

Potential Adoption of Integrated Reporting – Case Study of a City Council

Ruhanita Maelah^{1,*}, Haslina Hassan², Noradiva Hamzah¹

¹Universiti Kebangsaan Malaysia, Selangor, Malaysia

²Universiti Kuala Lumpur, Kuala Lumpur, Malaysia

*Corresponding Author Email: ruhanita@ukm.edu.my

<https://doi.org/10.58458/ipnj.v13.01.03.0087>

Received: 31 October 2022

Reviewed: 02 December 2022

Accepted: 04 April 2023

Published: 15 June 2023

Abstract

Purpose: The purpose of the study is to examine the potential of Integrated Reporting (IR) adoption by a city council through the identification of its enablers and challenges.

Design/Methodology/Approach: The study utilised a qualitative interpretative case study of a city council that has the potential to pioneer IR adoption among local authorities. Data collection involved in-depth interviews as well as document analysis.

Findings: Findings from this study indicates that IR, which was originally seen as a private sector initiative, has relevance and application to public sector organisations. Challenges faced by the respondent to implement IR is the lack of knowledge on how to prepare the IR in tying together numerous aspects that can meet the requirement of information usefulness to stakeholders. The lack of benchmarking cases for reference and limited information on the cost involved in IR adoption are acknowledged as challenges. Training, management support and innovative culture are considered IR enablers at City Council ONE.

Research Limitation: This study is exploratory in nature as a single case study is used, and City Council ONE has not adopted IR.

This article is part of a research on Integrated Reporting Enablers and Challenges in Local Authorities of Malaysia, supported by the Accountant General's Department of Malaysia through *Geran Penyelidikan Perakaunan dan Kewangan Sektor Awam Tahun 2022* (JANM.IPNC PD.100-3/3/2 Jld. 3(35)).

Practical Implication: Identifying challenges and enablers is important for city councils to assess their readiness prior to adopting IR. The findings could be used as input to the regulators and other public sector entities to facilitate the implementation of IR.

Originality/Value: This study is part of a more extensive research on IR enablers and challenges for Local Authorities of Malaysia.

Keywords: Integrated reporting, city council, enablers, challenges.

Introduction

Generally, conventional financial reporting no longer satisfies the demands of organisations aiming to establish and sustain resilient and responsible operations in the near future and in the medium and long term. The financial statements disclosed in the annual report are based on historical data and are thus retrospective. In contrast, the success of many organisations now rests on other resources, such as the expertise of their employees, their intellectual property produced via research and development, and their interactions with the environments and cultures in which they operate. Integrated Reporting (IR) is more than simply corporate reporting; it is essentially a strategy to operating a corporation that is predicated on a clear grasp of value creation and erosion. Participants in the business supply chain are aware that the integrated reports produced by firms express their internal integrated thinking and management.

IR is a new structure for reporting that integrates financial and non-financial data into a single report. It combines novel reporting concepts that have the potential to alter the corporate reporting environment, enhance investors' capacity to evaluate organisations' future prospects and give answers to the frequent concerns on the weakness of existing accounting reporting models. IR was launched by the International Integrated Reporting Council (IIRC), an organisation with a large worldwide following and support, and by the IIRC's followers, including regulators as well as the accounting profession.

Initially, it was assumed that the IIRC Framework was primarily intended for the private sector; however, its use may be broader: "it may also be utilised and modified as required by the public sector and non-governmental organisations" (IIRC, 2012). Prior research acknowledges the prospect of extending IR operations outside the private sector (Adams and Simnett, 2011; Lodhia, 2015; Bartocci and Picciaia, 2013). Therefore, the public sector needs the appropriate reporting tools in order to effectively communicate accountability and transparency to its stakeholders because of the complex interrelationship between social responsibilities, public accountabilities, and social justice (Lapsley and Skaerbk, 2012), with arguably higher accountability expectations (Ball et al., 2014). Consequently, the public sector needs to take IR into consideration (Biondi and Bracci, 2018; Guthrie et al., 2017). Williams and Lodhia (2021) demonstrate public sector is beginning to engage with IR, albeit at different levels. However, the findings indicate limited organisational change in local council leads to low levels of integrated thinking. In order to help local council management transition from a siloed approach to one that integrates social and environmental issues into routine business

decisions, Williams and Lodhia (2021) provide guidance to local council management in Australia and around the world who are currently considering undertaking IR.

IR has gained interest among regulators, practitioners, and academics. In recent years, IR has gained prominence in the private sector and has attracted attention in the public sector. While companies have shown developments in adopting IR, little is known about IR practices in the public sector in Malaysia. This study is part of a more extensive research on IR enablers and challenges in Local Authorities of Malaysia. The study involved a case study of one city council that has the potential to pioneer IR in local authorities. The purpose of the study is to examine the potential of IR adoption through the identification of its enablers and challenges.

Literature Review

Benefits of Integrated Reporting

Researchers have also voiced issues about the IIRC Framework's emphasis on the private sector (Oprisor et al., 2016; Rossi and Orelli, 2019). Literature has examined potential benefits that IR could offer the public sector, such as the opportunity to move beyond historical reporting practises (Bartocci and Picciaia, 2013; Cohen and Karatzimas, 2015; Veltri and Silvestri, 2015; Katsikas et al., 2017; Farneti et al., 2019; Montecalvo et al., 2018; Rossi and Orelli, 2019); that can generate more concise and balanced reporting on performance (Graaff and Steens, 2022); and an interconnected view of sustainability (Wijaya and Bens, 2022; Veltri and Silvestri, 2015; Lodhia, 2015; Oprisor et al., 2016).

According to a survey conducted by Black Sun in 2014, organisations from both the public and private sectors reported several key benefits of using integrated reporting (IR). These benefits include creating new opportunities for value creation, enhancing the accuracy of the information being measured, improving decision-making processes, fostering better relationships with stakeholders, and facilitating better communication and collaboration across departments to gain a broader perspective. Graaff and Steens (2022) also found that the adoption of IR has improved their interactions with stakeholders, employees and customers. In addition, integrated reporting could lead the employee to be more empowered to engage in meaningful work (Wijaya and Bens, 2022).

