of value to shareholders and other important stakeholders.

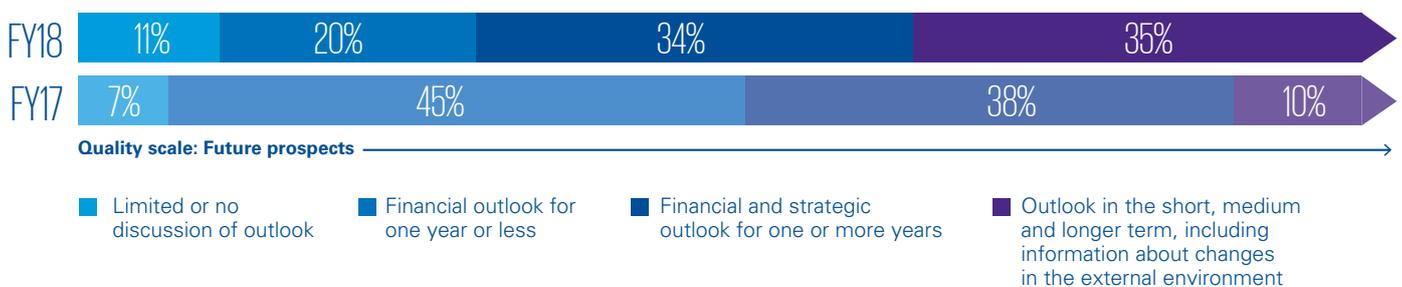
9%

of organisations surveyed include narrative information and quantitative measures, such as performance against targets, budgets or other measurable KPIs. (2017:4%)

Performance



Future prospects



6%

of organisations surveyed are improving connectivity and helping readers navigate their Annual Report with icons, symbols, tabs, page references, and/ or links to where additional information can be found. (2017: 4%).

6. Connectivity

Many reports are still a collection of individual regulatory-compliant disclosures (strategy, business model, risks, governance and performance) presented as silos of information. Connecting elements of disclosure within the report helps the reader understand how the Board has overseen and management has executed the strategy, optimised the use of value drivers to deliver required products and services, whilst protecting and enhancing those value drivers for future use – their value creation story.

To help improve the connectivity of information within the report, 6 percent of organisations (2017: 4 percent) have used icons or symbols to show the connection between strategic objectives, use of value drivers, risks & opportunities, performance and prospects. More have used tabs and links (page references) to help the reader navigate to different parts of the report (or access other reports in the corporate reports portfolio) where further information can be found.

Connectivity can also be achieved through the innovative use of technology. For example, Qantas have created an online corporate reporting microsite to house a 'building long term value' portal which provides regulatory-required and voluntary information in a structured and layered manner to meet stakeholder information needs. See page 16 for further details.

Next steps

We strongly advise Board's and executive management to take action now. If you wait for prescriptive requirements from regulators, you will miss the opportunity to think through and enhance your current practices and reporting.

Three steps to take include:

1

Focus on business improvement opportunities from more integrated thinking

2

Determine what could be done to better explain the qualities of your organisation, and the challenges and opportunities you are dealing with, to the capital markets, customers, employees, other stakeholders and the broader community

3

Clean up irrelevant internal practices and internal and external reporting.

KPMG is here to help

KPMG has been focussed on Better Business Reporting for over 20 years and key KPMG team members have been instrumental in developing the <IR> Framework with the IIRC, and now seeing it implemented at the national and individual organisation levels. The KPMG team has been working with early adopters in Australia and New Zealand to develop and implement more effective reporting strategies and build and/ or assure the underlying Integrated Reporting Management Systems.

We have tried and tested methodologies and tools to ensure these projects deliver real business benefits for the company (in terms of cost, timing and internal strategic alignment) and better information for all stakeholders through clarity, conciseness, connectivity and a focus on what is important to the delivery of business value over the short, medium and long term). Further detail is provided in the *How KPMG is Helping* section.

Assurance

We did not examine trends toward assurance over non-financial metrics or the principles of integrated reporting in this survey. However some early examples of assurance on reports using the integrated reporting principles are beginning to appear.

Two Australian highlights of the year were the Cbus 2018 Annual Integrated Report which included a KPMG assurance opinion (see page 21 for further details), and the CBA 2018 Annual Report, which included two audit/ assurance reports signed by its independent external financial audit partner, one on the financial report and one on certain non-financial metrics.

Internationally, 2018 saw the world's first assurance opinion under the <IR> Framework – in the Netherlands, for ABN AMRO's Integrated Annual Review².

Going forward we expect assurance of non-financial metrics and the principles of integrated reporting to become a growing trend, especially as reporting continues to mature and the demand for it by investors increases. Organisations in or approaching Stage 3 of the Reporting Continuum will need to consider the difference between referencing or applying the principles of integrated reporting versus fully adopting the <IR> Framework. This is an important distinction if the aim is to claim full adoption of the <IR> Framework, and will be important when scoping an assurance engagement for an integrated report.

Some of the important requirements that need to be addressed in order to claim adoption of the <IR> Framework, and that may not all be being applied in a report prepared with reference to or applying the principles of integrated reporting, include:

- The report must comply with all 19 bold italic (black letter) requirements, including the fundamental concepts, guiding principles and content elements.
- The report should be a designated and identifiable communication, which when combined with the guiding principle of conciseness, means that the report will be a concise, designated and identifiable communication with a clear start and a clear finish. This boundary will be important in scoping an assurance engagement.
- The report must explain any departure from the black letter requirements, for example where reliable information is unavailable, specific legal prohibitions exist, or where disclosure would cause significant competitive harm.
- The report must contain a Board responsibility statement, including:
 - an acknowledgement of the Board's responsibility to ensure the integrity of the integrated report
 - an acknowledgement that the Board has applied its collective mind to the preparation and presentation of the integrated report
 - its opinion or conclusion about whether the integrated report is presented in accordance with the <IR> Framework.

The <IR> framework recognises integrated reporting is a journey. If an integrated report does not contain a statement by the Board, it should explain:

- the role the Board played in its preparation and presentation,
- the steps being taken to include such a statement in future reports, and
- the time frame for doing so, which should be no later than the organisation's third integrated report that references the <IR> Framework.

The latter requirement will be important in an Australian context as Board's consider their adoption of the 'Corporate reporting process recommendation' in the draft 4th Edition.

