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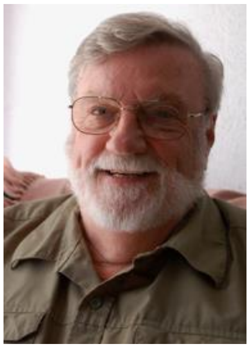


Gerald Trites, FCPA, FCA, CISA
Editor-in-Chief

Environmental, Social and Governance (ESG) Reporting has been in the spotlight for several years now. Although the terminology has largely moved to sustainability reporting, it still includes the Environmental, Social and Governmental elements. Much attention has been given to the environmental element and climate-related disclosures, but the others are important and still draw some attention from stakeholders. The social element is not widely understood, even though it has been part of the ESG disclosures from the beginning.

The Global Reporting Initiative (GRI), which has released the most comprehensive set of ESG standards so far, includes standards on Labor/Management Relations, Occupational Health and Safety, Training and Education, Diversity and Equal Opportunity, and Non-discrimination, among others with a social flavour.

These are important issues, and many of them relate to the issue of equality. It has been shown that inequality is at the root of most major social upheavals in history, as well as the social unrest currently evident in the US and some European countries. Thomas Piketty has focused on this issue effectively in his research, showing clearly how inequality has shown itself in the vast disparities in income among different groups, regions and countries, although as with anything else in current times, his work has been strongly politicized. Nevertheless, these issues of inequality must be dealt with, or eventually they will come back to bite us.

Inequality needs to be addressed by everyone, including individuals, governments, and companies, which brings us back to what companies can do about social issues.

It goes a lot further than disclosures, although ESG reporting is a start. It includes action on an ongoing basis. The concept of integrated reporting can be helpful. There is much talk in the Sustainability literature about integrated reporting needing integrated thinking, which integrates ESG into the ongoing strategy and management of an organization. This is a comprehensive idea, and, if fully thought through and implemented, can change the company and perhaps even the world.

The Connectivity Conundrum: (How) Will Integrated Reporting Fulfil Its Promise?

By Alan Willis, FCPA, FCA

Alan Willis, FCPA, FCA is an independent researcher, writer and advisor on corporate reporting and performance measurement outside the scope of financial statements, and the implications of such reporting for corporate governance and assurance. Since 1991, he has pioneered concepts, standards and practical guidance for sustainability accounting and reporting and, lately, for integrated reporting – in short, the transformation of corporate reporting.

The Promise

At an invited gathering of 200 or so people at St. James's Palace in London, December 2009, I was present for a bold announcement about a key step toward connecting financial and non-financial information in corporate reporting. In front of the Prince of Wales, hosting the event, and the assembled international summit of sustainability and financial reporting experts, Mervyn King, then chair of the Global Reporting Initiative (GRI), proclaimed how the Global Reporting Initiative (GRI) was going to collaborate with the Prince of Wales' Accounting for Sustainability project (A4S) in launching a new initiative to create what in 2010 became the International Integrated Reporting Council (IIRC). Warm applause! It seemed that at last there were serious prospects for helping companies to report on the connectivity between sustainability performance and financial results – how, sooner or later, the one affects the other and vice versa. A bridge was to be created between the silos of financial and sustainability reporting.[1]

At that time, the guidelines (now standards) developed by the GRI since 1997 – and already in widespread use around the world – aimed to help companies report to any interested party the impacts of their operations and outputs on the environment, economy and society. A4S had developed its Connected Reporting Framework in 2007 thanks to a call by the Prince to the accounting profession to create 21st century (not 19th century!) decision making and reporting systems – systems fit to respond to 21st century challenges and opportunities. The A4S Framework aimed to guide companies in connecting financial with non-financial information in order that they might:

- "Embed sustainability into decision-making, extending beyond an organization's boundaries to take into account suppliers, customers and other stakeholders
- Measure and link sustainability and financial performance
- Integrate sustainability into 'mainstream' reporting, both to management and external stakeholders."[2]

For some years, it had been widely apparent that financial statements alone no longer sufficed to present a complete and realistic view of a company's performance, either in terms of intangibles valued by capital markets or its use of (and impacts on) the environmental and social resources essential for its value creation process. As a corporate reporting model, financial statements were viewed by capital market users as useful but seriously inadequate – not "fit for purpose." Even when accompanied by a typical MD&A (or "Management Commentary," as the IASB called its 2010 Practice Statement) to provide additional context – the story behind the numbers one might say – the reporting model based on backward-looking financial statements lacked meaningful information to explain how a company creates value, its relationships with the other resources and systems it relies on to do so and its future prospects.

Long-term investors, such as pension funds and other providers of financial capital, had for some time, become hungry for a broader range of disclosures to supplement what financial statements and typical annual reports communicated. There was serious talk and emerging research about how environmental and social factors might have significant implications for a company's financial performance. Since around 2005, the acronym "ESG" had increasingly been used in the long-term investment community to denote the additional types of environmental, social and governance information they deemed material and, therefore, expected from companies as part of mainstream corporate reporting, not just as separate periodic sustainability reports for the benefit of stakeholders in general, which were often not available until long after financial reports were issued.

Earlier in 2009, meetings among key actors including A4S, the GRI and IFAC concluded that a new reporting model was called for to connect financial reporting with reporting on a company's impacts on the planet, people and the economy. Future financial system stability and genuine progress towards global sustainable development necessitated, among other things, a more comprehensive spectrum of connected information for all stakeholders, but especially for providers of financial capital and wise decisions about capital allocation. Inspired by the concept that a company is not only a complex system in itself, but also functions within a network of natural and man-made systems, the term "integrated reporting" had been chosen to characterize what might be expected in the design of a new reporting model.

Following the December 2009 announcement, the IIRC rapidly brought together an unprecedented coalition of experts from accounting bodies (including IFAC), investment, pension, corporate, sustainability, NGO and standard-setting backgrounds. Long story short: in December 2013, the International Integrated Reporting (<IR>) Framework was released worldwide with appropriate fanfare, incorporating wide feedback from an April 2013 Consultation Draft.

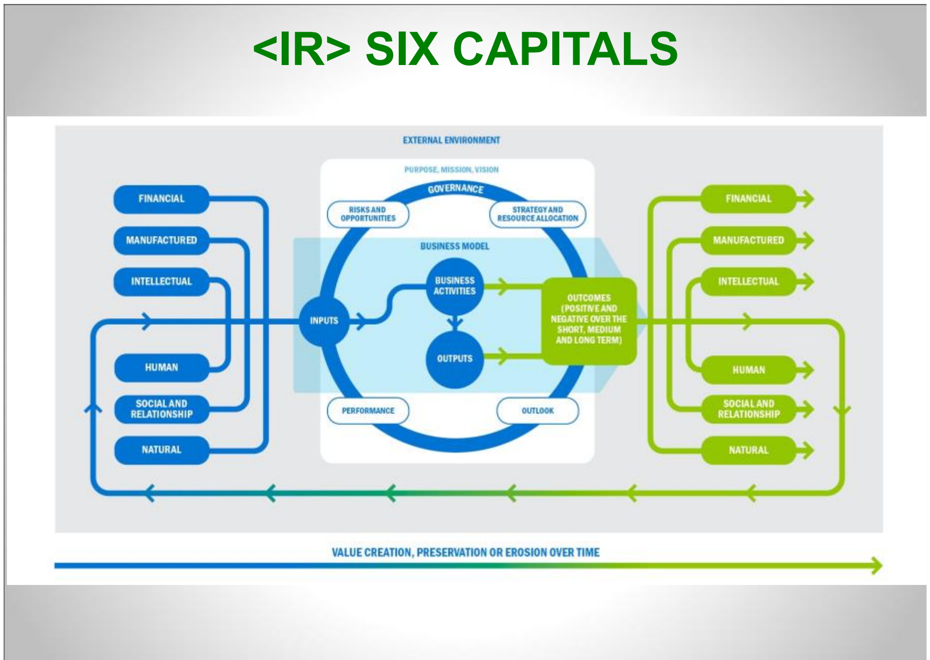
Key Features of the <IR> Reporting Model

The <IR> Framework was designed to be much more than just a list of new disclosure requirements to incorporate more information into existing (already lengthy) corporate financial reporting. It represents a *fundamentally new reporting model*, based not only on communicating value realized from past financial transactions, but also how an enterprise creates (or erodes) value, deploying not only financial capital but also five other connected types of resource or capitals, all of which are essential and depended on to create value for the providers of financial capital.

An integrated report was to present concisely a holistic view of how organizational value creation is achieved by companies, calling for them to measure and report on their use of and impacts on the capitals – human, natural, manufactured or man-made, intellectual, social and relationships – as well as their stewardship of financial capital. In other words, integrated reporting provides a multi-dimensional and forward-looking view of how value has been and may in future be created for providers of financial capital. In addition, it calls for companies to describe their business model and strategy for value creation within the broader context of factors in the external environment within which they carry on business, including the risks and opportunities they face and how these are managed. Finally, an integrated report is expected to communicate key features of governing body oversight of management and performance.

The <IR> Framework recognizes that more detailed disclosures, such as financial statements and sustainability reports, will continue to be produced for the benefit of various stakeholders who seek greater detail than a concise integrated report alone can usefully include. Sustainability reports provide disclosures that are typically of interest to a wider range of stakeholders than investors, but also may contain important signals to investors about matters that may sooner or later have an impact on a company's business model, its longer-term ability to create value, and its relationships with key stakeholders. The reporting challenge is to enable investors to readily spot such signals and assess their likely impact on financial performance and future value creation.

In short, integrated reporting as set out in the <IR> Framework clearly represents a whole new mindset and reporting model – one that is based on the concept of value creation, as distinct from the existing, one-dimensional reporting model of financial statements accompanied by various other disclosures to comply with requirements added piecemeal over time (notes to financial statements, MD&A, regulatory governance and compensation disclosures, plus other typical annual report content about operations, trends, etc.). The famous (!) "Octopus Diagram" in the IIRC <IR> Framework graphically portrays the notion of a new reporting model based on the capitals, and underpins the recommended "Content Elements" in the <IR> Framework:



“International <IR> Framework,” International Integrated Reporting Council (IIRC), January 2021.