Adhariani and de Villiers (2018) surveyed IR in Indonesia and found a high level of interest among corporate report preparers and other stakeholders but a low level of expertise. The primary reason for implementing IR is to satisfy shareholders and other stakeholders. Adhariani and de Villiers's (2018) findings on perceived advantages were consistent with the MIA-ACCA (2016) survey on Malaysia, which showed that the benefits of IR included fostering integrated thinking, enhancing communication with external stakeholders, and enhancing transparency and governance. Hence, better decision making by focusing on the actual value drivers of business (Mohammed et al., 2020).

Currently, integrated reporting in Malaysia is relatively new because the status is voluntary. In 2017, the Malaysian Code on Corporate Governance (MCCG) incorporated integrated reporting as an emerging phenomenon and the best practice in Malaysia (Mohammed et al., 2020). PwC reported in 2014 that while companies in Malaysia have mastered the basics of reporting, their reporting is not yet integrated. As a result, there is a significant need to

improve communication with stakeholders as the country transitions to integrated reporting. Unfortunately, the value brought by integrated reporting to the business has still not been fully appreciated by the companies in Malaysia (PwC, 2014). Adhariani and de Villiers (2018) identified the perceived motivation and advantages of IR adoption, shown in Table 1.

Table 1: IR Motivation and Benefits

Perceived motivation of IR adoption	Perceived benefits of IR adoption
<ul style="list-style-type: none"> • To satisfy stakeholders and shareholders • Mandated by corporate regulations • Knowledge that competitors and similar companies are preparing IR • Mandated by accounting profession • Increase accuracy of financial information • Increase transparency • To show the value of utilizing various resources • To publish reports more quickly • To promote integrated thinking in management 	<ul style="list-style-type: none"> • Lower cost of capital • Increase share price • Easier access to capital • Improve transparency and governance reporting • Improve communication with external stakeholders • Promote integrated thinking

Source: Adhariani and de Villiers (2018)

Integrated Reporting (IR) offers an excellent opportunity to communicate with all stakeholders by providing a comprehensive view of an organization's activities, strategies, resource utilization, opportunities, risks, financial and non-financial information. An organization can effectively address various conflicting public accountability issues by adopting IR, as noted by Nada (2021) and IIRC and CIPFA (2016).

CIMA (2016) has identified seven public sector organisations, including Fasset (South Africa), NZ Post Group (New Zealand), Rosatom (Russia), The NHS Greenwich Clinical Commissioning Group (GCCG) (United Kingdom), Maritime and Port Authority of Singapore, Auditor-General of South Africa (AGSA), and The Crown Estate (United Kingdom), that have successfully implemented the IR framework, despite differences in size, specialisation, and location. Table 2 outlines the benefits of IR reported by two of these organisations.

Table 2: IR Benefits Based on Two Public Sector Organisations

NZ Post Group, New Zealand	Rosatom, Russian Federation
<ul style="list-style-type: none"> • Emphasizing the associations throughout the company. • Providing a simpler perspective of the business. • Enhancing the appreciation of the value of non-financial assets. • Facilitating a longer-term view of the business. • A greater emphasis on material concerns. • More internal ownership of the report. 	<ul style="list-style-type: none"> • The IR enables the organisation to show its management quality. • The creation of IR gives managers information that helps with complex decision-making in terms of performance.

Source: CIMA (2016)

Integrated Reporting Challenges

Lodhia and Hess (2014) found that the transition to IR enabled an organisation to differentiate its competitors and other organisations. Public sector institutions have faced many challenges due to the lack of resources, increased variation of activities, diversity of stakeholders and the broad definition of the value creation process. Such development requires public sector organisations to be more accountable and transparent in value creation (Greiling, 2013).

The voluntary nature of IR and the absence of adequate norms discouraged accountants from participating in integrated reporting (Arora, Lodhia and Stone, 2021; Gerwanski, 2020; De Villiers et al., 2017). In similar situations, inadequate norms and the absence of legislation prevented accountants from providing environmental performance data (Laine et al., 2017; Senn and Giordano-Spring, 2020). The lack of a clear understanding of how to approach integrated reporting has led to diverse conceptions of integrated reporting across organisations (Gibassier et al., 2018). Arora, Lodhia, and Stone (2021) discovered that accountants' competence in corporate reporting, understanding of the assurance process, in-depth understanding of an organisation, as well as their analytical and interpersonal abilities were beneficial when writing an integrated report.

Non-financial reporting is predominated by qualitative narratives, with little disclosure of financial facts (Amoako et al., 2017). Arora et al. (2021) discovered that accountants' engagement in IR was restricted because they did not value integrated reporting and found it difficult to transform numerical data into narratives. Numerous accountants lack education, expertise, and experience with narrative social and environmental data (Parker, 2001; Owen, 2013; Williams, 2015). Organisations that use IR express their value creation narrative by combining financial, social, and environmental performance data into a unified report. Non-financial and financial information reporting in a single report lends itself to the involvement of accountants in the reporting process.

Adhariani and de Villiers (2018) stated that corporate report writers recognise the advantages of internal reporting but are hesitant to use it. The cost of preparing IR, the absence of an adequate information system to develop IR, and the fear of disclosing market- and/or price-sensitive information were cited as the top three obstacles by respondents in their survey. Adhariani and de Villiers (2018) indicate that modifications to the university curriculum, training sessions, seminars, and conferences may be necessary to convey knowledge about IR. Other problems in the public sector include resistance to change in the acceptance of any new reporting (Guthrie et al., 2017); the relevance of reporting against all six capitals in the public sector; and a simpler reporting method that combines IR and popular reporting (Cohen and Karatzimas, 2015).

Since managers write integrated reports, these reports are susceptible to agency issues, indicating the need for integrated report assurance. The future-oriented, valuation-based, and comprehensive nature of IR material poses difficulties for traditional assurance techniques, particularly external assurance. The structure of the IR framework (which compels companies to describe their value creation while including only relevant aspects in their report) has a number of measuring implications. The first issue is the characteristics of a high-quality integrated report, and the second is how such quality may be measured. The fact that some companies simply rebrand their beautiful annual reports as integrated reports suggest that

the word "integrated report" is an insufficient indication that a company has implemented IR as envisioned by the IR framework.

