



Integrated Reporting

Navigating your way to a truly Integrated Report



The future for corporate reports

A publication forming part of a series containing useful information on Integrated Reporting from a South African perspective

Content

Foreword	3
Introduction	4
1. Where does this idea come from?	5
2. Background to the Integrated Reporting guidelines	10
3. High level empirical work by Deloitte	19
4. Key findings	21
5. Detailed findings	24
5.1 Report content and structure	25
5.2 Corporate context	32
5.3 Showing relevance	40
5.4 Demonstrating commitment and management quality	44
5.5 Addressing the sustainability development agenda	49
5.6 Achieving credibility	53
5.7 Corporate Governance	58
6. Topical issues	64
6.1 Ownership of Integrated Reporting and the Integrated Report	64
6.2 Data quality and the role of the 3rd line of defence	66
6.3 The relationship between CRISA and Regulation 28 of the Pension Funds Act and Integrated Reporting	69
6.4 The Social and Ethics Committee and the management of the Ethics Performance of the Company	73
6.5 Disclosure of remuneration - a hot topic	79
6.6 Materiality and Integrated Reporting	83
6.7 Conciseness in Integrated Reports	85
6.8 Stakeholder engagement	86
6.9 Assessment of the system of Internal Control and Internal Financial Control	91
6.10 Should the Annual Financial Statements be included in the Integrated Report?	93
6.11 Assurance	95
6.12 The relationship between Integrated Reporting, the Companies Act and King III	101
6.13 XBRL and its role in supporting effective communication with stakeholders	104
7. Questions directors should ask when assessing the Integrated Report	105
8. Conclusion	109
Annexures	
Annexure A: Relevant frameworks, regulations, codes and standards	113
Contacts	117

Foreword

23 August 2012

This Report contains our latest, consolidated, views on the state of progress and developing practice in Integrated Reporting.

The purpose of this research publication is to be of practical assistance to our clients and Deloitte client service teams who are faced with the challenge of embedding a process of Integrated Reporting at, and producing Integrated Reports in respect of, entities listed on the Johannesburg Stock Exchange.

Also enclosed with this Report is a DVD of a televised series on Integrated Reporting which was recently aired on Summit TV, and where highly topical issues in this area were discussed by leaders in the field.

We hope that the information presented will be practically useful and contribute towards better common understanding and practice in Integrated Reporting.

The next round of research will be conducted in July 2013. The focus will be on the progress made by companies over the past 2 years since Integrated Reporting became compulsory through King III and the JSE Listings Requirements. In addition, the research will identify trends and assess performance within key sectors.



Bertie Loots



Introduction



The Deloitte Integrated Reporting third Edition is an updated version of our view of the state of practice of Integrated Reporting and Integrated Reports in South Africa at the end of August 2012.

Explanatory note to Edition 3

Where necessary, detailed findings have been updated to incorporate the latest research on a sample of companies with financial year-ends between March 2011 and February 2012.

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.

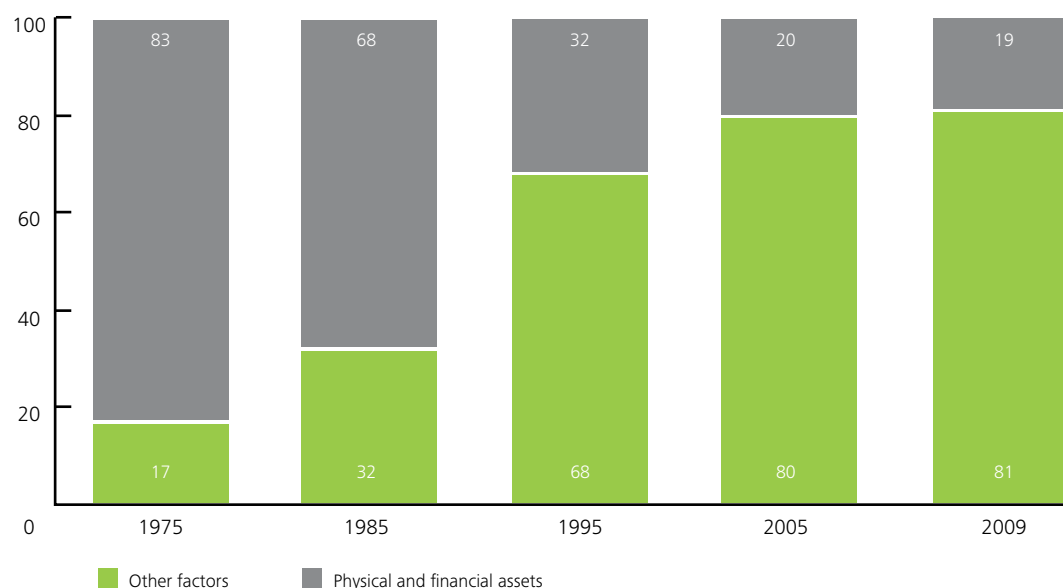
After the Global Financial Crisis of 2008, many could not understand why businesses that had produced financial statements under generally accepted accounting principles could suddenly fail. Was there accurate disclosure of risk? Were all assets appropriately valued? If so, how could this happen?

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 statements were 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.

According to the International Integrated Reporting Council (IIRC), the Integrated Report combines the different strands of reporting (financial, management commentary, governance and sustainability reporting) into a coherent whole that explains an organisation's ability to create and sustain value. The Integrated Report is a single report that the IIRC anticipates will become an organisation's primary report.



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.

Source : *Toward Integrated Reporting - Communicating Value in the 21st Century*. IIRC Report, page 4



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 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. A summary of the comments is discussed in Section 2.

Integrated Reporting is a process,
not a product.

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.



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 that is 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.

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.”

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

RIO + 20

In June 2012 Deloitte attended the Rio +20 conference, formally known as the United Nations Conference on Sustainable Development. One of the most notable aspects of the conference was how business, present in significant numbers, has embraced its role as a driving force for sustainable development.

The IIRC’s aim at Rio +20 was to promote Integrated Reporting and get governments to commit to policy based solutions to accelerate the integration of natural and social capital into the business reporting cycle. The outcome of the conference is a non-binding text, signed by all participating countries, entitled “The Future We Want” (www.uncsd2012.org). Whilst this document stops short of specifying concrete actions for implementing sustainable development policies, Paragraph 47 of the text specifically “encourages” companies to integrate sustainability information into their reporting cycles and encourages industry, governments and interested stakeholders to develop best practice models to effect this. The government of Brazil, Denmark, France and South Africa have since formed a group called the “friends of Paragraph 47” to champion this concept and advance the state of corporate sustainability reporting.

The developments at Rio and their implications for business point towards important changes at a global level in the methods that businesses and governments use to manage and account for their performance and report to their stakeholders.

For further information on the outcomes of Rio +20 refer to https://www.deloitte.com/view/en_GX/global/services/sustainability-and-climate-change/8445ef2a2b898310VgnVCM1000001956f00aRCRD.htm

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 Key components of an Integrated Report	IIRC Key components of an Integrated Report
Report profile: What is the scope and boundary of the report?	
Organisational overview, business model, and governance structure: How do we create value and make decisions?	Organisational overview and business model: What does the organisation do and how does it create and sustain value in the short-, medium- and long-term?
Remuneration policies: What is our approach towards remuneration?	Governance and remuneration: What is the organisation's governance structure, and how does governance support the strategic objectives of the organisation and relate to the organisation's approach to remuneration?
Understanding the operating context: What are the circumstances under which we operate?	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?
Strategic objectives, competencies, KPIs and KRIs: Where do we want to go and how do we intend to get there?	Strategic objectives and strategies to achieve those objectives: Where does the organisation want to go and how is it going to get there?
Account of the organisation's performance: How have we fared over the reporting period?	Performance: How has the organisation performed against its strategic objectives and related strategies?
Future performance objectives: Informed by our recent performance, what are our future objectives?	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?
Analytical commentary: What are the views of the leadership about the organisation?	

Summary of responses to the IIRC discussion paper

The IIRC released the Summary of Responses on its Discussion Paper Towards Integrated Reporting – Communicating Value in the 21st Century in May 2012 (<http://www.theiirc.org/resources-2/discussion-paper-summary/>).

We highlight the key messages contained in the IIRC “Summary of Responses” document below.

- Overall, of the **214 responses received by the IIRC**, the vast majority of the respondents support the development of an International Integrated Reporting Framework.