New Reporting Model – New Mindset
As to the mindset necessary for integrated reporting, the Preface to the <IR> Framework emphasizes the importance of *Integrated Thinking* as a precursor to preparation of an integrated report. *Integrated Thinking* is defined in the Preface as “the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term.” The Preface goes on to state:

“Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organization’s ability to create value over time, including:

- The capitals that the organization uses or affects, and the critical interdependencies, including trade-offs, between them
- The capacity of the organization to respond to key stakeholders’ legitimate needs and interests
- How the organization tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces
- The organization’s activities, performance (financial and other) and outcomes in terms of the capitals – past, present and future.

“The more that integrated thinking is embedded into an organization’s activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision making. It also leads to better integration of the information systems that support internal and external reporting and communication, including preparation of the integrated report."

In other words, the integrated corporate reporting model set out in the 2013 IIRC's <IR> Framework (with minor revisions in January 2021) holds out the *promise* of enabling companies, specifically their CEOs, C-suites and boards of directors:

- First, to understand and think more holistically about how they create value and the risks to underlying resources, relationships and processes (insights which may enhance internal decision making).

- Second, to communicate a high-level (concise) picture of value creation, especially to providers of financial capital who seek more than just financial statements to understand and assess future prospects for value creation.

For many, if not most, boards of directors, CEOs and C-suites, adopting an integrated thinking mindset and grasping the key concepts of the new reporting model is a fundamental shift away from everything they have learned and practiced hitherto – certainly a challenge for many, but not insurmountable.

This challenge is all the greater so long as the existing corporate reporting model, related regulatory disclosure requirements, business schools and accounting education continue to reinforce the traditional narrow, uni-dimensional concept of financial performance and accountability to shareholders.

Fulfilment of the promise of integrated reporting depends very much on boards and executives as well as accountants and business advisors and, eventually, standards setters and regulators, overcoming the challenge of adopting an integrated thinking mindset and embracing the intuitively common-sense features of the integrated reporting model.

Prospects for Progress in Fulfilling the Promise – What's Going On?

Slow Uptake

So, how widely have corporations and capital markets adopted an integrated reporting model and, to a greater or lesser degree, the <IR> Framework? How many securities regulators, stock exchanges and corporate governance authorities or legislators have called for integrated reporting to be adopted as the primary or core reporting model, accompanied and supplemented by other disclosures, such as financial statements or sustainability reports?

Fact-based, up-to-date information about the extent of diffusion and uptake of integrated reporting and use of the <IR> Framework is hard to find, but a study commissioned in 2019 provided some useful but not very encouraging details.[3] Clearly the extent to which companies are providing integrated reports in some form or another, by some name or another, in accordance with the <IR> Framework or otherwise, is slow and limited to date, especially in

Canada and the US. Evidence of continuing upward momentum since 2019 is equally hard to find.

By contrast, provision of stand-alone (voluntary) sustainability reports and use of the GRI Standards for doing so is widespread globally and continuing to grow, especially among major public companies in many capital market jurisdictions, including Fortune 500 companies.[4] Uptake and use of the much more recent SASB Standards until 2021 had been steadily growing within the US and many other jurisdictions worldwide,[5] but may be on pause until the new ISSB standards are finalized and adopted and the future of the SEC's proposed rule on climate related disclosures is known.

To date, only one country in the world, South Africa, has enshrined integrated reporting in its official code for corporate governance, where, by adoption as a listing requirement on its stock exchange, integrated reporting has become mandatory. South Africa and the Johannesburg Stock Exchange are the pioneers and global leaders in this regard. Integrated reporting has been required for over a decade, with the full support of its accounting profession and South Africa's Institute of Corporate Directors in developing implementation guidance. One should note in passing that Professor Mervyn King was not only the architect of successive editions of South Africa's code of corporate governance, aptly named after him as the King Code (e.g., "King IV" for the latest), but was also chair of the GRI's Board in 2009 and the inaugural chair of the International Integrated Reporting Council, whose formation he had announced at St. James's Palace in December 2009.

From 2020 to date, we have witnessed a flurry of announcements about convergence and collaboration in the field of reporting frameworks, standards and other initiatives.

Slow uptake of the <IR> Framework and integrated reporting may be partly attributable to difficulties in overcoming the challenge of mindset shift highlighted earlier. Hesitation and reluctance on the part of boards and executives, as well as accountants, business advisors and, eventually, standards setters and regulators to adopt an integrated thinking mindset and new reporting model are likely to be impediments to the uptake of integrated reporting.

Overshadowed by Priority Focus on Investor Information Needs?

From 2020 to date, we have witnessed a flurry of announcements about convergence and collaboration in the field of reporting frameworks, standards and initiatives. These included the "Group of Five"[6] collaboration announcement in September 2020, followed in November 2020 by the announcement that SASB and the IIRC planned to merge, creating a new organization called the Value Reporting Foundation (VRF). Earlier, in July 2020, the SASB and the GRI had announced their intention to collaborate "in promoting clarity and comparability in the sustainability reporting landscape." To top all these was the Consultation Paper dramatically issued by the International Financial Reporting Standards (IFRS) Foundation at the end of September 2020. The consultation paper aimed to "assess the demand for global sustainability standards and what role the IFRS Foundation might play in their development." In particular, the IFRS Foundation proposed that it might establish a new Sustainability Standards Board (SSB) alongside the International Accounting Standards Board (IASB).

Sustainability Standards? "Inside Out" and "Outside In"!

A word or two about terminology are called for here. What the IFRS Foundation proposed was not in fact standards for assessing enterprise sustainability or contributions to global sustainability in the Brundtland sense of sustainable development that respects today the needs of future generations, nor of measuring enterprise contributions to the UN Sustainable Development Goals (SDGs), nor measuring and reporting on a company's social and environmental performance and associated external impacts relative to accepted planetary or societal limits and thresholds.

The IFRS proposal was to develop a single global baseline of standards for disclosures to accompany financial statements to inform investors' assessments of environmental, social and governance factors that now or in future will (or may) have significant impacts on financial performance and enterprise financial value creation. This is increasingly being referred to as an "outside in" perspective, in contrast to the "inside out" perspective of sustainability reporting over the last few decades – which focuses on a company's impacts on the planet, society and the economy.

Over time, it is possible, if not likely, that enterprise "inside out" impacts on the planet or society (and the capitals/resources on which it depends for business value creation) that are not currently deemed material in investors' eyes may eventually constitute significant "outside in" risks, threats or impacts on an enterprise's ability to create value and, thus, become considered material in the eyes of investors (as well as other stakeholders).

For example, enterprise GHG emissions ("inside out") are (in most parts of the world!) recognized as contributing to climate change and associated phenomena, a crisis-level threat not just to humanity but, in the longer term, to business itself ("outside in"). Indeed, to the extent that jurisdictional carbon taxes, emissions trading schemes and offset rules place a price on "carbon," GHG emissions are no longer unpriced externalities but take on bottom line consequences. Likewise, other externalities, such as sulphur dioxide or other air pollution by a company, or unacceptable waste disposal practices, may be merely "inside out" environmental and social performance phenomena disclosed in sustainability reports until government regulations, community pressures or international conventions cause companies to spend money on their reduction or elimination. At that point, they are accounted for in financial statements and, if material, become "outside in" concerns to investors.

Materiality to investors is thus a dynamic, not static, concept!

The term "Sustainability Standards," as used by the IFRS Foundation in proposing an (international) Sustainability Standards Board, must therefore be understood in light of the above clarification of terminology. Not even the esteemed IFRS Foundation would be so bold as to take on the task of developing genuine science-based global “sustainability” standards.

The IFRS Foundation proposal saw the new ISSB as building on the recommendations of existing investor-focused bodies such as SASB and TCFD rather than starting from scratch. It saw as a priority the development of a global standard for climate related disclosures, building on the TCFD recommendations.

Feedback on the IFRS Foundation’s proposal (and on a later 2021 proposal about associated IFRS Foundation constitutional matters) was overwhelmingly supportive. It paved the way for the IFRS Foundation's November 2021 announcement at COP26 that, in 2022, it would establish an International Sustainability Standards Board.[7] At the same time, the IFRS Foundation published prototypes for two future ISSB standards, one for climate-related disclosures and one about general requirements for disclosure of sustainability-related financial information. The prototypes led to the release of formal exposure drafts in March 2022, comments on which were due by end of July. Further, it was announced that the Value Reporting Foundation (SASB plus IIRC) was to be consolidated within the IFRS Foundation by mid-2022, along with the CDSB.

Meanwhile, in the US, the SEC had released for comment, in March 2022, a long-anticipated proposal for a new rule to enhance climate-related disclosures, the future of which is presently uncertain.

So, by May 2022, with so much attention being paid to the urgent matter of developing investor-focused global standards for climate-related disclosures and establishing the new ISSB, and so much attention being paid to SASB standards and the TCFD recommendations, it was not unreasonable to ask oneself about the future of integrated reporting and the <IR> Framework. Had the <IR> fallen by the wayside? Had it been overshadowed and lost in the flurry of other convergence developments? While clearly the SASB component of the VRF’s intellectual capital would be valuable input to the work of the new ISSB, what would happen to the IIRC and <IR> components of the VRF?

As if anticipating such questions, the IFRS Foundation announced, in May 2022, its intentions for the future path of Integrated Reporting.[8] In essence, upon consolidation of the VRF within the IFRS Foundation (finalized on August 1, 2022), the <IR> Framework became the intellectual property (“material”) of the IFRS Foundation, regarding which the chairs of IASB and ISSB are, we were told in May, to encourage continued adoption of the Framework. In particular, the chairs of IASB and ISSB are to undertake to work together on building the <IR> Framework into their respective boards’ standard-setting projects so as to enhance the Framework and related materials. The IFRS Foundation’s August 1 press release about VRF consolidation re-affirmed that “the ISSB and IASB actively encourage continued adoption of the <IR> framework to drive high quality corporate reporting.”

IASB's Practice Statement on Management Commentary

The May 2022 IFRS Foundation announcement about the future for integrated reporting recognized that there are similarities and differences between the IIRC's <IR> Framework and the IASB's Management Commentary, for which the IASB currently has a revision project to update its 2010 Practice Statement. The IASB issued an Exposure Draft of a revised Management Commentary Practice Statement in May 2021, with comments due by November 2021.