Public Sector Integrated Reporting

The significance of comprehensive "external reporting" has grown in the public sector (Broadbent and Guthrie, 2008). However, even the most modern accounting tools taken from the private sector are often inappropriate (Cavicchi et al., 2019). As they are supposed to be responsible to society as a whole, public sector organisations are often more complex, including a greater range of stakeholders, and have inherent transparency and accountability duties (Biondi and Bracci, 2018; Osborne, 2018).

Due to the nature and purpose of public sector organisations, value creation is particularly pertinent and thus becomes a reason for the existence of IR. The public sector organisations are facilitators in dealing with matters pertaining to national development and providing services to the stakeholders, including the public. The conventional financial reporting reveals relatively little about how public businesses generate value for their stakeholders. On the other hand, the emphasis on value creation has spurred the development of investor relations and marketing strategies for value creation. IR strives to provide a more comprehensive view of an organisation's actions in a single document than sustainability or social responsibility reports.

On the one hand, the extensive use of human resources, the strong participation in social and environmental concerns, and the intangible character of the public sector's aims and outputs (Cinca et al., 2003) make it an appropriate setting for the implementation of IR (Bartocci and Picciaia, 2013; Cohen and Karatzimas, 2015). Public entities have value creation and stewardship responsibility, which emphasises the need for public services to nurture value co-creation, which refers to the possibility of facilitating stakeholders to be active participants in the delivery of services and to contribute to their own welfare (Osborne, 2018): (Katsikas et al., 2017). A stakeholder approach stresses active management of the corporate environment, relationships, and the promotion of shared interests, following the basic principles of the stakeholder theory (Freeman, 1984).

In the public sector, stakeholder management requires managers to devise plans and implement procedures that meet the needs and expectations of specific groups interested in the organization's activities (Mitchell et al., 1997). The primary goal is to integrate the relationships and interests of citizens, staff, suppliers, communities, and other stakeholders, while considering their identities, power, legitimacy, urgency, and importance in value creation (Best et al., 2019). In essence, stakeholder management in the public sector involves prioritizing the interests of relevant groups while maintaining a balance between their different needs and expectations.

There is also a need to consider the generation of public value and operationalisation of materiality in public institutions (Guthrie et al., 2017). The idea of value in public contexts is especially complicated, elusive, and highly contentious (Katsikas et al., 2017). Value creation in a public body is the growth or transformation of private and public assets, which are the organisation's and stakeholders' capitals, resulting from the organisation's actions and outputs (IIRC and CIPFA, 2016). Talbot's (2011) approach to determining public value focuses on five aspects: resources, services, social outcomes, faith in procedures, and legitimacy.

As value creation integrates strategy with business models emphasising transparency, accountability, the establishment of trust, and the involvement of stakeholders, which are crucial for public sector institutions, IR is regarded to be a viable instrument for illustrating public value (Caruana and Grech, 2019). While the public sector has not been extensively studied in IR. (Dumay et al., 2016), it has been the research focus in healthcare organisations and universities. These entities are knowledge-intensive, and therefore, creating intangible resources is critical in fostering value co-creation (Rossi et al., 2018; Cavicchi et al., 2019). IR adoption has also attracted the attention of state-owned firms (Guthrie et al., 2017; Farneti et al., 2019), which are comparable to private sector organisations and have used social reporting for decades (Biondi and Bracci, 2018). Recently, government agencies have also demonstrated an interest in IR (Caruana and Grech, 2019). In the public sector, IR is the catalyst for substantial organisational and managerial transformation (Katsikas et al., 2017). The use of IR at an accountability level, as opposed to just as a public relations instrument, requires more responsiveness to stakeholders and organisational changes at the technical and cultural levels (Doni and Gasperini, 2014; Veltri and Silvestri, 2015).

Caruana and Grech (2019) highlight the two ways in which IR can affect public organisations: on the one hand, principles and elements of IR can be introduced gradually to increase transparency and accountability; on the other hand, the internalisation of integrated thinking can lead to enhanced value creation and overcome the "silo mentality" (Black Sun, 2014) that frequently characterises the public sector. To investigate the potential of IR to influence strategic planning as well as decision-making in the public sector in order to not only report, but also promote and sustain value co-creation, this paper focuses on the following research questions: What, if any, changes does IR bring about in public sector organisations and through what mechanisms?

Two examples of public sector organisations that have adopted the IR Framework for several years are presented hereafter:

a. Fasset, South Africa

Fasset is a pioneer in South Africa in the public sector. As a custodian of public funds, Fasset understood that it needs to fully account how it spends its allocated income and adds value to levy-payers, non-levy payers and society. Fasset subscribes to the highest standards of governance and transparency and has voluntarily opted to produce an Annual Integrated Report to reflect its financial and non-financial performance. Following encouragement from the South African National Treasury to adopt by providing disclosure guidelines on non-financial information for the public sector, Fasset embarked on its journey in 2011. Its 2013/14 Annual Report was awarded the best integrated report in the public sector in the Chartered Secretaries Southern Africa and Johannesburg Stock Exchange Annual Integrated Reporting Awards.

IR enables Fasset to provide insights into its strategy and comprehensively disclose risks, opportunities and governance. Fasset believes that one of the key strengths is that it compels organisations to report the good and the bad in an open and balanced way. By providing full disclosure of their performance and impact and the challenges

they face and the things that ‘went wrong’ organisations are able to provide a credible account of their performance and achievements. Recognising issues and challenges ‘face on’ allows them to be addressed early to benefit the reporting entity. Since embarking on its journey, Fasset believes it is more transparent, accountable, and focused on its performance. Fasset would like to become the reporting standard for all public sector entities. (www.fasset.org.za – Report available at bit.ly/1IWP)

b. NZ Post Group

New Zealand Post Group consists of various businesses providing communication and solutions. The Group’s mail business, New Zealand Post, delivers just under 700 million items annually to around 1.94 million delivery points. It provides postal, parcel and bill payment services through a nationwide physical store network, processing over 19 million financial transactions annually. The Group operates as a State-owned Enterprise within a deregulated postal market facing private sector competition. The Group started using the IR Framework in its 2013 annual report, recognising that to be successful, it needed to value all of its capital. This approach is seen to strengthen both the Group’s strategic thinking and the way plans are executed. The Group’s 2014 report is divided into six capitals: Relationships, Networks, Expertise, People, Environment and Finances.

