



Analization of integrated financial reporting of company ABC annual report 2013 / 2014 in-line with international integrated reporting framework

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Abstract

This research was carried out based on integrated reporting practices of corporate sector business entities. Therefore, the integrated reports of company ABC that is listed in the stock exchange of a developing economy was selected to access the adequacy of disclosures in its reports comparing the check list which is developed according to the prescribe guidelines in the international framework for integrated reporting. Company ABC 2013 / 2014 annual report was used in this study. Though one company was used to carry out this research but this research is also beneficial to other listed firms because it will serve as a guide to them while doing the comparison checklist. This work is original and beneficial to different companies.

Keywords: integrated reporting practices, governance, international framework, corporate sector, business entities, intellectual capital, strategy, corporate performance and business model.

1. Introduction

Company ABC has being in existence since 1932. In order to get the analysis of this annual report right, some conceptual clarifications need to be undertaken. Such concepts are: International Integrated Reporting Framework and Creation of Value. Below are their definitions:

1.1 Integrated Report

According to International Integrated Reporting Framework (2013), an integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term. An integrated report should be designated, identifiable communication. An integrated report should be prepared in-line with the Framework. From the definition of integrated report, Creation of Value is a key phrase in it, which is the main purpose for the establishment of any business and the preparation of its annual financial report. An integrated report explains how an organization creates value over time. Value is not created by or within an organization alone. It is:

- Influenced by the external environment
- Created through relationships with stakeholders
- Dependent on various resources
- An integrated report therefore aims to provide insight about:
 - The external environment that affects an organization
 - How the organization interacts with the external environment and the capitals to create value over the short, medium and long term.

1.2 Creation of Value

Value Creation is the primary objective of any business entity. It is obvious that most successful organizations understand

that the purpose of any business is to create value for its customers, employees, investors, as well as its shareholders.

1.3 Value creation for the organization and for others

According to International Integrated Reporting Framework (2013), Value created by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs. That value has two interrelated aspects – value created for:

- The organization itself, which enables financial returns to the providers of financial capital
- Others (i.e., stakeholders and society at large).

2. Categories and descriptions of the capitals

There are six (6) categories of capitals analyzed in this annual report which are in-line with the International Integrated Reporting Framework. They are:

2.1 Financial Capital

According to Statement of Value Added, page 56 of Company ABC Annual Report, their pool of funds which is available to them for use in the production of goods or the provision of services is in-line with the international integrated reporting framework. According to Statement of Financial Position, page 76 and Statement of Cash Flows, pages 78-79 of Company ABC Annual Report, their pool of funds which is obtained through financing, such as debt, equity or grants, or generated through operations or investments is in-line with the international integrated reporting framework.

2.2 Manufactured Capital

According to Statement of Financial Position, page 76 of Company ABC Annual Report, they have manufactured capital which consist of buildings and equipment, which is in-line with the international integrated reporting framework.

2.3 Intellectual Capital

According to page 2 which contains the vision statement in the Company ABC Annual Report talks about the company making use of talented people, and page 7 of Company ABC Annual Report, the company is dully registered and is listed in the Colombo Stock Exchange of Sri Lanka and therefore has rights and licenses to operate, which is in-line with the international integrated reporting framework. Other points here according to page 53 of Company ABC Annual Report which is still in-line with the international integrated reporting framework are:

- Registering our brands and trademarks.
- Successfully obtaining patents for manufactured radial tyres.
- Furthering our Company ABC brand image through promotions and advertising.
- To protect ourselves against possible violations, fraudulent usage and infringements on the Group's copyrights.

2.4 Human Capital

According to the mission statement, page 2 of Company ABC Annual Report which talks of motivating the employees to function at their maximum level is in-line with the international integrated reporting framework. According to page 52 of Company ABC Annual Report, they project themselves as a human employer, successful in motivating, developing, retaining and attracting the best of human capital, which is in-line with the international integrated reporting framework. Some of the ways Company ABC company leads manage and collaborate are:

- Maintaining healthy relationships with trade unions through regular dialogue
- Entering into collective agreements with trade unions
- Improving employee benefits by way of financial incentives and welfare activities
- Improving the Human Resource function of the Group with regards to employee recruitment, performance appraisals and in-house as well as external training programs.
- And all the above points are in-line with the international integrated reporting framework.