This is a topic I raised in my July 2021 blog for *ThinkTWENTY20*:

> "Now we come to two questions about this seemingly unstoppable march to global sustainability standards. The first question, a surprise in fact, is why in May the IASB issued for public comment (by November 2021) an Exposure Draft of its proposed new Practice Statement on Management Commentary (PSMC). MD&A is the North American equivalent of Management Commentary, intended to accompany and supplement financial statements in providing a more fulsome picture of a company's business – the story behind the financial statements, one might say. The unexpected feature is that, unlike the original Practice Statement issued by IASB in 2010, the Exposure Draft for the new version includes extensive recommendations for ESG disclosures to be included in various parts of a Management Commentary. The IASB does not consider MC as part of IFRS, so asserting compliance with IFRS does not require financial statements to be accompanied by MC.
>
> What is not clear is how the new MC would fit into the emerging standards landscape, in which it is expected that the new ISSB, under the umbrella of the IFRS Foundation (like the IASB), will issue investor-focused sustainability reporting standards, with a view to their IOSCO-supported adoption in worldwide jurisdictions. IOSCO never recommended the PSMC for adoption anywhere. Would future MC ESG disclosure recommendations align with ISSB sustainability standards or SASB standards? Would the Value Reporting Foundation recommendations for integrated reporting align with other elements of the new MC? It simply strikes one as strange that the IFRS Foundation, through the IASB, would issue this MC exposure draft at a time when momentum is building for ESG and sustainability disclosure standards to be set by the future ISSB. Perhaps this unexpected development will be clarified in due course."

Is it reasonable to believe, therefore, based on what the May and August 2022 IFRS Foundation announcements say about the future of integrated reporting, that the IASB and ISSB will collaborate to develop a new reporting standard for what might be a hybrid of Management Commentary and <IR> Framework, providing a connective reporting context for IASB IFRS-based financial statements and disclosures made under the future ISSB sustainability disclosure standards? Commenting on feedback on the 2021 PSMC Exposure Draft, an Agenda paper[9] for IASB's July 2022 meeting noted that:

> “Some respondents stated there is a need for an overarching framework for what was commonly described as ‘connected reporting.’ Some respondents advocated a greater alignment between the requirements and guidance being developed in the Management Commentary project and the Framework.”

The MC revision project seems to have been wisely placed in abeyance for the time being, while the IASB and ISSB and their staff assess the *status quo* and propose a new path forward. A future IFRS Foundation-sponsored Management Commentary developed jointly by IASB and ISSB, inspired and informed by the <IR> Framework, could be the answer to the connectivity conundrum, and ensure that the promise of Integrated Reporting, at least to providers of financial capital, is eventually fulfilled through adoption, with IOSCO support, in worldwide reporting jurisdictions.

One important practical consideration would be the location or placement of an MC/MD&A that includes ISSB-compliant disclosures within a company’s mainstream reporting package.

One important practical consideration would be the location or placement of an MC/MD&A that includes ISSB-compliant disclosures within a company’s mainstream (“general purpose financial”) reporting package, alongside the IFRS financial statements. Options for this are suggested in paragraphs 72 et seq of the IFRS Foundation’s March 2022 Exposure Draft “IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information”:

> “73. Sustainability-related financial disclosures could be included in an entity’s management commentary when management commentary forms part of an entity’s general purpose financial reporting. Management commentary complements an entity’s financial statements. It provides insights into the factors that have affected the entity’s financial performance and financial position and the factors that could affect the entity’s ability to create value and generate cash flows. Management commentary can be known by or incorporated in reports with various names, including management’s discussion and analysis, operating and financial review, integrated report and strategic report.”[10]

At present, however, the IASB Practice Statement on MC is not part of International Financial Reporting Standards, so it might need to be elevated to the status of a standard in order for an MC that contains ISSB-based disclosures to be a required report alongside financial statements.

In jurisdictions like Canada, where the MD&A is already a regulatory disclosure requirement, it might even be possible to replace the existing CSA MD&A disclosure requirements in NI 51-102 with the new IFRS Management Commentary standard. And Canada’s new Sustainability Standards Board would presumably play a useful role in shaping both the ISSB/IASB collaborative work and, with IOSCO support, influencing Canadian securities regulators to adopt the new international MC/<IR> standard. As to the future adoption by the SEC of such a standard to connect financial and sustainability reporting within an integrated reporting mindset – maybe not very soon!

Stepping Stones for Connectivity: One Step Further to Achieve the Full Promise of <IR>?
Consider the following:

> "The Integrated Report provides an integrated, system, perspective of the organization and it is from this perspective that additional details can be sought, such as financial and sustainability information according to, for example, the IASB and ISSB". *Mervyn King*

> "The International Integrated Reporting Framework provides the strategic context and framework for global efforts to develop standards and ensures alignment between internal thinking and external reporting." *A. Johnson, President, IFAC*

These are excerpts from a short paper entitled "Stepping Stones for Connectivity in Financial and Non-Financial Corporate Reporting," by Mervyn King, published by IFAC in July 2022 and from the proceedings of the 7th. Colloquium of the Good Governance Academy on which Professor King based his paper. Together, these sources discuss from various speakers' perspectives many of the convergence issues and initiatives I have touched on above regarding the future role and path for Integrated Reporting and the ISSB. Indeed, in many places, this material amplifies and reinforces points I have raised earlier. I cannot recommend too highly that readers of my short commentary take a few extra minutes to read the IFAC "Stepping Stones paper,"[11] and the nine short papers in the Colloquium proceedings.[12]

As noted earlier, there now seem to be promising signals from the IFRS Foundation that it expects the IASB and IISB to cooperate in applying integrated reporting and the <IR> Framework to connect IFRS-based financial statements with sustainability disclosures material to investors as called for by IISB standards, perhaps in conjunction with revisions to the Management Commentary Practice Statement. After all, the <IR> Framework explicitly states that providers of financial capital are envisaged as the intended primary users of integrated reporting according to the Framework.

In hindsight, I question the need for this focus on the needs of providers of financial capital (investors and lenders in particular). Perhaps integrated reporting should be of equal importance and usefulness to all stakeholders who seek a holistic understanding of how an enterprise creates value and the associated impacts of the company, its products and services on the enabling natural, human and other capitals.

In my March 2022 blog for *ThinkTWENTY20*, I asked "will the ISSB provide global standards for sustainability reporting to all stakeholders about an organization's impacts on the environment, society and economies, or its contributions to the UN SDGs?" My answer was "Doubtful." However, among the Colloquium proceedings quoted above there is a clear statement by the CEO of the GRI, Eelco van der Enden:

"The system is not that difficult from a conceptual standard-setting perspective. It is not an alphabet soup. The answer is simple, the ISSB standards provide an 'outside-in' perspective (reporting on the environmental and social impacts on the company) and the GRI standards provide an 'inside-out' perspective (reporting on the impact of the company on society and the environment). These are two sides of the same coin and together provide the intended holistic view." *E. van der Enden, CEO, GRI*

So, a possible future, broader and higher level role for Integrated Reporting based on the <IR> Framework – one step further! – would be for it to serve as the overarching contextual connectivity link or nexus between, on the one hand, "inside out" sustainability reporting to all stakeholders based on GRI-developed standards about a company's impacts on the environment, society and economy and, on the other hand, the two-part enhanced reporting package for investors, comprising the IFRS financial statements (and notes thereto) accompanied by a modified Management Commentary incorporating ESG disclosures called for by ISSB standards.

The overarching Integrated Report based on the IIRC's <IR> Framework would be designed to benefit all types of stakeholders, not just investors.

The latter would be "outside in" perspective standards, and possibly include some more detailed aspects of the overarching Integrated Report deemed important to investors, such as those concerning governance, external conditions, business model and the capitals. If, as is possible, the ISSB standards are modelled on the TCFD architecture (pillars) of governance, risk, strategy and metrics and targets, it will be important to ensure alignment and avoid repetition between what is disclosed in the overarching Integrated Report and what may be disclosed in the Management Commentary by the incorporation of ISSB standards. Elements of the existing Management Commentary Practice Statement that are addressed in the overarching Integrated Report would be omitted from the modified future Management Commentary. The devil will be in the details!

In such a scenario, the overarching Integrated Report based on the IIRC <IR> Framework would be designed to benefit all types of stakeholders, not just investors, with concise, high-level disclosure of matters that provide context useful both to users of sustainability reporting and users of the investor reporting package.

In addition to the May and August IFRS Foundation announcements noted earlier, there are other encouraging signs that the necessary discussions about the future role of <IR> and Management Commentary will occur before too long within the context of consensus as to a workable architecture for the future reporting landscape.

In my March 2022 blog, I wrote that I was pleased that, in January 2022, the GRI had reaffirmed its commitment to a two-pillar reporting landscape for financial and core sustainability reporting. "Pillar 1 – addressing financial considerations through a strengthened financial report which includes sustainability disclosures in the context of enterprise value" (the focus of the ISSB), and "Pillar 2 – concentrating on sustainability reporting focusing on all external impacts a company is having on society and the environment" (the focus of the GRI), which thereby shows its contributions (positive or negative) to sustainable development, the UN SDGs and the possibility for future generations to thrive on a livable planet."[13]

It was even more encouraging to read, in March 2022, that the GRI and IFRS Foundation had just announced their agreement to cooperate in their standard-setting activities and work programs, and take part in each other's consultative bodies.[14] Clear, strong signals from the respective leaders on signing the MoU augured well for the future:

> "At COP26 we heard strong support for consolidation in the sustainability reporting landscape. The work of the ISSB and its global baseline concept will help deliver this objective for the capital markets, whilst this agreement with GRI will help ensure capital market standards are developed in a way that minimises reporting burden for those companies also using GRI Standards." *Erkki Liikanen, Chair of the IFRS Foundation Trustees*
>
> "The MoU between GRI and the IFRS Foundation is a strong signal to capital markets and society that a comprehensive reporting system, which combines financial and impact materiality for sustainability reporting, is possible on a global scale. Aligning GRI's established and widely adopted standards for sustainability impacts with the investor-focused standards being developed by the ISSB will benefit both companies and investors, as well as a wide range of stakeholders around the world." *Eelco van der Enden, CEO of GRI*

IFAC, too, has envisaged a two-part "Building Block" approach for the future reporting landscape that aligns closely with what this article says about how the landscape needs to evolve.[15]

Indeed, I have suggester scenarios such as a "two bundle reporting package" (for sustainability report users and for investors, respectively)[16] and an "overarching integrated report" in earlier *ThinkTWENTY2*0 blogs.