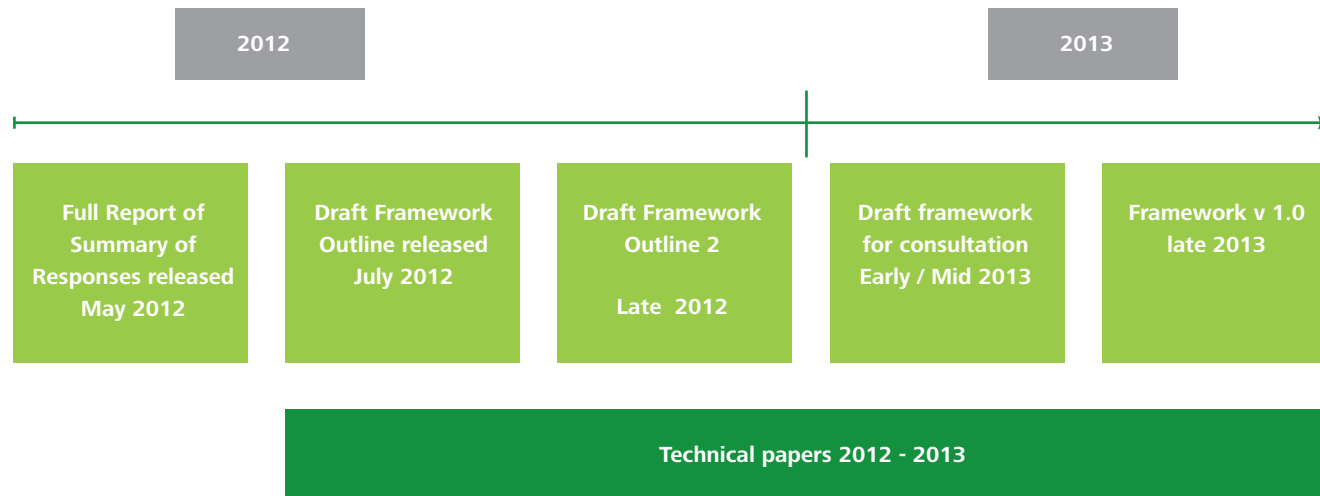
Key areas which require further development were:

- **In basic concepts underlying the definition of Integrated Reporting although helpful, require refinement.** These include the definition of Integrated Reporting and how Integrated Reporting should relate to existing reporting strands (e.g. financial, management commentary, governance and remuneration, and sustainability reporting). The IIRC has agreed to conduct further research into this.
- **The target audience for Integrated Reporting requires further work.** The discussion paper suggests that the initial focus of integrated reporting should be on the needs of investors. Further research will be conducted on the information needs of investors (including various types of investors with possible divergent needs) and those of other stakeholders to provide more guidance on this. In March 2012 an Integrated Reporting Network was launched to help ensure that reporting develops in a way that meets the needs of the investor community as, according to the IIRC, the primary audience for Integrated Reporting.
- **The IIRC should clarify from whose perspective “value” should be considered.** To properly deal with the concept of an organisation’s “ability to create and sustain value in the short-, medium- and long-term”, further guidance is required on “value to whom?” i.e. to the organisation, to investors, to other stakeholders, or to society at large?
- **The timing of the release of the International Integrated Reporting Framework** (originally aimed to be released for comment in 2012) has been revisited. Some responders felt that this date was too early to properly incorporate the learnings from the pilot programme, whilst others felt that the pilot programme needed to test the concepts in the draft framework. The IIRC now plans to release the draft Framework in 2013, whilst also releasing papers on various technical topics in the interim.
- **Content of the Framework.** Some respondents expected publication of detailed standards and guidance, including KPIs perhaps on a sector basis. The IIRC aims to retain a principles based framework to take cognizance of different organisational circumstances, however may publish subsidiary papers for guidance.
- **Technical challenges were identified regarding issues such as materiality, forward looking statements and comparability of reports.** Technical working groups will be formed by the IIRC to develop further guidance on these concepts.

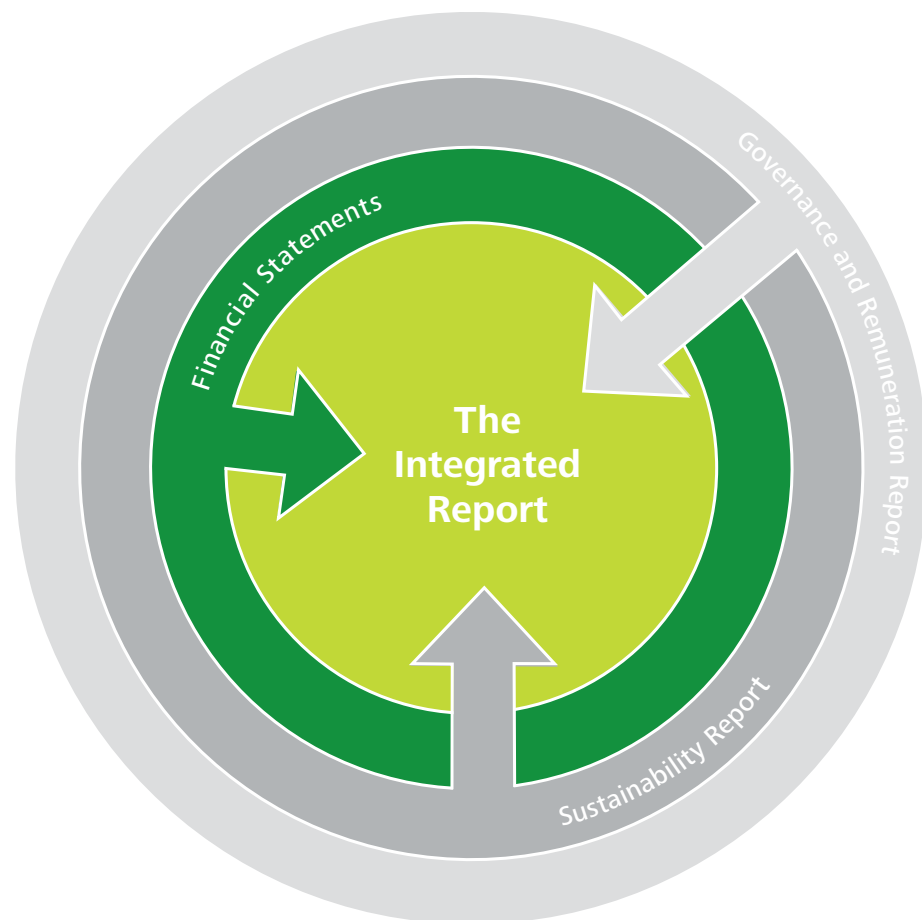
Following the release of the Summary of Responses document, the IIRC also released a Draft Framework outline in July 2012, depicting the structure and general content of the Framework. This can be found at <http://www.theiirc.org/resources-2/draft-framework-outline/>.

As work continues on addressing the discussion paper responses, the IIRC cautions that this structure and content could change significantly. A further and more detailed draft framework outline paper is expected to be released later this year.

The timeline set out below depicts the IIRC's plan for further publications.



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 and remuneration report, and other reports relevant to the business of the company.



The Integrated Report

Prepared in accordance with the *"Framework for Integrated Reporting and the Integrated Report Discussion Paper"*, issued January 2011

Governance and Remuneration Report

Prepared with reference to King III

Sustainability Report

Covering a combination of environmental, social and governance matters. Prepared in accordance with a recognised framework such as GRI or AccountAbility and audited to provide at least limited assurance over key indicators in accordance with ISAE 3000 or AA 1000 AS

Financial Statements

Prepared in accordance with IFRS and audited to provide reasonable assurance in accordance with International Assurance Standards

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

So 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.*

Source: IIRC discussion paper

Set out opposite is a “one page” summary of the proposed components of an Integrated Report and how it inter-relates...

