Integrated Reporting
Navigating your way to a truly Integrated Report

The future for corporate reports
A quarterly publication containing useful information on Integrated Reporting from a South African perspective
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Introduction


Explanatory note to Edition 2

Where necessary, detailed findings have been updated to incorporate the latest research on a sample of companies with financial year-ends between March and September 2011.

In addition, practical observations on certain topical subjects which appear to be a challenge for companies have been included.

Integrated Reporting is the new kid on the block...

...and like many new kids there are great hopes for its future including the ultimate achievement of embedding a strategy that preserves long-term value, simplifying reporting and adding more meaningful information to a wide range of users. But where does the idea come from? What is it trying to do? And what is the current state of development?

And before you think this is just for the accountants, think again. Integrated Reporting aims to incorporate everything from strategy through to risk management; from financial reporting to the inclusion of usage of other capitals (think societal and environmental impacts). And it aspires to meet the needs of a wider group of stakeholders - employees, customers, suppliers and others. So everyone associated with an organisation is likely to be touched by it.

But let’s start at the beginning...
1. Where does this idea come from?

Financial reporting in its current form is subject to criticism every time something goes wrong.

After the Global Financial Crisis of 2008, many could not understand why businesses that had produced financial statements under generally accepted accounting principles could suddenly fail. Was there accurate disclosure of risk? Were all assets appropriately valued? If so, how could this happen?

At the same time, financial statements have become increasingly detailed with vast tomes of technical information being produced, requiring a high level of financial expertise to interpret.

But the financial statement was not the end of it. Increasing arrays of reports are produced by companies: governance issues including executive pay are reported on; at least some of the impacts of the business on society and the environment are stated. And these are reported to different audiences in different formats and at different times, despite common data.

So the idea of simplifying all the reporting under a consistent banner - Integrated Reporting - is most attractive. Note that Integrated Reporting is a more comprehensive concept than just an Integrated Report.

Beyond these issues there are increasing concerns that the assets covered by financial statements reflect a steadily diminishing component of shareholder value. From 1975 when physical and financial assets represented 83% of market value, to 2009 when they represented a mere 19%, there has clearly been a change in business models which is not reflected in traditional financial statements. Add to that the failure of current financial statements to capture the value of inputs from, or reliance on, natural capital and other forms of capital, and the ground is ripe for new ideas.

The cutting edge of development of these new ideas sits with two organisations:

The Integrated Reporting Committee of South Africa (IRC SA), under the chairmanship of Professor Mervyn King. This committee produced a discussion paper that provides guidance on how Integrated Reporting as recommended by the King Code of Governance Principles for South Africa 2009 (King III), should be practiced.

The IRC SA is presently considering public comment received, and the goal apparently is to align the South African guidance with the emerging international consensus to as great an extent as possible.

The International Integrated Reporting Committee (now Council) (IIRC) which was formed in 2010 under the aegis of the Prince’s Accounting for Sustainability Project and the Global Reporting Initiative. In addition to representatives from business and investors, the major accounting bodies, standards setters and security regulators sit on its governance committee.

The academic community has also been involved in developing thinking along similar lines.

The IIRC issued their discussion paper in September 2011, and invited public comment. The comments received are presently being considered by the Council. It is envisaged that an exposure draft on Integrated Reporting will be issued later this year.

The percentage of S&P500 market value represented by physical and financial assets versus intangible factors, some of which are explained within financial statements, but many of which are not.

The report that is periodically delivered to stakeholders is merely an output of an extensive underlying effort that precedes it. Reporting on an organisation’s current state and future prospects requires a comprehensive understanding of the strategy being followed, the risks the organisation is facing, the opportunities it is pursuing, details of its operations and governance practices, its impact on the environment and wider society, and more.

The processes and the product that comprise Integrated Reporting should accrue benefits to both the company and its stakeholders. For the company, the predominant value lies in the strategic and operational effects - the selection of metrics, the scrutiny and analysis of the business impacts and risks, the resultant insights, and the subsequent adjustments to operations and strategy. Additionally, a properly designed set of performance measures reported on as part of regular financial management gives the incentive and ability to improve performance. For the stakeholder, the report increases understanding of the company, its management, strategy, and operations; its perils and prospects.

In the end, Integrated Reporting, when executed with requisite rigor, allows both the company and its stakeholders to make better-informed decisions.

No single, agreed-upon definition yet exists; however, here are two representative samples:

According to the IRC SA:
An Integrated Report tells the overall story of the organisation. It is a report to stakeholders on the strategy, performance, and activities of the organisation in a manner that allows stakeholders to assess the ability of the organisation to create and sustain value over the short-, medium-, and long-term. An effective Integrated Report reflects an appreciation that the organisation's ability to create and sustain value is based on financial, social, economic, and environmental systems and by the quality of its relationships with its stakeholders. The Integrated Report should be written in clear and understandable language in order for it to be a useful resource for stakeholders.

According to the IIRC:
Integrated Reporting brings together the material information about an organisation’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how an organisation demonstrates stewardship and how it creates value, now and in the future. Integrated Reporting combines the most material elements of information currently reported in separate reporting strands (financial, management commentary, governance and remuneration, and sustainability) in a coherent whole, and importantly:

• shows the connectivity between them; and

• explains how they affect the ability of an organisation to create and sustain value in the short-, medium- and long-term.

At Deloitte, we see Integrated Reporting as enabling a process which enhances and preserves long-term sustainability in all its dimensions, without unduly sacrificing short-term performance.

The Integrated Report is in turn an annual report that comprises a holistic and integrated representation of the entity’s efforts to enhance and preserve long-term sustainability in all its dimensions, without unduly sacrificing short-term performance.
2. Background to the Integrated Reporting guidelines

How do the Integrated Reporting guidelines relate to other reporting frameworks?

It is important to note that the thinking behind the Integrated Reporting approach is somewhat different to the thinking behind the development of existing reporting frameworks and standards.

Again to quote the IIRC:

“Integrated Reporting reflects what can be called “integrated thinking” - application of the collective mind of those charged with governance (the board of directors or equivalent), and the ability of management, to monitor, manage and communicate the full complexity of the value-creation process, and how this contributes to success over time. It will increasingly be through this process of “integrated thinking” that organisations are able to create and sustain value. The effective communication of this process can help investors, and other stakeholders, to understand not only an organisation’s past and current performance, but also its future resilience.”

So the idea is deceptively simple...

Integrated Reporting would collate all the relevant data about an organisation’s strategy, risks and governance processes, environmental and societal impact and financial data and results. It would use this data to create a report or reports that are transparent, focussed on value creation in the long term as well as short-term value and explain how all these elements form a coherent whole in a simple and transparent manner.

At the heart of Integrated Reporting lies the Integrated Report, a single report that, in time, will become the company’s primary report. It is anticipated that the Integrated Report will replace rather than add to existing requirements, and that other reports and information (including the sustainability report, governance report, and even the financial statements) will be moved online. This ensures that only information which is regarded as material to the creation of value in the short-, medium- and long-term will be included in the Integrated Report.

According to the IIRC such an Integrated Report enables evolving reporting requirements, both market-driven and regulatory, to be organised into a coherent narrative. In addition, an Integrated Report provides a clear reference point for other communications, including any specific compliance information, such as investor presentations, detailed financial information, operational data and sustainability information.

However, before this becomes a reality, as we will see, a lot of work needs to be done in developing frameworks, standards and ways to deal with risk and other issues.
It is not the intention of Integrated Reporting to usurp the position of financial reporting measurement standards. These will continue to be the basis for the measurement of the existing use and returns on financial capital dictated by the International Financial Reporting Standards (IFRS).

Environmental and societal impact reporting standards are less well developed. An early incarnation, environmental reporting, took hold in the 1980s for a variety of reasons: some companies were driven by progressive environmental practices; others simply wished to portray themselves in that manner; and many others were spurred by litigation - or the threat of litigation - that surrounded industrial waste sites, environmental disasters, and the like. Early efforts were mostly sporadic and fragmented, such as inserting brief sections on environmental issues into annual reports, with no linkage to strategy or performance and no attempt to obtain independent assurance.

A decade later, as the reports were broadened to include other social issues, they became known as corporate social responsibility (CSR), citizenship, or sustainability reports. In both their earlier and later forms, these reports were often published separately from financial reports.

However, standardisation remains elusive. The closest thing to a uniform sustainability reporting framework is the Sustainability Reporting Guidelines (“GRI Guidelines”) by the Global Reporting Initiative (GRI), which is by far the most-used sustainability reporting framework in South Africa and globally. Currently developing the 4th generation framework, the development of the GRI Guidelines was a response to somewhat loose reporting in Corporate Social Responsibility reports. It set minimum standards and established a framework of appropriate minimum disclosures. In later years this extended to industry-specific requirements. The GRI is a voluntary standard and lacks any regulatory mandate at this time.

In this vacuum, a proliferation of competing sustainability-related frameworks, principles, codes, and management systems has arisen. Beyond the GRI Guidelines, the list includes the AccountAbility (AA) 1000 principles for managing and reporting sustainability performance; International Standards Organisation’s (ISO) various relevant standards; the Greenhouse Gas Protocol; and many more. Add in a regulatory patchwork - the Carbon and Water Disclosure Project, the requirements of the Johannesburg SRI and XBRL - and there’s little wonder that some organisations are unsure where to turn.

In Annexure D, we provide an overview of the most relevant frameworks, regulations, codes and standards guiding the various components of the Integrated Report.

What might an Integrated Report look like?

To help guide the development of the framework, both the IRC SA and IIRC have published a series of guidance notes to help companies practice Integrated Reporting. In addition to identifying how Integrated Reporting is different, the respective papers identify a number of key components which compose the building blocks for an Integrated Report, some of which may be new to many readers. In essence, topics to be included in the Integrated Report as set out in the respective papers are, although organised slightly differently, very similar.

### IRC SA

<table>
<thead>
<tr>
<th>Key components of an Integrated Report</th>
<th>IRC Key components of an Integrated Report</th>
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<tbody>
<tr>
<td>Report profile: What is the scope and boundary of the report?</td>
<td>Organisational overview, business model, and governance structure: How do we create value and make decisions?</td>
</tr>
<tr>
<td>Remuneration policies: What is our approach towards remuneration?</td>
<td>Governance and remuneration: What does the organisation do and how does it create and sustain value in the short-, medium- and long-term?</td>
</tr>
<tr>
<td>Understanding the operating context: What are the circumstances under which we operate?</td>
<td>Operating context, including risks and opportunities: What are the circumstances under which the organisation operates, including the key resources and relationships on which it depends and the key risks and opportunities that it faces?</td>
</tr>
<tr>
<td>Strategic objectives, competencies, KPIs and KRs: Where do we want to go and how do we intend to get there?</td>
<td>Strategic objectives and strategies to achieve those objectives: Where does the organisation want to go and how is it going to get there?</td>
</tr>
<tr>
<td>Account of the organisation’s performance: How have we fared over the reporting period?</td>
<td>Performance: How has the organisation performed against its strategic objectives and related strategies?</td>
</tr>
<tr>
<td>Future performance objectives: Informed by our recent performance, what are our future objectives?</td>
<td>Future outlook: What opportunities, challenges and uncertainties is the organisation likely to encounter in achieving its strategic objectives and what are the resulting implications for its strategies and future performance?</td>
</tr>
<tr>
<td>Analytical commentary: What are the views of the leadership about the organisation?</td>
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</table>

As set out below, the Integrated Report comprises the proposed building blocks, and is built on the foundation provided by the financial statements, sustainability report, governance report, and other reports relevant to the business of the company.
While many of these building blocks or components are familiar, the business model deserves some discussion as it introduces the concept of how the business creates and sustains value in the short-, medium- and long-term and its interaction with external factors, relationships and resources. In doing so, it considers six capitals that the business may rely on (in essence, the financial and non-financial resources).

These are defined thus:

- **Financial capital**: The pool of funds available to the organisation
- **Manufactured capital**: Manufactured physical objects, as distinct from natural physical objects
- **Human capital**: People’s skills and experience, and their motivations to innovate
- **Intellectual capital**: Intangibles that provide competitive advantage
- **Natural capital**: Includes water, land, minerals, and forests; and biodiversity and eco-system health
- **Social capital**: The institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. It includes an organisation’s social license to operate.

Source: IIRC Discussion Paper
An Integrated Report will include much more information about how the entity fits within the environment and society and how it creates long-term value. The focus will move from being merely concerned with reporting the past in financial terms to considering the past and the short-, medium- and long-term future in a connected, strategic manner. It will be tailored to the reporting entity’s specific circumstances and have a greater degree of transparency.

The IIRC has issued a set of guiding principles underpinning the preparation of an Integrated Report:

**Strategic focus:** An Integrated Report provides insight into the organisation’s strategic objectives, and how those objectives relate to its ability to create and sustain value over time and the resources and relationships on which the organisation depends.

**Connectivity of information:** An Integrated Report shows the connections between the different components of the organisation’s business model, external factors that affect the organisation, and the various resources and relationships on which the organisation and its performance depend.

**Future orientation:** An Integrated Report includes management’s expectations about the future, as well as other information to help report users understand and assess the organisation’s prospects and the uncertainties it faces.