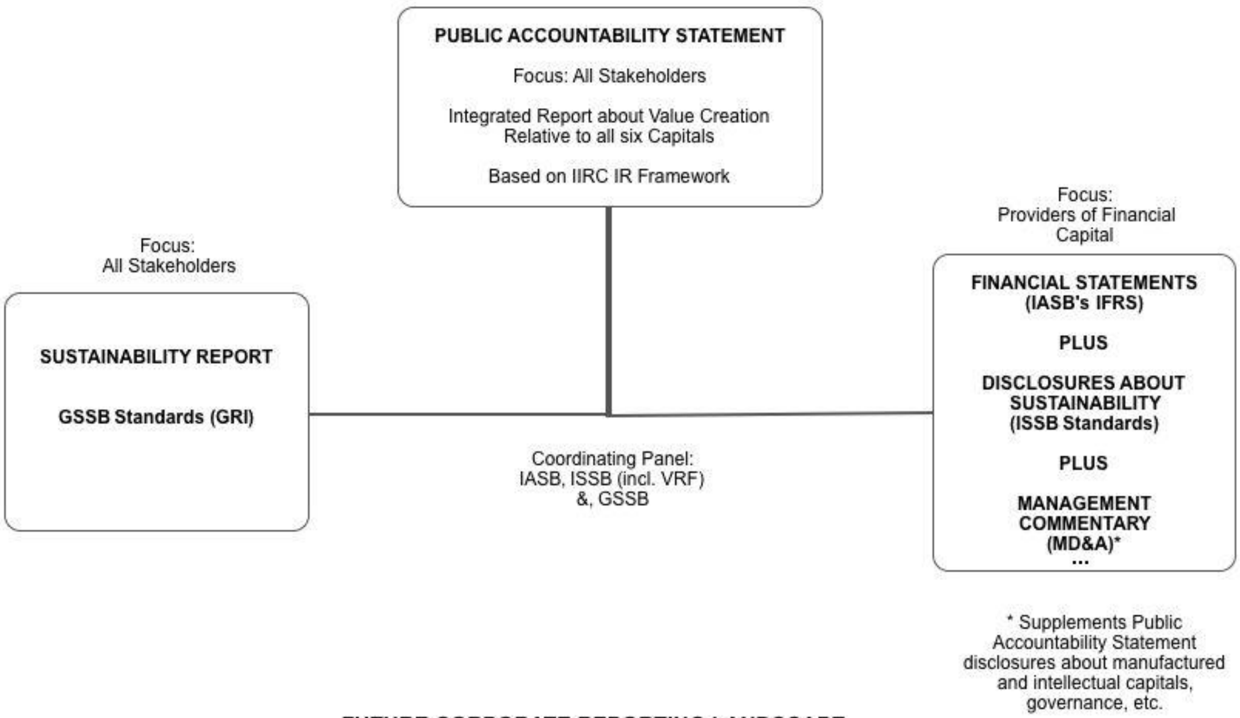
In May, 2022, I proposed an overarching "Public Accountability Statement" as the "connecting cornerstone for the two broad reporting streams and building blocks to address, respectively, the needs of all stakeholders and of providers of financial capital (investors).[17]

"This …. would focus on the interests of all stakeholders, not just providers of financial capital. It would provide high-level common context for both of the streams and building blocks…. based largely on the International Integrated Reporting Framework, which is overseen by the Value Reporting Foundation, now a component of the ISSB. It would be mandatory by law or regulation in all jurisdictions where limited liability companies are chartered."

In conclusion, I added that words by Mervyn King need to be repeated:

"The IR framework has been tested over the last 10 years and its efficacy and resilience as an overarching framework connecting the financial and the non-financial has been proven."[18]

I portrayed my proposal in the following diagram (created before the idea of placing ISSB disclosures within Management Commentary had occurred to me as a serious possibility):



FUTURE CORPORATE REPORTING LANDSCAPE

A Final Word (or Two)

In January 2022, I wrote that "I believe it is critically important that the proponents for, and participants in, the work of both these pillars (building blocks) understand and respect the vital need for both types of reporting and collaborate, whenever the need arises, to promote sustainable business hand-in-hand with sustainable finance."[19]

And, for any of the challenges and possibilities flagged in this article to be meaningfully considered and explored, never mind realized, it will be essential that all members and staff of both the IASB and the ISSB first receive a solid orientation about integrated thinking, integrated reporting, the <IR> Framework and basic systems-thinking principles, as well as a refresher in sustainability (sustainable development) concepts, realities and terminology (as distinct from confusing "outside in" ESG noise).

Thanks to convergence and collaborations unimaginable a few years ago, we, and in particular the IFRS Foundation, the GRI, the investor community, the accounting profession, business enterprises and regulators, are now embarking on a project that should fundamentally change corporate reporting as it has been known for decades, if not eons.

Fulfilment of the <IR> promise, i.e., continuing refinement and implementation of a new corporate reporting model, can certainly occur, but it will demand fresh mindsets, creativity, multi-stakeholder engagement, multiple perspectives and much unprecedented collaboration to solve the connectivity conundrum. We owe it to future generations to get on with it – fast!

End Notes

[1] Disclosures: I attended the London meeting as official representative of the Canadian Institute of Chartered Accountants, and became a member of the IIRC Working Group convened in 2010. Earlier, I had served on the founding Steering Committee of the GRI from 1997 to 2002.

[2] From description of the Routledge 2010 book *Accounting for Sustainability – Practical Insights*.

[3] https://www.integratedreporting.org/news/evidence-that-the-momentum-phase-is-taking-off/ and https://www.iasplus.com/en/news/2019/08/integrated-reporting-study.

[4] https://home.kpmg/ca/en/home/insights/2020/12/the-time-has-come.html.

[5] https://www.sasb.org/about/global-use/#company-use.

[6] CDP (formerly Carbon Disclosure Project), Climate Disclosure Standards Board, Global Reporting Initiative, International Integrated Reporting Council, Sustainability Accounting Standards Board.

[7] https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes//.

[8] https://www.ifrs.org/news-and-events/news/2022/05/integrated-reporting-articulating-a-future-path//.

[9] https://www.ifrs.org/content/dam/ifrs/meetings/2022/july/iasb/ap15-management-commentary-project-update-for-posting.pdf.

[10] https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf.

[11] https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/stepping-stones-connectivity-financial-and-non-financial-corporate-reporting.

[12] https://goodgovernance.academy/7th-colloquium-connectivity/.

[13] https://www.globalreporting.org/media/ervdeb02/gri-perspective-business-case-for-environment-and-society.pdf.

[14] https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/.

[15] https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/enhancing-corporate-reporting-sustainability-building-blocks.

[16] https://thinktwenty20.com/docs/Enhancing_Relevance_IFAC.pdf.

[17] https://thinktwenty20.com/index.php/757-new-special-issue-on-corporate-reporting.

[18] http://eifrs.ifrs.org/eifrs/comment_letters//591/591_29173_MervynKingIndividual_0_IFRSManagementCommentaryletter.pdf.

[19] https://thinktwenty20.com/index.php/700-great-expectations-what-s-in-store-for-2022-in-the-esg-and-climate-reporting-landscape?

The Impact of the Work of Legislative Auditors

Carol Bellringer, FCPA, FCA
President & CEO, Canadian Audit & Accountability Foundation

The role of auditor general was introduced in Canada in 1878, and tracing the history of legislative auditor offices across Canada will take you on a journey of discovery. The role has evolved from keeper of the books to today's independent source of objective evidence to hold governments accountable for all results, not just financial.

Today's legislative auditors have added performance auditing to the more traditional financial statement audit role. Topics are vast, including everything from the adequacy of information technology controls to grizzly bear management in British Columbia.

Legislative Performance Auditing – Broad Scope, Wide Perspective
As an example of the broad scope and complexity of performance audits, from 2015 to 2018, provincial auditors general partnered with the federal Commissioner of the Environment and Sustainable Development, through the Office of the Auditor General of Canada, to undertake audits of climate change adaptation and mitigation. Separate audit reports were issued and culminated in a collaborative report on perspectives on climate change action in Canada. While it is only recently that attention is being paid to ESG (environmental, social, and corporate governance) audits in the private sector, the public sector has been looking at aspects of ESG for many years.

Performance auditing was once called "value-for-money auditing," and was designed to look at the economy, efficiency and effectiveness of government spending.

In fact, legislative performance auditing has been conducted for more than 40 years in Canada. Performance auditing was once called "value-for-money auditing," and was designed to look at the economy, efficiency and effectiveness of government spending. In 1977, the Auditor General Act added performance auditing to the mandate of the Office of the Auditor General in Canada. Over the following years, a similar mandate was granted to provincial auditors general and to the auditors general of several large municipalities including Montreal and Toronto. (The City of Vancouver hired its first auditor general in 2021.) And now the original 3 Es – economy, efficiency and effectiveness – often find themselves beside additional Es, being environment, ethics, equality and equity.

While performance audits often catch the media's attention, be careful to read the reports themselves rather than rely on the headlines. For example, the word "slams" appears far too often in the headlines, yet I was unable to find the word in any of the related audit reports. Audit reports use carefully chosen language to state the facts and avoid sensationalizing the situation found. While it was reported that “the auditor general slams government for poor grizzly bear management,” the 73-page report concluded that “government does not have an adequate management framework for grizzly bears.”

Today, all provincial legislative audit offices publish performance audit reports at least once a year, as do a number of municipal audit offices. The trend of expanding public sector performance audit activities that began four decades ago is continuing. For example, a law adopted in Quebec in 2018 expanded the mandate of the Quebec Municipal Commission to include responsibilities for conducting performance audits in municipalities with populations between 10,000 and 100,000. Globally, performance audits are conducted all around the world, although they are in various stages of maturity.

The Meaning of “Audit”

The word “audit” is widely misunderstood by members of the public and even legislators. In part, this is due to confusion between financial and performance auditing. Traditional financial statement audits are still part of the mandate for federal and provincial auditor general offices. Most municipalities hire public-sector accounting firms for their financial statement audits, although the Auditor General for the City of Montreal issues a financial statement opinion jointly with an external auditor.

The word “audit” is widely misunderstood by members of the public and even legislators, partly because of the confusion between financial and performance auditing.

But the misunderstanding is caused by more than simply the difference between financial statement audits and performance audits. Primarily, it is caused by the use of the word “audit” in conversation without context. There is a big difference in everything from the design, to the standards applied, to the report produced, depending on the type of audit. Google the word audit and you will find websites describing everything from three types of audits (external, internal and tax audits) to descriptions of 15 types of audits that add financial, operational, compliance, information system, payroll, pay, integrated, forensic, statutory, value for money, agreed-upon procedures, as well as special audits, to the list. Although Canada’s legislative auditors do more than financial statement and performance audits, those two forms of audit are by far the most common.