One page roadmap for an Integrated Report

Principles	Elements	Content	Combined Assurance The Audit Committee, on behalf of the Board, should ensure the credibility of all information included in the 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.	Group profile	<ul style="list-style-type: none"> First few pages of the report to introduce the business In which sector does the business operate? What type of business is this? What are the products? What is the structure of the Group and the company? Where does the business operate? 	
	Impact of scope and boundary	<ul style="list-style-type: none"> Indicate the reporting period to which the report pertains 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) Focus on comparability between financial and non-financial information (more often than not the boundary for financial and non-financial information differs) 	
	Key features	<ul style="list-style-type: none"> Illustrate the company's main achievements and key features Ensure a balance between financial and non-financial information Utilise graphs, illustrations and pictures to deliver a clear message to the reader (too many words drown out the message) 	
	Strategy Vision Values	<ul style="list-style-type: none"> Use this part of the report to inform the reader of the character and values of the business 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) 	
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.	Governance structure	<ul style="list-style-type: none"> Set out the governance structure of the group and the company, including the committee structure Provide details on directors (qualifications, experience, age, other Board appointments, etc.) Describe the governance structures to manage risk and sustainability respectively 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.) 	
	Stakeholders	<ul style="list-style-type: none"> 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) Identify the key stakeholders of the business (based on influence and dependency) Identify the key interests and concerns of the key stakeholders and indicate where in the report these concerns are being addressed Describe the strategy and methodology to ensure effective stakeholder communication 	
	Material risks and opportunities	<ul style="list-style-type: none"> Identify the risks and opportunities facing the business (linked to the strategic objectives) Indicate the mitigation plans in place to mitigate the risks and capitalise on opportunities Ensure a balance between financial and other risks and opportunities (think people, product, supply chain, governance, and environment) 	
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.	Key performance indicators and targets	<ul style="list-style-type: none"> Identify the key performance indicators as it pertains to the strategy, risks and stakeholder concerns Ensure a balance between financial and non-financial indicators Identify measurable targets linked to the key performance indicators and report back on the progress to achieve these targets 	
	Remuneration	<ul style="list-style-type: none"> Explain the business' remuneration strategy 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 	
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.			

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 2011, December 2011 and July 2012 based on the Integrated Reports submitted to the JSE as required in terms of King III. The research covers about 150 listed companies split between those with year ends between March 2011 and May 2011 (Period 1), those with year ends between June 2011 and September 2011 (Period 2), and those with year ends between October 2011 and February 2012 (Period 3). Our latest round of research was conducted during July 2012 and only covered companies whose Integrated Reports were publically available by mid-June. Those entities with year-ends falling in Period 3 that published later than the cut-off date will be analysed as part of our next round of research in July 2013. 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 A, 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:

Subject	High level summary of criteria assessed
Report content and structure	Response to the IRC SA's and the IIRC's discussion papers issued in January 2011 and September 2011 including specific reference to the key components of an Integrated Report described in section 2.
Corporate context	The extent to which the nature of the organisation, its products, geographical footprint and strategy are explained in a concise manner.
Showing relevance	The extent to which material and relevant issues relating to the wider sustainability agenda are covered in the report.
Demonstrating commitment and management quality	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.
Addressing the sustainable development agenda	This area assessed product innovation and supply chain management as well as the organisation's response to recognised frameworks, codes and regulations.
Achieving credibility	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 enhanced through external assurance was also assessed.
Corporate Governance	Response to the King III disclosure requirements covering all nine chapters of the Code.



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), those submitted between June 2011 and September 2011 (Period 2), and those submitted between October 2011 and February 2012 (Period 3), 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. As a general observation, most reporters, including certain of the reporters listed below are still struggling with embedding the principle of conciseness.

Among the sample of Integrated Reports we have assessed over the past year the following Reports are regarded as some of the best we have seen to date:

- ABSA Integrated Annual Report 2011
- Anglo American Platinum Integrated Annual Report 2011
- Barloworld Integrated Annual Report 2011
- Clicks Group Limited Integrated Annual Report 2011
- Gold Fields Integrated Annual Review 2011
- Group Five Integrated Report 2011
- Hulamin Integrated Annual Report 2011
- Imperial Integrated Annual Report 2011
- Massmart Annual Report 2011
- Nedbank Group Limited Integrated Report 2011
- PPC Integrated Annual Report 2011
- Sasol Integrated Annual Report 2011
- Standard Bank Annual Integrated Report 2011
- Sun International Annual Integrated Report 2011
- Vodacom Integrated Report 2012

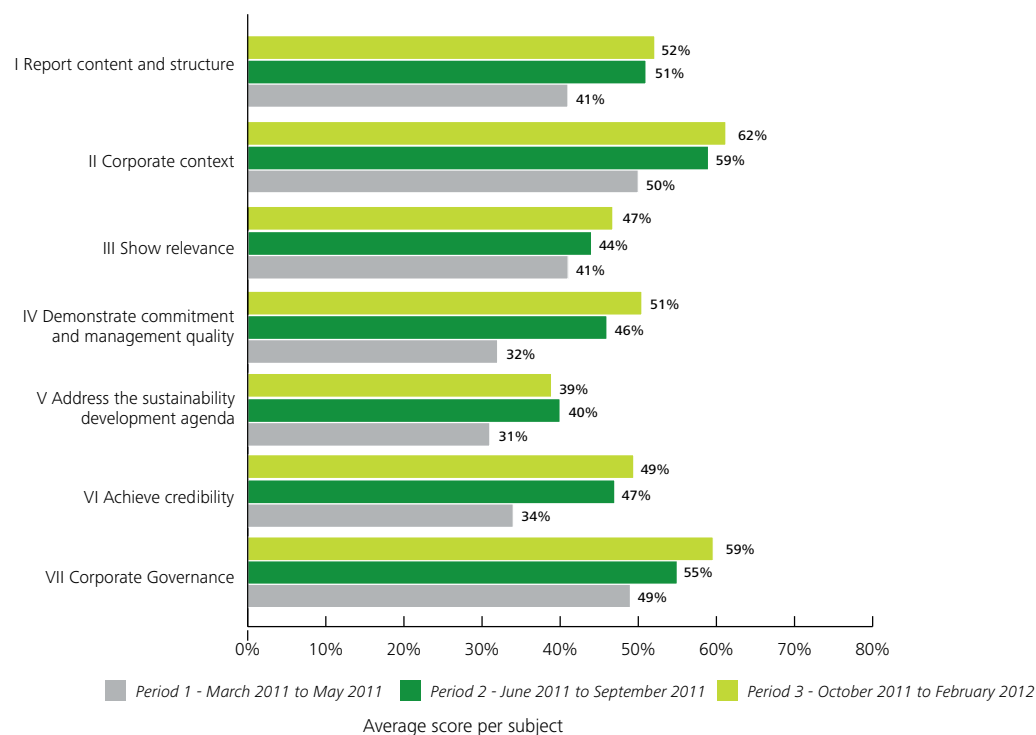
The top 10 trends are as follows:

1. The **overall quality of Integrated Reports is continuing to improve**. The average score over the three Periods has improved from 42% in Period 1, to 51% in Period 2, to 53% in Period 3. The arithmetic average scores for the top ten Integrated Reports have increased from 60% a year ago to 71% in the latest evaluation round.
2. The **laggards are now completely isolated**. Only 4 % of the number of companies analysed scored below 30% in the latest evaluation round, in comparison with 27% in the first evaluation round done in the prior year.
3. The **rate of improvement** in the overall quality of Integrated Reports, while still positive, **has significantly decreased** between Period 2 and Period 3, when compared to that between Period 1 and 2. The data gathered points to the fact that it requires a change in mindset, and significant effort, to move from an average report to a report that properly demonstrates that integrated thinking is embedded in the organisation. The single most important manner of demonstrating a truly integrated and sustainable manner of running an organisation is to enhance the overall strategic management process by demonstrating the embedding of the linkages between the strategic objectives of the business and its stakeholder engagement process, its enterprise risk management system, key performance indicators (both financial and non-financial) and the remuneration policy and practices. **A robust stakeholder engagement process is fundamental to this.**
4. In view of the increasing importance to stakeholders of the manner and **quantum of remuneration of directors and senior officials**, as well as the implications of this for the achievement of objectives, disclosure in this regard requires renewed and more focused attention. In our opinion, we believe that the remuneration disclosure should be better integrated with the execution strategy and should be presented in a clearer and more digestible fashion.
5. **The industries in which companies scored the highest are those of financial services, the extractive industries and consumer business**. The good performance of the extractive industries is no surprise, while the exemplary performance of the highly competitive “business to consumer” industries, such as financial services and retail, demonstrates that responsiveness to stakeholders concerns and needs is top of mind. This is inconsistent with the general supposition that South African consumers do not yet care about sustainability in all its dimensions

6. The subject area that showed the **biggest increase** from Period 1 to 3 is “Demonstrating commitment and Management quality”. This improvement is mainly attributable to the necessary frameworks and governance structures having been put in place in most cases.
7. Conversely, it is disappointing to note that many companies have not yet **effectively embedded sustainability issues** in their business strategy and operations. The lowest score remains in the area of properly addressing the sustainable development agenda-specifically also the lack of meaningful employee involvement in embedding a sustainable business strategy in organisations.
8. Overall, the reports reviewed are **still too long** to facilitate effective and efficient communication to key stakeholders. We believe that the fundamental reason for this is twofold – insufficient prioritisation of stakeholder concerns and a lack of effective ownership of the Integrated Report at board level.
9. **Ethics performance of companies** are still not well reported on or adequately assured. 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 practiced. It is however also clear that the methodology and manner of managing and reporting on ethics performance is not yet sufficiently well established.
10. Although progress has been made with the implementation of the **combined assurance model** compared to the situation a year ago, companies are still placing too much emphasis on the first line of defense, i.e. on management self-assessment. Adopting this approach in areas where the processes and systems are not yet well embedded detracts from the overall credibility of the report. Based on practical experience gained in working with clients in this area over the past year, we are concerned that the resultant potential unintentional misrepresentation of especially key non-financial information may in certain circumstances lead to liability for board members.