**Responsiveness and stakeholder inclusiveness:** An Integrated Report provides insight into the organisation’s relationships with its key stakeholders and how and to what extent the organisation understands, takes into account and responds to their needs.

**Conciseness, reliability and materiality:** An Integrated Report provides concise, reliable information that is material to assessing the organisation’s ability to create and sustain value in the short-, medium- and long-term.

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**One page roadmap for an Integrated Report**

<table>
<thead>
<tr>
<th>Principles</th>
<th>Elements</th>
<th>Content</th>
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<tbody>
<tr>
<td>Strategic focus:</td>
<td>Group profile</td>
<td>• First few pages of the report to introduce the business</td>
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<tr>
<td></td>
<td></td>
<td>• In which sector does the business operate? What type of business is this?</td>
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<tr>
<td></td>
<td></td>
<td>• What are the products?</td>
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<tr>
<td></td>
<td></td>
<td>• What is the structure of the Group and the company?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Where does the business operate?</td>
</tr>
<tr>
<td>Connectivity of information:</td>
<td>Scopes and boundary</td>
<td>• Indicate the reporting period to which the report pertains</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Focus on comparability between different reporting periods (i.e. the impact of acquisitions, disposals or restructuring on the comparability of financial and non-financial information)</td>
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<td></td>
<td></td>
<td>• Focus on comparability between financial and non-financial information (more often than not the boundary for financial and non-financial information differs)</td>
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<td></td>
<td>Key features</td>
<td>• Illustrate the company’s main achievements and key features</td>
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<td></td>
<td></td>
<td>• Ensure a balance between financial and non-financial information</td>
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<td></td>
<td></td>
<td>• Utilise graphs, illustrations and pictures to deliver a clear message to the reader (too many words drown out the message)</td>
</tr>
<tr>
<td></td>
<td>Strategy Vision</td>
<td>• Use this part of the report to inform the reader of the character and values of the business</td>
</tr>
<tr>
<td></td>
<td>Values</td>
<td>• Clearly describe the strategic goals and objectives of the business in plain language (this is a key feature of the report since risks, opportunities, key performance indicators and targets will all be linked to the strategic objectives of the business)</td>
</tr>
<tr>
<td>Future orientation:</td>
<td>Governance structures</td>
<td>• Set out the governance structure of the group and the company, including the committee structure</td>
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<td></td>
<td></td>
<td>• Provide details on directors (qualifications, experience, age, other Board appointments, etc.)</td>
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<td></td>
<td></td>
<td>• Describe the governance structures to manage risk and sustainability respectively</td>
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<td></td>
<td>• Governance report should provide clear feedback on the performance of the Board and each committee, as well as specific disclosures as required in terms of King III (composition of the Board, statement on adequacy of internal controls and internal financial controls, ethics performance, etc.)</td>
</tr>
<tr>
<td></td>
<td>Stakeholders</td>
<td>• The Integrated Report is directed at the business’ key stakeholders (remember, the Integrated Report cannot be everything to everybody, but should rather focus on providing key stakeholders with relevant and material information)</td>
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<td></td>
<td></td>
<td>• Identify the key stakeholders of the business (based on influence and dependency)</td>
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<td>• Identify the key interests and concerns of the key stakeholders and indicate where in the report these concerns are being addressed</td>
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<td></td>
<td>• Describe the strategy and methodology to ensure effective stakeholder communication</td>
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<tr>
<td></td>
<td>Material risks and opportunities</td>
<td>• Identify the risks and opportunities facing the business (linked to the strategic objectives)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Indicate the mitigation plans in place to mitigate the risks and capitalise on opportunities</td>
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<tr>
<td></td>
<td></td>
<td>• Ensure a balance between financial and non-financial risks and opportunities (think people, product, supply chain, governance, and environment)</td>
</tr>
<tr>
<td></td>
<td>Key performance indicators and targets</td>
<td>• Identify the key performance indicators as it pertains to the strategic, risks and stakeholder concerns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ensure a balance between financial and non-financial indicators</td>
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<tr>
<td></td>
<td></td>
<td>• Identify measurable targets linked to the key performance indicators and report back on the progress to achieve these targets</td>
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<tr>
<td></td>
<td>Remuneration</td>
<td>• Explain the business’ remuneration strategy</td>
</tr>
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<td></td>
<td></td>
<td>• How is remuneration used to ensure delivery on the business’ strategy? Include information of long-term and short-term incentives, as well as financial and other incentives</td>
</tr>
</tbody>
</table>

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Set out opposite is a “one page” summary of the proposed components of an Integrated Report and how it inter-relates...
3. High level empirical work by Deloitte

Deloitte embraces the principle-based nature of the guidelines by both the IRC SA and the IIRC, as well as the fluidity in implementation timeline with reference to “a journey” rather than a date.

However, we acknowledge that it is hard for those responsible for implementation and those charged with governance to judge how individual companies should approach this, either to obtain competitive advantage or to remain aligned with good market practice. For this reason, Deloitte has embarked on a process of performing an empirical analysis of reports issued by listed companies in South Africa with regard to the principles of Integrated Reporting as explained in section 2.

Deloitte has undertaken substantial research into the quality and extent of Integrated Reports produced during the transition from the traditional annual financial report, supported by a sustainability report, to the inclusive Integrated Report as recommended by the Johannesburg Stock Exchange (JSE) through the adoption of King III.

This publication incorporates the results of our research conducted in September and December 2011, based on the Integrated Reports submitted to the JSE as required in terms of King III. The research covers 100 listed companies split between those with year ends before the 1 March 2011 cut-off for Integrated Reports (pre-regulation companies), those with year ends between March 2011 and May 2011 (Period 1) and those with year ends between June 2011 and September 2011 (Period 2). Our latest round of research was conducted during December 2011 and only covered companies whose Integrated Reports were publicly available by mid-November. Those entities with year-ends falling in Period 2 that published later than the cut-off date will be analysed as part of our next round of research. The analysis covered seven subjects, 58 principles and 160 questions seeking to assess actual performance against good practice.

In creating the abovementioned criteria, Deloitte considered a combination of the codes, standards and regulations explained in Annexure D, but also incorporated international good practice around the more subjective areas of Integrated Reporting such as the strength of the link between strategy, risk and key performance indicators; the manner in which the sustainable development agenda is addressed; and the extent to which the report covers matters relevant to the organisation and its stakeholders.

The seven subjects assessed included:

<table>
<thead>
<tr>
<th>Subject</th>
<th>High level summary of criteria assessed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report content and structure</td>
<td>Response to the IRC SA’s discussion paper issued in January 2011 including specific reference to the key components of an Integrated Report described in section 2.</td>
</tr>
<tr>
<td>Corporate context</td>
<td>The extent to which the nature of the organisation, its products, geographical footprint and strategy are explained in a concise manner.</td>
</tr>
<tr>
<td>Showing relevance</td>
<td>The extent to which material and relevant issues relating to the wider sustainability agenda are covered in the report.</td>
</tr>
<tr>
<td>Demonstrating commitment and management quality</td>
<td>The extent to which strategy is linked to Environmental, Social and Governance (ESG) risks and opportunities, the level of integration into the business and the governance structure in place to oversee execution.</td>
</tr>
<tr>
<td>Addressing the sustainable development agenda</td>
<td>This area assessed product innovation and supply chain management as well as the organisation’s response to recognised frameworks, codes and regulations.</td>
</tr>
<tr>
<td>Achieving credibility</td>
<td>This area considered engagement with stakeholders and the extent to which their concerns are responded to in a balanced manner. The extent to which credibility is achieved through external assurance was also assessed.</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>Response to the King III disclosure requirements covering all nine chapters of the Code.</td>
</tr>
</tbody>
</table>
4. Key findings

Although there has been a marked improvement in the overall quality of Integrated Reports between the reports submitted to the JSE between March 2011 and May 2011 (Period 1), and those submitted between June and September 2011 (Period 2), there is no definitive overall “best practice” Integrated Report at this stage: no company can be singled out as having a report that excels in all aspects of Integrated Reporting. However, we found that there are pockets of excellence within the documents studied. For example, one company may cover stakeholder engagement with distinction, whereas another may be outstanding in reporting on sustainability implications of the supply chain.

The top 10 trends are as follows:

1. Companies that have not properly embraced the concept of Integrated Reporting are becoming increasingly isolated. The results of our research indicate that there is a clear decrease in the number of companies that scored below 30% between Period 1 (27%) and Period 2 (11%).

2. Companies are increasingly starting to engage with sustainability issues as it affects their businesses, but have not yet adequately embedded this into their business strategy and processes. Of all the subjects examined, addressing the sustainability agenda still remains the lowest scored area, even though we have seen an increase in the average score in this area from 31% in Period 1 to 40% in Period 2.

3. Contrary to popular belief, the response to King III is still not as strong as many boards believe. Deloitte’s research showed an average disclosure score of 51% for listed companies with year ends commencing on or after 1 March 2010. Responsible boards should pay attention to this in anticipation of institutional investors adopting the recently-released Code for Responsible Investing in South Africa (CRISA) from February 2012 onwards. A most common weakness lies with companies’ response to IT risk management and the effectiveness of risk management and compliance programmes. More than half (54%) failed to provide specific information relating to IT risk management. Given that King III devotes a chapter to the governance of IT, this is of concern. Other aspects of concern are:

   3.1 The disclosure of the companies’ remuneration policy has improved but the detail provided is not sufficient to determine how remuneration is aligned to facilitate delivery on the strategic objectives.

   3.2 Risk disclosure remains superficial.
4. Companies are still reluctant to set measurable non-financial targets. Only a third of companies analysed were willing to disclose tangible non-financial targets linked to strategy and stakeholder concerns.

5. The definition of materiality as it relates to non-financial information is not well explained and continues to be a matter that requires further attention.

6. The Assurance regime applied in Integrated Reports requires substantial attention. Independent and objective assurance obtained on non-financial information remains at a relatively low level. Many companies do however comment on the fact that they have embarked on the journey to establish a sound Assurance regime.

7. Reporting on stakeholder engagement has improved, however the alignment of the identified and moderated material concerns with the strategy, key performance indicators and remuneration still requires improvement.

8. The ethics performance of companies is not well reported on or adequately assured as required by King III. This is a point of fundamental concern, as it may be an indicator of the level to which the professed value system of a company is actually applied in practice.

9. It remains easy to spot the window dressers. Producing an Integrated Report in the absence of a proper process allows the reader to easily identify companies that produce a report in order to apply the guidance rather than embedding and integrating ESG aspects into their business model and strategy.

10. Slowly but surely, supply chain management will be impacted. The importance of linking the wider sustainability agenda into innovation activities and supply chain management have been commented on by the majority of companies. The wider impact of this should be considered by entities featuring elsewhere in the supply chain, whether they are subject to Integrated Reporting requirements or not. Also see comments on Corporate Governance above.

5. Detailed findings

The results of the Deloitte research into the quality and extent of Integrated Reports of listed companies with a financial year end between 1 March and 31 May 2011 (Period 1) and those listed companies with a financial year end between 1 June and 30 September 2011 (Period 2), are discussed in this section.

Set out in the sections 5.1 to 5.7 are inter alia, the detail of our findings per subject assessed...
5.1 Report content and structure

The response to the IRC SA Discussion Paper issued in January 2011 including specific reference to risks, opportunities, KPIs and targets.

I. “Report Structure” in context

Report Structure can be described as the extent to which the information provided satisfies the requirements of Integrated Reporting as defined in the Discussion Paper issued by the IRC SA.

The following principles were considered in order to assess this topic:

1. The extent to which the general characteristics of the report address the key requirements of Integrated Reporting, specifically focusing on the length of the report, to whom the report is addressed and the balance between financial and non-financial data in the salient features disclosed in the report;

2. The extent to which the scope and boundary of financial and non-financial information were explained. This specifically focused on the comparability from period to period and between financial and non-financial indicators. In Deloitte’s experience, it is rare for the financial boundary and non-financial boundary to be exactly the same and therefore this assumption was challenged.

3. The extent to which risks and opportunities are disclosed in a balanced manner, covering the wider sustainability agenda and linking properly to the strategic objectives of the company. In this area Deloitte also assessed the mitigation plan disclosed.

4. The extent to which the abovementioned strategic objectives and risks fed into the Key Performance Indicators disclosed. The key focus here was to obtain an understanding to what extent the chosen Key Performance Indicators met the relevance and materiality criteria. (See section 5.3)

5. The extent to which key targets linked to the wider sustainability agenda were clearly identified.

6. The disclosure of remuneration, the extent to which disclosure met the requirements of King III and the Companies Act, and the link between remuneration and the wider sustainability agenda.

II. The most important trends that were identified

1. The general level of understanding of the requirements of Integrated Reporting is steadily increasing. The overall score for this category increased by 10 percentage points from 41% in Period 1 to 51% in Period 2. Companies are getting used to the format and level of transparency required. Although it was not the intention of the IRC SA to prescribe a format, an acceptable format is fast developing.

2. The overview of activities is generally well explained in an easily understandable and concise manner. This is principally done through the utilisation of graphs, maps and graphics. In contrast, the Operational Reviews of the majority of reports analysed are difficult to read and provide limited information linking back to the strategy, risks and KPIs explained in the general overview.

To what level are the format of the operational reviews layout aligned to simplifying the project?

