

21 April 2011

Integrated Reporting Committee
SAICA
ircomments@saica.co.za

Commentary on the Framework for Integrated Reporting and the Integrated Report Discussion Paper

We thank you for the opportunity for Ernst & Young Inc. to provide comment on the Framework for Integrated Reporting and the Integrated Report Discussion Paper ("Framework") released on 25 January 2011 by the Integrated Reporting Committee of South Africa.

Enclosed please find our detailed commentary on the Framework.

We support the release of this Framework which aims to provide guidance on integrated reporting as envisaged by the King Report on Governance for South Africa 2009 (King III).

Should you wish to discuss our comments or require clarity on any of the matters raised please do not hesitate to contact me at Ernst & Young, P.O. Box 656, Cape Town, 8000 or alternatively by way of telephone at (021) 443 0258 or 082 603 0772, or by way of email to either michael.bourne@za.ey.com or kelly.gilman@za.ey.com.

Yours faithfully,

MFJ Bourne
Professional Practice Director

Detailed Commentary

Page number	Section	Extract from the Framework	Comment
5	1.2	“It should be noted that it is unlikely that all of the governance disclosure required in terms of King III will be included in the organisation’s integrated report. Separate disclosure of the detailed information may be required.”	<p>This sentence appears to contradict King III which recommends that certain information is disclosed in the integrated report.</p> <p>We would caution against providing guidance which may be in conflict with King III as well as other regulatory requirements, such as the JSE Listing and Disclosure Requirements.</p>
5	1.5	“It is important to appreciate the distinction between the process of integrated reporting and the product of the integrated report, which is only one part of the broader suite of the organisation’s communication activities with its shareholders.”	<p>The Framework appears to only discuss the integrated report and not integrated reporting as a whole. For this reason, consideration should be given to changing the name of the Framework to the Integrated Report Framework.</p>
6	1.5	“The integrated report is the organisation’s primary report. It could, however, be linked to more detailed reports and information, such as the AFS, sustainability report, governance disclosure etc.”	<p>Principle 9.1 contained in paragraph 1 of Chapter 9 of King III states the following: “Integrated reporting means a holistic and integrated representation of the company’s performance in terms of both its finances and its sustainability. This can take the form of a single report or dual reports. While a truly integrated report should be presented in one document, it can be presented in more than one document. If the integrated report encompasses more than one document, the documents should be made available at the same time and disclosed as an integrated report.”</p> <p>It is unclear from the Framework whether the more detailed reports e.g. the annual financial statements and the sustainability report will need to be issued together with the integrated report (outlined in the Framework) to meet the King III recommendation espoused above or whether the integrated report by itself (outlined in the Framework) will suffice.</p> <p>We therefore recommend that the Framework be amended to provide clarity on the above and also to provide clarity on the concepts ‘single report’ and ‘dual report’ contained in King III.</p>
7	1.7	The table discussing the suggested elements to include in the integrated report	<p>We believe that there may be merit in emphasising that the table is merely a guideline and not a tick box of items that must be included in the integrated report (similar to the statement made at the top of page 12 of the Framework).</p>

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			<p>Further, it should also be emphasised that the presentation of elements in the integrated report, does not necessarily have to be in the exact linear order as shown in the table, and that the manner and order of presentation can be customised to suit the needs of the disclosing party</p>
8	2.1	<p>“When explaining the process used for identifying the entities and defining the reporting approach, the organisation should consider the principles provided in IFRS, as well as those contained, for example, in the <i>Sustainability Reporting Guidelines</i> of the GRI and other relevant initiatives.”</p>	<p>The use of different principles in the integrated report than those utilized in the preparation of the annual financial statements and the sustainability report, might create inconsistencies.</p> <p>Further, this statement in section 2.1 contradicts the statement made on page 15 in box 2: “The financial information used in the integrated report should be derived from and be in alignment with the information contained in the audited annual financial statements. Organisations should not change accounting policies for presentation of information in the integrated report. For listed companies this would imply that the recognition and measurement principles, as well as the presentation principles of IFRS will be applied.”</p> <p>We propose that the statement be amended to read as follows “When explaining the process used for identifying the entities and defining the reporting approach, the organisation should <i>apply</i> the principles in IFRS for the financial information as obtained from the annual financial statements, and the relevant principles from the sustainability reporting framework for sustainability information as obtained from the sustainability report.</p>
10	2.3	<p>“Where reporting policies have been changed, the organisation should explain the reasons for the change and describe the impact”</p>	<p>This statement can be construed as meaning any change in an accounting policy or any change in the reporting policy applied in presenting an integrated report.</p> <p>We recommend that clarity be provided on this statement and that the Framework also clearly indicates that the explanation for the reasons for the change would only be applicable to those matters dealt with in the integrated report.</p>
11	2.3	<p>Understandability or clarity</p>	<p>We recommend that the principle “understandability or clarity” should include the recommendation that the integrated report should clearly discern between information that has been assured,</p>