2.5 Social and relationship capital

According to the mission statement, page 2 of Company ABC Annual Report which talks of the upliftment of the community while adhering to high ethical standards in business which is in-line with the international integrated reporting framework.

2.6 Natural Capital

According to page 3 of Company ABC Annual Report which shows the whole products of Company ABC and the sectors they belong to, shows the availability of Natural Capital which is in-line with the international integrated reporting framework.

3. Guiding Principles

Below are seven (7) guiding principles which are to be followed in analyzing this annual report which is in-line with the international integrated reporting framework. They are:

3.1 Strategic focus and future orientation

According to page 10 of Company ABC Annual Report, *Diversification* has being the strategy that the group perceives on, and in furthering this strategy, initiatives were taken to enter into healthcare sector of the country. Thus, the year witnessed the Group's investment in its least business venture, Company ABC Pharmaceuticals, which is operative in full-scale since April 2013. And how it relates to the organization's ability to create value in the short, medium and long term and to its use of and effects on the capitals are seen in the organization's special achievements, which is indicating yet another landmark in its endeavors, the Group launched its new finance company in April 2013, under the brand name of Company ABC Finance Limited. The Company has exhibited study performance during its short period of existence, exceeding the expectations of many. With this new advent, the Group has strengthened its presence in the financial services sector and is able to provide a range of financial solutions to its customers. All these are in-line with the international integrated reporting framework.

3.2 Connectivity of Information

From page 1 to the last page of Company ABC Annual Report shows a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time, which is in-line with the international integrated reporting framework. The connectivity of information and the overall usefulness of Company ABC integrated report is enhanced, logically structured, well presented, written in clear, understandable and jargon-free language, and includes effective navigation devices, such as clearly delineated (but linked) sections and cross-referencing, which is in-line with the international integrated reporting framework.

3.3 Stakeholder Relationships

From pages 51-54 of the Company ABC Annual Report, the company were able to identify some of the risks i.e. Risk Exposure, as well as developing and evaluating strategies to manage such risks (in a nutshell converting the risks into opportunities), which simply means Risk Minimization Strategies. With its relationship based strategy the Group has won te hearts and minds of 30,538 employees across 49 subsidiaries and thus the Group proudly rejoiced yet another year free of any industrial dispute that led to work stoppage. This is possible because value is not created by or within an organization alone, but is created through relationships with others, which is in-line with the international integrated reporting framework.

Materiality

This disclosed information about matters that substantively affect the organization's ability to create value over the short, medium and long term is stated in the annual report, which is also in-line with the international integrated reporting framework. Page 52 of Company ABC Annual Report, shows some of the material matters that substantially affect the ability of Company ABC to create value over the short, medium and long term. They are:

- Maintaining healthy relationships with trade unions through regular dialogue
- Entering into collective agreements with trade unions.
- Improving employee benefits by way of financial incentives and welfare activities.
- Improving the Human Resource function of the Group with regards to employee recruitment, performance appraisals and in-house as well as external training programs.
- To ensure a smooth flow of operations without any undue disruptions.
- To project ourselves as a human employer, successful in motivating, developing, retaining and attracting the best of human capital, which is in-line with the International Integrated Reporting Framework.

3.4 Conciseness

From page 1 to the last page of Company ABC Annual Report shows sufficient context to understand the organization's strategy, governance, performance and prospects without being burdened with less relevant information, shows the

conciseness of the report, which is in-line with the International Integrated Reporting Framework.

3.5 Reliability and Completeness

Since reliability is often referred to as faithful representation, pages 12-40. Other pages of Company ABC Annual Report proved that the annual report is reliable. According to the Chairman's Review in pages 8-11 of Company ABC Annual Report, it simply shows that the annual report is complete because it contains all material information, both positive and negative, which is in-line with the international integrated reporting framework.