It is important to understand that the draft 4th Edition does not recommend or suggest that all of an organisation's corporate reports be subject to independent external assurance. Organisations implement and maintain internal controls over key systems and processes. Risk functions supporting the business deal with new or emerging risks, internal audit often implements a program of testing over these key systems and processes, as well as over changes made for new risks. Then there is independent external audit over regulatory and voluntary reporting, where requested by Board's. This is sometimes referred to as the organisation's three lines of defence.

The draft 4th Edition requires the Board to determine and disclose, in effect, which line of defence they are relying on for specific reports and disclosures. It is likely that independent external assurance will be required where the information is considered material to market value and/ or market brand and reputation.

2. Available at https://www.abnamro.com/en/images/Documents/010_About_ABN_AMRO/Annual_Report/2017/ABN_AMRO_Integrated_Annual_Review_2017.pdf

The continued shift towards integrated reporting



AGL:

From the 2019 financial year, AGL intends to apply the principles of integrated reporting to its corporate reporting information. This process will bring key aspects of both the Annual Report and Sustainability Report together to provide a holistic overview of AGL's strategy, governance, performance and prospects, including how they think about value creation in the short, medium and long-term.



Brambles:

As a first step towards producing an integrated value story, Brambles has used the principles of integrated reporting to illustrate the interaction and interdependencies between its sources of value, business model and ability to create value over time.

+ See an extract on [page 18](#)

Cbus:

This year Cbus have focused on improving the integrated report through more clearly explaining how they create value for members and their business model. This year the report includes assurance over non-financial data and processes that underpin the development of the report.

+ See an extract on [page 22](#)



Australia and New Zealand Banking Group (ANZ):

ANZ have continued to draw on aspects of the <IR> Framework to describe how its business model, strategy, governance and risk-management processes are addressing its most material issues and delivering value for its shareholders and other stakeholders.



GPT:

GPT is starting to apply the principles of integrated reporting in its Annual Review which is guided by the <IR> Framework.



Lendlease:

Lendlease released its third integrated annual report. This report has continued to evolve over time. This year Lendlease' 2017 Annual Report won the 2018 Australasian Reporting Awards, Special Award for Integrated Reporting.



NRMA:

The NRMA's second integrated report has been prepared with reference to the <IR> Framework. This report covers the NRMA's most important issues, those issues that the leadership believes could substantially influence the value created by the NRMA for its Members, business and the community over the short, medium and long-term.

[See an extract on page 24](#)



Stockland:

Integrated reporting is a journey toward more meaningful corporate reporting and is a process of continuous improvement, one that Stockland believes provides great benefit to both the organisation and its stakeholders.

[+ See an extract on page 20](#)



Qantas:

Qantas's reporting strategy focuses on disclosures to shareholders of information which is prepared in a manner consistent with the guiding principles that underpin integrated reporting.

[See an extract on page 16](#)



VicSuper:

VicSuper believe that integrated reporting helps it better understand its operating model and the issues it faces. It gives VicSuper an effective way of showing its stakeholders how they benefit from VicSuper's 'integrated thinking' approach.

[+ See an extract on page 26](#)



National Australia Bank (NAB):

The Annual Review is an integrated report that demonstrates NAB's commitment to, and strategies for, creating value for its customers, people, shareholders and community.

Innovation in reporting – Examples of emerging practice

The following pages contain examples of the emerging good practice in corporate reporting from both Australian listed organisations and large scale non-listed organisations. Each example has been selected based on its innovative or developing approach in demonstrating how the organisation is creating long term value for shareholders and other stakeholders.

"We report transparently to demonstrate how we're creating shareholder value, delivering on our strategy, laying foundations for long-term sustainability and making a positive impact in the communities we serve"

ASX 200 reporters

Qantas



Source: [Qantas 2018 Annual Review microsite](#)

Qantas' reporting strategy focuses on direct disclosures to its shareholders. This information is prepared in a consistent manner with the guiding principles that underpin integrated reporting. This year Qantas released an Annual Review microsite focused on demonstrating how it is building long-term value. This site is still in development, but once completed will be a 'one stop shop' for investors and other stakeholders, allowing them to obtain all the Qantas group's published information in a single location.

The Qantas microsite includes information in three key areas:

- looking ahead (global forces and the strategic plan)
- delivering today (CEO and Chairman reports and current year reporting against strategic pillars, including financial and non-financial metrics)
- acting responsibly (Qantas' approach to key areas such as people, community, planet, governance, and reporting).

The microsite allows more granular and regular information to be published for shareholders and other stakeholders, without clogging up the required disclosures in regulatory reports and filings.

Australia and New Zealand Banking Group (ANZ)



In their 2018 Annual Review, ANZ have continued to draw on aspects of the <IR> Framework to describe how its business model, strategy, governance and risk-management processes are addressing its most material issues and delivering value for its shareholders and other stakeholders. ANZ outline its response to external social and environmental challenges, including the work it is undertaking to rebuild its reputation as a fair and responsible business,

driving sustainable returns for all stakeholders. The extract below shows how ANZ has been able to align the material matters identified from its stakeholder engagement to the material risk types which are managed through ANZ's Risk Management Framework and disclosed in more detail in the Annual Report.

WHAT MATTERS MOST

OUR MOST MATERIAL ISSUES

Through our annual materiality assessment we engage with internal and external stakeholders to inform our identification of social and environmental risks and opportunities. We seek to identify those that have the most potential to impact our ability to operate successfully and create value for our stakeholders.

These issues may change over time, reflecting changes in our business and external operating environment and the expectations of stakeholders. We use the results of the assessment to inform our business strategy thinking and our Sustainability Framework, reporting and targets.

This year, stakeholders ranked the following issues (risks or opportunities) as having the most potential to impact our value creation in the short, medium and long-term:

- Fairness and ethical conduct:** is the highest ranked issue, with the Royal Commission strongly influencing stakeholder sentiment in Australia. Operating in a fair and ethical manner is seen by stakeholders as fundamental if we are to demonstrate we are trustworthy. Stakeholders commented on the specific issues of financial incentives resulting in poor customer outcomes, products with poor value for customers and conduct issues.
- Corporate governance:** is well recognised that organisations with strong corporate governance processes and policies in place are likely to perform better in the longer term. This year stakeholders told us that ANZ needs to identify and act on misconduct and failures to meet community standards and expectations quickly, and improve remediation. This is the first time this issue has been ranked in the top five, reflecting stakeholder concerns following the significant failures highlighted at the Royal Commission.
- Fraud and data security:** could significantly disrupt the bank's operations and impact our reputation in the event of a breach. Ensuring we have strong internal controls and risk management frameworks in place to mitigate this is critical. Ongoing education of our customers and the wider community about online risks and improving their own data security, is also considered important.
- Customer experience:** delivering a positive customer experience is a key way in which ANZ can differentiate itself from competitors and deliver sustainable business performance in the long term. Stakeholders also highlighted fairness, transparency, accessibility and simplicity of products as critical to demonstrating to customers that they can trust us to provide them with the right products and services for their circumstances.
- Digital Innovation:** is core to ANZ's strategy and a key factor in driving positive customer experience. Customer expectations are being redefined by their experiences with companies using technology in new ways to deliver better service. Today, the smartphone is our most popular 'branch'. It is now more important than ever that we work hard to keep up with digital change and customer expectations to make banking easier for our customers.