The inconsistent structure and approach applied by various divisions of the company often results in a disconnection between the information disclosed on divisional level and the strategic focus, risks and opportunities, and targets disclosed at corporate level. For example - employee safety might be identified as a main concern of employees, customers and regulators as per the group-wide stakeholder engagement process whereas the divisional report primarily focuses on the response to HIV/AIDS. Further, the corporate agenda may focus on water consumption with divisional reports principally covering the carbon footprint with no reference to water management.
3. We question whether the complexity of defining and consistently reporting on non-financial data is understood. Disclosure of the scope and boundary of non-financial information improved from 31% in Period 1 to 42% in Period 2. This disclosure is however still relatively superficial and does not deal with the complex issues.

This could be an indication that those charged with governance do not yet fully appreciate the complexity of properly defining and consistently reporting these indicators. For example, whilst IFRS requires companies to include physical assets controlled by a company on its balance sheet, GHG protocol requires companies to include the emissions relating to assets managed by the entity in its carbon footprint - and this needs to be explained in the Integrated Report.

Similarly, when a company engages in a joint venture arrangement, consideration needs to be given to whether the employees of that joint venture form part of training and lost time injury statistics. Consideration should also be given to the impact of group restructuring and disposals.

4. The research indicated a marked improvement of remuneration disclosure. The average score obtained in this area increased from 47% in Period 1 to 62% in Period 2, possibly indicating acceptance of the fact that transparency in this area is unavoidable. In certain instances this disclosure did not only cover a detailed and wide range of key performance indicators utilised to assess performance, but also included an assessment of the relevant earner’s performance for the current year. However, only 61% of companies analysed disclosed remuneration paid to prescribed officers as required by the Companies Act.

5. Companies are still reluctant to set measurable non-financial targets. For both periods analysed, only a third of companies disclosed tangible targets linked to their strategy and stakeholder concerns.

6. Salient features in 68% of reports analysed now cover a balance of financial and non-financial data. This is a marked improvement on the 47% of companies that addressed a combination of financial and non-financial in Period 1. The non-financial indicators commented on most often are B-BBEE and other labour-related statistics. Although many companies disclosed improvements achieved in the environmental space in the salient feature section, they were reluctant to quantify the improvements achieved.

7. Companies are trying to shorten reports with varying levels of success. The majority of reports analysed in Period 2 are between 80 and 120 pages long (this excludes the Annual Financial Statements where it formed part of the Integrated Report). The sheer volume of information provided sometimes detracts from the core message. Good reports followed a clearly identified agenda based on material issues as identified by key stakeholders and rather provided other information, in which only a limited group of stakeholders are interested on a detail level, through a link to the company’s website. This includes the full set of the Annual Financial Statements, Global Reporting Initiative disclosure relating to indicators that were not a core part of the organisation’s strategy, as well as detailed governance reports, charters and policies. This is in line with both South African and International guidance.

8. Only a minority, but growing, number of companies excluded the full set of Annual Financial Statements from their Integrated Report. 22% of Period 2 companies included IAS34 compliant summary financial information and 16% of companies included audited IAS 34 compliant financial information. Please see the discussion in this regard in section 6.
9. The GRI framework is used by the majority of reporters. 51% of Period 2 companies utilized GRI as reporting framework for non-financial information (43% of Period 1). Of the 51% that utilise GRI, 8% also utilise AA 1000. However, only 27% of companies disclosed their application level. This is in contradiction with the GRI framework that requires companies that claim compliance with the framework to disclose its application level.

10. Although risk disclosure has improved, the lack of depth leads us to question the robustness of the risk management process supporting the disclosure. Although a significant proportion of Period 2 companies disclosed the risks facing the company and provided a risk mitigation plan, the risks disclosed often lack depth and typically deal with generic risks facing corporate South Africa.

III. Best practice examples

The reports which displayed excellence in areas of report content and structure are the following:

1. General characteristics:


2. Key strategic objectives:

3. Remuneration and sustainability:
   The BHP Billiton Annual Report 2011 (for the year ended June 2011, page 130, www.bhpbilliton.com) provides an excellent example of linking remuneration to the key drivers of strategy for the company.


   Group Five’s Integrated Report (for the year ended June 2011, pages 36 to 41, www.groupfive.co.za ) outlines how the board and senior management performed against their key performance areas. It includes a description of the key performance area, how it is measured and an indication of performance against these criteria for the past two years.

5.2 Corporate context

The extent to which companies are effectively communicating the context in which they operate.

I. The elements of the concept of “corporate context”

“Corporate context” can be described as the extent to which the information provided is effectively communicating the “story” of the company to stakeholders.

For the purposes of this analysis, corporate context was considered from the following key perspectives:

1. The aspects of the corporate context provided for the company, by focusing on the history of the organisation, its main products and services, its major markets and locations, key financial data, the organisation structure and major changes since the last report.

2. The extent to which basic reporting principles were applied in the report (scope, period, limitations or exclusions, target audience selection, rationale).

3. The extent to which qualitative characteristics are embedded in the report (relevance, reliability, clarity, comparability, timeliness, verifiability).

4. The logical flow of information in an easy to understand format by using visual elements and interactive navigation tools for online information.

5. The inclusion of a “quick reading” summary which includes key performance indicators, historical trends and future targets.

4. Scope and boundary:


5. Full set of Annual Financials not included:

The Imperial 2011 Integrated Report (for the year ended June 2011, www.imperial.co.za) was one of the first reports to exclude the full set of Annual Financial Statements and included abridged Financial Statements prepared in accordance with IAS 34 that was independently assured.

6. Key targets linked to strategy:

III. The most important trends that were identified

1. Companies are generally doing a good job in setting out corporate context and this is done in an easily readable and understandable format. Corporate context scored the highest of all seven categories evaluated in Period 1 and Period 2. The overall score for corporate context has improved from 50% in Period 1 to 59% in Period 2, providing evidence of the increased effort by companies to effectively tell the story of their company to stakeholders.

2. 81% of all companies disclosed at least five of the defined criteria elements for corporate context. The ratio remained constant between Period 1 and Period 2 companies, with companies focusing on the history of the organisation, its main products and services, its major markets and locations, key financial data, the organisation structure and major changes since the last report.

3. Companies are using visual elements such as charts, pictures, photographs and navigation tools combined with explanations to communicate effectively with stakeholders. This can be considered as standard practice with 90% of all reports containing some form of visual component to enhance usability of the report.

4. While companies are generally applying basic reporting principles, they are not describing their target audience and the rationale for choosing these stakeholders well. Less than 50% of reports defined the target audience, with only 16% of Period 2 companies including the rationale for choosing these stakeholders. The evolving corporate reporting landscape will place an ever-increasing focus on stakeholder engagement and addressing these stakeholders appropriately in the Integrated Report will be an important feature.

5. Companies are getting better at embedding qualitative characteristics in their Integrated Report. 51% of Period 2 reports, compared with 38% of Period 1 reports, included information that is: relevant to the user by assessing stakeholder needs; free from bias and material error; understandable to a wide range of stakeholders, compared to prior years or industry benchmarks; provided in a timely and frequent manner; and verifiable by an independent third party.
6. The structure and logical flow of information in corporate reports are generally done well. Close to 90% of all reports have a logical structure linked to the key messages of the organisation, providing evidence that companies have come to grips with integrating disparate pieces of information into a more structured whole, ultimately leading to improved communication with stakeholders.

7. The aspect of corporate context that scored the lowest both in Period 1 (33%) and Period 2 (41%) is “quick reading” options. It is encouraging to note the upward trend, but companies are still reluctant to disclose performance against key performance indicators and set measurable targets.

a. An executive overview that provides a balanced overview of the content and key messages is omitted from most reports. Only 13% of Period 1 reports included a balanced executive summary, increasing to 22% for Period 2 reports. The value of an Integrated Report is greatly enhanced by providing a holistic executive overview that enables stakeholders to “view the company at a glance”.

b. Quantitative key performance indicators were only disclosed in 40% of Period 1 reports, increasing to 54% in Period 2 reports. Many factors are driving higher levels of accountability and transparency. There will be an increased focus and demand on companies to define, and report on, quantitative key performance indicators.

c. It is encouraging to note that companies disclosing key performance indicators are generally also including historical trends and/or future targets, with the ratio increasing from 75% to 80% from Period 1 to Period 2.

III. Good practice examples

The reports which stood out in terms of Corporate Context are the following:

1. Corporate context:


2. Basic reporting principles:


3. Interactive navigation tools and signposting
Internationally, the online BP sustainability website (www.bp.com) provides interactive tools to help explore how BP is aiming to work sustainably - at both a group and a local level.

5.3 Showing relevance

The extent to which material and relevant issues relating to the wider sustainability agenda are covered in the report.

I. The elements of the concept of “relevance”

In order to present an Integrated Report that addresses pertinent stakeholder concerns, the report must demonstrate relevance. In this context, relevance is defined as the extent to which material issues relating to the wider sustainability agenda are covered in the report.

Through the application of materiality, the composer of the Integrated Report should only report on important information and avoid the tendency to overload the reader with irrelevant information.

Materiality is determined by ascertaining whether the omission or manner of presentation of information would influence the stakeholder’s evaluation of the organisation’s performance and the organisation’s ability to create and sustain value. We have incorporated additional guidance on determining non-financial materiality in section 6.

The challenge in evaluating materiality of non-financial metrics starts with understanding and engaging with a variety of internal and external stakeholders and extends to how relevant topics are identified, material aspects are prioritised and a materiality threshold is established. To undertake these evaluations a business needs to interpret the underlying values, ethics, and decision attributes that influence stakeholder behaviour and what stakeholders value.

For the purposes of this analysis, report relevance is defined by materiality and incorporates the following:

1. The rationale adopted by an organisation in determining report materiality.

2. The impact that the disclosed material issues have on the organisation’s business.
II. The most important trends that were identified

1. Companies continue to avoid disclosing the rationale for determining materiality. The IIRC Discussion Paper on Integrated Reporting details that only material information should be disclosed in the Integrated Report. It is evident from our research that companies have embraced this challenge as the number of companies incorporating material issues into their Integrated Reports has increased from 80% in Period 1 to 86% in Period 2. The overall percentage of companies including material non-financial information in their reports indicates the high level of adoption of this core principle. The low level of methodology disclosure is however concerning. Only 17% of Period 1 reports analysed had disclosed the methodology used to determine non-financial materiality, and this has decreased to 11% in Period 2. It is possible that this is because companies are still struggling to establish a methodology that applies across indicators.

2. The completeness of material issues raised is a concern. In the absence of a defined methodology and approach to determining materiality of non-financial information, the completeness of the material issues noted remains a concern. Approximately 85% of companies analysed disclosed material issues affecting their businesses - however this was not supported by disclosing the methodology applied in determining such issues. Only 11% of companies analysed disclosed the methodology applied to assess materiality.

3. Linking to stakeholder engagement is not clearly presented. The linkage between stakeholder engagement and the identification of material concerns is generally not clearly presented in the Integrated Report. Our research has indicated that only 38% of companies in Period 2 disclosed the key concerns raised by the stakeholders, even though 86% of companies had disclosed material concerns. In the absence of disclosing key stakeholder concerns, the assessment of the completeness of material issues which are actually identified becomes difficult.

III. Good practice examples

The good reports from a relevance point of view are:

1. Rationale for determining materiality:
   The Aveng Group Integrated Report 2011 (for year ending 30 June 2011, page 23, www.aveng.co.za) illustrates how material issues have been defined taking into account the group’s strategy, vision and mission, key macro-environmental issues that impact on the industry - including regulatory and legal matters, issues raised by stakeholder groups and the most significant business risks.

2. Material issue identification and methodology:
   The Telkom Integrated Annual Report 2011 (for year ending 31 March 2011, pages 59-63, www.telkom.co.za) details the sustainability material issues linked to the strategy and actions as well as details of the methodology applied in identification of these material concerns.

3. Material issues contextualise the report structure:
   The Truworths International Limited Integrated Annual Report 2011 (for year ending 30 June 2011, pages 12-21, www.truworths.co.za) delivers the material issues in a concise manner and enables the reader to contextualise the key messages.
5.4 Demonstrating commitment and management quality

The extent to which companies demonstrate commitment and management quality in the non-financial information provided in their primary report prepared for public consumption.

I. The elements of the concept of “commitment and management quality”

Commitment and management quality in this context can be described as an organisation’s sustainability vision and the quality of embedded management processes for achieving that vision.

The following principles were considered in order to assess this topic:

1. The vision for the future through which sustainability challenges and opportunities relevant to the organisation can be addressed;
2. The extent to which the strategy, goals, values and objectives correlate with the sustainability vision;
3. Whether the company has adequately assessed the key risks and opportunities that will influence the organisation; and
4. The extent to which governance structures and management systems are in place for handling sustainability issues.

II. The most important trends that were identified

1. Demonstrating commitment and management quality remains one of the more challenging parts of Integrated Reporting. When compared against other scoring criteria (such as report structure, communicating effectively and Corporate Governance), demonstrating commitment and management quality scored the 3rd lowest of the criteria in Period 2.

2. Despite the challenges, companies have made good strides in demonstrating commitment and management quality in their reports. The overall score for this subject increased from 32% in Period 1 to 46% in Period 2, resulting in the most significant improvement of any of the subjects assessed.