It is also important to understand where audit reports fit within the accountability triangle. As the following diagram shows, the role of the auditor is only one of the three major elements in the triangle. The two other roles are management, which is the responsibility of government, and oversight. Oversight is conducted by a Public Accounts Committee at the federal, provincial and territorial levels of government and by an Audit Committee or full City Council in municipalities.

Advancing Public Sector Accountability

The Canadian Audit and Accountability Foundation (CAAF) has been working for over 40 years to advance public sector accountability. CAAF works closely with both auditors and oversight committees to share knowledge and contribute to capacity building. Recently, CAAF joined the Canadian Council of Legislative Auditors and the Canadian Council of Public Accounts Committees in a meeting in Ottawa to discuss matters of mutual interest. The conference included a variety of business sessions on topics such as: Putting Pressure on Recurring Issues: What are the root causes and what can be done about them?; Accountability and Political Change; Maintaining the Relevance of the Auditor General's Office; and Studying the Public Accounts. Much of the conversation seeks to explore ways to increase the impact of legislative auditors' work.

CAAF issued a discussion paper in 2019 on *The Impact of Performance Audits – Defining, Measuring, and Reporting Impact.* At that time, CAAF estimated that legislative audit institutions in Canada have a combined annual budget of more than $200 million, of which more than $75 million is dedicated to performance audit activities. From the level of spending and the trend of expanding performance audit activities, the discussion paper concluded that there is continuing interest in performance audit activities in Canada's public sector and that significant sums of taxpayers' money will continue to be spent on these activities for the foreseeable future. The paper also concluded that it is fair for governments, legislators, auditors, and citizens in general to ask what value is obtained from this investment and whether performance audits generate positive results.

This article will now summarize the discussion paper. Refer to the [full document] for further information about each of the highlights below.

CAAF's discussion paper explores three main questions:

1. What is meant exactly by "impact"?
2. How can impact be measured and reported?
3. How can auditors increase the impact of their performance audits?

The discussion paper drew on various sources of information, including academic papers, guidance documents, annual reports, websites and news reports, as well as interviews with senior performance auditors. The research conducted to support the paper was based on a review of Canadian and international academic literature published over the previous 25 years, as well as a review of annual reports from 2017 and 2018 published by audit institutions in Canada and other countries. The authors conducted semi-structured interviews with 34 senior representatives of municipal, provincial, and federal audit institutions in Canada, the United Kingdom and the United States.

One study found that audit teams that demonstrated openness and fluid communications with auditees likely strengthened the impact of their audits.

After researching these three questions, the paper includes details and highlights answers to each area as follows:

1. What Kind of Impact?

Value and impact:

a. Audit institutions have inherent value because they foster good governance, accountability, transparency, and trust in public administrations.
b. In addition to their role as accountability officers, many audit institutions see themselves as agents of change and seek to "have an impact."
c. In an auditing context, "impact" means a change in the public service or society resulting from a performance audit.

Impact in theory and practice:

a. Measuring the wider impact that audit institutions have through their performance audits is inherently difficult because it is challenging to separate their contributions to specific outcomes from the contributions of other stakeholders.
b. For this reason, audit institutions tend to measure their impact at the level of individual audits rather than at the level of the practice as a whole. This means that much focus is placed on monitoring the implementation of audit recommendations.
c. Audits can potentially have negative effects, but few studies have examined this question to determine whether this happens in practice.
d. Multiple internal and external factors can influence the impact of performance audits.

The views of Canadian performance auditors on impact:

a. For a majority of interviewees, making a difference is an important objective of their work.
b. All auditors interviewed acknowledged that audits often put the spotlight on important issues and create an opportunity for debate to take place and change to happen.
c. Auditors indicated that it is often difficult to measure and document audit impact.
d. Interviewees recognized that leveraging the media could increase the impact of an audit but that it is not by any means an absolute requirement for having an impact.

The paper includes a discussion on the factors that can influence the impact of performance audits. The following table presents a simplified model in which factors that can influence the impact of a performance audit are divided in two categories: internal factors, which relate to the audit process and on which auditors have much control, and external factors, which are characteristics of the social and political environment in which auditors work and over which they have only limited influence or no influence at all.

Factors That Can Influence the Impact of a Performance Audit

Internal Factors (Audit Process)	External Factors (Environment)
▪ Audit topic selection ▪ Reputation and credibility of the office ▪ Relationships with the auditees ▪ Expertise of the auditors ▪ Quality of the audit reports ▪ Relevance of the audit recommendations ▪ Efforts to disseminate the audit findings ▪ Follow-up mechanisms	▪ Actions and expectations of Parliamentarians ▪ Media and stakeholder engagement ▪ Willingness to make changes within audited organizations; tone at the top ▪ Political will ▪ Timing of the audit ▪ Timing of policy reforms ▪ Other events competing for public attention ▪ Expectations of citizens for change

Several studies have particularly highlighted the importance of the relationship between auditors and auditees. According to Jane Etverk, *Measuring Performance Audit Effectiveness: The Case of Estonia* (2002), the quality of this relationship is crucial in determining whether the audited body will accept an audit's recommendations. Danielle Morin, in *Measuring the impact of value-for-money audits: a model for surveying audited managers* (2004), found that audit teams that demonstrated openness and fluid communications with auditees likely strengthened the impact of their audits. Conversely, if auditors behaved like inquisitors, there was greater risk that their efforts would yield no result. Katrien Weets's *Impact at local government level: a multiple case study* (2011) similarly found that a lack of empathy for the auditees could be detrimental to an audit team's efforts to drive change through its audit work.

One of my favourite audit books was written in 1981 by Sonja Sinclair who describes the role of the federal Office of the Auditor General. Its title stood the test of time and was a message I often repeated to all staff and reminded myself of: *Cordial but not Cozy: A History of the Office of the Auditor General*. Along with the need to have an open, empathetic relationship between the auditee and the auditor comes the responsibility of remaining impartial, unbiased, and independent.

Another important element to note is the role of the Public Accounts Committees (in federal and provincial jurisdictions) and the Audit Committee in municipalities (sometimes an oversight role exercised by City Council as a whole). When these committees adopt good practices and review performance audit reports in a non-partisan manner, they can significantly increase the impact of audits by holding government to account for implementing audit recommendations.

2. How to Measure and Report Impact

How audit institutions measure and report their impact:

a. Audit institutions can use a range of performance indicators to measure the impact of performance audits, including statistics about recommendations and estimates of savings or additional revenues resulting from the audits.
b. The common performance indicators used to measure quantitative impact vary in terms of their usefulness or intrinsic value.
c. Audit offices can also report on the impact of performance audits by providing qualitative information such as case studies and examples of the concrete impact of audits on audited programs.

How Canadian audit institutions report their impact:

a. The performance indicator most commonly used by Canadian audit institutions is the percentage of audit recommendations implemented.
b. There are limited instances of reporting on the financial impact of performance audits. Conflicting priorities, resource considerations and availability and quality of information limit audit institutions' capacity to report on financial impact.
c. Over time, net progress has been made by Canadian audit institutions in reporting on the impact of their performance audits, but efforts in this direction have been uneven.

How to improve the reporting of audit impact:

a. There are many strategies to improve the reporting of audit impact. In fact, these strategies are most effective when they are used together.
b. Increasing transparency is the cornerstone of good performance reporting. Effective use of technology and balanced reporting can magnify the transparency of an audit office.
c. Improving information presentation is a recognized approach to ensure that impacts are well communicated. Many good practices could be replicated.
d. Measuring financial impact is one way to demonstrate vividly the impact of performance audits. Although fraught with challenges, it has been done successfully by a few offices.

e. Using narratives to report qualitative information is another effective way to broaden and improve reporting on audit impact.

The role of the oversight committee cannot be emphasized enough in making sure that audit reports result in positive impacts.

Based on research, CAAF proposed 10 good practices to help audit institutions better demonstrate the value and impact of performance audits. While it may not be possible for all offices to adopt all the practices in the table below, they can consider which ones would enable them to have a balanced approach. Such an approach should tend toward a mix of quantitative and qualitative as well as financial and non-financial information, with both aggregate statistics and illustrative examples.

Ten Good Practices That Audit Institutions Can Adopt to Better Demonstrate Their Value and Impact

Practices
1. State the immediate, intermediate, and ultimate outcomes that are expected to result from the office's performance audit practice as a whole. 2. Set value-added objectives for each performance audit during the planning phase. 3. When possible, ensure that pre-report impacts are captured either in the audit report or in the audited organization's response to the audit recommendations. 4. Report annually on the percentage of implemented audit recommendations, using a consistent approach over time. Also provide a breakdown of this information at the departmental level. 5. Report on recommendation implementation trends over the years and explain any variance observed. 6. Increase transparency by making a searchable database of recommendations and their implementation status available online. Specify whether the information in the database has been reviewed or audited by the audit office. 7. Use case studies and narratives based on qualitative information to report notable audit impacts. 8. Where feasible and relevant, report the financial impact of performance audits. 9. Report on the extent to which auditees and the members of Public Accounts Committees see value in performance audits by disclosing the results of post-audit surveys. 10. Conduct surveys of audit impact several years after the completion of selected audits and report the findings of these surveys. Where feasible, link the findings back to the office's expected outcomes for performance audits.

3. How to Increase Impact

The actions that Canadian audit institutions are taking to increase their impact:

a. Increasing transparency of long-term audit plans and engaging stakeholders in their preparation can make them more relevant.
b. Establishing and maintaining good relationships between auditors and auditees can contribute to more impactful audits.
c. Reaching wider audiences can be achieved by leveraging social media, producing audit reports that are easier to read and understand and, when possible and appropriate, publishing them more frequently.
d. Conducting more rigorous and frequent follow-ups increases the likelihood that audit recommendations will be fully implemented and lead to positive changes.

The role of the oversight committee cannot be emphasized enough in making sure that audit reports result in positive impacts.

I will leave you with the following quote – which you may be surprised to read was at the start of an audit report issued in 1993 by the Auditor General of British Columbia – perhaps it captures the challenge all auditors face in getting oversight committees, the media and the public to read their reports. But perhaps it is also an enticement for them to do so.