3.7 Consistency and Comparability

According to Company ABC Annual Report page 6 which is Financial Highlights, page 54 which is Statement of Value Added, page 65 which is the Group Profits and page 66 which is Transactions with Related Undertakings, all shows these two (2) columns below:

2013/2014	2012/2013
Rs. '000	Rs. '000

The above columns means comparability and they have been consistent with it which is in-line with the international integrated reporting framework. Also page 74 which is Income Statement, page 75 which is Statement of Comprehensive Income, page 76 which is Statement of Financial Position and pages 78-79 which is Statement of Cash Flows, all have these columns below:

Table 1

Company				
Group	2014	2013	2014	2013
Notes	Rs. '000	Rs. '000	Rs. '000	Rs. '000

The above columns means compatibility and they have been consistent with it which is in-line with the international integrated reporting framework. Comparability of two (2) years i.e. 2013 and 2014 was majorly used in this annual report. Pages 98-108, 110-124, 126-127, 134-135, 138-139, also showed some comparative figures. Pages 136-137 showed the comparability summary of Company ABC for ten (10) years. The above are in-line with the international integrated reporting framework.

4. Content Elements

There are eight (8) content elements analyzed below. They are:

4.1 Organizational Overview and external Environment

Page 3 of Company ABC Annual Report displayed so many products that the company produces. They are: tyres, rubber, coffee, tea, plastics, mattresses, foams, mats, foot mats, cocoa, cushion and sheets, water tanks, furniture, PVC pipes, pillows and secretarial services, etc. the Company ABC Company operates under the conditions from the National Accounting Standard of Sri Lanka i.e. SLFRS (Sri Lanka Financial Reporting Standards, LKAS (Sri Lanka Accounting Standard)

as well as the International Integrated Reporting Framework. Page 2 of Company ABC Annual Report disclosed the *vision and mission statements* of the company, which spells out the:

- Culture, high ethical standards in business and values
- Ownership and operating structure
- Principal activities and markets.

Which are all in-line with the international integrated reporting framework.

4.2 Governance

From pages 57-62 of Company ABC Annual Report clearly shows their Corporate Structure supports its ability to create value in the short, medium and long term. This Company ABC corporate structure cuts across all its sectors which are: Rubber Sector, Tyre Sector, Plastics Sector, Retail Sector, Plantain Sector and Services Sector. Of which some of these sectors like Rubber Sector, Plantain Sector and Services Sector are into exporting, shipment and freight forwarding of some of their products. These business activities carried out by the six (6) sectors in Company ABC Company as mentioned above span from short to medium and to long term period which is in-line with the International Integrated Reporting Framework. Company ABC leadership structure,

including their: skills and diversity ranges from arts to sciences. According to pages 12-13 of Company ABC Annual Report, their Board of Directors which form part of their leadership structure are well schooled in their various field of study like Law, Engineering, Economics etc. as well as where they have worked before and attained managerial positions. They all come together under the umbrella of Board of Directors and contributing their own quota of their wealth of knowledge for the main purpose of creating value in the short, medium and long term, which is in-line with the International Integrated Reporting Framework. Company ABC creates value by improving employees' benefits by way of financial incentives and welfare activities. As well as improving the Human Resource function of the Group with regards to employees' recruitment, performance appraisals and in-house as well as external training programs. And this is linked to the effects on human capital, which is in-line with the international integrated reporting framework.

4.3 Business Model

The key business activities of Company ABC revolve round its six (6) sectors which are:

1. Retail Sector
2. Plantation Sector
3. Rubber Sector
4. Plastics Sector
5. Tyre Sector
6. Service Sector

The mission Statement on Page 2 of Company ABC Annual Report shows the internal outcomes, which are:

- Employees Morale
- Organizational Reputation,
- Revenue, and
- Cash Flows
- The external outcomes are:
- Customer Satisfaction
- Tax Payments
- Brand Loyalty
- Social and Environmental Effects

The above outcomes are centered on creation of value, which is in-line with the International Integrated Reporting Framework. Page 3 of Company ABC Annual Report shows the outputs i.e. products produced by them. Some of these outputs of Company ABC Company are: Tea, Coffee, Rubber, Furniture, Mats, Tank, Secretarial Services, Tyres, Pillows, PVC pipelines, etc. Risk management on Page 52 of Company ABC Annual Report talks about how Company ABC Company will prevent the causes that damage their reputation, and to also minimize the impact if, despite our best endeavours, a reputation crisis should occur. Corporate Structure which is page 57 of Company ABC Annual Report shows how Company ABC Company approaches the need to innovate by Tyre Retreading which is in-line with the International Integrated Reporting Framework.

