

25 April 2011

Integrated Reporting Committee
c/o Leigh Roberts
Project Director: Sustainability
The South African Institute of Chartered Accountants
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Dear Madam

**SAICA'S ACCOUNTING PRACTICES COMMITTEE'S (APC) SUBMISSION ON
THE *FRAMEWORK FOR INTEGRATED REPORTING AND THE INTEGRATED
REPORT DISCUSSION PAPER***

In response to your request for comments on the Integrated Reporting Committee's (IRC) *Framework for Integrated Reporting and the Integrated Report Discussion Paper*, attached is the comment letter prepared by APC following a sub-committee specifically set up to discuss the Discussion Paper. The sub-committee comprised of 20 people representing a wide spectrum of views from preparers, users, auditors, consultants and academics. The APC is the technical advisory body to the Accounting Practices Board (APB).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Alex Watson (Chairman of the Accounting Practices Committee)

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GENERAL COMMENTS

We welcome the Integrated Reporting Committee's (IRC) efforts to issue guidance for the preparation of an Integrated Report. We also commend the IRC for publishing a principle-based document and believe that it could be a particularly useful document for smaller listed companies that are currently not reporting under *Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines*.

Similar to the GRI guidelines, we request that the IRC consider the possibility of developing industry specific integrated reporting frameworks.

Whilst the participants noted that the social, economic and environmental issues were sufficiently addressed, they were not convinced that financial sustainability issues have been adequately dealt with in the Discussion Paper (e.g. future business plans and their assumptions, etc.) and were of view that this should be readdressed. This Discussion Paper recommends that an entity's audit committee appoint external auditors to provide assurance on the summarised financial information and, with the weakness noted above (i.e. limited financial sustainability information), it is not clear how an auditor could issue a credible assurance report on the going concern risk on a stand-alone Integrated Report.

There seems to be a disconnect between the definition and scope of an Integrated Report as envisaged under the King III Report and that of the Discussion Paper. Based on the wording in the King III Report, an Integrated Report could be interpreted as a report that simply replaces an annual report while this does not seem to be what is proposed in the Discussion Paper.

There was also concern amongst participants that smaller listed companies would struggle to produce an Integrated Report initially due to resource and experience constraints and recommended that, although the Framework is principle based, additional prescriptive guidance should be provided. Participants did acknowledge, however, that the application of the Framework will improve over time, much like when Corporate Governance reporting was introduced for listed companies in South Africa for the first time. However, this could create comparability issues for investors in the short-term.

Participants were also concerned about the lack of participation at the sub-committee from smaller listed companies as well as listed companies who do not have significant direct environmental issues. It was felt that the Framework may not have been communicated appropriately to state that this is about a company's sustainability and not just "green" issues.

As the Discussion Paper poses no specific questions for comments, we have provided comments on specific Sections of the Discussion Paper as set out below. These comments are meant to reflect enhancements that could be made to the Framework, particularly in the short-term when many companies will be reporting in this manner for the first time and do not detract from the majority view of the participants who welcomed the initiative and the benefits it could bring. A number of issues have been commented on in specific Sections that should be taken into account across other Sections.

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SPECIFIC COMMENTS

Foreword

Whilst we agree with the statement that “*Reports based largely on financial information do not provide sufficient insight to enable stakeholders to form a comprehensive picture of the organisation’s performance and of its ability to create and sustain value, especially in the context of growing environmental, social and economic challenges*”, we are concerned that the Discussion Paper appears weak on financial sustainability issues (e.g. going concern, future business plans and their key assumptions) and it is our recommendation that those issues be equally dealt with by including additional information on financial forecasts and their key assumptions.

In addition, the Discussion Paper recommends that “*The users of an organisation’s integrated report should be able to determine from the report whether the organisation’s governing structure has sufficiently applied its collective mind in identifying the social, environmental, economic and financial issues that impact on the organisation’s business, and whether these issues have been appropriately incorporated into its strategy*”. We do not believe that entities, for example smaller listed companies, that have not previously produced reports based on *Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines*, are likely to achieve this in the short-term. These companies could also experience difficulty describing their sustainable business model if their Integrated Report is prepared on the basis of the Discussion Paper due to a lack of prescriptive guidance. At the same time these entities may not be willing to divulge information that poses a competitive threat to their business and thus undermining its intended objective. Having said this, we do acknowledge that, as also noted by Prof Mervyn King, entities are not likely to achieve perfection in their first attempt and this will evolve over time.

We agree with the statement that “*By its very nature an integrated report cannot simply be a reporting by-product*”, and, in our opinion, the issues required to be reported on are important management issues that should be considered and managed by them throughout the year.

Section 1 – Introduction

In our view, it is premature to describe this proposed Integrated Report as the organisation’s primary report, specifically when its preparation is dependent on other organisational reports such as the annual financial statements. In addition, many large listed and public companies already issue many reports over and above their annual financial statements, such as separate Sustainability Reports (some combine these), Abridged Financial Statements and, in the case of SEC registered companies, a 20-F document. Some of the participants felt that introducing another report as a primary report is inappropriate at this stage. Integrated Reporting will be a journey over time and South Africa should follow international trends in this regard.

As noted under our General Comments section, participants felt that many smaller listed companies would struggle to produce the Integrated Report in the short to medium-term due to their lack of resources and expertise and more prescriptive guidance is required. In addition, there is inadequate guidance and emphasis on the length of the required Integrated Report, namely that it should be concise and direct.