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			<p>information that has not been assured as well as, where the information has been assured, the level of assurance provided (what information has been subjected to limited assurance and what information has been subjected to reasonable assurance).</p>
17	4	Assurance	<p>Consideration should be given to the subject of the provision of assurance on the integrated report, including:</p> <ul style="list-style-type: none"> • The role of assurance and the assurance provider • Providing assurance on the integrated report • The complexities of providing and communicating assurance including: <ul style="list-style-type: none"> ○ The scope of assurance – quantitative and/or qualitative information ○ The different assurance standards available i.e. Accountability AA1000 Assurance Standard versus International Standards on Assurance Engagements 3000 (Assurance Engagements other than Audits or Review of Historical Financial Information), what the differences between them are, and which assurance providers can use the standards ○ The need for publicly available criteria for data and information subjected to assurance ○ The need to assess the suitability of criteria ○ How to distinguish between information that has been assured and information that has not been assured ○ For information that has been assured, how to distinguish between the different levels of assurance i.e. limited or reasonable <p>We acknowledge that the Framework may not be the most suitable vehicle for detailed guidance on the assurance of integrated reports, however, at the very least, the Framework should address the challenges associated with the provision of assurance thereof, failing which SAICA should consider developing a separate Framework or Guideline in conjunction with IRBA to assist both preparers and assurers.</p>

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17	4	<p>“Where integrated reports present summary information derived from the more detailed annual financial statements and sustainability report already audited or assured, auditors would report on such aspects in accordance with ISAs and the underlying detailed reports should be accessible to users.”</p>	<p>It is unclear what is meant by “auditors would report on such aspects in accordance with ISAs”.</p> <p>Does it mean that the organisation is required to disclose to what extent the information contained in the integrated report has been assured, including a reference to where a copy of the assurance report can be obtained as well as the particulars of the assurance provider?</p> <p>What is more, reference to the ISA’s may not be appropriate for extracted information from the sustainability report.</p>
19	Annex 2: Intro	<p>“While there may be a close connection between integrated reporting and the development of an organisation’s strategy and risk management practices, this guidance focuses specifically on the process associated with developing an integrated report and it does not address those elements relating primarily to strategy development or risk management processes.”</p>	<p>Given that an integrated report is merely the outcome of an integrated strategy, we believe that it would be prudent to provide more detailed guidance on the development of an integrated strategy and its sub-processes (i.e. risk management) and ultimately the development of an integrated report.</p>
20 - 21	Step 3 Step 5		<p>There is no mention of the need to determine material key performance indicators, key risk indicators, targets and benchmarks.</p>
22	Step 8	<p>“For listed companies, King III specifically tasks the audit committee with responsibility for oversight of the integrated report.”</p>	<p>Since King III is applicable to all entities whether listed or not, it is recommended that “For listed companies” be removed from this sentence.</p>
22	Step 8	<p>“Among other things, the audit committee’s role is to approve the identified material issues and to ensure the information is reliable and that no conflicts arise when compared to the financial results.”</p>	<p>We recommend that the audit committee’s responsibility for recommending the integrated report for approval to the Board should also be included in this section.</p>
23	Annex 3	<p>“The Board has accordingly applied its mind to the integrated report...”</p>	<p>The process followed by a Board to facilitate such statement as envisioned in Annex 3, may vary from organisation to organisation.</p> <p>Therefore, we believe that there may be merit in including a description of the process followed by the Board. Such description will differ between organisations, however an example would provide guidance.</p>