3. Disclosure of a sustainability vision for the future remains relatively low at 43% for Period 1 and 2 companies. Some companies are still not accepting the relevance of sustainability and have been slow to respond to the key sustainability challenges, but importantly, also the potential opportunities that will impact the business in the future.
4. The integration of economic, environmental and social goals into the overall business strategy is becoming more evident. 51% of companies in Period 2 disclosed a business strategy and related goals that address the identified sustainability challenges, up from 37% for Period 1 companies. It is encouraging to note that 46% of the Period 2 companies have also described their method for implementing the business strategy, up from 13% for Period 1 companies.

5. Most companies assessed and disclosed the key risks and opportunities that will affect their business. 84% of Period 2 companies disclosed key risks and opportunities to at least some extent, compared with 92% of Period 1 companies. Companies are also improving on presenting a balanced view between risks and opportunities. 43% of Period 2 companies described the system and processes for mitigating risks and maximising opportunities, up from 33% for Period 1 companies. It is however still unclear how companies link these risks into their strategic objectives and also how it translates into measurable key performance indicators.

6. Companies are still struggling to set "SMART" (specific, measurable, achievable, realistic, timely) sustainability objectives. Only 13% of Period 1 and 38% of Period 2 companies described objectives that are "SMART". The upward trend is encouraging, but the lack of consistent and reliable sustainability data is constraining companies from setting "SMART" objectives that correlate with the sustainability vision and business strategy.

7. Initially, companies did not respond strongly to the requirement to describe their governance structure to manage sustainability matters. Only 23% of Period 1 companies described their sustainability governance structures in sufficient detail; this ratio has increased to 62% for Period 2 companies. The increased adoption is probably a direct outcome of King III which clearly sets out the requirement for governance in this space, and specifically requires boards to include a statement on the integrity of the Integrated Report.
III. Good practice examples

The reports which stood out in terms of Demonstrating Commitment and Management Quality are the following:

1. Sustainability vision and strategy:
   The Eskom Integrated Report 2011 (for the year ended March 2011, pages 9-10, www.eskom.co.za) outlines a sustainability vision with a strategy and set of values to respond to this vision.


   The Clover Integrated Annual Report 2011 (for the year ended June 2011, page 145, www.clover.co.za) sets out the objectives and focal points of the environmental strategy, with specific reference to activities in the supply chain, both upstream and downstream.

   Internationally, the Unilever Annual Reports and Accounts 2010 (for the year ended December 2010, page 20, www.unilever.com) also outlines an ambitious sustainability vision with supporting objectives to achieve it.

2. Governance structures:

   The Rainbow Chickens Integrated Annual Report 2011 (for the 15 months ended June 2011, pages 33-34, www.rainbowchicken.co.za) describes the governance structure and the specific responsibilities of the risk committee as it relates to sustainability.

3. Management systems:

4. Assessment of key risks and opportunities:
   The Eskom Integrated Report 2011 (for the year ended March 2011, pages 21-28 www.eskom.co.za) provides a clear overview of material risks and opportunities and a description of how each risk will be mitigated.


   The Group Five Integrated Annual Report (for the year ended June 2011, pages 5-7, www.groupefive.co.za) provides a good summary of the group’s material focus areas, related risk disclosure and the link to strategy.
5.5 Addressing the sustainability development agenda

The extent to which companies address the sustainable development agenda in their primary report prepared for public consumption.

I. The elements of the concept of the “Sustainable Development Agenda”

Addressing the sustainable development agenda can be described as an organisation’s performance measured against external sustainability standards, expectations of key stakeholder groups and innovative solutions.

For the purposes of this analysis, the information provided was considered from three perspectives, namely:

1. Whether an organisation uses external sustainability frameworks and standards (such as the UN Global Compact and Global Reporting Initiative) against which business is measured, and to what extent it is in compliance with the defined criteria.

2. Performance relative to expectations of key stakeholder groups:
   a. A description of improvements in the supply chain, and whether upstream and downstream performance has been integrated into the organisation’s sustainability strategy and improvement targets;
   b. A description of employee involvement in the organisation’s sustainability programme; and
   c. A description of improvement programmes with civil society, such as local communities and non-governmental organisations (NGOs).

3. Whether the organisation describes innovation that maximises opportunities or mitigates identified risks.

II. The most important trends that were identified

1. Continued difficulty in addressing the sustainability agenda:
   Addressing the sustainability development agenda continues to remain the lowest scoring element of the Integrated Report analysis. The subject has improved by 29% from Period 1 to Period 2 illustrating that companies are increasing their incorporation of sustainability into their business agenda. This improvement however is tempered by the low scoring component of employee involvement (at 31%).

2. Framework conditions are increasingly important:
   The use of sustainability frameworks and standards has increased considerably with a 55% increase from Period 1 to Period 2. This indicates that companies are progressively looking to structured frameworks to enhance the Integrated Reporting process.

3. Supply chain management is being impacted:
   56% of the companies for Period 2 commented on the sustainability performance of their value/supply chain, indicating a 30% increase on Period 1 as (see diagram below). This performance however has not fully translated into future strategies and targets as only 38% of companies have incorporated supply chain in their sustainability strategy and targets. This may be an indication of the lack of maturity of most companies’ sustainability process within the context of their existing business strategy.

Does the report describe sustainability performance in the supply chain, upstream and/or downstream?

56%

44%
4. Companies contributions to civil society remains strong:
Involvement with Civil society has typically been reported on by organisations in traditional sustainability reports, and continues to be an important disclosure item in a company’s Integrated Report with 73% including improvement programmes with civil society. However, the majority of companies (78% for Period 2) did not describe the associated risks and opportunities from interacting with these civil society groups.

5. Innovation driving the sustainability agenda:
Innovation continues to be the highest scoring component of this element. 62% of Period 2 companies have commented on innovation in their Integrated Reports as illustrated below. 30% of these companies have however not demonstrated using innovation as a means of mitigating risk and maximising opportunities.

III. Good practice examples

1. Sustainable development model

2. Sustainability agenda and linked to supply chain

3. Innovation
   The Discovery Integrated Annual Report 2011 (for year ending 30 June 2011, pages 6-7, www.discovery.co.za) illustrates the importance of innovation within the framework of sustainable development.
5.6 Achieving credibility

The extent to which companies engender credibility to the non-financial information provided in their primary reports prepared for public consumption.

I. The elements of the concept of “credibility”

“Credibility” in this context can be described as the extent to which the information provided is trustworthy or believable from the reader’s perspective.

Four criteria should be considered when reflecting on the credibility of information provided, namely:

1. The nature and quality of the engagement process with stakeholders;
2. The extent to which issues facing the company are presented in a balanced manner - for example, that both positive and negative matters are presented;
3. The accessibility of the information including the extent to which the company has facilitated comment or possible requests for further information; and
4. Whether and what objective and/or independent assurance has been obtained on the non-financial information provided.

II. The most important trends that were identified

1. Adding credibility to non-financial information is clearly receiving more attention from reporters. The average scores of the companies analysed improved substantially from Period 1 to Period 2, namely from an average score of 34% on this subject overall, to 47%. The element which was most improved was on the nature and quality of the engagement process with stakeholders, while the practice of providing Assurance improved somewhat, but still remained at an unsatisfactory low level.

2. There appears to be consensus in the reportage examined that it is important for companies to identify their key stakeholders, with an increase of 40% of companies examined in Period 2, relative to Period 1, identifying and disclosing their key stakeholders. However, much work remains to be done in taking this process further than stakeholder identification. Specifically, the following aspects require much more attention:
   • Using a robust stakeholder identification methodology to ensure that important stakeholders are not overlooked or are incorrectly prioritised is crucial, and the actual reported practice remains particularly weak.
   • The form of interaction with those stakeholders that have been identified, based on the information in the reports examined, very often appears to be that of the company interpreting, or deciding, what is important to stakeholders, rather than engaging in two-way or other forms of engagement to facilitate proper communication.
   • While key concerns or topics raised through an engagement process with stakeholders are increasingly disclosed, the disclosure of these still remains at a very low level of 38% in Period 2.
   • Companies’ responses to stakeholders’ issues in their Integrated Reports are still only disclosed in 30% of cases in Period 2, which is at a low level but substantially up from the 7% of companies in Period 1.
3. Reports continue to be generally readily accessible: across all the companies analysed, the aspect of accessibility received the highest score out of the four criteria that were considered. However, it appears that some companies have not ensured that the capability and capacity of their computer systems are able to keep pace with potential demand and to ensure a reasonable response time during normal business hours.

4. Companies furnishing independent Assurance remain a minority, at a very low level of 27% in Period 2, almost unchanged from Period 1.

5. The Assurance that is being furnished is for the most part furnished by independent accounting firms, but with a significant increase of instances where Assurance is being sourced from internal auditors.

6. The Assurance Standards used continue to be dominated by those issued by the International Federation of Accountants (ISAE 3000) (for the majority compared to any other standard) followed by AccountAbility (AA 1000 AS Assurance).

III. Good practice examples

1. Engagement with stakeholders:

   Sasol, in the 2011 Annual Integrated Report (for the year ended 30 June 2011, pages 30-31, www.sasol.com), provides a very good example of which stakeholder concerns have been identified and how these have been dealt with.


5.7 Corporate Governance

The response to the King III disclosure requirements covering all nine chapters of the Code.

I. The elements of the concept of “Corporate Governance”:

King III stresses the fact that there is always a link between good governance and compliance with law. Good governance cannot exist separately from the law and it is entirely inappropriate to unhinge governance from the law. Directors need to comply with their duty of care, skill and diligence and their fiduciary duty.

The King III Report deals with a wide variety of matters related to Corporate Governance and this Code has been used as a basis for assessing Corporate Governance issues within the reporting of the companies reviewed. Certain disclosures are regarded as especially material and relevant, and as such, King III requires that these be specifically included in the Integrated Report. Attention was paid to determining the extent to which companies provided for these specific King III disclosures.

1. Ethical leadership and corporate citizenship: An organisation’s leadership and governance, amongst other factors, determine its ability to create and sustain value. Transparency, accountability and ethical leadership are the pillars of good governance. The extent to which the ethics performance of the entity was disclosed and supported by independent assurance was examined.

2. Boards and directors: The extent to which best practice principles are implemented regarding the composition, structure, duties and performance of the board of directors as well as appropriate standards of conduct for directors.

3. Audit committees: The extent and quality of disclosure of the role and function of the audit committee.

4. The governance of risk: The extent to which risk was identified and managed, including risk to sustainability and a company’s appetite for risk.

5. The governance of information, communication and technology: The governance of IT risk in particular.

6. Compliance with laws, rules and standards: The research examined the extent to which the laws and regulations under which the company operates as well as the compliance with them was disclosed.

7. Internal audit: The existence of an internal audit function and its effectiveness

8. Governing stakeholder relationships: The identification of stakeholders and the level and extent of engagement with them.

9. Integrated Reporting and disclosure: The Integrated Report is the pillar on which an assessment of Corporate Governance can be made. The existence of an Integrated Report, the extent to which it incorporates information, such as the Annual Financial Statements, a sustainability report and governance disclosures was examined. King III identifies a number of very specific disclosures to be made in the Integrated Report and the extent of this disclosure was analysed.

2. Assurance services:

Group Five, in the Integrated Report 2011 (for the year to 30 June 2011, pages 50-51, www.g5.co.za), provides an example of a good approach to Assurance on non-financial information.


III. The most important trends that were identified

1. Although most companies indicate that they subscribe to (or even comply with) the principles of King III, companies score surprisingly low on Corporate Governance. It should be noted, however, that there has been an improvement in the results from Period 1 to Period 2.

2. In general, companies do not score well on specific disclosures as required by King III: Most companies scored relatively well on those Corporate Governance principles that pertain to the structure and composition of the board (balance between executive and non-executive directors, an independent non-executive chair, etc.). However, the scores drop dramatically when considering specific disclosures as required in terms of King III (ethics disclosures, assessment of the independence of independent non-executive directors, requests for and reasons for refusal of information requested in terms of the Promotion of Access to Information Act, the board’s role in determining the risk appetite and tolerance, etc.). This indicates that much work needs to be done to ensure effective application of the principles of King III on the more detailed level.

3. Companies that take Integrated Reporting seriously score better on Corporate Governance: On many of the key disclosures required in terms of King III and the JSE Listings Requirements, those companies that scored in the top quarter of companies surveyed overall, also scored much better on Corporate Governance than those companies in the bottom half. This confirms the view expressed in the King III Report that good Corporate Governance principles are more effectively implemented where companies do so because they see the value in those principles. Even though all listed companies are now obliged to make certain disclosures, the general performance in this regard pales in comparison to those companies that elect to apply the King III principles on a pro-active basis.

4. The response to King III is not as strong as many boards believe: Our research showed an average disclosure score of 49% for Period 1 and 55% for Period 2. Even though King III has been effective since 1 March 2010, the principles embodied in King III have not yet been embedded in the structures, processes and procedures of many listed companies. Boards should pay attention to this in anticipation of institutional investors adopting CRISA (Code for Responsible Investing in South Africa) from February 2012 onwards. The most common weakness was found in companies’ response to IT risk management and the effectiveness of its compliance programmes.