Each section explains what the Group's capital entails and how events throughout the year have influenced the capital's worth. As a state-owned firm, the Group's major stakeholder is the Crown, which is also its only shareholder. It requires NZ Post to operate on a business basis, produce dividends, be a decent employer, and consider the community's best interests. IR offers the foundation for the group to show commitment to and achievement of these goals, as well as to promote continuing corporate transformation and integration by removing silos. (Report accessible at bit.ly/1QgVHW6; www.nzpost.co.nz). Consistent with institutional theory, which emphasises the social context's conditioning effect on organisational behaviour (Higgins & Larrinaga 2014). Hence, this theory creates the cultural, legal, and moral boundaries within which organisations must work to succeed, controlling and limiting organisational behaviour (Scott 2013). Thus, the implementation of IR would assist in the achievement of these goals.

Methodology

City Council ONE was established in the early 2000’s following its upgrading from a municipal council. With this recognition, City Council ONE promises to continue its commitment to delivering quality service to its constituent and pledging towards upholding sustainability and corporate governance with integrity. The vision, mission, objectives, and functions of City Council ONE can be clearly drawn from its website. This study used a qualitative interpretative case study technique to examine a municipal council with strong potential as an early user of IR. Case studies are an excellent research tool for investigating how or why something occurs (Yin, 2014). Case studies, according to Nada (2021), are a suitable study tool for presenting the application of IR in the public sector. This research will use a case study methodology, including in-depth interviews as well as document analysis. Collecting data from

many sources allows one to triangulate study results, providing multiple sources of evidence to support interpretations. This helps confirm results and increase the study's overall validity.

Semi-structured interviews employing a discussion guide (refer to Appendix 1) offer respondents an in-depth understanding of IR. Interviews are conducted with the executives who had a crucial role in the implementation of integrated reporting at chosen firms. Previous research has interviewed the General Managers of Operations and Risk, Development, and Corporate Services and the Sustainability Officer (Lodhia and Hess, 2014). A "snowballing approach" (Minichiello et al., 2008) will be utilised to find additional participants in cases where the original interview was used to acquire access to other critical IR professionals. In addition to the interviews, telephone talks and email exchanges have been utilised to follow up on or expand upon significant issues. The identity of the interviewees will be kept anonymous, and the interviewees have validated the accuracy of the interview transcriptions.

The document analysis gives an overview of the firms' IR activities, validates interview replies, and elaborates on major problems addressed during interview sessions. Documents pertinent to IR practise include yearly reports, reports on sustainability, and website information. The interview information was transcribed and then examined. A thematic analysis is conducted, with primary topics focusing on the definition of IR and its distinction from financial and sustainability reporting, IR efforts, drivers and problems, the future of IR, and other issues pertinent to IR practise. Interview data are triangulated with document analysis data in order to fulfil the study's research objectives.

Letter of intent to conduct visit and interview was sent to ten city councils that publish up-to-date annual reports online, on their website. Follow-up emails and telephone calls were made to all prospective respondents; (1) Majlis Bandaraya Johor Bahru; (2) Majlis Bandaraya Pasir Gudang; (3) Majlis Bandaraya Melaka Bersejarah; (4) Majlis Bandaraya Seremban; (5) Majlis Bandaraya Pulau Pinang; (6) Majlis Bandaraya Seberang Perai; (7) Majlis Bandaraya Ipoh; (8) Majlis Bandaraya Shah Alam; (9) Majlis Bandaraya Petaling Jaya; and (10) Dewan Bandaraya Kuala Lumpur. An interview session with two representatives from the Finance Department of City Council ONE was conducted on 17 August 2022. Prior to the visit, the question guide (refer Appendix 1) is shared with the organisation to facilitate identification of suitable participants and to establish the scope of the interview. The two-hour interview took place at the City Council ONE office. The two respondents are as follows:

1. Name : Ms XX
Position : Deputy Director
Department : Finance
Experience : 20 years of experience working in the finance area in a public sector setting. Started as a contract employee for 11 years and became an employee of City Council ONE for 9 years.

2. Name : Ms YY
Position : Assistant Director Finance
Department : Finance
Experience : Started career in an accounting firm after graduating from a local university. Joined City Council ONE in 2015, accumulating 6 years of public sector service.

Analysis

A summary of the thematic analysis is shown in Appendix 2. Six themes including (1) Preparation of Annual Report, (2) Extant of IR implementation, (3) Key drivers in IR implementation, (4) Organization's transition to IR, (5) Challenges in IR implementation, and (6) IR initiatives in the public sector with the categorisation, and indicators were analysed. The research outcomes indicate that respondents and the organisation involved have insufficient awareness of IR disclosures. They are not exposed to or introduced to IR, hence they are unaware of the significance and advantages of IR. Consequently, they did not prioritise IR in the compilation of the annual report. Confirmation of the annual report review for the application of the seven elements of the IR Guiding Principles was accomplished through a meeting with City Council ONE. Respondents agreed that IR was not practised and that acceptance of the Integrated Reporting Guiding Principles was limited to 'quantitative and qualitative information' and disclosure of 'activities involving stakeholders, specifically the community' and 'consistent data over time.'

Respondents demonstrated an interest in and a readiness to propose IR to management. As indicated by its involvement in a variety of innovative exhibits and contests at the state, national, and worldwide levels, the management welcomes creative ideas. Respondents provided instances of City Council ONE's community-oriented ideas. The Automatic Pedestrian System (APS) and the Pump Operation Monitoring System are two recent and notable award-winning developments (POMS). APS was established for the first time in 2019 to distribute traffic using an artificial intelligence algorithm. For actual deployment, the technology was improved to APS-1, which delivered Integrated Greenway Linking while saving 300 percent more time. The APS-1 system may be monitored and accessed via its control room and mobile apps. APS-1 has been implemented at 22 crossroads, and 11 other junctions are slated to get the system.

The POMS was created to enhance the monitoring of pump operations in flood zones. The system is linked to the pump control panel, allowing dialer notifications to be issued. POMS applications are particularly successful when pump failure or damage occurs during business hours, over the weekend, or on national holidays. POMS needs little installation and maintenance expenditures but has proved efficient in addressing flooding concerns, with zero percent of complaints relating to pump failure or damage. Based on the receptiveness of the management towards innovative ideas such as APS-1 and POMS projects, the Innovative and Creative Group (KIK) approach is expected to be suitable for the purpose of introducing the use of IR in this organisation. IR requires changes in the way information is disclosed. Thus, the change in annual report is expected to involve the Management and Human Resources Department, is responsible for preparing the entire annual report.