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We are also concerned that potential tension could exist between the proposed Integrated Report and the International Accounting Standards Board's (IASB) Conceptual Framework (CF) with regard to the fair presentation requirement where only certain summarised financial information should be provided, and it will be at the discretion of the entity to decide what information to disclose. This could prove to be misleading if only certain financial information is disclosed.

Section 2.1 – Full disclosure on scope and boundary setting

We note that the IASB's Conceptual Framework is currently undergoing change and other frameworks, including the GRI Framework, might be subject to change in the future. In addition, the International Integrated Reporting Committee has not issued any guidance as yet. It is our view that this should be borne in mind and suggest that the IRC consider the effect that this might have on the proposals prior to finalisation of the Framework. In particular, the boundaries of the reporting entity may change as a result of the above and should also be taken into consideration.

The Discussion Paper also states that where there are significant events that occur after the end of the reporting period, but before the Integrated Report is finalised, a description of the event and where possible an explanation of the likely impact should be provided in the Integrated Report. This statement could pose challenges in practice where an entity's financial statements are published long before the issuance of the Integrated Report and a number of disclosable post balance sheet items arise between the date of publishing the annual financial statements and the Integrated Report. A strong view, therefore, prevailed that the Integrated Report should be issued at the same time as the annual financial statements.

Section 2.2 – Principles informing the selection of the report content

Editorial comment

Based on the IASB's Conceptual Framework, the two fundamental qualitative characteristics are relevance and faithful presentation. Materiality is considered an element of relevance. In light of this we suggest that the words 'and Materiality' in the heading 'Relevance and Materiality' be deleted to reflect this.

Section 3.1 – Report Profile

Scope and boundary of the report

In addition to defining the scope and boundary of the report, we recommend that it is made clear that these definitions should be applied consistently from year to year and any changes should be explained.

Section 3.2 – Organisational overview, business model, and governance structure

Certain information such as the company registration number, the name of the transfer secretary and shareholders diary, may be considered relevant by stakeholders. Based on the wording of the Discussion Paper it appears that entities would not be compelled to provide this information even though it would be considered useful by most stakeholders. To address this we recommend that an additional requirement be incorporated requiring entities to disclose information or processes that should be followed to attain this information.

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In addition, we also recommend that a key stakeholder communication diary be provided in the Integrated Report outlining the key communication dates between the company and its stakeholders for the forthcoming year.

Editorial comment

We also noted an editorial error under the heading “*Some examples of what could be considered for inclusion in the report are*”. In the sentence “*High-level information about the resources of the organisation and any claims against it*”, the words ‘resources’ and ‘claims’ should be in italics.

Section 3.3 – Understanding the operating context

Our view is that the proposals appear to place greater emphasis on disclosing operating issues in the global context and less focus on those from a South African context. Entities should be required to report on factors that could specifically hinder their ability to create or sustain value, or those providing them with the opportunity to create value in the short-medium and long-term, including social, environmental and economic issues affecting it at national and local government level. Examples could include Government’s strategic objectives, Government’s drive for job creation and other regulatory requirements. In addition to the above, job creation is one of the major challenges facing South Africa today, and entities should be required to report the role that they are playing in addressing this challenge. In this way, South African companies can also focus on national imperatives. We also believe that an entity should be required to report on information relating to its recruitment, job creation and retention policies in addition to skills development.

An entity is required to provide information to allow stakeholders to assess the extent to which its ability to create and sustain value is based on its relationships with key stakeholders. With regard to this, we recommend that an entity be required to report on any material issues affecting, or that could affect, its relationships with stakeholders.

Section 3.4 – Strategic objectives, competencies, KPIs and KRIs

Based on the wording of the Discussion Paper, we believe insufficient attention has been given on benchmarking, including industry or competitor benchmarking, and we recommend that this information be explicitly required from an organisation in the Integrated Report. Also, the Discussion Paper is weak in providing how the KPIs translate to individual entities within the organisation that are reported on in the Integrated Report, and we suggest that this be considered for inclusion in Discussion Paper.

Section 3.5 – Account of the organisation’s performance

The Discussion Paper provides that the Integrated Report should be able to be a stand-alone document. It is unclear how an entity accomplishes this when stakeholders are required to refer to other documents for more detailed descriptions or analysis, and particularly in the initial adoption of the Framework given that a company’s Integrated Report will evolve and improve over time.

Whilst some participants were not supportive of the inclusion of the abridged financial statements in the Integrated Report, noting that information about the factors influencing changes in the financial results would provide more useful information, a majority of the participants felt that there was a need for the inclusion of abridged financial statements to be a compulsory requirement in order to provide stakeholders with some insight into the financial results. Certain participants felt that abridged financial statements should be

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defined in a more exact and prescriptive manner to ensure consistency of such information presented.

Section 3.7 – Future performance objectives

As previously noted in our comments under ‘Foreword’ we are concerned that the Discussion Paper appears weak on financial sustainability issues (e.g. going concern, future business plans and their key assumptions) and it our recommendation that this be dealt with.

Section 3.8 – Analytical commentary

This Section has been addressed in sufficient detail in Section 2 and we recommend deleting it from the Discussion Paper.

Section 4 – Assurance

Auditors are required to render assurance services on activities for which they have the knowledge and skills. Our concern is that auditors currently do not possess the skill or expertise to perform an audit on an Integrated Report.

In determining the Integrated Report assurance strategy, the Discussion Paper proposes that a “*combined assurance*” model should be followed. The concept of “*combined assurance*” has not been described elsewhere in the Discussion Paper, even though it is defined in King III, and is first introduced in this paragraph. It is our view that a brief description of what combined assurance is, and what is envisaged by this assurance, be provided.