4.4 Risk and Opportunities

Managing business and financial risks are fundamentally important in maintaining sustainable growth and making

steady progress towards the achievement of corporate goals and objectives. "Risk" being a factor which is not possible to "eliminate" completely, the Group ensures the "minimization" of risks by adopting various strategies for continuous reviewing of the Group operations. Various strategies are developed and implemented to achieve this goal.

According to pages 51 – 54 of Company ABC Annual Report, there are various Risk Exposure faced by Company ABC. They are:

A. Financial Risk management

1. Liquidity and Cash Management
2. Interest Rate Risk
3. Currency Risk

B. Business Risk Management p- under which there are

1. Credit Risk
2. Asset Risk
3. Internal Controls
4. Reputation Risk
5. Human Capital and Labour Risk
6. Technological Risk
7. Procurement Risk
8. Inventory
9. Risk of Competition
10. Intellectual Capital Risk
11. Capital Investments Risk
12. Information System Risk
13. Environmental, Political and Regulatory Risk
14. Underwriting Risk
15. Company ABC saw opportunities in the risk exposure, thereby creating Group Objectives and Risk Minimization Strategy, which is in-line with the international integrated reporting framework.

4.5 Strategy and Resource allocation

According to page 9 of Company ABC Annual Report, the company in the ensuing years wants to proceed with the strategy of selectively expanding its chain of Supercenters / Superstores in targeted areas of the country giving lifestyle shopping experience. And how the organization intends to get there is by allowing the Retail Sector to continue to be consistent in its performance through effective cost management and improvement in the quality of service rendered, which is in-line with the International Integrated Reporting Frame. The Plantation Sector embarked upon expanding its manufacturing operations for polyurethane, furniture and PVC products, thereby furthering its opportunities of reaping fruits in coming years and how they intend to do this by successfully improving both revenue and profitability in the product categories of mattresses, water tanks, PVC pipes and fittings in later part of the financial year.

4.6 Performance

Company ABC Company recorded a special achievement by indicating yet another landmark in its endeavors; the Group launched its new finance company in April 2013, under the brand name of Company ABC Finance Limited. The Company has exhibited study performance during its short period of existence, exceeding the expectations of many. With

this new advent, the Group has strengthened its presence in the financial services sector and is able to provide a range of financial solutions to its customers. Diversification has been the strategy that the Group perceives on, and in furthering this strategy, initiatives were taken to enter into healthcare sector of the country thus, the Pharmaceuticals, which is operative in full-scale since April 2013. Page 52 of Company ABC Annual Report shows the extent the organization has achieved its strategic objective for the period and its outcomes in terms of effects on the Human capital. For more insights on corporate performance, see (Nwokwu, Dharmadasa, & Rathnasingha, 2018; Nwokwu, Atapattu, & Azeez, 2019; Nwokwu, 2018; Nwokwu, Rathnasingha & Pradeep, 2019) [6, 5, 7, 4].

The extents are

- To ensure a smooth flow of operations without any undue disruptions.
- To project ourselves as a human employer.
- Successful in motivating, developing, retaining and attracting the best of human capital.

The outcomes are

- Maintaining healthy relationships with trade unions through regular dialogue.
- Entering into collective agreements with trade unions.
- Improving employee benefits by way of financial incentive and welfare activities.
- Improving the Human Resource function of the Group with regards to employee recruitment, performance appraisals and in-house as well as external training programs.
- All the above are in-line with the international integrated reporting framework.