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), those listed companies with a financial year end between 1 June and 30 September 2011 (Period 2), and those listed companies with a financial year end between 1 October 2011 and 29 February 2012 (Period 3) are discussed in this section.



It is clear from our research that companies seem to be developing a better and clearer understanding of the requirements and the spirit of Integrated Reporting. There is a definite improvement in the results per subject assessed between Period 1, Period 2 and Period 3.

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 and the IIRC Discussion Paper issued in September 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 SA as well as the Discussion Paper issued by the IIRC.

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

Marginal improvement in the level of understanding of requirements

Although the general level of understanding of the requirements of Integrated Reporting increased significantly between Period 1 (41%) and Period 2 (51%), the increase between Period 2 (51%) and Period 3 (52%) was marginal. The data gathered points to the fact that it requires a change in mindset, and significant effort, to move from an average report to a report that properly demonstrates that integrated thinking is embedded in the organisation. Companies that score well in this area have embraced the level of transparency required and have embedded a robust stakeholder engagement process linked to strategic objectives.

Companies are still reluctant to set measurable non-financial targets.

Only 38% of Period 3 reports reviewed included targets linked to strategy and stakeholder concern. Although this demonstrated a marked increase from the 33% reported in Period 2, the overall lack of willingness to commit to measurable targets might be an indication of a superficial approach to non-financial indicators by a large proportion of reporters. However, many of those companies that have embarked on a process of properly embedding sustainable development principles in their strategies are still determining their reporting baseline and it is therefore understandable that target setting is still a challenge.

The link between strategy execution and remuneration practices is not well explained.

In view of the increasing importance to stakeholders of the manner and quantum of remuneration of directors and senior officials, as well as the implications of this for the achievement of objectives, disclosure in this regard requires renewed and more focused attention. In our opinion, remuneration disclosure should be better integrated with the execution strategy and should be presented in a clearer and more digestible fashion.

We continue to question whether the complexity of defining and consistently reporting on non-financial data is understood.

The explanation of the scope and boundary of non-financial information remains relatively superficial. 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.

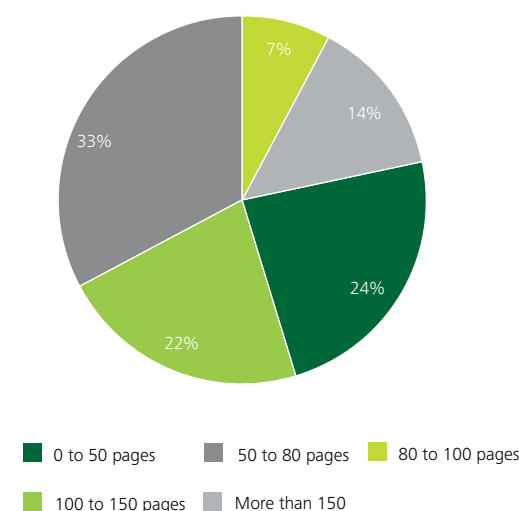
The overview of activities is generally well explained in an easily understandable and concise manner.

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 KPI's explained in the general overview. 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.

Companies are trying to shorten reports with varying levels of success.

57% of reports analysed in Period 3 were 80 pages or less long (this excludes the Annual Financial Statements where these 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 emanating from key stakeholders and provided other detailed information, in which only a limited group of stakeholders are interested, through a link to the company's website. This includes information such as the full set of the Annual Financial Statements, Global Reporting Initiative disclosure relating to indicators which are 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.

How many pages are the document (excluding the full set of financial statements if included)?



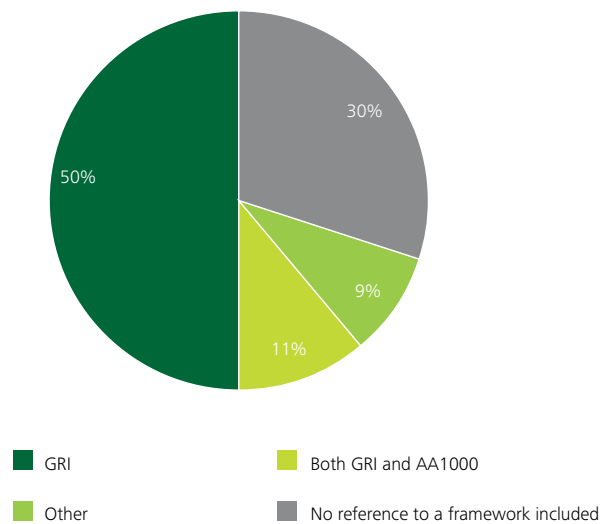
Only a minority number of companies excluded the full set of Annual Financial Statements from their integrated report.

Similar to Period 2, only 20% of Period 3 reports excluded a full set of Financial Statements and only 26% of Period 3 companies included IAS34-compliant summary financial information.

Companies are increasingly utilising the GRI framework to guide sustainability reporting.

61% of Period 3 companies utilised GRI as a reporting framework. This is a marked increase when compared to the 51% of Period 2 companies and 43% of Period 1 companies that utilised this framework.

Does the report include a reference to the framework used for the preparation of non-financial (sustainability related) information (often GRI or AA1000)

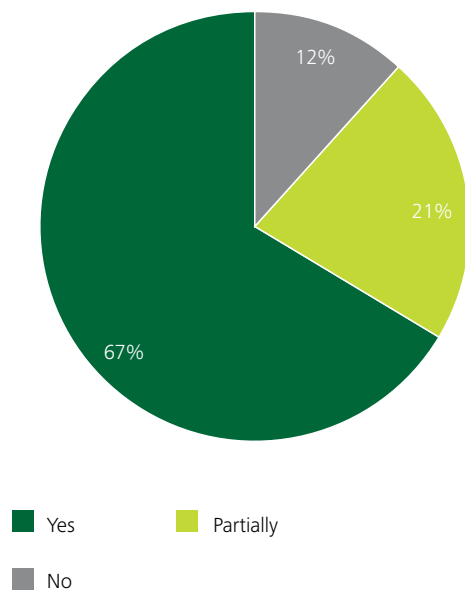


However, only a quarter of companies disclosed their application level. This is not consistent with the GRI framework which requires companies that claim compliance with the framework to disclose the application level.

Robustness of risk management process questioned

Although risk disclosure has improved, the lack of depth leads us to question the robustness of the risk management process supporting the disclosure. The majority of companies now include a risk mitigation plan in their reports, however the link between the disclosed risk and strategy remains weak.

Is the governance process around risk management disclosed? Is there clear line accountability for the management of sustainability matters and risk to the board? Are the inherent impacts and associated risks of the company in current and future geographic areas of operation described?



III. Best practice examples

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

1. General characteristics:

The Murray & Roberts 2011 Integrated Report (for the year ended June 2011, page 2, www.murrob-online.co.za) outlines their approach to Integrated Reporting in a concise manner upfront in their report.

2. Key strategic objectives:

The SABMiller Annual Report 2011 (for the year ended March 2011, pages 20-21, www.sabmiller.com) outlines the strategic priorities based on the principal risks identified.

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.

The Altech Integrated Annual Report 2011 (for the year ending February 2011, pages 116-117, www.altech.com) describes the link between executives and senior management remuneration and the company's social and environmental performance.

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.

Internationally, the Marks & Spencer 2011 Annual Report and Financial Statements (for year ended April 2011, page 57, www.corporate.marksandspencer.com) provides an explicit link between sustainability performance and executive director remuneration.



4. Scope and boundary:

The Bidvest 2011 Integrated Report (for the year ended June 2011, inside front cover, www.bidvest.com) provides a clear description of the impact of the Group's restructuring on the comparability of information.

