



The Secretary
Integrated Reporting Committee of South Africa
irccomments@saica.co.za

28 April 2011

Dear Sir/Madam,

Discussion paper – Framework for Integrated Reporting and the Integrated Report

The Institute of Chartered Accountants in Australia (the Institute) welcomes the opportunity to provide comments to the Integrated Reporting Committee (IRC) of South Africa on the Discussion Paper - *Framework for Integrated Reporting and the Integrated Report* (DP).

The Institute is the professional body representing Chartered Accountants in Australia. Our reach extends to more than 66,000 of today's and tomorrow's business leaders, representing some 54,000 Chartered Accountants and 12,000 of Australia's best accounting graduates who are currently enrolled in our world-class postgraduate program. Our members work in diverse roles across commerce and industry, academia, government and public practice throughout Australia and in 109 countries around the world.

The Institute is a founding member of the international accounting coalition called the Global Accounting Alliance (GAA), which provides reciprocal arrangements with ten of the other leading accounting bodies in the world. The Institute is the only Australian accounting body within the alliance. The GAA represents more than 778,000 members world-wide and includes professional accounting organisations from America, Canada, Hong Kong, England/Wales, Ireland, Scotland, Japan, Germany, New Zealand and South Africa.

The Institute has recognised the need for a change to the reporting for many years. The Institute developed Broad Based Business Reporting as a concept some years ago to stimulate discussion and debate in this area. We support the development of a framework for integrated reporting at an international level and are pleased to see the IRC of South Africa starting this process with this DP. We have provided our detailed comments on these areas in the appendix to this letter.

If you would like to discuss any aspect of this submission or require any further information, please contact either Geraldine Magarey on 612 9290 5597 or Karen McWilliams on 612 9290 5754.

Yours faithfully,

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Appendix

Overall comments

The framework and proposed inclusions for an integrated report are good as a stand-alone report. The suggested content appears to meet the objectives of integrated reporting and the integrated report. It is important to ensure there is no duplication of information or increased burden on reporting companies.

We understand that to produce a proforma is a significant commitment, especially as this will require updating. However, we recommend that the IRC of South Africa consider whether this is feasible and if not, alternatives to providing examples of integrated reporting. This may be through collation of best practice examples of individual aspects of the integrated report from reporting organisations or publication of pilot reports. Additionally, the IRC could create small excerpts from an integrated report to better illustrate how the principles are intended to be applied.

1.1 The context of an integrated report

While we understand it is now mandatory for companies listed on the Johannesburg Stock Exchange (JSE) to produce integrated reports. The listed benefits to an organisation are unlikely to result in any voluntary change. It would be beneficial to include some stronger benefits, or at the very least change the order of the listed benefits. The first bullet point – suggests the leadership will get an in-depth understanding of the strategy as a result. Most organisations and other stakeholders would suggest that this was already the case and that the benefit is from sharing this in-depth understanding with external stakeholders. For listed companies, they may benefit from a lower cost of capital. Enhancement of risk management and cost savings from better understanding of resource allocation are benefits which are more likely to drive change.

1.2 What does the discussion paper cover?

The discussion paper suggests that all of the governance disclosures required by King III will not be in the integrated report and so separate disclosure of detailed information will be needed. This is a significant reporting burden for companies and still results in numerous reports for users.

1.3 Who is the discussion paper for?

The audience of the discussion paper is noted as any organisation. However, the paper does not seem to have addressed some of the specific areas for public sector and not for profit organisations, particularly when describing the benefits. It may be clearer if the discussion paper states although it may be used by any organisation, the primary audience is for entities listed on the JSE.

1.4 Who developed the discussion paper?

We note this section refers to the IRC of South Africa's aim to ensure local guidance is in line with international guidance issued by the International Integrated Reporting Committee (IIRC). We understand the urgency for South Africa, given the application of King III. However, we consider that the DP could make it clearer that this guidance is intended to be temporary.

As a result of this being only temporary guidance, we suggest clearer communication of the journey to report integrated information. The DP presents the integrated report as a principle document, standing alone from more detailed reports. However, the journey is



likely to start with the integrated report being presented in conjunction with existing disclosure requirements, i.e. as part of the Management Discussion & Analysis. Organisations could use existing guidance for narrative reports, such as IFRS Practice Statement on Management Commentary. Then follow the IIRC model when it is available. This avoids a huge upheaval in reporting and increased burden for companies now (required for reporting periods beginning on or after 1 March 2010) and then also when they move to the IIRC model.

1.6 The objectives of integrated reporting and the integrated report

We concur with the objectives listed in this section, particularly, the demonstration of active governance through the identification of all social, economic, financial and environmental issues which impact the organisation and how they have been integrated into the strategy. Additionally, we support the determination of key performance indicators and key risk indicators as well as taking a more forward-looking and holistic perspective without undue emphasis on short-term performance.

We also support the eight elements of the integrated report. We consider that the IRC of South Africa has identified the appropriate elements to be included.

2.1 Principles informing the report scope and boundary

We support the disclosure of the scope and boundary. The example provided of a joint venture and the difference between its inclusion at percentage ownership in the financial statements and then included based on control for the carbon emissions is excellent. We support the disclosure of these differences where applicable. We also support the disclosure of subsequent events. However, we note that this would normally form part of the financial statements anyway.