The key steps in our 2018 materiality process, as well as the full list of our material issues, is discussed in detail in our 2018 ANZ Sustainability Review available at anz.com/cs in December.

MATERIAL ISSUES AND RISK MANAGEMENT

Our most material social and environmental risks and opportunities are captured and managed within our existing Material Risk categories (as the table below shows). There is also a clear link between our Material Risks and the challenges arising from the external environment in which we operate.

A full list of ANZ's Material Risks is available on page 38 of the 2018 Annual Report.

| MATERIAL RISK TYPE | MANAGEMENT OF MATERIAL RISKS | MOST MATERIAL ISSUES |
|---|---|----------------------|
| COMPLIANCE RISK The risk of failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to ANZ's businesses. | Key features of how we manage Compliance Risk as part of our Operational Risk framework include: <ul style="list-style-type: none"> - centralised management of key obligations, and emphasis on identifying changes in regulations and the business environment, so as to enable us to proactively assess emerging compliance risks and implement robust reporting and certification processes. - recognition of incident management as a separate element to enhance ANZ's ability to identify, manage and report on incidents/breaches in a timely manner. - the Whistleblower Protection Policy allowing employees and contractors to make confidential, anonymous submissions regarding concerns relating to accounting, internal control, compliance, audit and other matters. | |
| OPERATIONAL RISK The risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk. | We operate a three-lines-of-defence model to manage Operational Risk, with each Line of Defence having defined roles, responsibilities and escalation paths to support effective communication and effective management of our operational risk. Also, we have ongoing review mechanisms to ensure our Operational Risk framework continues to meet organisational needs and regulatory requirements. | |
| REPUTATION RISK The risk of loss that directly or indirectly impacts earnings, capital adequacy or value, that is caused by: <ul style="list-style-type: none"> - adverse perceptions of the Group held by any of customers, the community, shareholders, investors, regulators, or rating agencies; - conduct risk associated with the Group's employees or contractors (or both); or - the social or environmental (or both) impacts of our lending decisions. | We manage Reputation Risk by maintaining a positive and dynamic culture that: <ul style="list-style-type: none"> - ensures we act with integrity, and - enables us to build strong and trusted relationships with customers and clients, with colleagues, and with the broader society. We have well established decision-making frameworks and policies to ensure our business decisions are guided by sound social and environmental standards that take into account Reputation Risk. | |
| STRATEGIC RISK The risk that the Group's business strategy and strategic objectives may lead to an increase in other key Material Risks – for example: Credit Risk, Market Risk and Operational Risk. | We consider and manage strategic risks through our annual strategic planning process, managed by the Executive Committee and approved by the Board. Any increase to our key Material Risks is managed in accordance with our risk management practices. | |
| TECHNOLOGY RISK The risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and systems or from external events impacting on IT assets, including the compromise of an IT asset's confidentiality, integrity or availability. | Consistent with the management of Operational Risk, we operate a three-lines-of-defence model to manage Technology Risk, with each Line of Defence having defined roles, responsibilities and escalation paths to support effective communication and effective management of our technology risk. We also have ongoing review mechanisms to ensure our Operational Risk framework, which is also used to manage Technology Risk, continues to meet organisational needs and regulatory requirements. | |

Source: ANZ Annual Review 2018, page 12 and 13.

Through ANZ's annual materiality assessment it engages with internal and external stakeholders to inform its identification of social and environmental risks and opportunities (material issues) that have the most potential to impact its ability to operate successfully and create value for stakeholders.



The stakeholders material issues are then linked, through the use of icons, to the existing Material Risk categories, demonstrating a clear linkage between Material Risks and the challenges arising from the external environment in which ANZ operates. These risk categories and how ANZ is managing them then aligns directly with the 'Our approach to Risk Management' in the Annual Report.

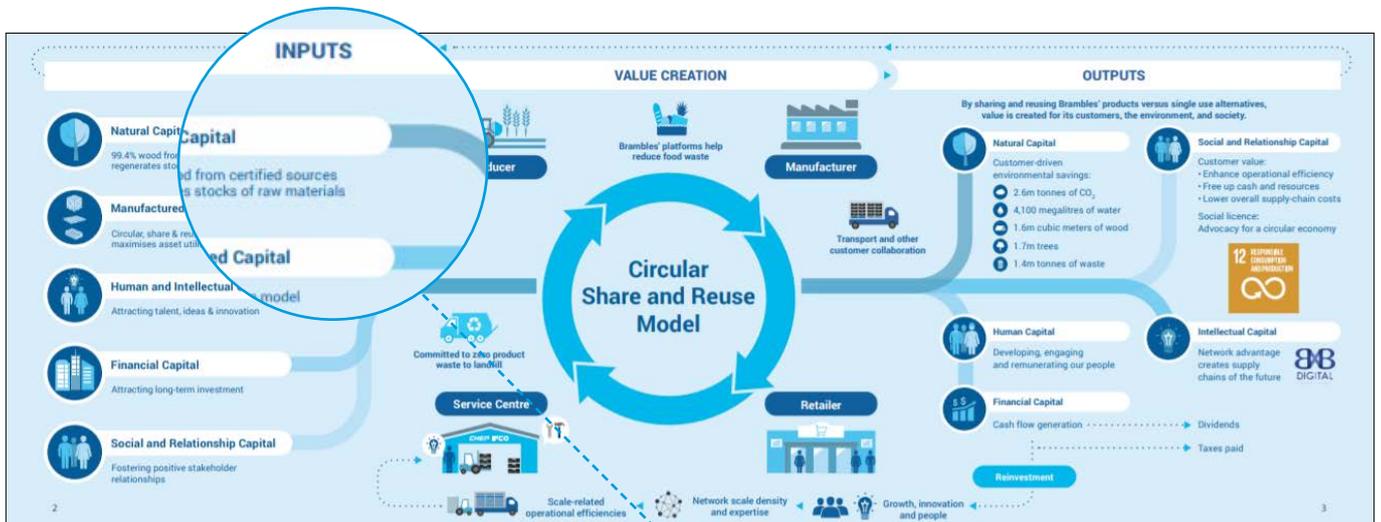


Brambles



This year Brambles’ Annual Report focused on clearly articulating how Brambles creates value. Brambles have leveraged the principles of integrated reporting to illustrate the interactions and interdependencies between its sources of value, business model and ability to create value over time.