The African Rainbow Minerals 2011 Integrated Report (for the year ended June 2011, page 40, www.arm.co.za) includes a footnote that explains the time boundary of the carbon footprint data provided linking the period disclosed to the Carbon Disclosure Project submission date rather than the financial year.

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:

Aveng's 2011 Integrated Report (for the year ended June 2011, page 49, www.aveng.co.za) includes measurable targets set for safety performance and includes a comparison with the current and prior year.

7. Consistency of operational review:

The Bidvest Group Limited 2011 Integrated Annual Report (for the year ended 31 December 2011, www.bidvest.co.za) provides a consistent table covering key financial and non-financial indicators for each of its diverse divisions. This provides an easy comparison between divisions and also demonstrates how key indicators are embedded within and operationalised by the various divisions.

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, effective communication of the 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 organisational 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.

II. The most important trends that were identified

Companies are largely communicating clearly

Overall, companies are generally communicating the key aspects of their corporate context in an easy-to-read and understandable format. Corporate context consistently scored the highest of the seven categories in the three research periods, showing a steady increase from 50% in Period 1 to 62% in Period 3. Companies are using their Integrated Report to effectively tell the story of the company, its origins, key milestones on the journey to where it is today, and a vision for taking the company into the future.

There is good disclosure of aspects of corporate context

80% of all companies analysed disclosed at least five of the defined criteria for corporate context: the history of the organisation, its main products and services, its major markets and locations, key financial data, the organisational structure and major changes since the last report.

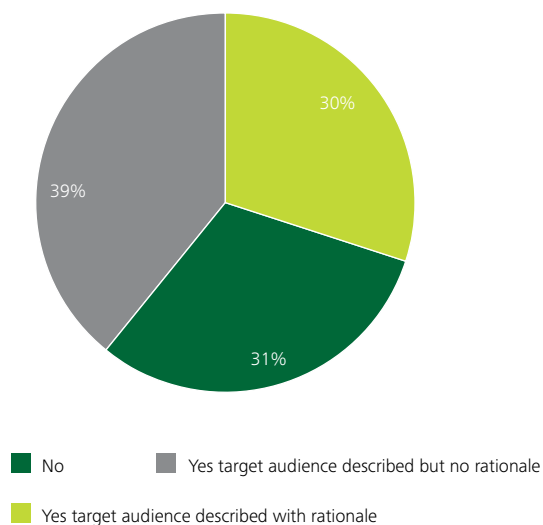
The use of visual elements has become the norm with almost all companies using maps, diagrams, timelines and navigation tools in their Integrated Reports. Companies are embracing technology to increase the usability of their reports through webcasts, podcasts, interactive and customisable online reports, and online feedback.

Basic reporting principles are being applied

Companies are applying most of the basic reporting principles in their Integrated Reports with the scope and period of reporting generally well described.

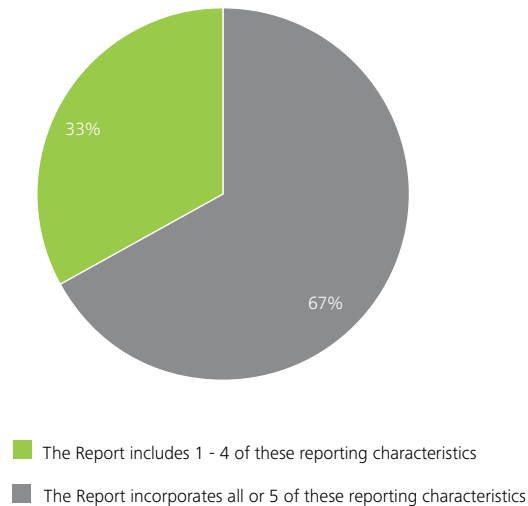
Areas requiring further attention are clarification on limitations or exclusions to the scope of reporting and the target audience of the report.

- More than half of all companies analysed are not clearly describing limitations or exclusions to the scope of reporting and the reason for doing so – a trend which remained relatively constant during the three research periods. Companies need to consider this aspect carefully – the scope of reporting for financial and non-financial information can be different as a result of availability of data, ownership and materiality.
- A description of the target audience and the reasons for choosing these stakeholders are not evident in most reports, with only 30% of Period 3 companies disclosing this aspect (albeit up from 16% for Period 2 companies). The evolving corporate reporting landscape will continue to place an increasing focus on stakeholder communication, and utilising the Integrated Report to communicate with the target audience (key stakeholders) will be an important feature.



Qualitative characteristics are increasingly being embedded in the Integrated Report

Companies are continuing to embed qualitative characteristics in their Integrated Report. In 67% of cases in Period 3 reports (compared with 51% Period 2 and 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.



Comparing data against previous years or industry norms and providing information free from bias are proving to be more challenging to companies.

Integrated Reports show good logical flow

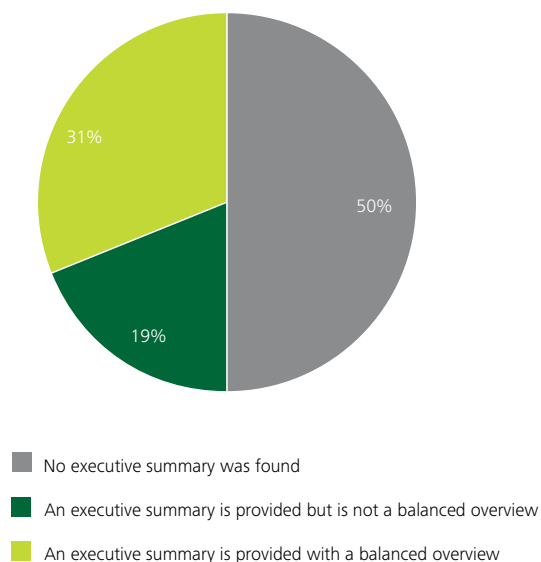
The report structure remains an area which is well addressed by companies, with close to 90% of reports using a logical structure and sequence of chapters. Companies are, however, still coming to grips with integrating information throughout all sections of the report to ensure consistency and emphasis of key messages to the reader.

Signposting and cross-referencing through symbols, pictures and diagrams are used effectively by a number of companies to improve the usability of reports. Standard practices now include references to online content and the GRI table.

“Quick reading” summary still lags other criteria

The component of corporate context that scored the lowest throughout the three research periods (44% in Period 3, 41% in Period 2, 33% in Period 1) is “**quick reading**” options. The upward trend is encouraging, but companies are still reluctant to disclose actual performance against key performance indicators and set measurable targets.

Companies are making increasing use of an executive summary to provide a holistic and balanced overview of the organisation’s performance, frame the performance and set the scene for the remainder of the report. 50% of Period 3 companies included an executive summary (up from 27% in Period 2), but only 31% provided a balanced overview of the organisation (22% in Period 2).



Reporting on KPI's remains a challenge

The disclosure of quantitative key performance indicators has remained relatively constant over the three research periods with only 43% of companies including KPIs with historical trends and/or future targets. Companies which do not include any KPIs have however decreased from 46% in Period 2 to 39% in Period 3. Accountability and transparency are top of mind for stakeholders, resulting in an increased demand to define, and report on, quantitative key performance indicators.

III. Good practice examples

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

1. Corporate context:

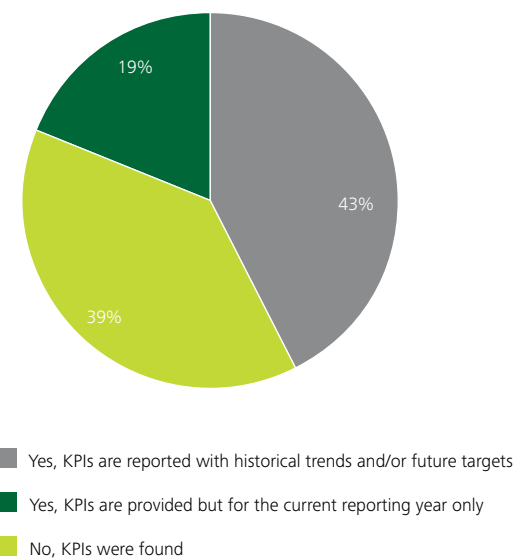
The Hulamintegrated Annual Report 2011 (for the year ended 31 December 2011, pages 10-19, www.hulamint.co.za) explains the corporate context of the company to a wide range of readers by including the industry value chain, extrusion process, rolling process and applications of products.