City Council ONE's latest annual report and City Council ONE 's 2020-2024 Strategic Plan are identified as the main reference documents for the organisation. The Strategic Plan is expected to serve as a five-year guide in implementing programs, projects, and action plans within City Council ONE's service scope. Hence, this report covers the first IR principle, "Strategic focus and future orientation". City Council ONE outlined 6 strategic objectives in its 5-year Strategic Plan. For each strategic objective, the strategies are specified, as shown in Table 3.

Table 3: Strategic Objectives and Strategies

Strategic Objectives	Strategies
Efficient and Effective Governance	<ul style="list-style-type: none"> • Improve the competence of officers and staff. • Strengthen and improve the culture of innovation. • Empower information management and communication. • Maintain quality management. • Financial reports.
Efficient and effective financial management and revenue collection	<ul style="list-style-type: none"> • Increase revenue. • Arrears reduction.
Smart, green, clean city	<ul style="list-style-type: none"> • Low carbon city. • Green practices. • Green neighborhood initiative. • Recreational facilities. • Smart city. • Cleaning. • Conservation. • Cheerfulness. • Community involvement. • Publicity.
Community Wellbeing	<ul style="list-style-type: none"> • Build independent community communities and empower social cohesion. • Corporate social responsibility activities and smart sharing. • Customer satisfaction index. • Improving and empowering business premises. • Improve support facilities.
Sustainable Development	<ul style="list-style-type: none"> • Responsible development. • Malaysia Urban Indicators Network (MURNInet). • Safe city. • Open space. • Maintenance. • Control. • Enforcement.

The Strategic Plan also identifies issues and challenges facing City Council ONE using the Strength-Weakness-Opportunity-Threat (SWOT) framework. SWOT Analysis is a technique for assessing these four aspects of a business. SWOT can also uncover areas of the business that are holding the organisation back or areas that competitors could exploit if the organisations fail to protect. A SWOT analysis examines internal and external factors - that is, what's going on inside and outside the organisation. Some of these factors will be within your control while others will not. In either case, the wisest action one can take in response will become clearer once many factors are discovered, recorded and analysed.

SWOT analysis is a method that may be used to assess a company's strengths and weaknesses and develop a successful plan for the future. SWOT analysis entails compiling lists of strengths, weaknesses, opportunities, and threats that may include links and inconsistencies worth emphasising and investigating. Before investigating new initiatives, updating internal policies, assessing possibilities to pivot, or modifying a strategy throughout its implementation, a SWOT analysis might be conducted. It is sometimes prudent to do a comprehensive SWOT analysis to assess the present state of company operations in order to make any necessary adjustments. The study may reveal the critical areas where the organisation works best, as well as the processes that need modification. As stated in Table 4, SWOT helps discover the traits that will assist City Council ONE in achieving its goals.

Table 4: SWOT Analysis

Strength	Weakness
<ul style="list-style-type: none"> • Strong source of financing • ICT facilities • Experienced staffs • ISO certification • Good facilities • Support from State Government • Main contributor to state Gross Domestic Product (GDP) 	<ul style="list-style-type: none"> • By-laws need review • Work culture and comfort zone • Inter department teamwork • Work in silo • Limited office space • Strategic plan does not align with the department's key performance index (KPI) • Reduction of the industrial area due to demarcation
Opportunity	Threat
<ul style="list-style-type: none"> • Investment opportunities • Community involvement • Political stability • Strategic location for tourism activities • Rich with local products • Good infrastructure • Center of state economic growth 	<ul style="list-style-type: none"> • Bureaucracy • Low level of community awareness • Entry of foreign workers increases • Lack of local skilled workers • Limited job opportunity • Lack of community awareness on public property

Review of The Strategic Plan also outlines the stakeholder's relationship, which covers the seventh IR principle. The stakeholders have been divided into three categories: main stakeholders, customer and strategic partners as shown in Table 5.

Table 5: Stakeholders

Category	Agency/ Department	Requirement
Main Stakeholder	Minister of Kementerian Perumahan dan Kerajaan Tempatan (KPKT)	Full power
	Kementerian Perumahan dan Kerajaan Tempatan	Watchdog/ Controlling agency
	State Government	Monitoring agency
	Council members	Policymakers
Customer	Community	Service recipient
	Visitors/ Tourist	
	Business community	
	Business person	
	Tenant	
	Property holder	
Strategic Partner	Government department	Bilateral cooperation
	Non-government department	

The respondents also identified City Council TWO as an organisation that benefitted from industrial activities and City Council THREE as organisations highly associated with innovations. In the past, City Council ONE arranged for benchmarking visits to learn about their innovations. City Council FOUR is perceived to experience good community support for its activities. These three city councils are also anticipated to be receptive to the introduction of IR.

Results and Discussion

From the above discussion, the respondent partially disclosed three of seven IR principles in the Strategic Plan. Challenges faced by the respondent to implement IR is the lack of knowledge on how to prepare the IR in tying together numerous aspects that can meet the requirement of information usefulness to stakeholders. This finding is consistent with Mohammed et al. (2019), who found a lack of guidance to the preparers on practical ways to produce IR. In a more recent study, Williams and Lodhia (2021) highlight potential challenges in IR implementation in the public sector. IIRC Framework is argued as private sector focused (Oprisor et al., 2016; Rossi and Orelli, 2019), and lacking specific measures (Rossi, 2018). Hence, to get a clear picture of IR, the respondents may need an introductory training in IR. Training could improve the respondents' awareness and provide a better understanding of IR's benefits. IR, for example, can act as a medium of communication for the organisation to disclose information that creates value for its stakeholders.

Another challenge identified is the lack of benchmarking cases or success stories that City Council ONE can utilise for IR adoption. IR adopters are mainly concentrated in profit-oriented private sector organizations. The public sector faces several challenges, including limited resources, a broad range of activities, a diverse set of stakeholders, and the need for greater accountability and transparency in the value creation process (Greiling, 2013). These challenges can make it difficult for public sector institutions to effectively manage their operations and meet the needs of their stakeholders. Specifically, the public sector may struggle with resource constraints, balancing competing stakeholder demands and

demonstrating how they create societal value. To address these challenges, public sector organisations must find innovative solutions that maximise their resources, enhance stakeholder engagement, and improve transparency in their operations.