5. Disclosure of the ethics performance of the company was disappointing: Only 32% of the companies in Period 2 disclosed the ethics performance.

6. Companies showed mixed compliance regarding boards and directors: 73% of companies surveyed in Period 2 (60% in Period 1) indicated that the board is composed of a majority of non-executives, of which the majority is independent. The Companies Act requires profit companies to have at least 50% of the directors appointed by shareholders. The results of the survey suggest that not many companies have implemented this requirement of the Act yet, but we would expect the board composition to change once a majority of directors are appointed by shareholders.

7. Although there has been some improvement in the number of companies that performed an assessment of the effectiveness of the Board, the scores remain relatively low (50% for Period 1 and 62% for Period 2). King III emphasises the importance of regular performance assessment of the board and each individual director, and given the codified standard of director conduct in the Companies Act, one would have expected better performance in this regard.
8. The surveyed companies scored poorly on risk management disclosure:
Only 21% of the reports in Period 2 contain clear expression by the board of its views relating to the effectiveness of the risk management processes (see diagram below). These scores seem very low compared to the high scores in the boards and directors section. A possible conclusion here can be that companies are not yet geared to disclose to stakeholders how effective they consider their risk management structures to be. The board determines the risk policy and has to set the risk appetite and risk tolerance of the company. Management, in turn, has the duty to design and implement a risk management plan within the parameters set by the board. In this regard, the disclosures of surveyed companies paint a bleak picture. According to the results, boards would do well if they pay more attention to the critical role they need to play to ensure effective risk management.

9. IT risk is not being accorded the important status that it requires: IT risk is deemed by King III to be so important that a chapter is devoted to it, even though this risk should not be managed differently from other types of risks. The board needs to take the necessary steps to ensure that there are processes in place to ensure complete, timely, relevant, accurate and accessible IT risk-related reporting. The average scores with the respect to IT governance are very low (although there has been an improvement from Period 1 to Period 2) and much work needs to be done to ensure that IT risk management receives the necessary attention.

10. Internal audit and the assessment of internal controls: Internal audit plays an important role in providing assurance to the board regarding the effectiveness of the system of internal controls and risk management of the company. 92% of companies surveyed in Period 2 indicated that they have an Internal Audit function compared to 62% in Period 1. The board should report on the effectiveness of the system of internal controls in the Integrated Report. A key disclosure in this section of the reports relates to whether the company’s report includes an outright assessment of the effectiveness of the system of internal controls. Surveyed companies in Period 2 scored 78% in this regard (compared to 71% in Period 1). Surprisingly, the majority of these companies provided a positive statement, not limited to the scope of a risk-based plan (58% in Period 1 and 46% in Period 2). It is interesting to see a larger percentage of companies made a negative statement in Period 2 (33% in Period 1 and 41% in Period 2). This seems to indicate that companies are starting to better appreciate the risk associated with a positive statement, and the work required to provide such a representation.
6. Topical issues

6.1 Materiality and Integrated Reporting

The IIRC Discussion Paper includes the concept of materiality as part of its five Guiding Principles in Integrated Reporting.

Discussion

Materiality is a core element in determining the relevance of report information. Further, it is critical that materiality, as it applies to non-financial information, is interpreted such that it allows for consistent application.

Materiality is also one of the four reporting principles for defining report content as mentioned in the GRI reporting framework. The principle of materiality is however yet to be adequately defined in the context of determining and disclosing non-financial information in the Integrated Report.

Our research indicated that of the Integrated Reports included in our analysis, 86% of the reporters in Period 2 included issues labelled as material in their Integrated Reports. However, only 11% of the reporters have disclosed their methodology in determining materiality for non-financial information.

The process of establishing materiality levels for non-financial information starts with the understanding of, and engaging with, the important stakeholders (internal and external to the organisation) and encompasses the criteria to identify material items and how these are prioritised.

Because non-financial metrics are, by definition, not priced in markets, to undertake these evaluations the underlying values, ethics and decision-making processes of stakeholders need to be interpreted. The materiality of issues to stakeholders however cannot be assessed without taking into consideration the significance of these issues to the organisation itself.

This overlap between what is important to stakeholders as well as to the organisation, will define the truly material concerns that should be incorporated in Integrated Reporting and the Integrated Report.
Integrated Reporting  
Navigating your way to a truly Integrated Report

6.2 Conciseness in Integrated Reports

“We oftener say things because we can say them well, than because they are sound and reasonable”1.

The challenge of achieving conciseness in Integrated Reports is recognised by both the IRC SA and the IIRC, but is nevertheless suggested to be an important principle.

Achieving conciseness in describing complex situations is, of course, a tall order which is not easily achieved. It requires having clarity and alignment on what the company is about. It further requires being ruthless in excluding that which does not clearly aid understanding the fundamentals of the company, what it is trying to achieve and what its prospects are.

In our opinion, based on the research conducted thus far, South African listed companies are making good progress towards concise Integrated Reports and the current trend needs to be maintained. Because of the different natures of the businesses being researched and the fact that a full cycle of reporting (year-ends commencing on or after 1 March 2010) has not been completed, it is too early to provide concrete and quantifiable data to support this contention.

Ultimately, conciseness is pivotal and non-negotiable in enabling and empowering a company to tell its story in a way that stakeholders will clearly and easily understand. The challenge is well summed up in the words of Oliver Wendell Holmes: “I would not give a fig for the simplicity this side of complexity, but I would give my life for the simplicity on the other side of complexity”2.

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1 Walter Savage Landor, “Marcus Tullius and Quintus Coriolanus”, Imaginary Conversations (1824-53)
2 http://www.quoteopia.com

Recommended areas for consideration

Companies should look to existing reporting frameworks and guidelines to assist in the determination of materiality.

Based on the GRI technical protocol “Applying the Report Content Principles 2011”, the following should be considered in determining and disclosing materiality:

- Topics raised by stakeholders need to be prioritised;
- The prioritisation process needs to consider “significance to stakeholder” and “significance to organisation”;
- Thresholds need to be determined: “materiality is the threshold at which topics or indicators become sufficiently important and should be reported”; and
- The organisation needs to be transparent about its judgements.

AccountAbility has developed a five-part materiality test as a framework for issues to be considered material. The materiality threshold is met if one or more of the following tests apply:

- Issues that have direct short-term significant financial impacts.
- Issues where the company has agreed policy statements of a strategic nature – these are often in the form of commitments to key stakeholders.
- Issues that comparable organisations consider within their sphere of materiality; i.e. peer-based norms.
- Issues that stakeholders consider important enough to act upon, or not act upon (now or in the future).
- Issues which are considered social norms (as indicated by regulations, likely future regulations or institutionalised norms and standards).
6.3 Stakeholder engagement

Introduction
One of the fundamentals of the Integrated Reporting process is stakeholder engagement. It is the key starting point for a company, not only in terms of its corporate reporting cycle, but also connects to its business strategy and demonstrates how a company is responsive to the legitimate needs and concerns of key stakeholders. But let’s start with the definition: what are stakeholders and what is stakeholder engagement?

Definition
The AccountAbility 1000 Stakeholder Engagement Standard defines stakeholders as:

“… those groups who affect and/or could be affected by an organisation’s activities, products or services and associated performance. This does not include all those who may have knowledge of or views about the organisation. Organisations will have many stakeholders, each with distinct types and levels of involvement, and often with diverse and sometimes conflicting interests and concerns.”

Stakeholder Engagement is defined as “… the process used by an organisation to engage relevant stakeholders for a purpose to achieve accepted outcomes”.

Stakeholder engagement process
Companies need to remain relevant to survive in a challenging business environment and to be relevant requires regular interaction with important stakeholders. A robust stakeholder engagement model is vital for companies to be able to understand and respond to legitimate stakeholder concerns. But how best do you approach this important aspect? It may seem like a daunting task at first glance?

Important stakeholders are inherently known to companies and most companies are interacting with these stakeholders in some form or another as a matter of course. Such engagement happens in different formats and at various levels in any organisation, and the process has been embedded in sound business practices for some time. However, this process is often ad-hoc at many companies without a formal structure and process in place. Business leaders and senior managers will normally be able to list their key stakeholders and concerns, but not furnish the structure and process of engagement as easily.

The value of the stakeholder engagement process can be greatly enhanced while the risk of missing important perspectives - which may negatively affect reputation and cause embarrassment or worse - be reduced by formalising the implementation of a formal stakeholder engagement policy. The key components of a typical policy are:

• Define the scope of the policy
  The scope and boundary of the stakeholder engagement policy should be clearly defined, articulated and communicated. The background, logic and impact of the policy should be included to set the scene for the policy.

• Define the ownership and decision-making process
  The executive ownership of the policy and process should be clearly defined, with the owner mandated to ensure accountability. This should be communicated to the organisation and incorporated in the performance measurements of the owner:

• Define the governance process
  Companies are increasingly focusing on enhancing the credibility of their reported information and so doing, supporting business processes. The introduction of a sensible assurance regime with regard to stakeholder engagement, using a Combined Assurance Model, should form part of the governance process. It is already common practice in certain European countries to obtain external assurance on the stakeholder engagement process.

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AA1000 Stakeholder Engagement Standard 2011, Accountability 2008
Navigating your way to a truly Integrated Report

- Identifying the key stakeholders and stakeholder groups

There are numerous models and methods for identifying stakeholders. Our standard recommended approach focuses on two dimensions:
1) the stakeholder’s influence on the organisation, and 2) the stakeholder’s dependence on the organisation. These two dimensions are plotted using a simple rating scale, resulting in the grouping of stakeholders in four quadrants as set out below.

<table>
<thead>
<tr>
<th>Stakeholder influence on organisation</th>
<th>Organisation impact on stakeholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>No influence</td>
<td>Stakeholder is highly dependant on organisation - no choice</td>
</tr>
<tr>
<td>Low influence</td>
<td>Low priority - provide access to general channels of information and feedback</td>
</tr>
<tr>
<td>Some influence</td>
<td>Keep involved and informed - but ensure balance between concerns of high influence stakeholders and those people actually impacted by decisions</td>
</tr>
<tr>
<td>Formal power/ high influence</td>
<td>Treat fairly - honour commitments to these stakeholders in line with policy, regulations and industry norms. Otherwise, endeavour to keep stakeholders satisfied insofar as balance of costs and benefits allow</td>
</tr>
<tr>
<td>Stakeholder’s support for the business has little or no impact on its success</td>
<td>Strategic threat or opportunity - invest in engagement process to understand concerns and develop solutions</td>
</tr>
<tr>
<td>Stakeholder’s support for the business can highly impact the business’ success</td>
<td></td>
</tr>
</tbody>
</table>

The key focus area should be top right quadrant (high influence and high dependence). This does not mean that other stakeholders are not important, but engagement with these other stakeholders will be targeted at different levels and forms.

This needs to be a robust process, using objective criteria, to confirm whether the important stakeholders of the organisation have, indeed, been identified and prioritised.

- Develop an engagement plan, including frequency, method and channel

The engagement plan needs to form part of a regular cycle to ensure new developments and any changes are captured within a reasonable time.

- Facilitate the stakeholder engagement process

Accountabilities in terms of the engagement plan should be assigned to specific people to ensure the necessary focus and attention is placed on the engagement process. Regular feedback and updates to the executive owner and leadership team should be incorporated in the plan to enable the process and create the necessary visibility.

- Identify the legitimate concerns and interest of key stakeholders

With regard to the identified important stakeholders, there needs to be clarity on what the material issues are for those stakeholders. It is not sufficient for the company to talk on behalf of these stakeholders and what they think the legitimate concerns are; the process must be one of careful listening and clarification by the company. Proper two-way communication and methods which actually facilitate this are of the utmost importance.

- Design a process for dealing with conflicts between stakeholder concerns

Matters of interest and concerns can typically be grouped into the following categories: economic/financial (profitability, cash flow, dividend policy, pricing, growth rate, exchange control); environment (carbon footprint, water, waste management, recycling, compliance) and social (health and safety, skills retention, ethics, transformation, training). The likelihood of conflicts is high and the company should have a proper process to deal with conflicts between stakeholder concerns.

- Define a mechanism to feed stakeholder concerns into strategic planning to ensure alignment

The material needs identified by important stakeholders need to be moderated by the company’s leadership, and those ones which can and should be addressed in the opinion of the leadership team, including the Board of Directors, should form an input into the strategy process of the company. Stakeholders are interested in the outcome of engagement, and the corresponding link to the business strategy, business model, risks, opportunities and key performance indicators. Companies should present a balanced view to stakeholders, clearly showing how stakeholder engagement has informed the manner in which the business is conducted.

- Provide feedback to stakeholder groups

The engagement plan should incorporate feedback on the outcome of the engagement process to stakeholders with whom the company has engaged.

- Generate reports, including input for Integrated Report

The Integrated Report should disclose information on stakeholder engagement, incorporating relevant aspects of the policy and process. The Integrated Report should be addressed to key stakeholders and the rationale for identifying these should be clearly disclosed.
Who should the Integrated Report be addressed to?

The Integrated Report can’t be all things to all people and it is our contention that the identification of the primary user(s) will be the starting point for companies in their Integrated Reporting process.