The Adcock Ingram Integrated Report 2011 (for the year ended 30 September 2011, pages 2-5, www.adcock.com) sets out the business footprint and key operating areas in a concise manner using tables and diagrams.

The Life Healthcare Integrated Annual Report 2011 (for the year ended 30 September 2011, pages 6-11, www.lifehealthcare.co.za) discloses the business model, organisational structure and history of the organisation in a logical and easy to follow format.

The Massmart Annual Report 2011 (for the year ended June 2011, pages 2-17 and pages 68-69, www.massmart.co.za) provides a very clear overview of the corporate context using a reader-friendly design.

Other good examples include: Vodacom Group Limited 2011 Integrated Report (for the year ended March 2011, pages 4-5, www.vodacom.com), SAB Miller plc 2011 Annual Report (for the year ended March 2011, pages 1-5, www.sabmiller.com) and MMI Holdings Limited 2011 (for the year ended June 2011, pages 2-13, www.mmiholdings.com).



2. Basic reporting principles

The Grindrod Integrated Annual Report 2011 (for the year ended 31 December 2011, page 85-86) clearly describes the approach used to define the boundary for environmental indicators, including changes from the previous year.

The Murray & Roberts Annual Integrated Report 2011 (for year ended June 2011, page 2, www.murrob.com) describes the reporting period, scope and limitations of reporting.

Another good example is The Foschini Group Limited 2011 Integrated Annual Report (for the year ended March 2011, page 2, www.tfg.co.za).

3. Qualitative characteristics

The Clicks Group Integrated Annual Report 2011 (for the year ended August 2011, pages 4-7, www.clicksgroup.co.za) and the Anglo American plc Annual Report 2011 (for the year ended December 2011, pages 14-16 www.angloamerican.com) both provide concise disclosure of qualitative characteristics early in the report.

4. 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.

The Massmart Annual Report 2011 (for the year ended June 2011, www.massmart.co.za) uses an effective format for signposting the reader to further information throughout the report.

The Sasol Integrated Annual Report (for the year ended June 2011, www.sasol.com) uses symbols and diagrams for effective cross referencing to other sections of the report and reports on the company's website.

5. Use of visual elements

Pretoria Portland Cement Company Limited 2011 Integrated Annual Report (for the year ended September 2011, www.ppc.co.za) and Mr Price Group Limited 2011 Annual Integrated Report (for the year ended March 2011, www.mrprice.co.za) are examples of reports utilising good visual elements to explain corporate context.

6. "Quick reading summary"

The AngloGold Ashanti Annual Integrated Report 2011 (for the year ended 31 December 2011, pages 4-7, www.aga.com) provides a balanced view of key features for the year under review through graphs and also compares the information against the previous four years.

The Standard Bank Group Annual Integrated Report 2011 (for the year ended 31 December 2011, pages 2-4, www.standardbank.com) sets out highlights and challenges at the beginning of the report, combined with key financial and non-financial indicators.

The Mr Price Group Limited Annual Integrated Report 2011 (for the year ended March 2011, pages 7-11, www.mrprice.co.za) provides a clear overview, with page references and links to other sections where the reader can access more detailed information.

Another good international example is the Vodacom Group Limited Integrated Report (for the year ended March 2011, pages 6-21, www.vodacom.com).



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 details.

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. (Additional guidance on determining non-financial materiality is contained in Section 6.)

The challenge in evaluating materiality of non-financial metrics starts with understanding and engaging with relevant 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

The importance of disclosing material issues is being realised

Companies are realising the importance of disclosing material issues affecting their business across the sustainability spectrum. The number of companies incorporating material issues into their Integrated Reports has increased from 80% in Period 1, 86% in Period 2 to 91% in Period 3.

In the absence of formalised methodologies, companies are reluctant to disclose their rationale for materiality

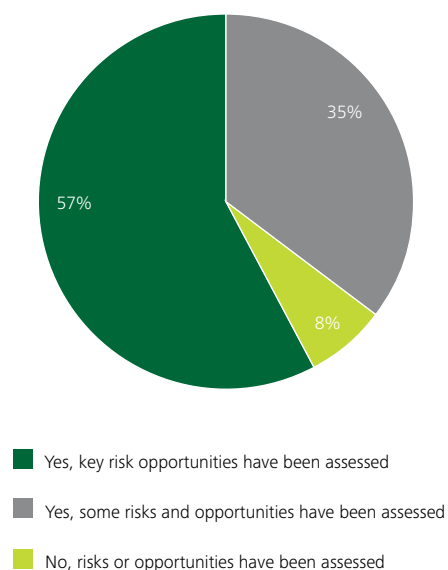
The draft Integrated Reporting Framework as released in July 2012 by the IIRC has demonstrated the Council's commitment to define materiality and provide further guidance to companies. In the absence of formal guidance, companies are reluctant to disclose the methodologies applied in determining which items are considered material. Only 17% of Period 1 reports analysed had disclosed the methodology and this remains unchanged for Period 3.

The materiality determination is not one-dimensional and needs to take into consideration various components such as stakeholder engagement, significance to the organisation, timeframes (short, medium and long term) and boundary of influence and control. This complexity is causing companies to avoid disclosing their decision-making process for materiality.



Improvement in materiality disclosure translating into better risk disclosure

As companies better understand disclosing their material issues and topics and incorporate these issues into their integrated reports, the impact on the disclosure of risks and opportunities is clear. 92% of the companies assessed have provided varying degrees of risks and opportunities disclosure. Compared to Period 2, where 84% of the companies assessed had reported on risks and opportunities, this indicates a significant increase. In some cases, companies are directly linking their material issue disclosure with their risk management process.



Linking to stakeholder engagement results still not where it should be

Stakeholder concerns and issues raised through the engagement processes are not clearly reported on, with only 41% of companies reporting on issues raised through the engagement processes for Period 3. This has improved from Period 2 (38%) however with 91% of companies now reporting on material issues, the linkage between material issues disclosure and stakeholder engagement should be better.

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. Material Sustainability issues linked to risk management:

The Clicks Group Integrated Annual Report 2011 (for the year ended August 2011, pages 10-13, www.clicksgroup.co.za) clearly provides the key material sustainability issues that would affect the performance and sustainability for the group and the reference to the risk management process as well as the mitigation strategies.

2. Rationale for determining materiality:

The Nedbank Group Integrated Report 2011 (for the year ended 31 December 2011, pages 4-5, www.nedbankgroup.co.za) provides a description of material matters and the process to define these matters (including the approval process).

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.

3. Material issue identification and methodology:

The AFGRI Integrated Annual Report 2011 (for the year ended 30 June 2011, page 1, www.afgri.co.za) discloses the methodology for determining materiality by using a matrix and scoring of matters based on specific criteria.

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 the methodology applied in identification of these material concerns.

4. Material issue response plan:

The Sanlam Integrated Report 2011 (for the year to 31 December 2011, www.sanlam.co.za) discloses the performance and commitments against the material pillars as defined in the Sustainability Management Framework.



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** correlates 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

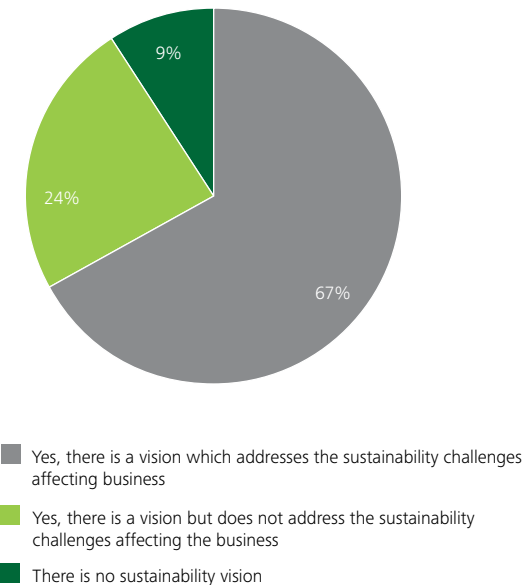
Impressive rise in demonstration of commitment and management quality

Overall, demonstrating commitment and management quality has shown an increase of 11% from Period 2 to Period 3 and an impressive 59% increase from Period 1, making it the category with the highest overall increase. Having been identified as an area of challenge in previous periods, it is pleasing to note that companies are now beginning to pay more attention to this.

Improvement comes from better disclosure of sustainability vision

The positive trend is mainly due to disclosure of a sustainability vision and future, improving significantly since the last period with 67% of companies now reporting on this in Period 3 compared to 43% in Period 2. The integration of economic, environmental and social goals into the overall business strategy is also showing a positive trend, increasing by 42% from Period 2 to Period 3, mirroring the same percentage increase from Period 1 to Period 2. This demonstrates that most companies are now accepting the relevance of sustainability and have started responding to the key sustainability challenges and potential opportunities that will impact on the business in the future.