How Brambles creates value:



Source: Brambles Annual Report 2018, pages 2 & 3



The inputs into the value creation process are Brambles’ key value drivers, the different resources and relationships that they depend upon to be able to operate the business, deliver on strategy and ultimately create value for investors and other stakeholders.

Commonwealth Bank of Australia



This year CBA produced a comprehensive ‘combined report’. The report is all-inclusive, combining the Annual Report with a previously separate Corporate Responsibility Report. The report provides insight into CBA’s strategy and its objective to achieve it through sustainable business practices, the potential risks to execution and risks arising from climate change.

The report also discloses a comprehensive set of both financial and non-financial metrics through which its performance can be measured as well as an update on regulatory, legal and industry inquiries faced including a summary of the bank’s response to the APRA Prudential Inquiry Report (APRA Report).

The theme of transparency was observed in the Chairman’s and CEO’s messages respectively that provided a balanced assessment of the

year’s performance as well as looking forward to the future direction of the organisation. This theme was further observed in the remuneration report where remuneration outcomes were clearly linked to a balanced scorecard of CBA’s performance outcomes, leading to a reduction in current executives’ and a clawback of past executives’ incentives as a result of, amongst other things, the findings of the APRA Report.

The report also includes two assurance reports: one on the financial report and the other on the non-financial performance metrics (environmental, customer, social and governance metrics) in the strategic report. Both assurance reports were signed off by CBA’s independent financial statement auditor, providing a signal as to the leadership of assurance engagements on future integrated reports.



"This has been a difficult year. Confidence in the Bank has been severely tested due to a series of conduct and compliance issues. As a result, trust in the Bank, and its reputation and standing, have been damaged.

The Board and I regret, without reservation the Bank's failings over recent years, and apologise to all of our stakeholders for what has happened.

The Bank has, however, continued to deliver service and market-leading innovation for our customers, and has continued to contribute to our communities. Our businesses have performed well this year, and we have maintained capital strength.... It has also been a year of renewal at the Bank, and we have taken action to set the Bank up for future success."

Catherine Livingstone AO
Chairman, CBA

Source: [CBA Annual Report 2018, page 4](#)

Stockland



Stockland clearly summarise the reports in its 'corporate reports portfolio' at the front of each report. This includes outlining the report's purpose, target audience and how it has been prepared (stakeholder engagement, reporting boundaries, materiality etc.).

Including a summary of the Corporate Reports Portfolio is not only considered good practice, but also helps clarify for readers those reports

the Board considers to be 'corporate reports' and therefore relevant when considering the recommendations of Principle 4 of the ASX Corporate Governance Principles and Recommendations.

Our full corporate reporting suite for 2018 includes:

| | |
|--|--|
| Annual Review (online only) | Our integrated report focused on strategy, governance, and our financial, social and environmental performance. |
| Annual Report | A detailed account of our FY18 financial performance, including our response to the Financial Stability Board's Taskforce on Climate-related Financial Disclosure recommendations. |
| Property Portfolio | Details on each of the assets within our portfolio, updated every six months. |
| Sustainability Reporting (online only) | Our in-depth sustainability Deep Dives reported in accordance with GRI Standards "comprehensive". www.stockland.com.au/sustainability |
| Securityholder Review | A concise version of the Annual Review sent to our securityholders. |

Copies of all reports are available online at:
www.stockland.com.au/corporate-reporting



Source: [Stockland Annual Review 2018](#)

Wesfarmers



Although the Wesfarmers' Annual Report does not mention integrated reporting, it appears to follow many of the principles. The innovation in this report is the clarity of governance reporting, including the Chairman's Report and the explanation of why 'social licence' is such a critical asset to be used to strategic advantage by any organisation that is seeking to deliver long term returns and value to shareholders, customers, employees and other key stakeholders.



Source: [Wesfarmers Annual Report 2018, page 4](#)



"...The role of directors is to govern, not to manage. The most important aspect of the role is the appointment of the chief executive officer and ensuring that the CEO assembles a competent management team. Directors whose involvement is part time cannot possibly be across the detail of the business. They delegate the running of the company to management; but the second vital role directors play is holding management's 'feet to the fire' - ensuring that the company's policies and procedures are directed towards achieving desired outcomes, that management understands and communicates the company's values and codes of behaviour, that bad news travels upwards as fast as good news, that unacceptable behaviour is dealt with expeditiously and that employee rewards are aligned with performance..."

"...As for the suggestion that focusing on financial outcomes is incompatible with good corporate citizenship, we couldn't disagree more. The reason listed companies exist is to provide their shareholders with financial returns. People buy shares in Wesfarmers because they hope it will provide them with better returns than if they buy shares in another company; but that does not give a company licence to put profit before good behaviour. The simple fact is that unless a company behaves as a good corporate citizen, it will not achieve financial success over the long term. Poor behaviour will cause many people not to buy shares or to sell their holding, customers will desert it, it will result in fines or bans for the company and the company will not be invited to join in profitable opportunities. In short, the company will lose its 'licence to operate'. That is why at Wesfarmers we have always qualified our single financial objective with the words you see on page four of this report; words describing our commitment to take care of our employees, customers, suppliers, the environment and the communities in which we operate..."

Michael Chaney AO, Chairman

Other reporters

Cbus



The member centricity of Cbus remains evident in this year's Annual Integrated Report, as does its focus on trust. The report draws out how Cbus creates value for its members, what matters most to its stakeholders, and explains its new approach to investment. This year, for the first time, Cbus has included assurance over some of the non-financial data included in the report, including member satisfaction scores.

Cbus creates value for members by investing their pooled superannuation contributions, returning all profits to them and providing solutions to help them achieve a dignified retirement.

How we create value

1. Our inputs

Construction and building unions
Members
Employers and their associations

We use a range of resources to create value.

- Contributions made by members and employers on members' behalf
- Sound governance mechanisms and internal systems and processes
- Talented people
- Strong partnerships

2. Creating value

We draw on our links with the construction and building industry, our partnerships, our collaborative culture and our central value of putting members' interests first.