The respondents in the study were found to be unaware of the costs associated with the adoption of Integrated Reporting (IR). Therefore, it is important to note that implementing IR at City Council ONE will require a budget to ensure a comfortable adoption process. In other words, there are costs associated with the adoption of IR that need to be taken into account in the planning process for City Council ONE. It is crucial to allocate the necessary resources to implement IR effectively, as this will help ensure that the adoption process is smooth and successful.

Adhariani and de Villiers (2018) investigated IR in Indonesia from the perspectives of corporate report preparers as well as other stakeholders in their research. Awareness of IR, perceived advantages of IR, perceived problems of IR, key receivers and preparers of IR, standards and implementation, and support promotion and training were the focus of their research. Cost and the necessary information infrastructure for IR are considered the most significant obstacles. It is anticipated that new information will be obtained to fulfil the IR framework, and contributions from other departments will be required.

Compared to previous non-financial reports, IR presents additional issues since it is more intimately related to the business model and how a company creates value (Stubbs and Higgins, 2014). Guthrie et al. (2017) identify behavioural difficulties, including resistance to change, in the public sector context. Non-financial reporting is predominated by qualitative narratives, with little disclosure of financial facts (Amoako et al., 2017). Arora et al. (2021) observed that accountants' engagement in IR was restricted because they did not perceive the value in IR and it was difficult for them to turn numerical information into narratives.

City Council ONE's acceptance of IR is facilitated by its awareness of IR's advantages. Unfortunately, the level of awareness among the public sector is very low. Thus, there are policy implications related to the need for further education to help management comprehend the potential of IR and the need for additional training to broaden the pool of knowledge of IR in the public sector (Williams and Lodhia, 2021). Through guidelines and public sector integrated reporting knowledge networks, the IIRC might be extremely helpful in promoting the adoption of integrated reporting and thinking in the public sector (Williams and Lodhia, 2021).

Perceived advantages of IR include fostering integrated thinking and enhancing stakeholder dialogue (Adhariani and de Villiers, 2018). The desire and readiness to bring up the notion of employing IR to management is a favourable sign for the future implementation of IR. As indicated by its involvement in a variety of innovative exhibits and contests at the state, national, and worldwide levels, the management welcomes creative ideas. Similarly, a tour to the neighbouring municipal councils to learn about their advances for benchmarking purposes. Hassan Ali (2021) recommended three elements of an IR implementation process for a corporation in research: (1) identification of stakeholders, (2) allocation of resources, and (3) relocation of the new strategy.

IR is extensively used in the business sector and is seen to be suited for public sector application. The Innovative and Creative Group (KIK) strategy is anticipated to be

ideal for adopting IR inside this business. IR necessitates modifications to how information is provided. According to studies, IR is the impetus for fundamental organisational and managerial transformation in the public sector (Katsikas et al., 2017). State-owned firms have taken an interest in IR (Guthrie et al., 2017; Farneti et al., 2019), which parallels with private sector organisations and have used social reporting for decades (Biondi and Bracci, 2018). Caruana and Grech (2019) discovered that government agencies had shown an interest in IR.

Thus, the change in the annual report is expected to involve the Management and Human Resources Department responsible for preparing the entire annual report. IR shows how organisations integrate environmental and social information with the economic information of an organisation. IR is a concise assessment report on how an organisation's strategy, governance, performance and prospects lead to value creation in the short, medium and long term. An awareness programme should be in place to recognise the need to educate the public sector. The Malaysian Institute of Accountants (MIA) plays a major role in promoting the implementation of IR in Malaysia and has used IR since 2017, which is an appropriate point of reference.

Conclusion

Incorporating IR into the Malaysian Code of Corporate Governance (MCCG) 2021, seen as exemplary best practice for publicly listed companies, created significant awareness, momentum and buy-in. MCCG encourages large companies to adopt IR based on a globally recognised framework. In the same year, IR Awards is introduced as a standalone category in the National Annual Corporate Report Awards (NACRA). Since then, various IR outreach events have been organised to build awareness and competency. There is currently no initiative to mandate the adoption of IR in Malaysia. Findings from this study indicate that IR, originally seen as a private sector initiative, has relevance and application to public sector organisations. Identifying challenges and enablers is important for city councils to assess its readiness before adopting IR. The findings could be used as input to the regulators and other public sector entities to facilitate the implementation of IR. This study contributes to the line of research on IR by providing empirical evidence of IR's potential in the public sector setting. Most studies in this area focused on IR in large private companies.

This study is exploratory in nature as a single case study is used, and City Council ONE has not considered adopting IR. Thus, future studies should consider more cases and include representatives from various departments as respondents. Similarly, more recent annual reports can be utilised to provide better comparability with the IR framework. It is anticipated that the international IR framework will continue to gain recognition and be modified to show responsibility for service delivery by local authorities and other entities in the public sector in Malaysia. Organisations must understand that adopting and executing IR needs time and effort. According to Paul Druckman, CEO of the IIRC, "IR is a journey that will need more than one reporting cycle to complete."

Acknowledgement

The authors would like to acknowledge funding from the Jabatan Akauntan Negara Malaysia, through Public Sector Accounting and Finance Research Grant, registered as an External Research Grant Scheme with a code EP2022-004.