In our experience, questions as to what information should be included in an Integrated Report are facilitated when an organisation can answer the question: To whom is the entity reporting? Different information can be relevant to different user groups and different user groups will also assign different materiality thresholds to specific information.

Although Integrated Reporting seeks to communicate with all key stakeholders, we contend that informed and knowledgeable investors, taking a longer-term view of the entity’s sustainability in all its dimensions, should be identified as the primary stakeholders of the organisation and of the Integrated Report. The legitimate interests of other key stakeholders should be viewed through this lens, as most often trade-offs are necessary.

6.4 Assessment of the system of Internal Control and Internal Financial Control

King III recommends that the Board should report on the effectiveness of the system of internal controls in the Integrated Report and also recommends that the Audit Committee should report on the effectiveness of systems of internal financial controls.

In order to do this, the Board is required to holistically consider all information brought to its attention and consider whether the risk of material misstatement and/or significant loss is sufficiently reduced through adequately-designed and effective internal controls. It is critical that the organisation’s Combined Assurance Model is designed to facilitate this assessment of controls that protects the data quality and integrity of both financial and non-financial data. The cost benefit of particular controls should also be considered by the Board.

Management is responsible for ensuring adequate internal controls to safeguard the assets of the company and specific controls relevant to the preparation and fair presentation of an Integrated Report should be in place and operate effectively.

Internal Audit is responsible for providing a written assessment on the effectiveness of the system of internal control to the Board. In order to do this, internal audit procedures should be aligned to standards for the professional practice of internal auditing as prescribed by the Institute of Internal Auditors (IIA). These standards require that Internal Audit comply with ethical requirements and plan and perform audit procedures to obtain reasonable assurance that the system of internal control is operating effectively.

The procedures selected depend on the internal auditor’s judgement, including the assessment of risk. In making those assessments, the internal auditor needs to consider the overall control environment relevant to the entity in order to design procedures that are appropriate in the circumstances. Where the Internal Audit function is outsourced to a third party, this assessment needs to be provided by the relevant service provider. It is critical that this is agreed upfront as part of the annual Internal Audit plan.
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6.5 Should the Annual Financial Statements be included in the Integrated Report?

The question is often asked whether or not the complete set of financial statements must be included in the Integrated Report. In order to answer this question, we need to look at the requirements of the new Companies Act.

The Companies Act, 2008 requires every company to prepare Annual Financial Statements and to present such statements to shareholders at a shareholders meeting (an annual general meeting (AGM) in the case of public companies). An interesting development in the new Act is the fact that the Act allows companies to provide any person (even shareholders) with a summary of the financial statements, as long as it sets out the steps required for such a person to obtain the complete set of financial statements. Specifically, in providing the notice of the AGM to shareholders, the Act requires the notice to include either the financial statements to be presented or a summarised form of these statements.

In terms of the old Companies Act, the company had to send a copy of the Annual Financial Statements to each shareholder prior to the AGM. This was usually done in the form of an Annual Report (the Annual Financial Statements formed an integral part of the Annual Report). This is no longer required by the new Companies Act, The Act now merely requires that, as part of the notice to attend an annual general meeting, the company must include either a copy of the Annual Financial Statements, or a summary of the Annual Financial Statements (with direction as to how a complete set may be obtained).

So, where a company elects to attach its Integrated Report to the notice for an annual general meeting, it must still comply with the requirements of the Act and either include the complete set of financial statements or include a summary that meets the requirements as set out below, including information on how to acquire a full set.

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The Board should critically evaluate the written assessment made by Internal Audit. We recommend that the following be considered in this assessment:

- Internal Audit’s direct and indirect reporting lines;
- The level of access granted to Internal Audit within the organisation;
- The absence (or otherwise) of undue budgetary constraints;
- The qualification and experience of the Internal Audit team;
- The Internal Audit methodology applied (including sample size and techniques);
- The scope of the audits executed; and
- The utilisation of Management Control Self-Assessment.

King III does not specify the extent to which the Board needs to report on the system of internal control. In reports published to date, we noted statements that vary between outright positive statements such as “Internal controls are in place to ensure the integrity of the group’s qualitative and quantitative financial information, which is used by a variety of stakeholders” to limited statements such as “Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures or systems occurred during the year under review”.

The responsibility of Boards and Audit Committees to report to stakeholders on the effectiveness of the system of internal control (including internal financial control) should not be underestimated. Under the provisions of the Companies Act, which codifies the standard of director conduct, a control breakdown resulting in significant loss for any of the stakeholders might render the board, or an individual director, liable at law.

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Where a company prepares summarised financial statements, the Act states that (section 29(3)):

(a) any such summary must comply with any prescribed requirements; and

(b) the first page of the summary must bear a clear prominent notice -

i. stating that it is a summary of particular financial statements prepared by the company, and setting out the date of those statements;

ii. stating whether the financial statements that it summarises have been audited, independently reviewed, or are unaudited;

iii. stating the name, and professional designation, if any, of the individual who prepared, or supervised the preparation of, the financial statements that it summarises; and

iv. setting out the steps required to obtain a copy of the financial statements that it summarises."

The form requirements pertaining to summarised financial statements will be applicable where the company presents any person with summarised financial statements in lieu of the complete set of financial statements (e.g. to shareholders as part of the notice for an AGM, to a bank as part of a loan application, to a contracting party as part of contractual obligations). However, where highlights or key features of a company’s financial information are published in a booklet or forms part of a presentation, and it is clear that shareholders (and other stakeholders) will not rely on the information so provided, these legislative requirements will not apply. This is because it would not be the intention of the company to publish the information or present the highlights or key features as a substitute for the complete set of the company’s financial statements in those circumstances. Where it can reasonably be assumed that stakeholders may rely on the summarised financial information, the company should ensure that the summary complies with the provisions of section 29(3).

As stated above, every company is obliged to prepare and present Annual Financial Statements to shareholders. This statutory requirement is not negated or circumvented when a company issues an Integrated Report. In essence, the Integrated Report is addressed to key stakeholders (which may include shareholders) and is intended to tell the integrated story of the company. Although some financial information may form part of the Integrated Report, the company is nevertheless obliged to keep the complete set of financial statements on record (even electronically) and to make this available to shareholders on request.

With respect to the form and content of a summary of financial statements, there is no prescribed standard. The guidance in the preparation of summarised financial statements as determined by the relevant financial reporting standards should be applied. Currently none of the IFRS, SA GAAP or IFRS for SMEs contains guidance for the preparation of summarised financial statements.

The Companies Act allows for summary financial statements to be distributed to shareholders; unfortunately neither the Act nor the Regulations provided for the prescribed requirements for a summary. As such, the JSE indicated that where listed companies provide shareholders with summarised financial statements, the summary of financial statements must

- be prepared in accordance with the framework concepts and measurements and recognition requirements of IFRS and the AC 500 standards as issued by the Accounting Practices Board or its successor and

- must also as a minimum contain:
  - the information required by IAS 34: Interim Financial Reporting (in other words the disclosure requirements) and
  - a statement confirming that it has been so prepared.

Thus, if a company provides a copy of its Integrated Report (with summarised financial information included) to shareholders (without supplying complete set of financial statements or a summary) the summarised financial information in the Integrated Report should comply with the requirements of section 29(3) and the JSE requirements above.

Recommendation: It is recommended that a summary of financial information (compiled in terms of IAS34 and in compliance with section 29(3) of the Companies Act) be included in the Integrated Report, and that reference is made as to how the complete set of the financial statements can be accessed electronically.

The Integrated Report should contain a note in which reference is made to the requirements of section 29(3), as set out above.
6.6 Assurance

Introduction

The Assurance arrangements companies adopt for Integrated Reporting, and which is articulated and represented in the Integrated Report itself, should be properly planned and be tailor made. The Audit Committee members are the architects, acting for and on behalf of the owners - the Board of Directors.

The research that Deloitte has conducted to date, based on over a hundred JSE listed company published reports, reveals that companies often end up at an Assurance destination in their Integrated Reports that was not properly planned. This results in an inadequate Assurance dispensation, which almost certainly increases cost, as well as risk, and does not use the opportunity to enhance credibility and trust with the company’s stakeholders. It is our conclusion that the Assurance dispensation is frequently adopted almost as an afterthought.

The credibility of a company, and the trust it engenders with its stakeholders, is of fundamental importance. A pivotal element of establishing and building high levels of credibility and trust is to demonstrate that there is a proper Assurance plan in place, which is implemented as part of a journey where the destination is clear.

Conceptually, the mindset that should be adopted by Audit Committees and Boards of Directors vis-a-vis Assurance is depicted below:

Roadmap to proper assurance arrangements - A journey of improvements

The guidance found in the literature, and the practice demonstrated by companies who are leading in this area, is clear: The company’s properly-identified key stakeholders, and their moderated needs and wants, fundamentally shapes the strategy. The articulated strategy results in initiatives and business processes, the attendant risks of which need to be properly managed. A very important component of managing risk and reducing it to an acceptable level is through securing the appropriate level of Assurance from appropriate parties (internal or external to the company) that matters are indeed as they are supposed, and purport, to be.

Combined Assurance

This is where the Combined Assurance Model, which is a King III principle, becomes so important.

A Combined Assurance Model is about planning properly, and then implementing, how best to reduce risk to an acceptable level through an Assurance dispensation, where the contribution of the various potential role players is optimised. This will result in reduced risk and cost, as well as increased effectiveness. The effect on the Information Pyramid of a Combined Assurance Programme, compared to the Traditional Reporting arrangement, is depicted below:

Completing the information pyramid: Traditional reporting

In the design of a Combined Assurance Programme a host of technical issues, such as the identification of potential assurance providers (internal and external), proper mapping of the key risks, the assurance framework of best fit, standardised measures of assurance and other matters, need to be defined, agreed and documented.
Practice and trends

Important practice and trends in the Assurance regimes adopted in Integrated Reporting and Integrated Reports identified in our research to date are as follows:

Inclusion of audited Annual Financial Statements

Annual Financial Statements prepared using the IFRS framework, are externally assured by accredited auditors and still most often are included as part of the Integrated Report. Reasonable assurance is provided in the case of an unqualified audit opinion. The assurance framework used is that prescribed by the IAASB (International Auditing and Assurance Standards Board) through Statements on International Auditing Standards.

This assurance framework has a long and established history, with which stakeholders are familiar. Companies furnishing external assurance on other additional elements of their Integrated Report should carefully weigh the implications of using a variety of different external assurance providers, who utilise different assurance standards and frameworks.

Inclusion of audited summarised (abridged) financial statements

The readability of the Integrated Report and its effectiveness as a communication medium is enhanced if the material is presented in as concise a form as possible. Both the IRC SA and the IIRC have also placed emphasis on the need for information to be presented in a concise fashion in the Integrated Report (see 6.2).

A very important practical decision facing companies is the approach to be taken on the inclusion, or not, of the full set of Annual Financial Statements in the Integrated Report. The length and complex technical content of a full set of Annual Financial Statements, while containing important information, does not contribute to the goals of conciseness, understandability and readability which should also be essential elements of an Integrated Report.

This challenge has been successfully dealt with by a small, but growing, number of companies who have opted to present summarised (abridged) Annual Financial Statements complying with IAS 34 in their Integrated Reports, with a clear reference of where interested stakeholders are able to access the full set of the Annual Financial Statements. This practice, which we support and encourage, is consistent with the spirit and content of the Companies Act and also with the guidance provided by the Johannesburg Stock Exchange.

The Assurance regime adopted with summarised Annual Financial Statements included in Integrated Reports varies from no assurance to reasonable independent assurance being provided.

We consider that an exemplary practice has been established in this regard by the example of Imperial Holdings Limited Integrated Annual Report 2011 (for the year ended 30 June 2011, pages 91 - 127, www.ih.co.za) where abridged Annual Financial Statement prepared in accordance with the framework concepts and the measurement and recognition requirements of IFRS and complying with the requirements of IAS 34 - Interim Financial Reporting, and which have been independently and reasonably assured, are presented.

Inclusion of assured aspects associated with the Global Reporting Initiative (GRI) Third Generation

The GRI has designed and published a global sustainability reporting framework supplemented by sector specific guidelines. This voluntary framework with self-declaration of level of application is most commonly used in South Africa to guide sustainability disclosure. Application Levels range from C to A, with C indicating the minimum disclosure.

Some companies seek independent assurance over their Application Level. This is sourced from a variety of third party service providers and the assurance standard used and the type of assurance provided, vary.

Assurance Standards

There are two assurance standards that are generally used, namely the Framework issued by the International Federation of Accountants (ISAE 3000) and that issued by AccountAbility (AA 1000 AS).

The ISAE 3000 standard is part of the set of standards used to independently assure the Annual Financial Statements and which has been referred to above. The levels of assurance provided by those two standards are depicted in the diagram below:

<table>
<thead>
<tr>
<th>Standard</th>
<th>Level of Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISAE 3000</td>
<td>Limited</td>
</tr>
<tr>
<td>AA 1000 AS</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

AA 1000 Assurance Standard (2008) vs ISAE 3000

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Inclusion of assured specific indicators and processes

A variety of financial and non-financial indicators, which relate to the governance and sustainability performance of companies, are disclosed in Integrated Reports. These indicators are assured by a variety of internal and external parties, using different standards and approaches, but the present arrangements and the lack of standardisation make this far from ideal.

