



Accounting Standards Board

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Integrated Reporting Committee of South Africa

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Members of the Committee

**COMMENTS ON THE FRAMEWORK FOR INTEGRATED REPORTING AND THE INTEGRATED REPORT**

We welcome the opportunity to provide comment on the Discussion Paper: Framework for Integrated Reporting and the Integrated Report.

We support the development of the Framework, and believe it will assist preparers in formulating and implementing appropriate processes to support integrated reporting as well as assisting in the preparation of the report itself.

As we are the financial reporting standard-setter for the public sector in South Africa, some of our comments relate to the application of the Framework to public sector entities. We have however identified a number of issues that relate to the Framework generally, irrespective of the sector or type of entity. Our comments to you are set out in Annexure A and are divided into "General issues" and "Public sector specific issues".

Please feel free to contact me should you require clarification on any of the issues raised.

Yours sincerely

A handwritten signature in blue ink that reads "Erna Swart". The signature is written in a cursive, flowing style.

Ms Erna Swart

Chief Executive Officer

Board Members: Ms K Bromfield, Mr R Cottrell (Chairperson), Mr V Jack, Ms CJ Kujenga, Mr K Kumar,  
Mr T Makwetu, Mr F Nomvalo, Mr G Paul, Mr I Sehoole  
Chief Executive Officer: Ms E Swart



## **Annexure A**

### **General issues**

#### *Relationship between the Framework for Integrated Reporting and the Integrated Report and requirements issued by other bodies*

It is unclear from the document what (or if) there is any interaction between, for example, this Framework (the Framework) and the Sustainability Framework issued by the International Federation of Accountants. Likewise, the interaction between the Framework and the pronouncements of other standard-setters is unclear, e.g. the IFRS practice statement on management commentary (more specific comments are provided on this area below). It is also unclear how the various bodies work together in these areas to (a) enhance reporting, and (b) minimise duplication.

#### *Volume of information provided to users of financial statements*

While we support the need for integrated reporting, we are concerned about the volume of information provided to users of the financial statements (who would also be included in the “stakeholders” outlined in 1.5 of the Framework) and their willingness to digest the information in the various reports. It would be important to emphasise in the Framework that, when preparing the integrated report as well as the various elements that support it, the volume and extent of the report should be considered so as to not detract from the importance of the integrated report which contains critical messages for an entity’s stakeholders.

#### *Relationships between information in the integrated report and the management commentary provided on the financial statements*

In examining the key areas that are to be addressed in the integrated report, it seems as though there is an overlap between information to be included in the integrated report and certain information provided in the management commentary. For example, paragraph 24 of the IASB’s IFRS Practice Statement on *Management Commentary* requires a discussion on the following:

- the nature of the business;
- management’s objectives and its strategies for meeting those objectives;
- the entity’s resources, risks and relationships;
- the results of operations and prospects;
- the critical performance measures and indicators that management uses to evaluate the entity’s performance against stated objectives.

Many, if not all, of these aspects are included in the table on page 7 of the Framework outlining the proposed content of an integrated report.

While it is clear that the integrated report (a) covers aspects that are outside the scope of management commentary, which focuses on providing context to the financial statements, and (b) integrates social, environment and economic aspects of an entity, the relationship between the information included in the integrated report and that included in the management commentary is unclear. In particular, it is unclear whether information included in the management commentary should be repeated in the integrated report, or vice versa. This is arguably not a significant issue where a separate integrated report is prepared, but it would be an issue to consider where the integrated report is included in the annual report.

As a suggestion, it may be useful to clarify the interaction between these two reports where they are both included in the annual report or, alternatively, suggest in the Framework that the integrated report should be issued as a stand-alone document.

#### *Users of the integrated report*

“Stakeholders” are defined in the report as “entities or individuals that can reasonably be expected to be significantly affected by the organisation’s activities, products and services, and whose actions can reasonably be expected to affect the organisation’s ability to successfully implement its strategy (own emphasis added)”.

It is questioned whether a stakeholder must meet both the criteria to be considered a “user” of an integrated report. For example: Government, as a regulator, may not be affected either directly or indirectly by an organisation’s activities, but it may well have the ability to affect an organisation’s achievement of strategy. As a result, it may be more appropriate to replace the “and” with an “or”.

It is also noted that there is a difference between the users of integrated reports and the users of financial statements. The users of integrated reports, as outlined above, are wider than the users of financial statements, which focus on the needs of investors, lenders and creditors.

As the information in the financial statements, which is aimed at a specific user group, will most likely be used in the preparation of the integrated report, management should assess whether the needs of the users of the integrated report are being met by the information in the financial statements or whether additional/different information is required. As a result of the possible differences between the information needs of the users of financial statements and users of the integrated report, it may be useful to note in the Framework (possibly in Annexure 2) that one of management’s key considerations should be (1) the identification of the users of the integrated report, (2) their information needs, and (3) whether these needs are met using information in other reports (such as the financial statements).

#### *Scope and boundary*

Section 2.1 on page 8 discusses the reporting of the scope and boundary of the integrated report. The second paragraph under the heading “Full disclosure on scope and boundary” states: “Where the boundary of the integrated report differs from that of other more detailed reports, such as the annual financial statements, this fact should be disclosed stating the discrepancy”.

Box 2 on page 15 noted that “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.”

There seems to be an apparent conflict between these two paragraphs. The paragraph on page 8 acknowledges that there may be differences between the information prepared using IFRSs and the information prepared for the integrated report. The wording in box 2 should be amended accordingly.

#### *Principles informing the quality of the reporting information*

Section 2.3 notes that “comparability and consistency” are characteristics that should be used in presenting information in the integrated report. Comparability is the ability to identify

relationships between information, while consistency is a means of preparing information to ensure that comparability is achieved.

The three bullets in this section only discuss comparability and what to do when information has not been consistently reported. As a consequence, a brief discussion on consistency of reporting information as a means to achieving comparability should be included in this section.

#### *Public sector specific issues*

King III is applicable to all entities. Consequently, King III has an impact on the reporting by public sector entities. Although the Framework indicates that it can be applied by all organisations, there are specific references to private sector statements and concepts that would be difficult to apply in the public sector. The following are examples of the perceived focus on private sector organisations:

- References to IFRSs – In South Africa, the majority of public sector entities apply Standards of GRAP.
- Box 2 – The contents of box 2 make reference to “earnings”, “financial value added by the business” and “economic value, i.e. value added to the community, sharing of wealth, distribution of wealth”. In the public sector, these references should probably be to long term fiscal sustainability (guidance on the preparation of such a report is currently being prepared by the International Public Sector Accounting Standards Board (IPSASB)).

As a suggestion, it may be useful to use “IFRS or another reporting framework” and, note in Box 2 that the items are illustrative of a private sector entity and that they may need to be modified if used by public sector entities and include a reference to guidance currently being developed by the IPSASB.