References

- Adams, S., & Simnett, R. (2011). Integrated Reporting: An Opportunity for Australia's Not-for-Profit Sector. *Australian Accounting Review*, 21(3), 292-301.
- Adhariani, D., & de Villiers, C. (2018). Integrated reporting: perspectives of corporate report preparers and other stakeholders. *Sustainability Accounting, Management and Policy Journal*, 10(1): 183-207.
- Amoako, K.O., Lord, B.R. and Dixon, K. (2017). Sustainability reporting: Insights from the websites of five plants operated by Newmont Mining Corporation, *Meditari Accountancy Research*, 25(2), 186-215.
- Arora, M. P., Lodhia, S., & Stone, G. (2021). Enablers and barriers to the involvement of accountants in integrated reporting. *Meditari Accountancy Research*.
- Ball, A., Grubnic, S., Birchall, J., (2014). Sustainability accounting and accountability in the public sector. In: Bebbington, J., Unerman, J., O'Dwyer, B. (Eds.), *Sustainability Accounting and Accountability*, 176–196.
- Bartocci, L., & Picciaia, F. (2013). The 'non profit utilities' between state and market: the experience of the community cooperative of Melpignano. *Academia*, 381- 402.
- Best, B., Moffett, S., & McAdam, R. (2019). Stakeholder salience in public sector value co-creation. *Public Management Review*, 21(11), 1707-1732.
- Biondi, L., & Bracci, E. (2018). Sustainability, popular and integrated reporting in the public sector: A fad and fashion perspective. *Sustainability*, 10(9), 3112.
- Black Sun (2014). *Realizing the benefits: The impact of Integrated Reporting*. Viewed https://www.integratedreporting.org/wp-content/uploads/2014/09/IIRC_Black_Sun_Research_IR_Impact.Single.pages.18.9.14.pdf
- Broadbent, J., & Guthrie, J. (2008). Public sector to public services: 20 years of “contextual” accounting research. *Accounting, Auditing & Accountability Journal*.
- Caruana, J., & Grech, I. (2019). Tweaking public sector reporting with integrated reporting (IR) concepts. *Public Money & Management*, 39(6), 409-417.
- Cavicchi, C., Oppi, C., & Vagnoni, E. (2019). On the feasibility of integrated reporting in healthcare: a context analysis starting from a management commentary. *Journal of Management and Governance*, 23(2), 345-371.
- Cinca, C. S., Molinero, C. M., & Queiroz, A. B. (2003). The measurement of intangible assets in public sector using scaling techniques. *Journal of Intellectual Capital*, 4(2), 249-275.

- Cohen, S., & Karatzimas, S. (2015). Tracing the future of reporting in the public sector: introducing integrated popular reporting. *International Journal of Public Sector Management*, 28(6), 449-460.
- Chartered Institute of Management Accountants (CIMA). (2016). *Integrated reporting in the public sector*. CIMA.
- de Villiers, C., Venter, E. R., & Hsiao, P. K. (2017). Integrated reporting: background, measurement issues, approaches and an agenda for future research. *Accounting & Finance*, 57(4), 937-959.
- Doni, F., & Gasperini, A. (2014). The internal integrated reporting and value creation: A case study approach. *Knowledge and management models for sustainable growth*, 2666-2704.
- Dumay, J., Bernardi, C., Guthrie, J., & Demartini, P. (2016). Integrated reporting: A structured literature review. In *Accounting forum*, 40(3), 166-185. No longer published by Elsevier.
- Farneti, F., Casonato, F., Montecalvo, M. and de Villiers, C. (2019), The influence of integrated reporting and stakeholder information needs on the disclosure of social information in a state-owned enterprise. *Meditari Accountancy Research*, 27(4), 556-579.
- Freeman, R. E. (1984). Strategic management: A stakeholder theory. *Journal of Management Studies*, 39(1), 1-21.
- Gerwanski, J. (2020). Managers' incentives and disincentives to engage with integrated reporting or why managers might not adopt integrated reporting: an exploratory study in a nascent setting. *Qualitative Research in Accounting & Management*, 17(4), 553-587.
- Gibassier, D., Rodrigue, M. and Arjaliès, D.-L. (2018), "“Integrated reporting is like God: no one has met Him, but everybody talks about Him”: The power of myths in the adoption of management innovations". *Accounting, Auditing & Accountability Journal*, 31(5), 1349-1380.
- Graaff, B and Steens, B (2022). Integrated reporting: exploring supervisory board members' perspectives on the motives, drivers and benefits. *Journal of Accounting & Organizational Change*. <https://www.emerald.com/insight/1832-5912.htm>
- Greiling, D. – Halachmi, A. (2013). Accountability and organizational learning in the public sector. *Public Performance & Management Review*, 36(3), 380–406.
- Guthrie, J., Manes-Rossi, F. and Orelli, R.L. (2017). Integrated reporting and integrated thinking in Italian public sector organisations. *Meditari Accountancy Research*, 25(4), 553-573.

- Hassan Ali, N.O. (2021) Integrated reporting in the public sector – case study. *Prosperitas*, 8 (1): 56-72. ISSN 2064-759X.
- Higgins, C. and Larrinaga C. (2014). Sustainability Reporting: Insights from Institutional Theory, in Bebbington, J, Unerman, J and O’Dwyer, B (Eds), *Sustainability Accounting and Accountability*, 2nded., Routledge, London, 51-71.
- International Integrated Reporting Committee (IIRC). (2012). *Draft framework outline*. IIRC.
- International Integrated Reporting Council (IIRC) and CIPFA (2016). *Focusing on value creation in the public sector*. <https://integratedreporting.org/resource/focusing-on-value-creation-in-the-public-sector/>
- Katsikas, E., Manes Rossi, F., Orelli, R.L. (2017). Setting the Context for Integrated Reporting in the Public Sector. In: *Towards Integrated Reporting*. SpringerBriefs in Accounting. Springer, Cham. https://doi.org/10.1007/978-3-319-47235-5_1
- Laine, M., Järvinen, J. T., Hyvönen, T., & Kantola, H. (2017). Ambiguity of financial environmental information: A case study of a Finnish energy company. *Accounting, Auditing & Accountability Journal*, 30(3); 593-619.
- Lapsley, I., Skaerbaek, P., (2012). Foreword: why the public sector matters. *Financial Accountability & Management*. 28(4), 355–358.
- Lodhia, S. (2015). Exploring the Transition to Integrated Reporting Through a Practice Lens: An Australian Customer Owned Bank Perspective. *Journal of Business Ethics*, 129:585–598.
- Lodhia, S., & Hess, N. (2014). Sustainability accounting and reporting in the mining industry: current literature and directions for future research. *Journal of Cleaner Production*, 84, 43-50.
- Malaysian Institute of Accountants (MIA) and Association of Chartered Certified Accountants (ACCA)(2016), “*MIA-ACCA integrated reporting survey*”, available at: www.accaglobal.com/content/dam/ACCA_National/my/dis/MIA-ACCA-IR-survey-report_2016.pdf.pdf
- Minichiello, V., Aroni, R., & Hays, T. (2008). *In-depth interviewing: Principles, techniques, analysis* (3rd ed.). Australia: Pearson Education.
- Mitchell, J. C., Mitchell, M., & Stern, U. (1997, May). *Automated analysis of cryptographic protocols using mur/spl phi*. In Proceedings. 1997 IEEE Symposium on Security and Privacy (Cat. No. 97CB36097) (pp. 141-151). IEEE.
- Mohammed N. F, CheKassim C. F., Sutainim N. A., Amirrudin M. S. (2020). Accountability through integrated reporting: the awareness and challenges in malaysia. *Humanities and Social Sciences Letters*, 8(1); 123-132.