- Provide members with advice and assistance
- Listen and act on member and employer needs
- Identify and manage risk
- Evaluate and manage business partners, investment options and insurances
- Design and implement product and service solutions
- Meet regulatory requirements
- Advocate in members' interests
- Promote the Fund

3. Our outputs

The inputs are transformed and directed to innovative, long-term investments, products and services.

- Innovative, long-term, risk-weighted investments
- Investment options, insurance, and advice tailored for members
- Support and solutions for employers

External environment

We identify issues in our external environment that we must be responsive to in order to create value. These fall into four broad categories: ageing population, increased longevity and changes in the nature of work; global megatrends impacting investment decisions and returns; competition; and regulatory changes.

Our inputs

We use a range of inputs to create value, starting with the financial inputs from members and employers that are driven by our strong partnerships with construction and building unions and employers and their associations. Our team of talented people

work with our key stakeholders and international partners to optimise our outputs and outcomes.

The value creation process

We draw on our unique heritage and continued links with the construction and building industry. Our partnerships, our collaborative culture and our central value of putting members' interests first in everything we do – utilises, directs and transforms resources to create value for members.

Our outputs

The inputs are transformed and directed to innovative, long-term investments with particular emphasis on investing sustainably in the real economy and built environment.

We tailor products, services and solutions – such as advice, insurance and support – to meet the needs of our members and employers.

Our outcomes

We provide strong, long-term returns to members while contributing to a strong economy and sustainable development. Our buildings are designed to maximise eco-friendliness, and during their construction provide employment and economic activity in our industry. We are satisfying our members' and employers' requirements. We are attracting, retaining and engaging talented people and continuing to evolve our internal systems and governance mechanisms.

4. Our outcomes

We provide strong, long-term returns to members while contributing to a strong economy and sustainable development.

- Strong long-term returns to members
- Employment opportunities for members through Cbus Property's construction work
- Growth in the Fund
- Collaborative and flexible work environment creating a great place to work
- Continually evolving internal systems and governance mechanisms to ensure reliability, transparency, stewardship and accountability
- Strong economy and sustainable development through our investment policies
- Buildings designed to minimise environmental impacts



Cbus has focused on improving its integrated report through more clearly explaining how it creates value for its members and the business model, including explaining the performance and strategy for each element of the business model that drives **value creation** for members and other key stakeholders.

Source: [Cbus Annual Report 2018, pages 8 and 9](#)

Cbus' Chair and CEO both formally acknowledged the contribution of integrated reporting. The Chairman drew attention to the KPMG assurance opinion on non-financial data and confirmed the approval of the Annual Integrated Report by the board, and the CEO confirmed the business benefits from Cbus' integrated reporting journey.

“We acknowledge the Board’s responsibility for our Annual Integrated Report, which we believe is prepared in accordance with the International Integrated Reporting Framework. At our July Board meeting we considered an outline for our Annual Integrated Report, and we approved the complete report in September. This year we engaged KPMG to provide assurance over some of the non-financial data and processes through which the report is developed.”

The Hon. Steve Bracks AC, Fund Chair

“Finally, it is important to acknowledge that integrated reporting provides a useful framework to articulate our business model and now, in our fourth integrated reporting cycle, we are reaping the benefits of a deeper alignment of our business planning with it.”

David Atkin, Chief Executive Officer



NRMA



The NRMA took an innovative approach to showing the involvement of the Board in overseeing and responding to strategic business matters during the year. Rather than having a single self-contained governance section, the NRMA has included governance disclosures in the relevant sections throughout the Annual Report. This has helped to improve the connectivity within the Annual Report, as well as to better demonstrate how the board is actively contributing to value creation and preservation.

Our strategic priorities

As we head towards our 100-year anniversary, we remain true to our beginnings — keeping our Members and customers at the heart of everything we do.

Board focus area: strategic focus

The Board's approach to strategy during the past year has been to focus on aligning strategic priorities with business opportunities to enable future growth for the NRMA. Given the pace of change, the key drivers that impact our strategy are technology (e.g. vehicles) and social (e.g. demographics and urbanisation). These drivers will continue to impact businesses across the Group and the Board recognises that our approach cannot be one of 'set and forget'.

Our strategic priorities outline how we're delivering our core business and how we plan to continue to broaden our Member value proposition beyond motoring, while continuing to deliver the best roadside service in NSW and the ACT. In FY19 and beyond, we will keep looking for more ways to solve access challenges for a more efficient transport system and we'll keep delivering the best value accommodation in the best locations around Australia.

We'll keep looking for more ways to solve access challenges for a more efficient transport system.

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Risk governance

The NRMA has adopted a fit-for-purpose approach to risk management in order to deliver our new strategic direction. Our robust approach to risk management helps us benefit from opportunities while mitigating anticipated risks.

Risk appetite and risk culture

Put simply, our risk appetite is the level of risk the NRMA is prepared to accept in the pursuit of our strategic objectives. The NRMA seeks to generate a risk culture that cultivates opportunity and manages downside risks.

The NRMA Group Risk Appetite Statement is a dynamic, responsive document that evolves in line with our risk maturity. It aims to communicate consistent, simply defined 'guard rails' for the NRMA, supporting timely and autonomous decision making at all levels within the organisation.

Risk management approach

Every three months, the NRMA management team reports on a full or critical risk review basis to the NRMA Board's Audit and Risk Management Committee (ARMC).

The purpose of this review is to provide assurance to the ARMC that our business managers are effectively identifying and managing risks to a level that they consider tolerable. Workshops are held with each divisional head and their direct reports where they consider:

- Current risks at a division and group level.
- New or emerging risks associated with the NRMA strategy.
- Mitigating actions and budgetary requirements to manage the risk within tolerance.

Strategic risk management

The NRMA Risk Appetite Statement focuses on eight strategic risk categories that enable the NRMA to deliver on its strategic priorities (see table).

These strategic risk categories include the issues the NRMA determined to be most important to the NRMA and key stakeholders including Members, partners, suppliers, thought leaders and customers.

Board focus area: risk appetite

The Board focused on defining our risk appetite to assist management in delivering and executing strategy.

Our Risk Appetite Statement outlines expectations around employee conduct relating to risk factors and the broader expectations of our Members, customers, the industry and the public.