Does the organisation present a vision for the future in which sustainability challenges relevant to the organisation are addressed?



Strategy and goals increasingly address the sustainability challenges

59% of companies in Period 3 disclosed a business strategy and related goals that address the identified sustainability challenges, up from 51% in Period 2. It is encouraging to note that 52% of the Period 3 companies have also described their method for implementing the business strategy, up from 46% for Period 2 companies.

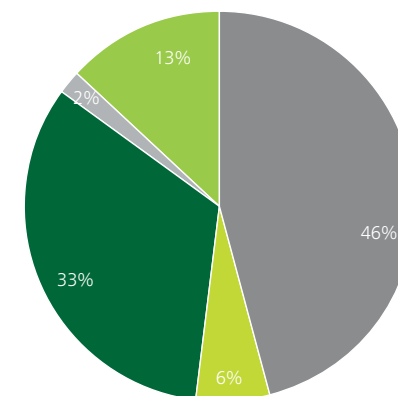
Reporting on sustainability objectives has risen, but lack of data brings constraints

Whilst reporting on objectives linked to the sustainability vision and strategy has improved significantly from 43% in Period 2 to 76% in Period 3, the lack of consistent and reliable data is still constraining companies from setting SMART (specific, measurable, achievable, realistic, timely) objectives that link with the sustainability vision and business strategy and describe mitigation actions and progress against these.

Disclosure of key risks and opportunities improves

Disclosure of key risks and opportunities has risen further, from 84% in Period 2 to 92% of reports in Period 3. A more balanced view of risks and opportunities is being presented. However, while the number of companies describing their processes and systems for mitigating risks and maximising opportunities is also up to 46% in Period 3, this still remains a low scoring area as the link between risks and strategic objectives in most reports still remains unclear.

Does the business describe the system and process in place for mitigating risks and maximising opportunities?



- Yes mitigation of risk and maximising of opportunity is described
- Mitigation of risk is described only
- Maximising of opportunity is described only
- No description is provided
- N/A

Disclosure of management systems to deal with sustainability issues falls short

Demonstration of how sustainability is integrated into business operations, such as marketing or procurement processes, has improved. However, disclosure of the management systems used to handle sustainability issues has deteriorated from 62% in Period 2 to 50% in Period 3. This suggests that while the relevance of sustainability is being recognised through inclusion into vision and strategy, implementation of strategic sustainability initiatives and embedding these into core business practices is still some way off.

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 Gold Fields Integrated Annual Review 2011 (for the year ended December 2011, pages 6 and 8-22, www.goldfields.co.za) demonstrates a vision for the future which incorporates sustainability challenges for the mining industry. This vision is supported by values, goals and strategy which address these sustainability challenges. Objectives linked to strategy are presented for the year under review as well as for 2012.

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 Growthpoint Properties Integrated Annual Report 2011 (for the year ended June 2011, pages 28-29, www.growthpoint.co.za) describes strategic objectives, measurement of executive management, 2011 achievements and 2012 goals.

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.

2. Governance structures:

The Murray & Roberts Annual Integrated Report 2011 (for year ended June 2011, page 106, www.murrob.com) clearly describes the governance structures in place to manage sustainability matters, including accountable employees and terms of reference.

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:

The Anglo Platinum Limited 2010 Annual Report (for the year ended December 2010, page 42, www.angloplatinum.com) provides a descriptive example of a management system used to manage safety risk.

4. Assessment of key risks and opportunities:

The Gold Fields Integrated Annual Review 2011 (for the year ended December 2011, pages 36 - 39, www.goldfields.co.za) provides a comprehensive overview of its risk management process in a concise graphic. A risk table also provides a direct link of risks to strategic objectives of the company, including tolerance levels set by the Board. This is overlaid by a heat map of the Group's top 10 operational, financial and sustainability risks. An overview of mitigation strategies is provided, with references to further detail in the report.

The Anglo American Annual Report 2011 (for the year ended December 2011, pages 49-53, www.angloamerican.co.za) includes mitigation processes and systems in its material risk table.

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 SABMiller Annual Report 2011 (for the year ended March 2011, pages 20-21, www.sabmiller.com) provides a good analysis of principal risks with potential impact, mitigation plan and link to strategic priority.

The Sasol Integrated Annual Report 2011 (for the year ended June 2011, pages 49-51, www.sasol.com) provides a balanced view of the top operational, sustainability and financial risks, combined with an explanation of the context and mitigation actions.

The Group Five Integrated Annual Report 2011 (for the year ended June 2011, pages 5-7, www.groupfive.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, the legitimate 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 standards** (such as the UN Global Compact and Global Reporting Initiative) against which business is measured, and to what extent these are in compliance with the defined criteria.
2. Performance relative to 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 initiatives** with civil society, including local communities and non-governmental organisations (NGOs).
3. Whether the organisation describes **innovation** initiatives that maximise opportunities and/or mitigates identified risks.



II. The most important trends that were identified

Addressing the sustainability agenda remains the worst performing assessment area

It is not surprising that the lowest scoring element within the integrated report analysis remains that of addressing the sustainability development agenda. The assessment areas scored a low overall 39% for the Period 3 assessment, which did not change significantly from the prior period score. The lack of improvement and the consistently low overall low score demonstrates a lack of maturity in effectively embedding the sustainability agenda within business strategy and processes.

Framework conditions are increasingly important

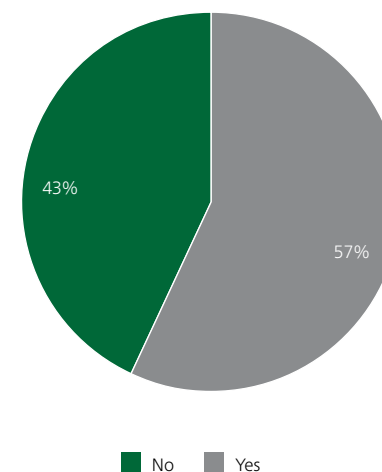
The use and incorporation of sustainability frameworks and standards has increased substantially over the year of assessment. Only 27% of Period 1 companies disclosed the use of frameworks, and this has steadily increased to a total of 51% of companies disclosing the use of frameworks for Period 3. This is a substantial increase, demonstrating companies' appetite to formalise the integrated non-financial reporting disclosure on a robust basis.

Supply chain management is being impacted

Disappointingly, the anticipated momentum of improvement in supply chain sustainability disclosure has not materialised in the Period 3 assessment. Companies may be struggling to embed sustainable practices into their value/supply chain in the short term.

Supply chain considerations has been identified by 57% of the assessed companies as being part of their future sustainability strategy and improvement targets, increasing from a figure of only 38% in Period 2. This increase clearly indicates that companies are anticipating embedding sustainable practices into their value/supply chain in the medium to long term.