- Mohammed, B. A. H., Maelah, R., & Amir, A. M. (2019). Strategic management accounting information and performance of private hospitals in Malaysia. *International Journal of Economics, Management and Accounting*, 27, 473-502.
- Montecalvo, M., Farneti, F., & de Villiers, C. (2018). The potential of integrated reporting to enhance sustainability reporting in the public sector. *Public Money & Management*, 38(5), 365-374.
- Nada, O. H. A. (2021). Integrated reporting in the public sector—case study. *Prosperitas*, 8(1), 56-72.
- Oprisor, T., Stefanescu, C. A., & Sintejudeanu, M. A. (2016). An original assessment tool for transparency in the public sector based on the integrated reporting approach. *Accounting and Management Information Systems*, 15(3), 542-564.
- Osborne, S. P. (2018). From public service-dominant logic to public service logic: are public service organizations capable of co-production and value co-creation?. *Public Management Review*, 20(2), 225-231.
- Owen, G. (2013). Integrated reporting: A review of developments and their implications for the accounting curriculum. *Accounting Education*, 22(4), 340-356.
- Parker, L. D. (2001). Back to the Future: The Broadening Accounting Trajectory. *The British Accounting Review*. 33(4), 421-453.
- PwC. (2014). The state of integrated reporting in Malaysia: *An analysis of the Bursa Malaysia's top 30 companies' annual reports*. <https://www.pwc.com/my/en/publications/integrated-reporting-2014.html>
- Rossi, F. (2018). Building trust in artificial intelligence. *Journal of International Affairs*, 72(1), 127–134. <https://www.jstor.org/stable/26588348>
- Rossi, F. M., & Orelli, R. L. (2019). New frontiers for local government reporting: learning by pioneers. *Corporate governance e scenari di settore delle imprese*, 13.
- Rossi, F. M., Nicolò, G., & Polcini, P. T. (2018). New trends in intellectual capital reporting: Exploring online intellectual capital disclosure in Italian universities. *Journal of Intellectual Capital*. <https://doi.org/10.1108/JIC-09-2017-0119>.
- Scott, W. R. (2013). *Institutions and organizations: Ideas, interests, and identities*, 4th Edition. Sage Publications.
- Senn, J., & Giordano-Spring, S. (2020). The limits of environmental accounting disclosure: enforcement of regulations, standards and interpretative strategies. *Accounting, Auditing & Accountability Journal*. 33(6): 1367-1393.
- Stubbs, W., & Higgins, C. (2014). Integrated reporting and internal mechanisms of change. *Accounting, Auditing & Accountability Journal*.

- Talbot, C. (2011). Paradoxes and prospects of 'public value'. *Public Money & Management*, 31(1), 27-34.
- Veltri, S., & Silvestri, A. (2015). The Free State University integrated reporting: a critical consideration. *Journal of Intellectual Capital*, 16(2), 443-462.
- Wijaya, P. D and Bens, M. (2022). Benefits and challenges of implementing integrated reporting for royal schiphol group – a study for schiphol group to achieve their 2050 goal of zero emission airport. *Diponegoro Journal of Accounting*, 11(4); 1-8.
- Williams, B. (2015). The local government accountants' perspective on sustainability. *Sustainability Accounting, Management and Policy Journal*.
- Williams, B., & Lodhia, S. (2021). Integrated reporting in public sector organisations: A study of Australian local councils. *Journal of Environmental Management*, 280, 111833.
- Yin, R. K. (2014). *Case Study Research: Design and Methods*. 5th ed. Sage, Thousand Oaks, CA.

Potential and Challenges of the Implementation of Integrated Reporting in Public Sector Organisations

Discussion Guide

1. How is the Annual Report prepared in your organisation?
 - Responsible party, Content of the report, Presentation of the report
 - Benchmark
 - To what extent has your organization implemented integrated reporting (IR)?

2. Discuss your organisation's potential transition to implement IR.
 - To what extent is your knowledge related to IR?
 - How is IR expected to benefit your organization?
 - Who are the key drivers in IR implementation and why do they need to play this role?
 - What is the main success factor of your organisation's transition to IR and why is this considered important?
 - What are the challenges in the implementation of IR in your organisation? How can organisations overcome those challenges?

3. How can IR initiatives be initiated and practiced in public sector organisations?

4. In your view, what is the future of IR implementation in Malaysia?

Appendix 2

Summary of the Thematic Analysis: Themes, Categorization, and Indicators on the Data

Themes	Categories	Indicators
Preparation of Annual Report	Responsible party Content of the report Presentation of the report	<ul style="list-style-type: none"> • Management and Human Resource Department compile the annual report • Content of annual report based on departments
Extant of IR implementation	Benchmark	<ul style="list-style-type: none"> • 7 IR Guiding Principle
Key drivers in IR implementation	Knowledge related to IR	<ul style="list-style-type: none"> • Respondents and the organisation involved has insufficient awareness of IR disclosures • Demonstrated an interest in and a readiness to propose IR to management
Organization's transition to IR	Success factors	<ul style="list-style-type: none"> • Management support • IR Champion
Challenges in IR implementation	Capitulation Factors	<ul style="list-style-type: none"> • Limited knowledge on IR – Training, create awareness and understanding of IR, IR as communication tool • Lack of benchmarking and IR success stories • Investment to implement IR
IR initiatives in public sector	Push factors	<ul style="list-style-type: none"> • The Malaysian Institute of Accountants (MIA) plays a major role in promoting the implementation of IR in Malaysia • IR adopters as point of reference