"If you think … that anything like a romance is preparing for you, reader, you were never more mistake. Do you anticipate sentiment, and poetry, and reverie? Do you expect passion, and stimulus, and melodrama? Calm your expectations, reduce them to a lowly standard. Something real, cool and solid lies before you, something unromantic as Monday morning, when all who have work wake with the consciousness that they must rise and betake themselves thereto." Charlotte Brontë

Cleaning and Maintaining Data Assets for Sustainability and Resiliency

By Mark O'Connor, CPA, CMA

Mark O'Connor has solid experience in designing business systems, processes and data. He is a contributor to change management by communicating Information strategies and tactics, designing business capabilities, and facilitating transitions to secure digital processes.

Data has become the heart and soul, of almost all enterprises, whether they be commercial or public sector. Enterprise Data Repositories hold, among other things, the customer data flowing through an organization's systems. Many enterprises and institutions are weaving data into the fabric of their strategies, some by adding to their C-suite through establishment of a Chief Data Officer (CDO), or by strengthening the maintenance of their data assets and by showing interest in democratizing data.

Information and data are incredibly powerful. Information is known to profoundly impact and move markets. It can, as well, exploit people's thoughts and fears of pain and pleasure or to benefit or adversely affect people's well-being and motivation.

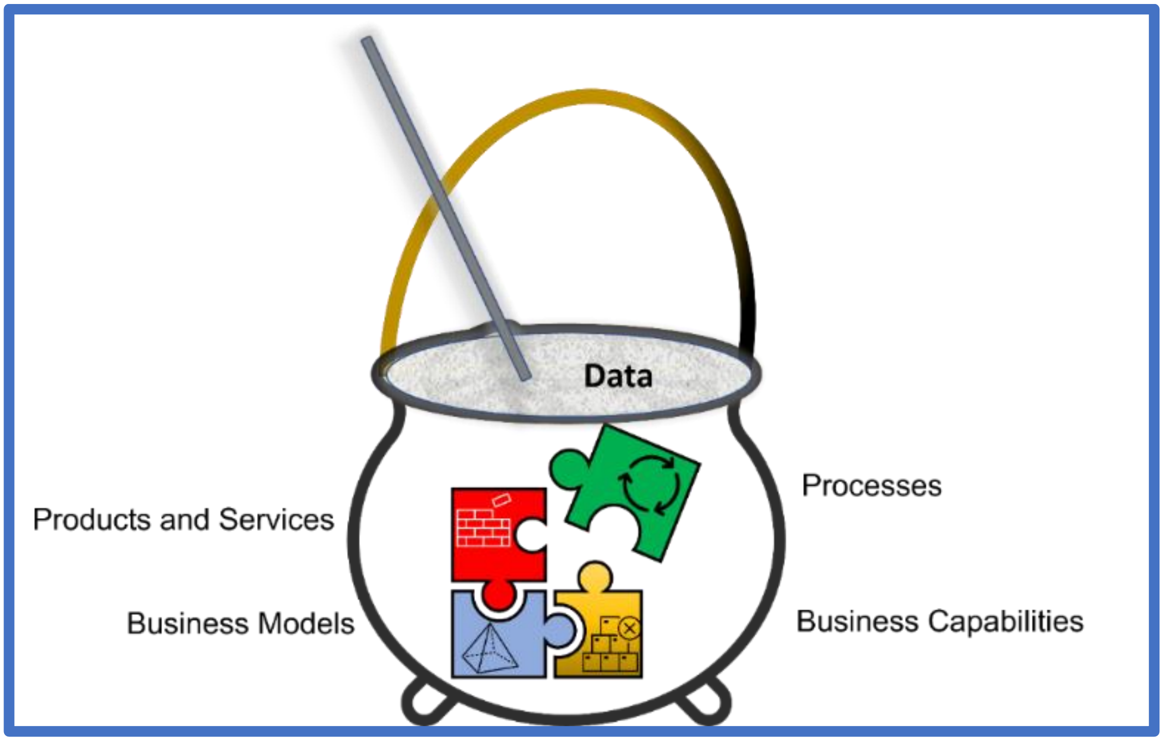
Information and data are incredibly powerful as they can profoundly impact and move markets.

Unlocking data and its information can significantly improve goal setting, by building, and executing business strategies through predictive analytics, advanced automated decision-making processes and reporting. Data has become a critical decision-making tool.

Digital data, the technologies and standards are evolving and maturing into valued, reliable, and resilient assets for entities. Making data repositories trustworthy and available for decision making makes an enterprise become more valuable and agile. Especially as organizations take advantage of built-in process algorithms, data becomes a driver for business activities. To become an effective driver, data must be, complete, accurate, reliable and should be of the highest acceptable quality.

The magic ingredients and building blocks illustrated above were selected from business architecture conceptual frameworks of TOGAF, of the *BIZBok* guide and other Business Architecture standards. The enterprise business model, the business capabilities, its processes, the staff and data are the concepts and ingredients of the magic sauce.

Business capabilities, for example, can be the building blocks of products or services of value to customers and cients. Business capability ingredients come in many flavours depending on the types of business, the mix of human and technology roles, and technology tools used. Business capabilities can have significantly automated processes, be of a certain quality or class and may have transitional plans to new methods and for market change.



Magic ingredients and building blocks for a powerful data capability

Data is continuing to evolve to use imbedded Metadata more typically. Raw data can be encompassed by the information about the data by way of descriptions and facts about its ingredient structure, source, processes and use. Extensible Markup Language (XML) – a markup data type and its variants – has matured into new generation of data and data streams of combined Raw data and Metadata. An example is XBRL-tagged data. It uses imbedded taxonomies to blend its raw data, its purpose and its Metadata. Although XBRL is structured data, it also can be streamed. It is targeted to be both human-readable and machine-readable.

Business capabilities can be the building blocks of products or services of value to customers and clients.

This generation of data uses a markup language that includes file structures and taxonomies for storing, transmitting and encoding documents. All these components, with their metadata, should be complete, accurate and timely.

For XBRL, and other XML formats, there are data validation software products that can be applied to verify data file conformity of structure, meta data and, in some cases, content.

Purging and Cleansing of Data

Data that may need to be cleansed can come from multiple sources with various formats of structured and unstructured data, including free-form text streams or marked-up data streams. Data can be a tangible or an intangible asset. It can have summary statistics, time series, transactional records, master data and have detailed facts.

Data to be cleansed can be in the form of geographic information, infographics[1] and scientific visualizations. Information and data may include social media information streams and can be strictly conceptual.

Although data repositories are normally internal, they can be more powerfully supplemented by third-party data. As an example, for industry and association market metrics, Statistics Canada has population profile metrics and XBRL is helping to produce investmentgrade financial statements and proxies with new investment disclosures.

These data formats should be clean and available, for predictive analytics, business operations analysis, information discovery and for the automation of decision making using Artificial Intelligence (AI).

Disinformation

Unfortunately, data can contain unreliable deceptive or irrelevant "disinformation," e.g., fake news, political propaganda or rogue conspiracy theories. Unstructured Data, i.e., text documents, may also cause challenges by not being clearly referenced to an outside reliable source. Unreliable data can also have its origins from internally generated sources, perhaps through unvetted internal research.

Disinformation may be introduced to a data repository through third-party or social media feeds. Disinformation could be inadvertently used in any AI or automated or semi-automated decision-making processes. Therefore, unreliable data should be removed or discounted from the datasets.

Unfortunately, data can contain unreliable deceptive or irrelevant "disinformation," e.g., fake news, political propaganda or rogue conspiracy theories.

To keep data clean, quality assessments and error correction should be incorporated into all business process workflows**.** The challenge is to find automated tools to assist in data cleansing. There are several tools for structure data that use discovery methods, but few are available to detect intentionally deceptive disinformation or other irrelevant data in unstructured data. Cleansing activities should discriminate against risky or politically biased data sources. Being aware of unreliable data sources is the first line of defense.

Data that is most challenging and prone to having unreliable deceptive content is published through social media and is not peer-reviewed or independently audited. Indications of concern include sources that are not stored in mature platforms, are from a biased sources and have

[1] For example, data or models within; transit maps, conceptual models, schemas, BI, Roadmaps, and technical specifications.

claims of high volumes of followers. These indicators may not make the best clean business environment.

In addition to continuous data quality controls and cleanup, there should be an overall repository assessment and cleansing of critical data.

The Reliability of Data

The integrity and appropriate use of data should be well controlled. Data repository files should be regularly reviewed, assessed and cleansed.

Businesses have found great advantages in using electronic documents. Until information fully evolves to being totally digital, paper documents or scanned images of paper documents will remain part of an organization's data.

Some institutional units, such as compliance audits, can effectively discourage electronic processes by demanding the use of paper slips instead of relying and testing selected systems controls.

Data Cleansing Approaches

The extent of ensuring that clean data is available should be appraised alongside the following scope and criteria:

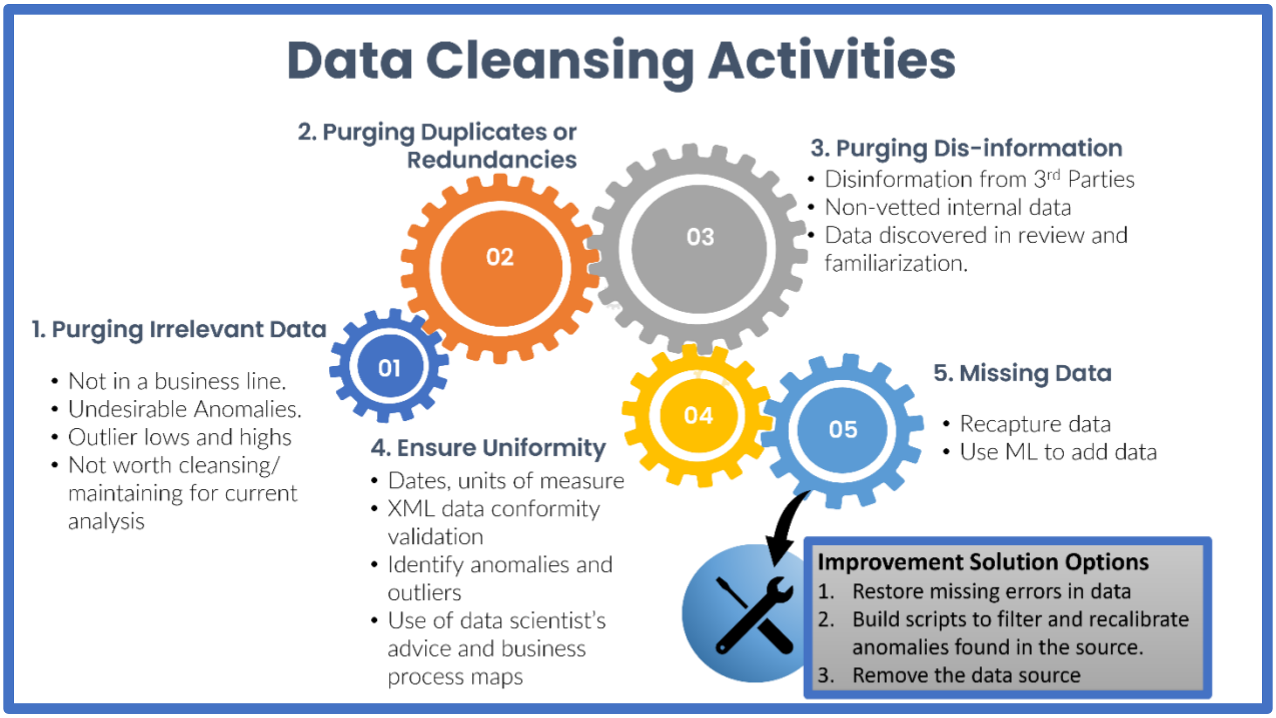
- Management's corporate strategies and operational and tactical plans.
- The presence of active or planned workflow algorithms.
- Reporting requirements.
- Availability of process and data maps.
- The Enterprise's Data Scientist's stated requirements,

It is important that data repository assets and the cleansing process be carefully governed, have integrity, be complete and accurate, and be timely.