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Source: [NRMA Annual Report 2018, pages 22 and 24](#)

Board focus area: strategic focus

The Board's approach to strategy during the past year has been to focus on aligning strategic priorities with business opportunities to enable future growth for the NRMA. Given the pace of change, the key drivers that impact our strategy are technology (e.g. vehicles) and social (e.g. demographics and urbanisation). These drivers will continue to impact businesses across the Group and the Board recognises that our approach cannot be one of 'set and forget'.

Board focus area: risk appetite

The Board focused on defining our risk appetite to assist management in delivering and executing strategy. Our Risk Appetite Statement outlines expectations around employee conduct relating to risk factors and the broader expectations of our Members, customers, the industry and the public.

Membership



Our Members are at the heart of everything we do, and we're committed to delivering even more value for money for you with NRMA Blue. Our independent voice continues to deliver safety and transport policy outcomes while our reputation and brand are a key part of how we deliver value to our Members.

Board focus area: Members

In FY18 the Board approved NRMA Blue, the new Members' program, which was launched in May. NRMA Blue offers more value by unlocking more benefits that really matter to our Members.

The Board also approved the annual advocacy priorities, responding to Members' needs and ensuring alignment with the future direction of the NRMA.

The Board also maintained a focus on data governance and privacy.

The Board ensures that the NRMA continues to provide Members with high levels of service delivery in Roadside Assistance through the support from investments in transport and tourism businesses.

3,000

exclusive offers from 35 premium partners

2,656,000

Million Members (2% growth FY17 2,605,000)

+25

NPS (Brand score) (FY17 +24)

\$112m

savings to Members through special discounts and offers (5% increase FY17 \$106m)

+78

NPS touch point (Roadside assistance)

Over 1.7m sessions our new app in exploring the benefits of **NRMA Blue**

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Board focus area: Members

In FY18 the Board approved NRMA Blue, the new Members' program, which was launched in May. NRMA Blue offers more value by unlocking more benefits that really matter to our Members. The Board also approved the annual advocacy priorities, responding to Members' needs and ensuring alignment with the future direction of NRMA. The Board also maintained a focus on data governance and privacy. The Board ensure that the NRMA continues to provide Members with high levels of service delivery in Roadside Assistance through the support from investments in transport and tourism business.

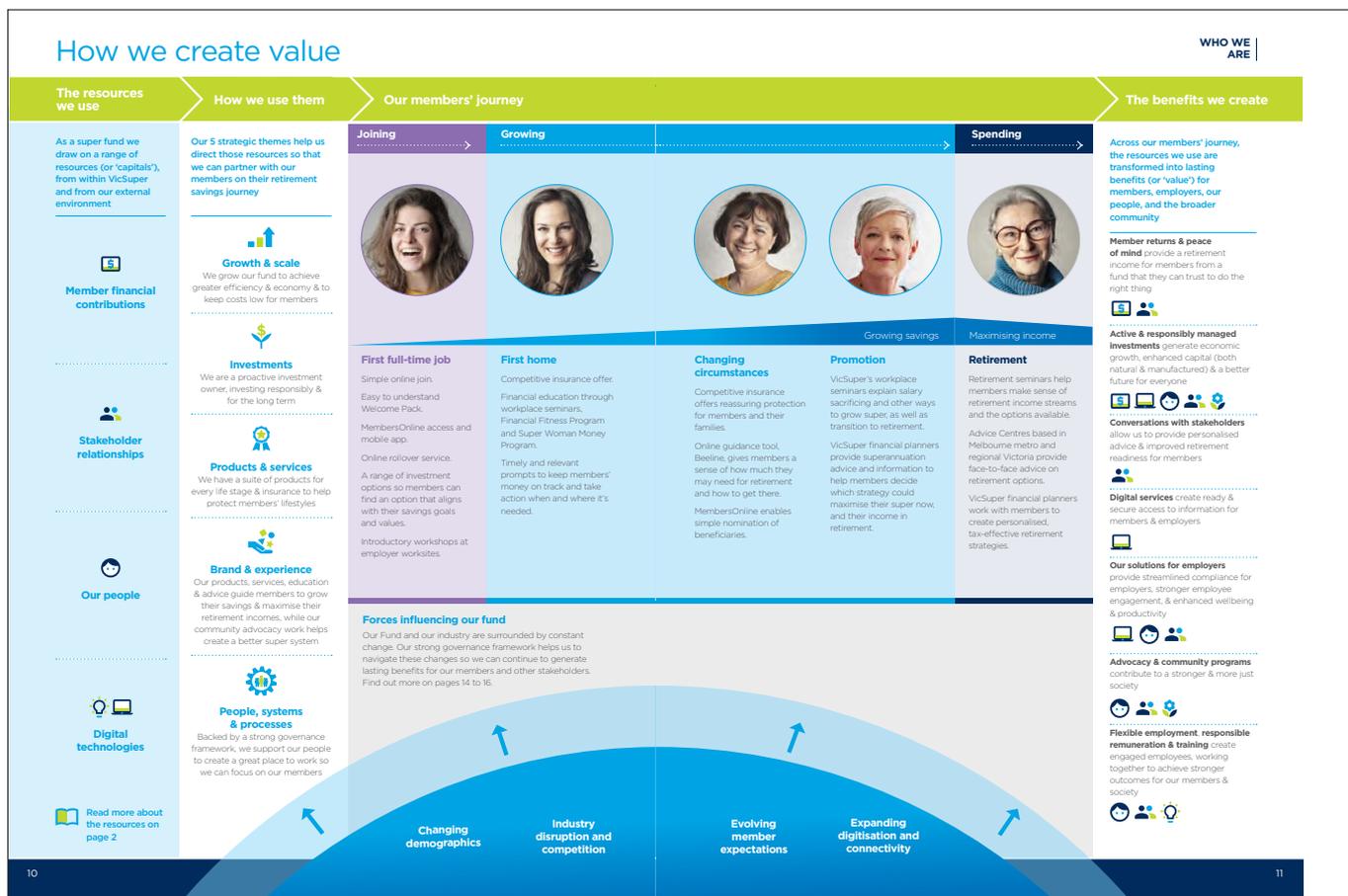
Source: NRMA Annual Report 2018, page 38