2.2 Principles informing the selection of the report content

Materiality

We agree that as the integrated report is a strategic overview, it may have a different materiality level to the detailed reports such as financial statements and sustainability report. However, we would expect this to relate to determining when an item or issue should be included in the integrated report and not the accuracy of that item. For example, whenever financial information is reported, we expect that it should all be reported to the same degree of accuracy regardless of whether it is reported in the financial statements or the integrated report.

We suggest that further guidance is provided to help companies determine the 'right things' to report. This could include the key issues and risks linked to the organisation achieving or not achieving its strategic objectives as well as the significant risks it faces both internally and externally. Indicating that there is a link to internal management reporting and the board agenda may also be useful for some companies in determining the 'right things' to report.

Faithful representation - complete, neutral and free from error

We support these key principles of reporting and explanations provided to explain them further. We note the reference under 'complete' to 'the organisation should consider issues throughout its sphere of influence'. We consider this indicates the potential wide reach of an integrated report and the importance of including all relevant information.



2.3 Principles informing the quality of the reported information

Comparability and consistency

We support the principles of comparability and consistency. One of the key messages we have heard from the investor and analyst community is that much of the non-financial information reported by companies cannot be compared between organisations in the same industry. We appreciate that the IRC of South Africa do not wish to prescribe KPIs or KRIs for an organisation. However, we also note that without a listing of commonly reported or accepted KPIs for key industries, some of the aims of integrated reporting may not be achieved.

Verifiability, timeliness and understandability or clarity

We support these additional principles of quality.

Verifiability is an important quality and one which may sometimes be lacking in the current reporting of non-financial information where the internal controls surrounding the data capture and compilation methods may be less robust than for financial information.

Timeliness is an important quality. However, the guidance does not indicate if the reporting is to be any faster or more frequent than is currently required for organisations listed on the JSE. Is the integrated report to be produced annually?

3. Suggested elements to be addressed in the integrated report

Overall, whilst we note the intention for the integrated report to be a standalone document, we consider that allowance should be made to enable companies to reduce the reporting burden and combine their integrated information with an existing detailed report, such as the financial statements. When this occurs, it is important to minimise any duplication of information within the report. Therefore if the suggested elements overlap with existing reporting requirements, the integrated report should refer to the detailed disclosure rather than repeating it if this reduces the overall disclosure.

3.1 Report profile

We support in general the key examples listed for inclusion in the report as they provide the setting for the information.

We recommend that rather than disclosing 'the process used for identifying the reporting boundary', instead companies are encouraged to disclose the principles applied in identifying the boundary. This would enable broad principles to be disclosed, such as those applied in the example in 2.1.

3.2 Organisational overview, business model and governance structure

We support this element and the example disclosures provided in the DP.

3.3 Understanding the operating context

We support the example of identifying the material issues, impacts and relationships. We agree that disclosing information on these areas will enable stakeholders to better understand the environment the organisation is operating in. We also note the suggestion for organisations to also address why certain issues, which may be perceived to be significant to the organisation, have not been identified as material.



3.4 Strategic objectives, competencies, KPIs and KRIs

We support this element and the example disclosures provided in the DP. We recommend, as noted earlier, that further guidance is provided on KPIs and KRIs. This is an area where improved comparability and consistency is needed. Whilst we appreciate that the DP refers the reader to other guidance available such as GRI, we consider that some examples may further assist organisations in this area. This is particularly important for key industries. Additionally, the guidance should encourage the use of consistent KPIs year-on-year to enable comparability. Therefore, the identification of the right measures is very important.

3.5 Account of the organisation's performance

Box 2 – including summary financial information in the integrated report

We note that the intended content of the summary financial information will result in significant duplication of the detailed financial statements. If the Integrated report, is a separate standalone report, we consider that the existing guidance on interim financial statements is the most appropriate for this summary financial information. This would be IAS34 *Interim financial* reporting. We note that this would exclude the last four bullet points in this box. We support that information in the summary financial information should be totally consistent with that in the audited annual financial statements.

3.6 Future performance objectives

We support this element and the example disclosures provided in the DP.

3.7 Remuneration policies

We support this element and the example disclosures provided in the DP. We are concerned, however, with the possibility of duplication of information in the integrated report as well as the detailed governance/remuneration report as required by the listing requirements and in the detailed financial statements under IFRS. We note the potential for remuneration to be disclosed differently from that within the detailed reports. An organisation may decide to disclose 'actual' pay, being that which executives actually receive each year rather than the accounting estimates used to expense share options. Where this occurs, it would be good practice to provide a reconciliation in the detailed report between the two figures reported.

We also note that remuneration structures are becoming increasingly complex as they look to better link company performance to the executives remuneration. Providing high-level information and summary disclosures in this space may be misleading as it is unable to present the full picture. It may be preferable for organisations to only disclose the high level approach in the integrated report and leave the disclosures of individual benefits and shares to the detailed report.

3.8 Analytical commentary

We support the inclusion of analytical commentary in the integrated report. We recommend that the guidance in this element clarifies that the analytical commentary be incorporated into the other elements of the report as needed. The intention is to provide an explanation of the information presented and its impact on the direction of the organisation. We consider it important that this is not seen as a separate section but integral to the other elements.



4. Assurance

We support the inclusion of assurance over the integrated report. We concur with the suggestion that the extent and level of assurance will be a journey. We note that this section also refers to the development of the integrated report being a journey. This reflection should also be made clear at the start of the DP.

We support the integrated report being the responsibility of the audit committee in the same way as the detailed financial statements are. This ensures the information in the report receives the appropriate attention and focus.