Process designs and periodic review need a team composed of well-versed and capable business knowledge resources and data stewards. They should understand, and have, workflow process maps, technology support and be data science aware. Having business involvement, as well as a senior management-supported mandate and resources possessing data scientist skill sets, is ideally part of the ingredients of the magic sauce of the cleansing activities.

It is important that data repository assets and the cleansing process be carefully governed, have integrity, be complete accurate and be timely. Anomalies, any outlier data and potential disinformation sources should be noted and brought forward for an assessment. It should conform to corporate business policies. The cause of any errors or omissions should be identified, corrective action performed or mitigation activities established.

The various cleansing activities are summarized in the following diagram:



Steps in Managing a Dataset or Data Catalogue

Periodic Cleansing

While data quality should be baked into operations, periodic cleansing of data is also necessary. On a monthly or quarterly basis, steps should be taken, as illustrated above, to remove duplicate, redundant and irrelevant data. It is also important to exclude or correct any identified disinformation or structural or typographical errors. There should be uniformity of data formats and units of measure. Any potential for bias/skewing of analysis, or non-uniformity or inconsistency of units of measure, should also be assessed and revised or filtered out. See the above diagram titled “Data Cleansing Activities” for a checklist of cleansing steps. These steps were abstracted from data cataloguing, cleansing and data architecture frameworks, best practices and methodologies.

Missing details to complete and complement the source would ideally be recaptured or derived from other sources and/or with Machine Learning (ML)[2] or robotics (i.e., macros or scripts). Robotic processes and machine learning tools for mass updates should be deployed where significant shortfalls are detected. Ideally, the priority should be fixing the business process that created the error first place, if at all feasible. In the interim, a filtering process could be applied to ensure continuous cleaning of data.

[2] Wikipedia definition for wrangling includes: The discipline of machine learning employs various approaches to teach computers to accomplish tasks where no fully satisfactory algorithm is available.

In certain cases, excess irrelevant data may flood the data repository with an excess number of transactions (see the purging activities 01 and 03). This is where data may not be relevant for analysis, or a subset of data is needed in the current analysis. Some data can be filtered out, compartmentalized and segregated, i.e., for AI/Machine Language demands or for ESG scoring.[3] By using staging and through data wrangling and data munging, data can be segregated around critical topics. Data munging is the initial process of refining raw data into content and formats to better prepare the data for exploration, enrichment, validation and processing transformation.

In many cases, combining multiple complementary datasets or extracts of the total, into groups within a data catalogue can make the data repository feel more whole, complete and relatable.

Data Repository Catalogues for Data Discovery
Some organizations have created and maintained Data Catalogues, particularly those organization's management that are very data literate or if the C-suite members are data savvy. Both a Chief Data Officer (CDO) and a Chief Information Officer may be included in senior management.

Data Catalogues help to share and democratize data within an enterprise. It can help to remove some of the effects of stove piping and silos. Catalogues provide an overview of internally available and owned data assets. They can show and assess the fit of partner digitally formatted financial statements, as in eXtensible Business Reporting Language or XBRL. As well, it can show company-vetted and authorized third-party data collections, or streaming service subscriptions collections. The data catalogues are a part of the curation of valuable collections of an enterprise's data assets. Data Catalogues can be entity wide, segmented by division or organized by asset type or organized to support Business Intelligence (BI) infographs.

Data Catalogues provide a corporate virtual location to share and secure corporate data and intel. Well designed and managed data catalogues show where datasets:

A. Can be securely shared in the enterprise, show who authorizes its use or if it is stored and subscribed to in the cloud or with their partners. Owners can authorize self-serve download and use.
B. Are documented to potentially determine that they are "Fit for Purpose" or "Fit for Use" (fulfills the needs of an outcome).
C. As well, where data has been used previously, to provide use feedback and promote dataset sharing and re-purposing.

A Data Catalogue is an element of a strong data capability. Creating a shared and dynamic data catalogue strengthens data because it is reviewed and used. It allows for rapid authorized use,

[3] Environmental, Social and Corporate Governance scoring of specific intangible metrics. Including measures of and disclosure of the effective management of carbon and climate change risk.

and provides flexibility as well as self-serve efficiency in re-purposing functionality for strategic implementations.

Through data discovery and cleansing data analysts can become increasingly familiar with the data set and business flows. Data analysts should be able to quicky determine that datasets are "Fit for use" and discover any gaps in data that may need to be filled. Mature business analysis capabilities depend on quick determination of how, when and where the repository could be used. The datasets, their fit into processes and its component parts should be well documented to facilitate data discovery and re-use. Identified key data needs, as a first priority, should be clean, unbiased and controlled for complete accuracy and timeliness.

Clean, quality data adds significant value to commercial and government organizations.

Significant Value to All

Clean, quality data adds significant value to commercial and government organizations. The data, as an asset, can be used to drive the business process. It may also include specific ESG intangible assets metrics. This enterprise data can serve in stakeholder communications, management decision making, for investment and market analysis.

For example, as balanced evidence and proof of genuine ESG focus might be aimed at climate-conscious investors. To have detailed transparent and complete explicit disclosure Helps to avoid the appearance of blatant unwarranted green washing.

"Every one of your employees is human. You have a rather narrow definition of 'diversity', don't you?"

The Pay-Off of Promoting Diversity, Equity and Inclusion: In their Own Words

By Gundi Jeffrey, Managing Editor

Gundi Jeffrey is an award-winning business journalist specializing in writing about the accounting profession for various publications. In 1985, she co-founded The Bottom Line*, then Canada's only independent publication for the accounting and financial professions.*

A diverse workforce that is treated fairly and has equitable opportunities for advancement –people with different backgrounds and experiences having the right to fair representation and fair opportunities for advancement – is a crucial component to organizational success and will remain so in the years to come.

Diversity, equity and inclusion (DEI) in executive teams has shown to improve the financial performance of a business, according to research by McKinsey. Data the business consulting company gathered from more than 1,000 large companies in 15 countries suggests that companies where women made up more than 30% of executives outperformed companies with fewer women executives in the past decade by as much as 48%. The most culturally and ethnically diverse companies outperformed less diverse businesses by as much as 36%.

According to the research, innovation and resilience – characteristics that distinguish diverse and inclusive companies – will be crucial as the global economy manages its way through the third year of the pandemic and its aftershocks. Otherwise, it will be difficult to bring about a systemic change in the workplace.

Also, factors such as talent shortages and supply chain disruptions have emerged that will shape the DEI landscape in 2022 and going forward.

Diversity, equity and inclusion (DEI) in executive teams has shown to improve the financial performance of a business.

For an organization seeking to harness the power of diversity, remote work is a valuable tool. By definition, remote work is location-independent. Employers and potential employees can connect in ways that would otherwise not be possible. Companies are no longer limited to sourcing candidates from local talent pools, and job-seekers can find work that matches their skillset — not just what's conveniently located.

ThinkTWENTY20 spoke with Olivia Nuamah, National Inclusion, Diversity, and Belonging Leader at PwC Canada, and Nick Greenfield, Vice-president, Marketing at MNP and member of the firm’s national Diversity Equity and Inclusion (DE&I) group, about what the two firms are doing to promote diversity and inclusion in their workforces – and the rewards of doing so.

ThinkTWENTY20: *Your firms have excellent reputations for promoting diversity, equity and inclusion. Can you tell us what programs you are offering your employees – both potential and current – in this area?*

Olivia Nuamah

Nuamah: At PwC Canada, there are over 10 diversity networks, and PwC's Inclusion Networks (employer resources groups) are a diverse group of different communities who network with one another and support the development of policies. I would like to highlight a few of the programs PwC Canada has implemented:

1. *Black Professionals in Tech Network*, aiming at recruiting Black people in tech into joining PwC.

2. *Black, Indigenous and People with Disabilities Scholarship*. The scholarship offers financial support and an opportunity to join the firm. Through this scholarship recipients receive an offer of paid employment at PwC Canada (acceptance of position is optional and does not have an impact on the receipt of scholarship) in Assurance, Tax or Advisory services. They are paired with a professional from PwC Canada who provides them with mentorship and coaching for one year.

3. *Women in Leadership Program* is an internationally recognized leadership training and development program.

4. We are also committed to the *Black North Initiative,* whose focus is on black communities, specifically with recruitment targets, and goals on philanthropy in black communities in Canada.

5. Finally, our *Trust Roadmap* was launched globally nearly a year ago. It sets out ambitious targets for recruiting women, indigenous peoples, black people, people of color, people with disabilities and from LGBTQS2+ communities.

Nick Greenfield

Greenfield: MNP embraces diversity, equity, and inclusion as a firm-wide core value. To achieve that vision, MNP has established an internal working group which is responsible for advancing and evolving diversity, equity, and inclusion within our firm — the working group reports directly to the board and executive teams. As well, MNP offers flexible work arrangements to acknowledge the different needs, priorities and goals of team members. MNP also offers comprehensive employee and family health benefits that cover everything from mental, physical and emotional health to parental leave for both mothers and fathers.