VicSuper



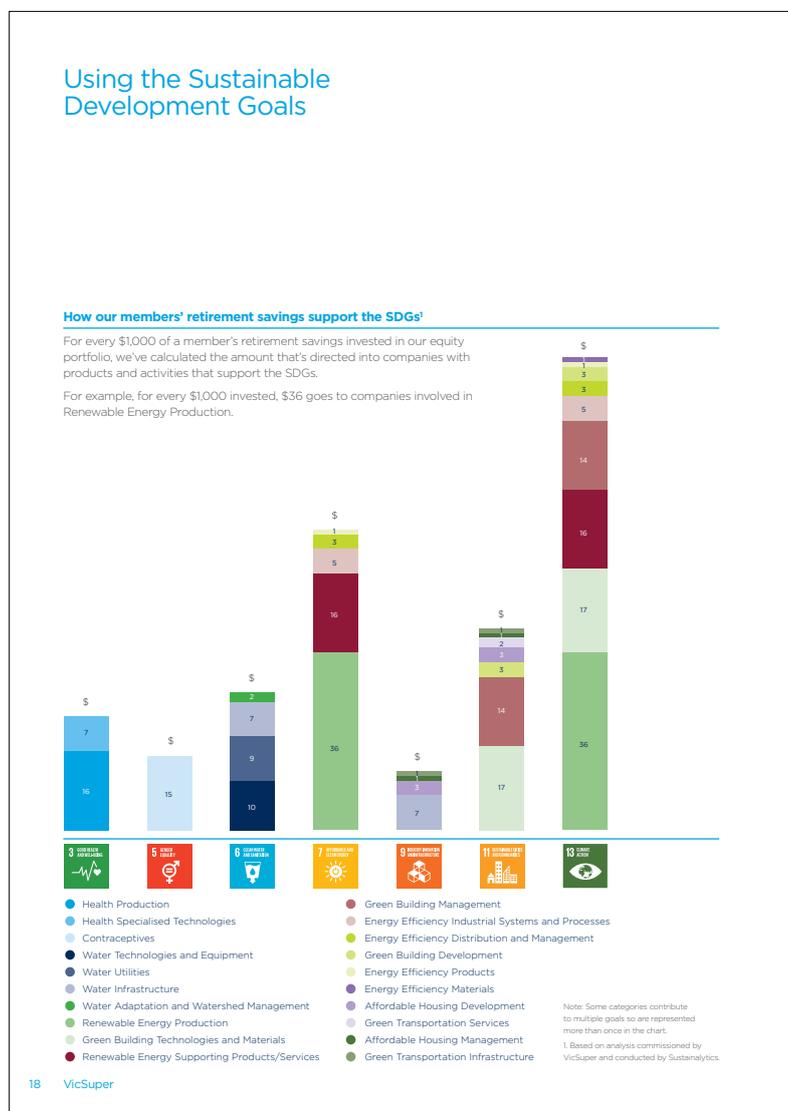
VicSuper made great progress in 2018. Key advances in the Annual Report include reporting on the way in which VicSuper explains how it reports and how it creates value. It shows how its purpose, value and commitments drive its strategic themes and key focus areas. It explains how this is put into practice, and links that to its measures of success in terms of its overall goal to be Australia’s leading retirement partner.

The Chair of VicSuper has confirmed in her report that VicSuper draws on the International Integrated Reporting Framework, allowing VicSuper to demonstrate its application of integrated thinking within the Fund.



Source: VicSuper Annual Report 2018, pages 10 and 11

VicSuper is also one of many organisations who are now identifying the Sustainable Development Goals (SDGs) developed through the United Nations that are most relevant to their business and stakeholders. According to research performed by the Australian Council of Superannuation Investors (ACSI), in 2017 39 of ASX 200 companies (20 percent) used the SDG framework to help report their sustainability activities.³



This year VicSuper has identified its priority SDGs and mapped how it was already contributing to those goals through investments, active ownership, and community and advocacy programs. It has gone on to quantify the amount of member funds invested into companies with products and activities that support the SDGs.

Source: VicSuper Annual Report 2018, page 18

3. Australian Council of Superannuation Investors (ACSI), Corporate Sustainability Reporting in Australia, an analysis of ASX200 disclosures, June 2018

How KPMG is helping

KPMG's investment in better business reporting and enhanced transparency

KPMG's better business reporting (BBR) team is here to help organisations plan and implement a practical approach to improve current corporate reporting (and related internal practices) so that changes are prioritised, cost and business disruption is minimised, and market and organisational benefits are optimised.

KPMG has been focused on BBR for 20 years, and has assisted pioneering organisations for the last seven years implement the principles of integrated reporting. Team members were involved in developing the <IR> Framework and associated guidance (2010-13), two team members are IIRC Ambassadors in Australia and one sits on the IIRC Board. We also have a representative on the International Auditing Standards Board's advisory panel developing guidance on assurance over extended external reporting.

Since 2010 KPMG has also invested in establishing and running the Australian Business Reporting Leaders (BRLF) forum, chaired by John Stanhope AO, as an open discussion group aimed at providing a forum for all participants engaged in business reporting to discuss and drive opportunities to improve reporting and transparency in Australia. Further details are available at www.brif.net.

How KPMG supports organisations to build trust through enhanced transparency

We support organisations improve their external reporting and underlying internal reporting practices in a number of ways, including:



Setting a reporting strategy

- Facilitation of board, executive and team education and training on the benefits of integrated reporting and application of integrated thinking within internal decision making and reporting. An important aspect of this is clarifying what integrated reporting is, and what it is not.
- The journey and investment should be based upon a clearly defined business case setting out a required or desired return on investment, which is owned by the senior executive and signed off by the Board. We believe that the business benefits realised from investing in an integrated reporting journey are significant in terms of business performance improvement, stakeholder engagement, and ultimately capital allocation and the cost of capital.
- At KPMG, we are experienced in assisting organisations define and put their business cases to the Board and/ or executive. including assisting them in prioritising the nature and timing of the benefits that their integrated reporting investment will bring.



Getting started

Getting started is often challenging. However, the changes required by the Draft 4th Edition will require process changes and so organisations should start to take action now. KPMG has assisted many organisations get started in the appropriate way for their own circumstances, including:

- Performing a gap analysis of existing reporting against the requirements and guidance of the <IR> Framework, ASIC's RG247, ASX Corporate Governance Principles & Recommendations, global best practice and other relevant reporting frameworks.
- Assistance in focusing on quick wins to enhance current reporting, using our benchmarking database and client experience, followed by facilitated discussion to de-clutter and then restructure the financial statements, governance report, directors' report (including the OFR) and remuneration report.
- Undertaking stakeholder engagement and materiality assessment processes to help identify and prioritise matters material for reporting in the integrated report or corporate reports portfolio.
- Advising organisations on how to improve the alignment of executive remuneration (incentives and bonuses) with the delivery of strategic objectives, performance and value creation in the short, medium and long term.