Internationally there is also a trend to assure the stakeholder engagement and materiality setting process using ISAE 3000 or AA 1000 AS. Although this is not common practice in South Africa, we predict that assurance over these critical processes will become more prevalent in years to come.

Representation of an Assurance regime

The following illustrative table, which may be included in an Integrated Report, depicts the elements of a well-considered assurance regime in our opinion. The information depicted therein is merely used to illustrate the various important elements, and should therefore not be used as a blueprint.

<table>
<thead>
<tr>
<th>Material business process assured</th>
<th>Assurance output</th>
<th>Status</th>
<th>Final Assurance provider</th>
<th>Combined Assurance Model followed</th>
<th>Integrated Report reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Abridged Annual Financial Statements</td>
<td>Audit Report</td>
<td>Reasonable assurance provided</td>
<td>XYZ Audit Firm</td>
<td>Yes</td>
<td>Page X</td>
</tr>
<tr>
<td>2. GRI application level</td>
<td>Audit Report</td>
<td>Limited assurance provided</td>
<td>XYZ Audit Firm</td>
<td>Yes</td>
<td>Page Y</td>
</tr>
<tr>
<td>3. Selected GRI indicators</td>
<td>Audit Report</td>
<td>Reasonable assurance provided</td>
<td>XYZ Audit Firm</td>
<td>Yes</td>
<td>Pages Z, D, E</td>
</tr>
<tr>
<td>4. Empowerment credentials</td>
<td>Report</td>
<td>Reasonable</td>
<td>ABC Verification Company</td>
<td>Yes</td>
<td>Page A</td>
</tr>
<tr>
<td>5. Employee satisfaction</td>
<td>Survey</td>
<td>Independently verified</td>
<td>EFC Research</td>
<td>No</td>
<td>Page B</td>
</tr>
<tr>
<td>6. Carbon emissions</td>
<td>CDP return for XXX Carbon</td>
<td>Assured</td>
<td>UK Environmental Research</td>
<td>Yes</td>
<td>Page C</td>
</tr>
</tbody>
</table>


Questions for audit committees to consider in establishing a sound assurance regime

1. What are the key business processes and/or information that need to be assured?
2. Which of these key business processes and/or information will we need to make public representations about and when will this be feasible?
3. Is the framework in terms of which representations of these processes and/or information are prepared acceptable and robust?
4. Who are all the actual and potential parties who are relied upon to provide assurance and is a Combined Assurance Model being followed? Is the assurance process as efficient and effective as it can be? Where there are overlaps or duplication, are we satisfied that the risks warrant the continuation of such arrangements?
5. Has a consistent and appropriate level of materiality been approved and accepted by the company for purposes of internal assurance providers? Are those levels of materiality compatible and defensible compared to those that will be used by external assurance providers?
6. Are the criteria against which the subject matter(s) must be weighed in the assurance process objective, measurable, complete and relevant?
7. Are the standards which will be used by the parties providing assurance consistent and compatible? Are the levels of assurance to be provided consistent and compatible? Is there necessity for rationalisation and improvement?
7. Conclusion

Where to from here?

What does the future hold?

Just as the world has inexorably moved toward the adoption of IFRS, the progression toward a single, global, common framework for Integrated Reporting is, in Deloitte’s view, inevitable. Less clear, however, is the timing of widespread international adoption, which may be affected by a variety of economic, political, social, and other factors.

Regardless of how the timing plays out, forward-thinking companies are putting Integrated Reporting on their agendas now, as the benefits of being ahead of the curve may be significant. One such benefit may be marketplace advantage, where organisations that report on the full spectrum of issues may be seen as more advanced than those which restrict their reporting to traditional financial information and limited mandated disclosures. The information disclosed through Integrated Reporting may favourably sway investors, influence customers, and attract partners. Additionally, uniform Integrated Reporting of an entity’s financial and non-financial performance would yield comparable information for global companies, allowing benchmarking and evaluation activities that are not currently possible.
Deloitte believes that the benefits of a strong sustainability strategy reflected in the Integrated Report can potentially be:

- Improved ability to identify and respond successfully to opportunities, risks, and changes in the business environment through a focus on longer-term business impacts
- More readily apparent linkage between Environmental, Social and Governance (ESG) performance and financial performance
- Better linkage of overall performance and executive compensation
- Competitive advantage through cost savings, operational efficiencies, brand differentiation and innovation (such as new product development)
- Improved ability to attract capital, trading partners and value chain participants
- Improved stakeholder relations by addressing their needs and managing their expectations
- Improved compliance with existing and pending regulations and Corporate Governance requirements
- Improved credibility with key stakeholders through a transparent and independently-assured Integrated Report
- Alignment and simplification of internal and external reporting for consistency and efficiency

What can companies do?

This is an early stage in what could be a far-reaching process. Becoming engaged now could pay future dividends for participants, not just in preparedness, but also in influencing the outcome. A minimum involvement would be for companies to keep informed of developments at the IRC SA and IIRC. Beyond that, they are encouraged to engage in the debate.

This is a strategic issue, so senior executives in organisations must be involved. Directors need to ensure that they comply with the standards of conduct contained in the Companies Act. It is, therefore, important that they ensure that their company embarks on the Integrated Reporting journey sooner rather than later. Directors and companies should strive to create and sustain value in the short-, medium- and long-term. To achieve this, they need to refine the way in which they report to and communicate with all their key stakeholders. The Integrated Reporting frameworks proposed by the IRC SA and the IIRC (which are very similar in all material respects) provide a good starting point.

Let the journey begin!
## Annexure A: Questions directors should ask when assessing the Integrated Report

<table>
<thead>
<tr>
<th>Subject</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Report content and structure</td>
<td>1.1. Does the Integrated Report demonstrate a clear link between strategy, risk, key performance indicators and targets informed by stakeholders and is this link consistently demonstrated in the Chairman’s Report, the Chief Executive Report, the salient features table and the divisional review?</td>
</tr>
<tr>
<td></td>
<td>1.2. Is the risk disclosure balanced with regards to financial, economic, social and environmental risk and has a credible mitigation plan been provided?</td>
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<tr>
<td></td>
<td>1.3. Is the report written in a concise manner that covers material and relevant matters? (Due to the fragmented nature of the regulations and frameworks currently guiding the various components of an Integrated Report, reports often contain duplicated information. This detracts from the core message and also introduces risk to the company.)</td>
</tr>
<tr>
<td></td>
<td>1.4. Is the boundary of the report as it relates to financial and non-financial information properly explained with reference to specific frameworks and company-specific challenges?</td>
</tr>
<tr>
<td></td>
<td>1.5. Have measurable targets relating to the wider sustainability agenda been set and disclosed?</td>
</tr>
<tr>
<td></td>
<td>1.6. Where summary financial information is provided, has it been reported in accordance with IAS 34: Interim Financial Reporting?</td>
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<tr>
<td></td>
<td>1.7. Does senior management remuneration disclosure comply with the requirements of the Companies Act, King III and the Integrated Reporting guidelines? Where the company decides not to apply the principles of King III and the Integrated Reporting Discussion Paper, has the rationale been discussed by and documented in the minutes of the Remuneration Committee?</td>
</tr>
<tr>
<td>2. Corporate context</td>
<td>2.1. Does the Integrated Report describe the corporate context of the company in a holistic manner?</td>
</tr>
<tr>
<td></td>
<td>2.2. Is the corporate context communicated in an easy-to-understand format by using maps, diagrams, timelines and other innovative methods?</td>
</tr>
<tr>
<td></td>
<td>2.3. Does the report ascribe to the basic principles of reporting by disclosing the scope, period, limitations and exclusions?</td>
</tr>
<tr>
<td></td>
<td>2.4. Is the intended target audience for the Integrated Report described, as well as the rationale for choosing these stakeholders?</td>
</tr>
</tbody>
</table>
| | 2.5. Does the report apply and embed qualitative characteristics?  
* Is information provided relevant to the user?  
* Is information free from bias and material error?  
* Is the report understandable to a wide range of stakeholders?  
* Is the report comparing information against prior years and/or industry benchmarks?  
* Is the report provided at least on an annual basis?  
* Is the information provided of such a nature that it could be verified by an independent third party? |
| | 2.6. Does the report have a logical structure related to the key messages and information needs of the targeted audience? |
| | 2.7. Is information presented in a visually attractive manner by using charts, pictures, photographs and interactive navigation tools? |
| | 2.8. Does the report provide an executive summary with a balanced overview of the content and key messages? |
| | 2.9. Does the report include quantitative key performance indicators, incorporating historical trends and future targets? |
| 3. Showing relevance | 3.1. Is the stakeholder engagement process robust in identifying the right stakeholders relevant to the organisation? |
| | 3.2. Has the company adopted a framework to enable the assessment and ranking of concerns raised by the stakeholders to assist in the identification of material items? |
| | 3.3. Has the materiality framework and approach been approved by the relevant oversight body before being disclosed? |
| | 3.4. Has the Integrated Report been reviewed to ensure only material items are included in order to reduce the irrelevant information being presented to stakeholders? |
Navigating your way to a truly Integrated Report

* Specific, measurable, achievable, realistic, time-bound

**Achieving credibility**

6.1. Is the stakeholder identification methodology sufficiently robust, properly explained and consistent with an acceptable framework?

6.2. Is the form of stakeholder engagement meaningful and effective and is it properly disclosed?

6.3. Have the key topics or concerns raised through the stakeholder engagement process been properly recorded and disclosed?

6.4. Is the company’s response to stakeholders concerns appropriate and is it properly disclosed?

6.5. Does the report contain a good balance of issues, and not only contain matters that reflect well on the organisation?

6.6. Are the company’s soft (electronic) disclosures consistent with the hard copies and are they becoming progressively more dynamic?

6.7. Has the non-financial information been assured in a cost-effective manner by recognised, credible and knowledgeable people/entities?

**Addressing the sustainable development agenda**

5.1. Has compliance with external sustainability standards (such as the UN Global Compact and Global Reporting Initiative) been described and does this include achievements, challenges and progress against the criteria?

5.2. Have the key achievements and challenges been described when reporting supply chain performance? (Organisations should consider integrating the supply chain into key performance targets and objectives.)

5.3. Does the report describe how employees are involved or encouraged to be involved in the sustainability strategy and objectives? (The report should also assess the effectiveness and functioning of initiatives and processes that encourage employee involvement.)

5.4. Does the business describe improvement programmes with civil society? (This should include the outcome of engagements, both positive and negative, and the associated risks and opportunities, where applicable.)

5.5. Does the company describe innovation that maximises identified opportunities or the mitigation of risks? (Examples can include the design of new products and services, innovative manufacturing processes or new partnerships in the marketplace.)

**Demonstrating commitment and management quality**

4.1. Does the organisation present a vision for the future in which sustainability challenges relevant to the organisation are addressed? (It is important that the company’s vision seeks to address key sustainability risks and opportunities.)

4.2. Does the organisation describe a business strategy, with corresponding goals, values and SMART* objectives, in response to the sustainability vision?

4.3. Does the company assess the key risks and opportunities that will influence the organisation’s business, and is a credible risk mitigation plan provided?

4.4. Does the report describe all governance structures in place to manage sustainability matters, as well as roles and responsibilities of function and individual accountabilities?

4.5. Does the business describe management systems in place for handling sustainability issues? (Companies should explain how sustainability considerations are integrated into these business processes.)

**Corporate Governance**

7.1. Given the Corporate Governance disclosures which are included in the Integrated Report, will stakeholders generally conclude that the company:
   a) Has an effective and robust governance structure?
   b) Adheres to good governance principles?
   c) Has an independent and effective audit committee?
   d) Has an effective risk management policy and plan to ensure the identification, management and monitoring of all material risks facing the institution (including IT and compliance risk)?
   e) Has a well-positioned, risk-based internal audit function?
   f) Has a structured approach to stakeholder engagement, including processes to ensure the identification of key issues for stakeholders and effective communication channels to report on how those issues are addressed?

7.2. Is it clear from the company’s Integrated Report that governance, strategy, risk, performance and sustainability are intrinsically linked?

7.3. Is it clear from the Integrated Report that the company’s governance structures are designed to provide strategic direction to the company, and to ensure the link between strategy, risks and opportunities, and the performance of the company?

7.4. Does the Integrated Report include an assessment by the board of:
   a) The effectiveness of the risk management function?
   b) The effectiveness of the system of internal control?
   c) The response to IT governance?
   d) The integrity of the Integrated Report?

7.5. Given the link between the codified standard of director conduct (and the risk of personal liability where the standard is not met) and the governance principles embodied in King III, do you feel comfortable that the governance disclosures in the company’s Integrated Report illustrate the board’s (as well as individual director’s) commitment to compliance with the standard?
Annexure B:
The relationship between Integrated Reporting, the Companies Act and King III

All companies are required to comply with the requirements of the Companies Act of 2008, which, for the first time, codifies the standard of director conduct, and specifically deals with a range of Corporate Governance matters. In addition, companies listed on the JSE are required to include in their annual report a statement as to how they have complied with the principles set out in King III, with year ends starting on or after 1 March 2010.

Section 5 of the Companies Act, 2008 (the Act) prescribes the interpretation and application of the Act. It provides that the Act must be applied in accordance with the “purposes” of the Act as contained in section 7 of the Act. These purposes are diverse and include matters such as promotion of compliance with the Bill of Rights and encouragement of the efficient and responsible management of companies.