Our equal opportunity policy aims to eliminate barriers or conditions of disadvantage in employment processes due to race, religious beliefs, colour, gender, disability (physical or mental), sexual orientation, marital status, age, ancestry, place of origin, family status — and to ensure all new hires, transfers, and promotions are based on the merits, qualifications and past performance of each candidate.

ThinkTWENTY20: *Why do you believe this is such an important area for firms these days?*

Nuamah: DEI is important because we have to continue the journey towards equal opportunities for everyone. DEI is an integral part of PwC Canada's values, and crucial for our employees to be able to bring their whole and authentic selves to work and for us to create that sense of belonging. We are committed to fostering a culture that enables our people to show up authentically, feel equitably supported in their careers and ensure they genuinely belong. Diverse and inclusive teams are innovative because each member has a distinct point of view and can bring a broad range of ideas to the table. Building trust in society and solving important problems is only possible if PwC reflects the mosaic of the society we live in.

ThinkTWENTY20: *What do you hope to achieve with these programs?*

Nuamah: Everything that we do at PwC is centered on creating a healthy workplace environment where you can grow, thrive and also bring your authentic self to work. We have set our specific goals and benchmarks through our *Trust Roadmap*. The *Trust Roadmap* is PwC Canada's north star for living our purpose and making sure our actions and behaviours match our intentions and commitments in every interaction and relationship. These are our goals and we work on them daily. We are closely aligned to our global strategy called *The New Equation* and our key purpose is to build trust and deliver sustained outcomes, as we focus our efforts on solving our client's most important problems. Our purpose is to deliver bold ideas, solutions that are human-led and tech-powered and deliver concrete results. Our entire strategy and purpose are centered around trust.

If people feel comfortable enough to say what they are experiencing in the workplace, it makes it easier to resolve problematic situations as they arise.

Greenfield: All team members should feel a sense of belonging at MNP where they can be authentic and true to their identity. Team members should feel like MNP supports them to be their best at work and in all areas of their lives. Our internal numbers continue to demonstrate that we're making progress in building a team that's reflective of the social and demographic makeup of Canada. The willingness and eagerness of team members to share their stories is encouraging and indicates we're on the right path.

ThinkTWENTY20: *And what have results been like? It has been said that, in today's pandemic and post-pandemic world, for a business to succeed in such an environment, we need creative solutions that only a diverse workforce can provide, but without forgetting about equity. Would you agree?*

Nuamah: Equity and Inclusion is at the heart of our people program and continues to be the focus of our internal training. If we want all of our people to have the same opportunities, we must educate ourselves about the unconscious bias that exists and simultaneously create a safe environment to communicate effectively to address everyone's needs. With equity in mind, we offer many progressive benefits, including coverage for mental wellbeing and fertility benefits.

Greenfield: The more uncertain the future, the more necessary it is to have a wide range of experiences and perspectives to make informed decisions.

ThinkTWENTY20: *I have read that the increasing levels of transparency required by businesses for reporting compensation, board diversity, and other workforce management practices have also affected financial reporting for companies. What changes have you seen?*

Nuamah: This move towards transparency means that we are seeing actual improvements internally. If our people feel comfortable enough to say what they are experiencing in the workplace makes it easier to resolve problem situations as they arise. Here, at PwC, what we have done is what somebody termed as a "radical transparency." Our *Trust Roadmap*, the data and survey work we've been doing internally have been moves towards that. For us, transparency is the absolute key to opening up the door to a more honest dialog – even when it is painful. Again, trust is at the heart of it.

ThinkTWENTY20: *And then there is the question of remote work. Going forward, do you see your employees coming back to the office, working remotely, or a hybrid? How has it worked out for your firm so far?*

Nuamah: At PwC Canada, we trust our people to make the right decisions about how and where they work, it's about work getting done the right way. So, by offering flexible working, extra paid-days off and enhanced benefits, we are recognizing each one of us is unique. This way, we focus more on the results than on how we get there, and each one of us can create a way of working where it's possible to respect the flexibility available and be empowered to make the best decisions on how to deliver the best work.

Greenfield: For many years MNP has embraced a flexible approach to our workforce that balances the needs of individual regions, business units and team members. While hybrid seems to be the preferred approach for most companies as the world emerges from the pandemic, it really is just one tool in a toolkit for how we manage an engaged and productive team that is growing and developing their skills and creating value for our clients.

ThinkTWENTY20: *Finally, how do you see these initiatives affecting the future of your firm? Expectations? Benefits? Rewards?*

Nuamah: We hope to see better inclusion and diversity in our workforce, and we hope that the meaningful experience that people have when they join PwC creates a virtuous cycle. It also means a higher retention rate over a period of time, and we will continue to be able to be a talent magnet as a firm that is built on a strong I&D foundation.

For many years we have embraced a flexible approach to our workforce that balances the needs of individual regions, business units and team members.

Greenfield: In the future the programs we've established around DE&I will just be an entrenched part of our firm's DNA. That is the "I" for inclusion of DE&I, which from a firm culture standpoint is one of the most important outcomes we're aiming for in the long run.

Tax Tips and Strategies for Parents and Students

By Aaron Gillespie, Enterprise Tax Partner, KPMG in Canada

Based in Hamilton, Ontario, Mr. Gillespie specializes in Canadian tax compliance for advisory services, with a focus on large Canadian controlled private corporations as well as individual taxpayers. He has more than 14 years of professional experience with tax planning as it relates to various tax-minimization strategies, acquisitions, divestitures, remuneration planning, estate planning and corporate reorganizations.

With the often chaotic start of the school year now behind us, it's a good time for families to delve into some taxing financial questions. For parents, having one or more of your children in university or a post-secondary institution comes with a big price tag. For students, it's often a time of tight budgets and low-pay, part-time jobs.

It's important not to neglect tax filing during these academic years, since there are a number of tax benefits available to students and parents that could translate into real savings.

Tuition Tax Credits for Post-secondary Students

Tuition can be one of the expensive, but there may be some tax relief available to you. Don't forget that these fees qualify for a non-refundable 15% Federal Tuition Tax Credit for 2022, and potentially a provincial tax credit. Tuition includes fees paid to an eligible post-secondary and other types of academic institutions and professional associations.

Tuition isn't the only school fee or expense that can qualify for this tax credit. Other examples include the cost of books, library fees and lab charges, exam fees, application fees and mandatory fees paid for health services, athletics, and computer services.

How RESPs Work

Parents, grandparents, and students have long known the benefits of saving for an education with a Registered Education Savings Plan (RESP). Contributions to a RESP may trigger a 20% government grant of up to $500 per year. The funds may be invested and earn income on a tax-deferred basis, meaning taxes are paid only once they are withdrawn. For this reason, the type and amount of RESP withdrawals should be carefully planned.

There are two types of RESP withdrawals: one is taxable and one is not. Taxable amounts include income earned in the plan and government grants received. Non-taxable amounts are the contributions that have been made to the plan. Where students have little or low amounts of taxable income, they may choose to withdraw the taxable amounts from the RESP to take advantage of their low tax rate.

Moving Expenses

Moving expenses can qualify as deductible expenses if a student is moving to study full-time in Canada or abroad. Another way moving expenses could qualify would be if you move to start a job or your own business. These expenses are deductible against the income earned for which the expenses of moving were incurred. Students should keep this in mind when, for example, they return home for a summer job.

Good News for Scholarship Recipients

Not that many years ago, scholarships, fellowships and bursaries were considered taxable income or only a small tax exemption was applied. Thankfully, that changed in 2006 for provinces and territories outside Quebec. This income is now generally tax-free for qualifying full-time post-secondary, elementary and secondary school study.

For part-time study, some exemptions on scholarships are also available, though these are usually limited to the cost of tuition and course materials. If you attend school part-time due to a mental or physical impairment or qualify for the disability tax credit, then the tax rules are more generous.

Tax Credit for Student Loan Interest

Student debt in Canada has risen dramatically over the past decades, with students now owing an average of $13,000 at the time of graduation. To ease the burden, students and former students who receive loans through registered federal and provincial loan programs can claim a 15% federal tax credit – and potentially a provincial tax credit – on interest paid in 2022.

Extra Deductions for Students with Children

Heading back to school can be particularly challenging for parents with children at home. To make things easier, full-time and part-time students may be eligible for additional childcare deductions above the general limits, depending on the age and number of children in their care. Parents should look into eligible deductions that apply to their situation before tax time.

Lifelong Learners and RRSPs

There's also a federal "Lifelong Learning" program that permits withdrawals from a Registered Retirement Savings Plan (RRSP) to cover a student's (or spouse's) educational costs. Up to $10,000 per year in withdrawals can be made over a four-year period, to a maximum of $20,000.

These amounts can be repaid in equal instalments over a 10-year period following graduation. This is especially helpful to mature students who have accumulated RRSP savings.

Stay Organized

Things are bound to get even busier as the school year progresses, so stay on top of your expenses from the beginning and make sure you're maintaining your receipts. On that front, schools are going digital and, instead of mailing out tuition tax credit slips, they're often available online. Above all, don't miss out on the potential tax savings for you and your family.

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Twenty-First Century Corporate Reporting:

Effective Use of Technology and the Internet

How and why do corporations use the internet for reporting to their stakeholders? How and why has corporate reporting extended beyond financial reporting to include environmental, social, and governance (ESG) reporting and even integrated reporting. The major drivers of modern reporting have changed, to include data driven decision making, big data, and advanced analytics, as well as the use of electronic representations of data with tools such as XBRL.

Here we explore the various vehicles for using the internet, including social media and blogs as well as corporate websites and the websites of regulators. And we delve into the impact of portable devices, like smartphones and tablets.

Corporate reporting on the internet is changing fast because of changes in technology and stakeholder expectations. Companies are having a hard time keeping up. This book offers a roadmap to follow–a roadmap to start on now. Most importantly, the book lays out a strong case for integrated reporting and shows how reporting on the internet is ideally suited to the creation of integrated reports.

This book is of interest to executives in charge of the reporting function for their companies, students of accounting and management, and to serious investors and others with a strong interest in corporate reporting and the direction in which it is headed.

Gerald Trites is a CPA with a history of writing and publishing and a unique background. He was a partner in KPMG for seventeen years, and a tenured professor of accounting and information systems for ten. He also served for twelve years as director of XBRL Canada. He has published twelve books and numerous articles and papers. He worked as a research associate for the Canadian Institute of Chartered Accountants and served as chair of the Auditing Standards Board. He currently serves as editor-in-chief of ThinkTWENTY20 magazine, a publication he started in 2019 with the objective of publishing well-researched articles of substance.

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