Corporate Reports portfolio

- Supporting the determination of the corporate reports portfolio, including defining and producing the flagship corporate report (from initial blueprint to final document) and navigation (connectivity) to other reports/ website containing greater detail.
- Supporting the identification and definition of reportable KPIs, risk management mechanisms / metrics, and underlying data sources.
- Advising on the alignment of internal reporting (board and management) to focus on the key drivers of value reported in the integrated report, and removal of superfluous internal reporting.
- Supporting the Board and management in determining when to move from adoption of the principles of integrated reporting to application of the <IR> Framework, once the processes, systems, team and reports are embedded and operating effectively. This involves change management support.



Integrated Reporting Management Systems

- Advising on integrated reporting management systems (IRMS) which will underpin the integrity of all external and internal reporting. Based on the reporting strategy, we support clients to align processes and systems to remove unnecessary reporting, and better capture and report on a systematic basis against key value drivers and strategy-aligned KPIs.
- An effective IRMS will provide boards with sound evidence for making a positive statement under the proposed corporate reporting recommendation in the 4th Edition of the ASX Corporate Governance Principles & Recommendations.
- We work with clients to ensure that staff accountabilities, incentives and scorecards are aligned with the enhanced decision making processes and reporting, and so assist in implementing integrated thinking throughout the organisation.
- As reporting technologies improve, we are supporting clients to adopt cloud-based software to better extract, process and deliver their internal and external reporting process, associated analysis and corporate reports.



Extended and integrated assurance

- As organisations move towards integrated reporting, there is an increased focus on narrative and non-financial disclosures that are material to long term delivery of strategic value. This information is used by investors and other stakeholders and therefore must be 'investment-grade'.
- We work through the relevant processes and controls with clients to ensure they are 'assurance-ready'; and then depending on our client mandate, we provide independent external assurance, internal audit assurance or undertake other procedures to support the organisation in ensuring data purported to be 'investment grade' is in fact accurate, balanced and credible.

Further information on recent developments in corporate reporting and the implications for CFOs, Directors and Investors can be found in at:

KPMG's Better Business Reporting website
www.kpmg.com/au/betterbusinessreporting

Australian Business Reporting Leaders Forum website
www.brff.net

IIRC's website
www.integratedreporting.org

Integrated Reporting

<IR> Education Australia

Introductory <IR> training

KPMG in conjunction with UNSW and Deakin University has established Integrated Reporting Education Australia, a consortium that is one of the IIRC's Foundation Training Partners. The members of this consortium offer integrated reporting education in their own right to their clients and students.

For organisations and individuals in Australia and New Zealand who want to understand more about integrated reporting, Integrated Reporting Education Australia are also offering corporate education on Integrated Reporting through a partnership with Chartered Accountants Australia and New Zealand (CA ANZ).

The CA ANZ training material is provided through a series of five one-hour webinars, and participants receive a Certificate of Completion from the IIRC.

Other <IR> training

KPMG has developed a one-hour Board education pack on the background, benefits and important role of the Board in moving to adopt integrated reporting, which can be tailored to each organisation.

KPMG also provides a two day workshop to show integrated report preparers how to design and build their integrated reports and integrated reporting management systems.

CA ANZ - Introduction to Integrated Reporting <IR>

This webinar series is designed to give participants an 'Introductory' understanding of Integrated Reporting, including integrated thinking, and the benefits it can bring to an organisation. The webinars are available on the CA ANZ Education store (below) but are being re-run in February-March 2019.

Topics covered include:

- The vision for better corporate reporting – the evolution of the <IR> movement and adopting <IR>
- The fundamental principles of value creation, the capitals and the value creation process

- Achieving integrated thinking
- Preparing the integrated report – the guiding principles, content elements and the integrated report
- Implementing integrated reporting - from financial management to value management – implementing the <IR> management system, establishing credibility and trust and the annual preparation process.
- We will also be including global and local progress to date in adoption of integrated reporting, including discussion on the benefits achieved and challenges experienced in the 2019 webinar series.

Further information:

Participants in the webinars will be provided with a Certificate of Completion from the IIRC, and can record 8 hours of formal CPE, being 3 hours of pre-reading and 5 hours of webinar training.

The webinar series is available for On Demand purchase on the CA ANZ Education store – available at :

https://store.charteredaccountantsanz.com/Introduction-to-Integrated-Reporting_AU

Appendix 1 – Global developments in integrated reporting

IIRC move to the Global Momentum Phase (2018-2020)

Judge Professor Mervyn King has stepped down as Chairman of the IIRC, being replaced by the former Global Managing Partner of McKinsey & Co, Dominic Barton. Dominic said at the Momentum Phase launch:

“I believe that through the adoption of integrated reporting internationally we can make real changes to the way businesses and our markets as a whole function. We can ensure that business is working for society, for the planet and for all stakeholders. That is why the first decision I made when stepping down from the Global Managing Partner role at McKinsey was to join the IIRC as its Council Chair and I look forward to working with the team, as we launch this new Momentum Phase.”

The IIRC is now seeking to build on the achievements of the Breakthrough Phase, and accelerate action toward its goal for integrated thinking and reporting to be the global norm for corporate reporting. The IIRC will leverage its partners to create the scale and pace needed in each market

to deliver a step change in adoption, whilst also providing more guidance and support to make adoption of integrated reporting easier.

As can be seen in the IIRC’s diagram below, patterns have emerged about the most successful national drivers of integrated reporting adoption, with non-mandatory mechanisms such as corporate governance codes, stock exchange encouragement, investor demand, and promotion by national director institutes, being among the most effective.

Another major development in 2018 that is not on the IIRC diagram below, has been the establishment of an IIRC directorate in New York, which is driving increased interest in, and take-up of, integrated reporting in the USA. The directorate works closely with the SEC and AICPA to drive integrated reporting adoption in the USA. There are now several major US corporations preparing integrated reports, like CocaCola, SouthWest Airlines, GE and more recently Salesforce.



Appendix 2 – Research methodology

This research has been carried out by Better Business Reporting specialists at KPMG, with the assistance of academic researchers from Deakin University.

Research sources included PDF Annual Reports published by organisations listed as being within the ASX 200 as at 13 August 2018. The time period considered for this research was financial years ended between 1 July 2017 and 30 June 2018. This has resulted in 196 of the ASX 200 being included in our research.

The research findings are based on analysis of publicly available information only, and no information was submitted directly by organisations to KPMG.

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