Section 158 provides that any of the Companies and Intellectual Properties Commission (CIPC), the Takeover Regulation Panel, the Companies Tribunal or a court, when determining a matter brought before it, must promote the spirit, purpose and object of the Act and, if any provision of the Act, or any other document in terms of the Act, read in its context, can reasonably be construed to have more than one meaning, the relevant forum must prefer the meaning that best promotes the spirit and purpose of the Act and best improves the realisation and enjoyment of rights.

In practice, the following approach may be followed when any difficulties arise in understanding the provisions of the Act:

“The Act as a whole is to be read in its entire context so as to ascertain the intention of Parliament (the law as expressly or impliedly enacted by the words), the object of the Act (the ends sought to be achieved), and the scheme of the Act (the relation between the individual provisions of the Act).”

The words of the individual provisions to be applied to the particular case under consideration are then to be read in their grammatical and ordinary sense in the light of the intention of Parliament, embodied in the Act, and if they are clear and unambiguous and in harmony with the intention, object and scheme and with the general body of the law, that is the end.

If the words are apparently obscure or ambiguous, then the meaning that best accords with the intention of Parliament, the object of the Act and the scheme of the Act, but one which the words are reasonably capable of bearing, is to be given them.”

As set out in section 7, one of the stated purposes of the Act is to promote the development of the South African economy by encouraging transparency and high standards of Corporate Governance as appropriate, given the significant role of enterprises within the social and economic life of the nation. This raises the question as to what extent companies and directors need to give credence to or adhere to the Corporate Governance principles as embodied by King III.

Under the previous Companies Act, Corporate Governance was a voluntary matter. However, under the new Companies Act things have changed. The Act now codifies the standard of director conduct, and specifically deals with a range of Corporate Governance matters. One of the key chapters in the new Act is entitled ‘Governance of Companies’ and contains provisions on directors’ duties and liability, meetings, appointment and removal of directors and other matters concerning the board and its committees, directors and shareholders. Certain other Corporate Governance principles are not legislated or regulated directly in terms of the Act, and it may be argued that these principles (the recommendations in King III) will apply on a voluntary basis. As such, South Africa will have a hybrid system of Corporate Governance, which is partly legislated and partly voluntary.

However, if one considers the codified standard of director conduct (which includes the fiduciary duty to always act in good faith and for a proper purpose, and in the best interest of the company), there is a case to be made that the Corporate Governance principles as set out in King III may be considered to ascertain whether or not certain actions were taken “in good faith and for a proper purpose, and in the best interest of the company”. In addition to compliance with legislation, the criteria of good governance, governance codes and guidelines will be relevant to determine what is regarded as an appropriate standard of conduct for directors. The governance practices embodied in King III are recognised as best practice, and as such it is likely that a court may regard conduct that conforms to these practices as meeting the required standard of care. If the fiduciary duty requirement is interpreted in view of the stated purpose of the Act to encourage transparency and high standards of Corporate Governance, the best practice principles enumerated in King III will inevitably be applied to companies and directors. Consequently, any failure to meet a recognised standard of governance, albeit not legislated, may render a board or individual director liable at law.
In this regard, it is important to note that the concept of the best interest of the company, if interpreted as proposed above (in view of the purpose of the Act) takes on a somewhat different meaning - one can no longer account only for the best interests of shareholders when determining the best interest of the company. Rather, the interests of all stakeholders will have to be taken into consideration. This will include the interests of not only shareholders but also employees, unions, creditors, as well as the community within which the company operates. As such, the fiduciary duty of directors (as well as other officers of the company) will require of those directors to employ the wider concept of the best interest of the company when exercising their functions and duties, and always to ensure that they act in the best interest of the company as a whole (thus, including the interests of shareholders and stakeholders).

The employment of Integrated Reporting and the publication of an Integrated Report are proposed in King III as a means to communicate with all the key stakeholders of the company in an integrated and effective manner. The Companies Act recognises the significant role of enterprises within the social and economic life of the nation, and as such it becomes important to consider all the interests of the various key stakeholders (including the shareholders) of a company when determining the strategic objectives and strategy of the company. Such a course of action will be in line with the fiduciary duty of the directors as it will be considered to be in the best interest of the company.

Further, it becomes vital to ensure the effective management of the relationship with such key stakeholders. Where the company reports effectively to key stakeholders on how the company creates and sustains value in the short-, medium- and long-term, as well as the risks and opportunities faced by the company, the risk of legal or industrial action against the company (as well as the risk of personal liability of the directors) is significantly reduced.

In view of the above, where directors of a company elect not to employ Integrated Reporting, they may be accused of not acting in the best interest of the company, and not meeting their fiduciary duty.

Annexure C:
XBRL and its role in supporting effective communication with stakeholders

Historically, organisations have communicated their performance reports via paper and web-based methods. Examples would be the annual report or the sustainability report in a PDF format on the organisation’s investor relations website and/or having the PDF transformed to a webpage view of the report.

Should any stakeholder wish to consume or analyse the organisation’s performance information, they would have to be prepared to read a lot of information or buy the information in an interpreted and normalised form from data vendors.

A survey was conducted amongst analysts in Europe and it was found that less than 40% of listed organisations were being analysed due to the cost of data capture and the increased volume of information. If analysts are experiencing these issues, then governments, regulators and other stakeholders must be experiencing these problems exponentially.

A global electronic data standard had to emerge to enable better communication, analysis and transmission of performance information to diverse stakeholders across the internet. eXtensible Business Reporting Language (XBRL) was therefore conceived.

Companies around the globe are using this royalty-free open source standard to communicate to various stakeholders, including governments, regulators and investors. In Annexure D, a number of other reporting frameworks are mentioned and some of these frameworks have also embraced XBRL by developing their “disclosure requirements” in an XBRL format. Organisations can now tag their data and make it available to various stakeholders.

In South Africa, the uptake of XBRL has been relatively slow, but increased interest by government, regulators and the private sector is indicating that it will play a significant role in how companies communicate with stakeholders in years to come.

“The data is trapped in an iceberg of paper in these current systems, and if we could just tag that data it would be instantly available. That iceberg would melt, the data would be freely available, and it would be accurate, it would be complete, it would be relevant, and it would be comparable.”

Alfred Berkeley, former President of Nasdaq, and CEO of Pipeline Trading, New York
Annexure D:
Relevant frameworks, regulations, codes and standards

The most relevant frameworks, regulations, codes and standards are summarised in the table below with an indication of whether application is compulsory or voluntary:

<table>
<thead>
<tr>
<th>Framework, regulation or standard</th>
<th>Acronym</th>
<th>Purpose</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>King Code on Governance Principles</td>
<td>King III</td>
<td>The third report on Corporate Governance clarifying principles and practices of good governance for South African companies.</td>
<td>“Apply or explain” code for companies incorporated and operating in South Africa. The JSE requires that listed companies with year ends starting on and after 1 March 2010 include in their annual report a statement as to how they have complied with the principles set out in King III.</td>
</tr>
<tr>
<td>International Financial Reporting Standards</td>
<td>IFRS</td>
<td>This is a financial reporting framework issued by the International Accounting Standards Board. The Companies Act, 71 of 2008 requires all public listed companies and non-profit companies requiring an audit to apply the IFRS. All other companies may choose to apply the IFRS or another framework prescribed by the Act. The alternative framework, which is either IFRS for SME’s or SA GAAP, is dependent on the company’s public interest score calculated in accordance with the Act.</td>
<td>Listed companies in South Africa are required to apply IFRS in the preparation of their Annual Financial Statements, as this is a requirement of the Companies Act, 71 of 2008 and the JSE Limited Listings Requirements. The JSE Limited Listings Requirements also require that listed companies which prepare abridged Annual Financial Statements (“abridged report”) apply the concepts and measurement and recognition requirements of the IFRSs and the abridged report must, at a minimum, include the information set forth in IAS 34 Interim Financial Reporting. A statement that the abridged report has been prepared in accordance with this, as well as a statement that the accounting policies are in accordance with the IFRSs and are consistent with the previous Annual Financial Statements must also be included.</td>
</tr>
<tr>
<td>The Global Reporting Initiative Third Generation</td>
<td>GRI G3</td>
<td>A global sustainability reporting framework supplemented by sector specific guidelines.</td>
<td>This voluntary framework with self declaration of level of application is most commonly used in South Africa to guide sustainability disclosure. Application levels range from C to A, with C indicating the minimum disclosure. Some companies seek independent assurance over their application level.</td>
</tr>
<tr>
<td>International Organisation for Standardisation</td>
<td>ISO</td>
<td>ISO is a network of the national standards institutes of 162 countries, and is a non-governmental organisation that forms a bridge between the public and private sectors. The standards cover a wide range of topics with ISO 14000 Environmental Management, ISO 9000 Quality Management and ISO 31000 Risk Management some of the most commonly used standards in South Africa.</td>
<td>Voluntary, but often required as part of supply chain management and used as guiding standard for legal compliance.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Framework, regulation or standard</th>
<th>Acronym</th>
<th>Purpose</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>AccountAbility</td>
<td>AA</td>
<td>Set of standards aimed at improving the sustainability performance and reporting at organisations. Consists of three standards: the Assurance Standard, Principles Standard and Stakeholder Engagement Standard. The assurance standard AA 1000 AS is used to provide assurance over sustainability information and processes. It is often used in combination with ISAE 3000 (referred to below).</td>
<td>Voluntary standard and framework used for managing sustainability performance. Organisations can choose to obtain assurance over application of the AA standards.</td>
</tr>
<tr>
<td>Greenhouse Gas Protocol Corporate Accounting and Reporting Standard</td>
<td>GHG Protocol</td>
<td>Protocol/procedure to calculate the carbon footprint for an organisation. GHG Protocol is the most widely used standard.</td>
<td>Disclosing an organisation’s carbon footprint is not compulsory at this stage. Although the use of GHG Protocol to measure carbon footprint is also voluntary, it is common practice in South Africa to do so. National Government made mention of it becoming mandatory in 2013.</td>
</tr>
</tbody>
</table>
### Framework, regulation or standard | Acronym | Purpose | Status
---|---|---|---
United Nations Principles for Responsible Investment | UN PRI | United Nations-backed Principles for Responsible Investment (PRI) Initiative is a network of international investors working together to put the six principles for responsible investment into practice. The Principles were devised by the investment community. They reflect the view that environmental, social and Corporate Governance issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. | The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large. There is an increasing trend for financial services companies to report on their compliance with the frameworks and principles they sign up to. Our experience shows that a number of frameworks and principle-setting bodies are integrating assurance into their procedures due to a number of companies signing up without applying compliance procedures adequately. |

### Code for Responsible Investing in South Africa | CRISA | Set of principles that recognise the value of seamlessly incorporating sustainability issues into long-term investment strategies. It encourages institutional investors to fulfil their executive investment analysis/activities (of rights) in line with promoting sound governance and ensuring responsible investing. The principles and practice recommendations in the CRISA should be adopted on an “apply or explain” basis. | CRISA is a voluntary code. The effective date for reporting on the application of CRISA is 1 February 2012. |

### International Council For Mining and Metals | ICMM | Established to improve sustainable development performance in the mining and metals industry. Membership is voluntary. ICMM Member companies are required to implement the three elements of the Framework (10 Principles, Reporting and Assurance), which includes a public commitment to transparent and accountable reporting practices. The three elements of the framework are:  
- 10 principles for sustainable development, which members are required to implement.  
- Company members are committed to report their performance against the 10 principles in accordance with GRI guidelines.  
- Providing third-party verification that their commitments to the 10 principles are being met. | |

### Framework, regulation or standard | Acronym | Purpose | Status
---|---|---|---
United Nations Global Compact | UNGC | The Global Compact is a practical framework for the development, implementation, and disclosure of sustainability policies and practices, offering participants a wide spectrum of work streams, management tools and resources - all designed to help advance sustainable business models and markets. Overall, the Global Compact pursues two complementary objectives:  
- Mainstream ten principles in business activities around the world  
- Catalyse actions in support of broader UN goals, including the Millennium Development Goals (MDGs) |

### Equator Principles | EPN | The Equator Principles are a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions. Participation in the UNGC is voluntary. Participants are required to adopt and report on the 10 principles. |

### Carbon Disclosure Project | CDP | The CDP is a not for profit organisation that requests information on climate change from the top 100 JSE listed companies in South Africa on an annual basis. They request this information on behalf of investors. Companies on the top 100 of the JSE are requested to respond annually on the risks, opportunities, governance and reporting around climate change and disclose their carbon footprint and targets. This is voluntary, but companies that do not participate may be subject to reputational risks. |

### Water Disclosure Project | WDP | This is run by the CDP and requests information on the water management from large water users. Other companies may voluntarily participate in the WDP. Voluntary participation at this stage. WDP is still in its early stages in South Africa as last year was the first year of disclosure. |

### eXtensible Business Reporting Language | XBRL | A global electronic data standard to better enable communication, analysis and transmission of performance information to diverse stakeholders across the internet. Voluntary standard in South Africa. Stock Exchanges around the world are however considering regulating application, with the United States of America and Japan being forerunners in this area. |
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