4.7. Outlook or future outlook

The International Integrated Reporting Framework noted that strategies are to be readily available for an organization to achieve its future performance. According to page 10-11 of Company ABC Annual Report, initiatives were taken to enter into healthcare sector of the country, which is in-line with the International Integrated Reporting Framework that ordinarily highlights anticipated changes over time and provides information built on sound and transparent analysis, about: the organization's expectations, about the external environment the organization is likely to face in the short, medium and long term. How that will affect the organization is that, the year witnessed the group's investment in its latest business venture, Company ABC Pharmaceuticals, which is operative in full scale since April 2013. Below are some of the challenges and uncertainties the group various sectors passed through, and how they delivered opportunities of market positioning:

1. According to page 9 of Company ABC Annual Report, The Retail Sector holds growth potential, despite the challenges consistently thrown its way by the external environment. The sector persevered with its strategy of expansion (which forms part of the Company's Mission Statement of page 2, paragraph 4 of Company ABC Annual Report) by opening a large format retail outlet in Matara as well as by opening five more showrooms across the country. The challenge faced by this sector is

the imposition of value Added Tax (VAT) to retail businesses from January 2013 caused regulatory costs to increase, the sector continued to be consistent in its performance through effective cost management and improvement in the quality of service rendered.

2. The plantation sector was faced with many hardships during the year due to external factors. Firstly, the unfavorable weather conditions that prevailed during the first half of the financial year caused the tea and rubber output to decline considerably. Furthermore, the wage hike of 20% eventually affected the performance with the upward revision of gratuity provision. Additionally, rubber prices fell sharply during the year, severely affecting the revenue and the profitability yielded from the sector.
3. The plastics sector which is highly sensitive towards demand, mainly for water pumps, mattresses and tanks had to storm difficult conditions that prevailed in the market. However, the sector was successful in improving both revenue and profitability in the product categories of mattresses, water tanks, PVC pipes and fittings in later part of the financial year. Meanwhile, the sector embarked upon expanding its manufacturing operations for polyurethane, furniture and PVC products, thereby furthering its opportunities of reaping fruits in coming years.
4. It is noteworthy that the rubber sector, which consists of companies engaging in exporting value added rubber related products, indicated yet another year of strong performance despite numerous constraints posed by both the external and internal environments. Lower rubber prices and the increase in volumes of exports, coupled with new market/product development and efficient cost management assisted the sector in recording strong performance during the year. Fundamentals are now firmly in place and that it is poised to be taken off to the next level of operations.
5. The tyre sector remained consistent in its performance for the year under review. The sector was able to partner with Nexen, a world renowned global brand, witnessed a successful year promoting entire range of tyres to the Sri Lankan Market.
6. Services sector was further strengthened with the launch of the new finance company. Insurance arm of the Group has expanded its services to North & East regions and the rapid expansion experienced recently has made the insurance company to be competitive in the insurance industry. All the above are in-line with the International Integrated Reporting Framework.

4.8 Basis of preparation and presentation

How Company ABC determined what matters to include in the integrated report is through the risks they encountered in their day-to-day running of their business activities and how they were able to see opportunities amongst the risks, as well as opportunities elsewhere. According to pages 6, 56, 64, - 66, 74 - 79, 96 - 135, 138 - 139 and 140 of Company ABC Annual Report, it shows that Company ABC was able to quantify and evaluate the things that matter financially in table form, such as: Financial Highlights (page 6), Statement of

Value Added (Page 56), Annual Report of the Board of Directors page 65) -66), Income Statement (page (74), Statement of Comprehensive Income (page 75), Statement of Financial Position (page 76), Statement of Changes in Equity (pages 77), Statement of Cash Flows (pages 78-79), Notes to the Financial Statements (page 96 -1135), Shareholder Information (pages 138 – 139), Group Real Estate Portfolio (page 140), which are in-line with the International Integrated Reporting Framework. Financial Highlights (page 6), the Chairman's Review (pages 10 – 11), Financial Review (pages 46, 48 and 50) as well as the Ten Year Summary (pages 136 – 137) of Company ABC Annual Report also shows that Company ABC Company was able to quantify and evaluate the things that matter financially in chart forms, like Pie Chart, Bar Chart, etc. Risk Management on Pages 51 -54 of Company ABC Annual Report quantified and evaluated the things that matter in Company ABC Company in Tabular form. Corporate Structure on pages 57 – 62 of Company ABC Annual Report quantify and evaluate the things that matter in the six (6) sectors of Company ABC in Tabular Form, which are all in-line with the International Integrated Reporting Framework.

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