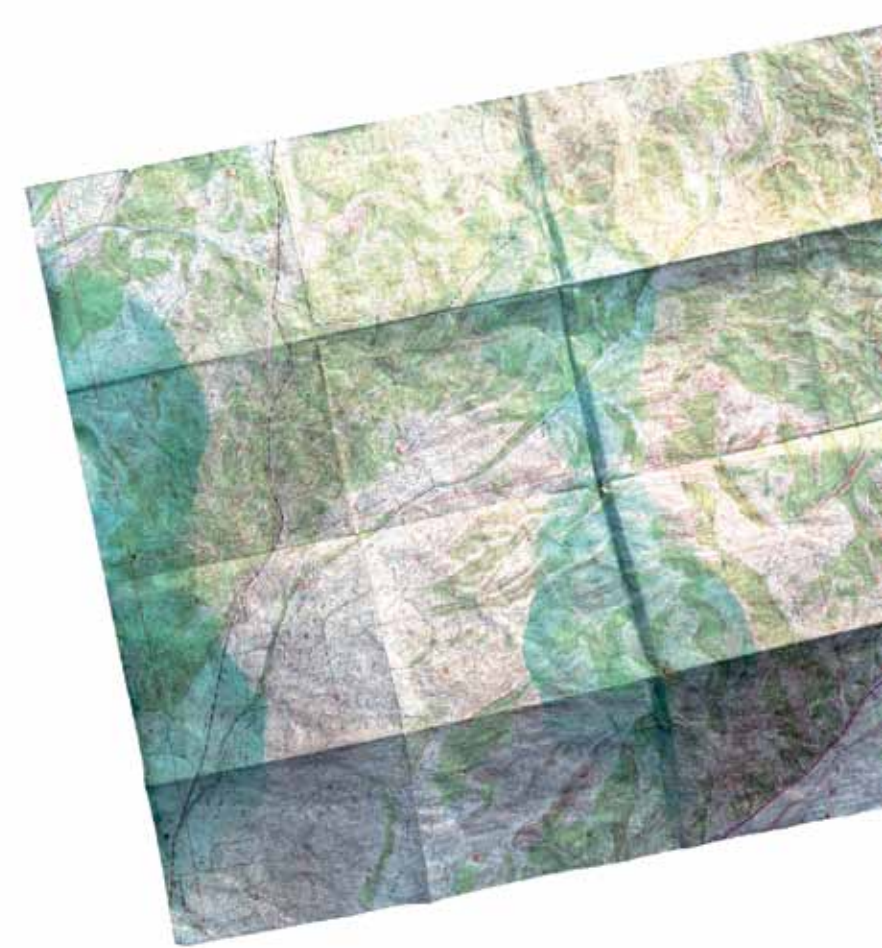
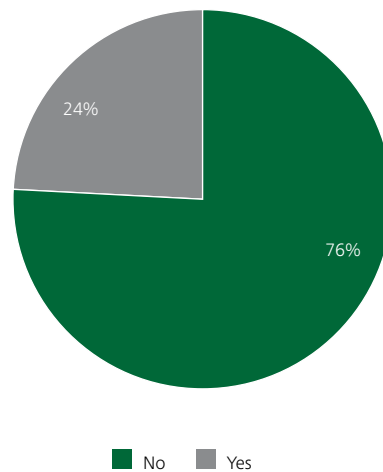
Is the supply chain identified as part of the organisation's sustainability strategy or improvement targets?



Employee involvement slipping to low levels

Companies providing descriptions of their employee involvement in the organisation's sustainability programme has decreased to only 23% in Period 3. This is surprising considering employees are in most cases a key stakeholder group.

Does the Report assess the effectiveness and functioning of initiatives and processes that encourages employee involvement? For example using an employee satisfaction survey.



III. Good practice examples

1. Addressing sustainable development agenda:

The Nedbank Group Integrated Report 2011 (for the year ended 31 December 2011, page 8, www.nedbankgroup.co.za) demonstrates embedding sustainability. This is identified as a strategic success driver, supported by a section in the Investment Case “Leadership through Integrated Sustainability” on pages 12-13, addressing sustainability in all its dimensions (economic, environmental, social, cultural), including key performance indicators and relevant information.

2. Disclosure of Framework conditions

The Santam Integrated Report for 2011 (for the year ended 31 December 2011, page 66, www.santam.co.za) includes the abridged sustainability report which begins with outlining the sustainability frameworks and standards used.

3. Sustainable development model

African Rainbow Minerals Integrated Annual Report 2011 (for the year ended 30 June 2011, page 34, www.arm.co.za) illustrates the transitional sustainable development model used to integrate sustainability initiatives across their business.

4. Sustainability agenda and link to supply chain

The Foschini Group Annual Integrated Report 2011 (for year ending 30 March 2011, page 44 to 47, www.tfg.co.za) illustrates the importance of supply chain and the integration of supply chain in the sustainability process.

5. Innovation to maximize opportunity and minimise risk

The FirstRand Annual Integrated Report 2011 (for the year to June 2011, page 12, www.firststrand.co.za) provides a detailed description on how FirstRand employees are incentivized to innovate to optimize opportunity. Innovation is disclosed utilising various quantitative measures.

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

Reporters paying more attention to credibility

Adding credibility to non-financial information is continuing to receive more in depth attention from reporters. The average scores of the companies analysed improved from Period 2 to Period 3, from an average score of 47% to 49%. As with the overall result, the very high rate of increase from Period 1 to 2, while still positive, was not sustained for Period 2 to 3. The element which was most improved was for accessibility, while the practice of providing assurance remained consistently at an unsatisfactory low level of 25%.

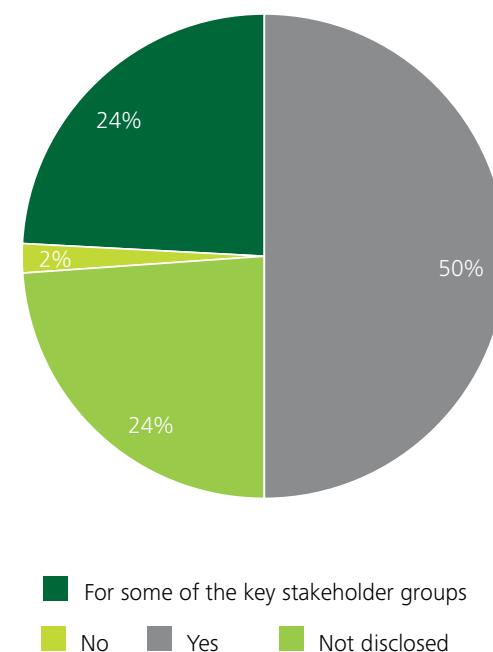


While identifying key stakeholders is rising, more detail is needed

There appears to be consensus in the reportage examined that it remains important for companies to identify their key stakeholders, with in excess of 80% of companies examined in Periods 2 and 3, compared to only 60% Period 1, identifying and disclosing their key stakeholders. However, much work remains to be done in taking this progress further with all the detailed processes that should follow from the initial stakeholder identification. Specifically, the following aspects require much more attention:

- Using a **robust stakeholder identification methodology** to ensure important stakeholders are not overlooked or incorrectly prioritised is crucial. The actual reported practice remains weak, although increasing from 14% in Period 2 to 30% in Period 3.
- The form of interaction with those stakeholders that have been identified, based on the information in the reports examined, still appears often 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**. In Period 3, 50% of the reports examined disclosed the form of engagement with stakeholders, compared to 33% and 38% in Periods 1 and 2 respectively.

Is the form of engagement (ie two way, website, survey) disclosed?



- While **key concerns or topics raised through an engagement process** with stakeholders are increasingly disclosed, the disclosure of these still remain at a very low level of 41% in Period 3, which is about the same as in Period 2 (38%), but an increase from the 23% in Period 1.
- **Companies' responses to stakeholders issues** in their Integrated Reports are still only disclosed in 28% of cases in Period 3 (Period 2 was 30%), which is at a consistent low level but substantially up from the 7% of companies in Period 1.

Accessibility is important to reporters

For the majority of companies, the sound balance of issues presented exceeds 55% in both Periods 2 and 3, when compared to only 40% in Period 1.

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 for credibility that were considered. Companies appear to be open to feedback on their Integrated Reports, with contact details now being supplied by almost 70% of companies surveyed in Period 3. 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.

Independent assurance still lagging

Companies furnishing independent assurance remain a minority, at a very low level of 31% in Period 3, almost unchanged from Periods 1 and 2.

The Assurance that is being furnished is, for the most part, furnished by Independent Accounting Firms, but also from Internal Auditors to a lesser extent.

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), and AccountAbility (AA 1000 AS Assurance), or a combination of these two standards.

III. Good practice examples

1. Engagement with stakeholders:

Sasol, in their 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.

The Massmart 2011 Annual Report (for the year ended June 2011, page 7, www.massmart.co.za) provides a very clear overview of the stakeholder engagement process with disclosure of key issues.

Steinhoff International Integrated Annual Report (for the year ended 30 June 2011, pages 14-15, www.steinhoffinternational.com) provides a good example of a stakeholder engagement table

The Barloworld Integrated Annual Report 2011 (for the year ended 30 September 2011, pages 66-69, www.barloworld.com) provides a good overview of the manner of engagement with stakeholders, and the results thereof.

2. Assurance services:

The Group Five Integrated Report 2011 (for the year ended 30 June 2011 page 50-51, www.g5.co.za) provide an example of a good approach to assurance on non-financial information.

The Murray & Roberts 2011 Integrated Report (for the year ended June 2011, page 126, www.murrob.com) provides an example of a concise assurance statement on key indicators using ISAE 3000.

The Nedbank Integrated Report 2011 (for the year ended 31 December 2011, page 152, www.nedbankgroup.co.za) provides a good example of a clearly-written statement provided by an independent assurance provider. The AccountAbility AA1000AS standard is applied in combination with a robust evidence-based and quality-assured approach, using ISAE 3000.

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.

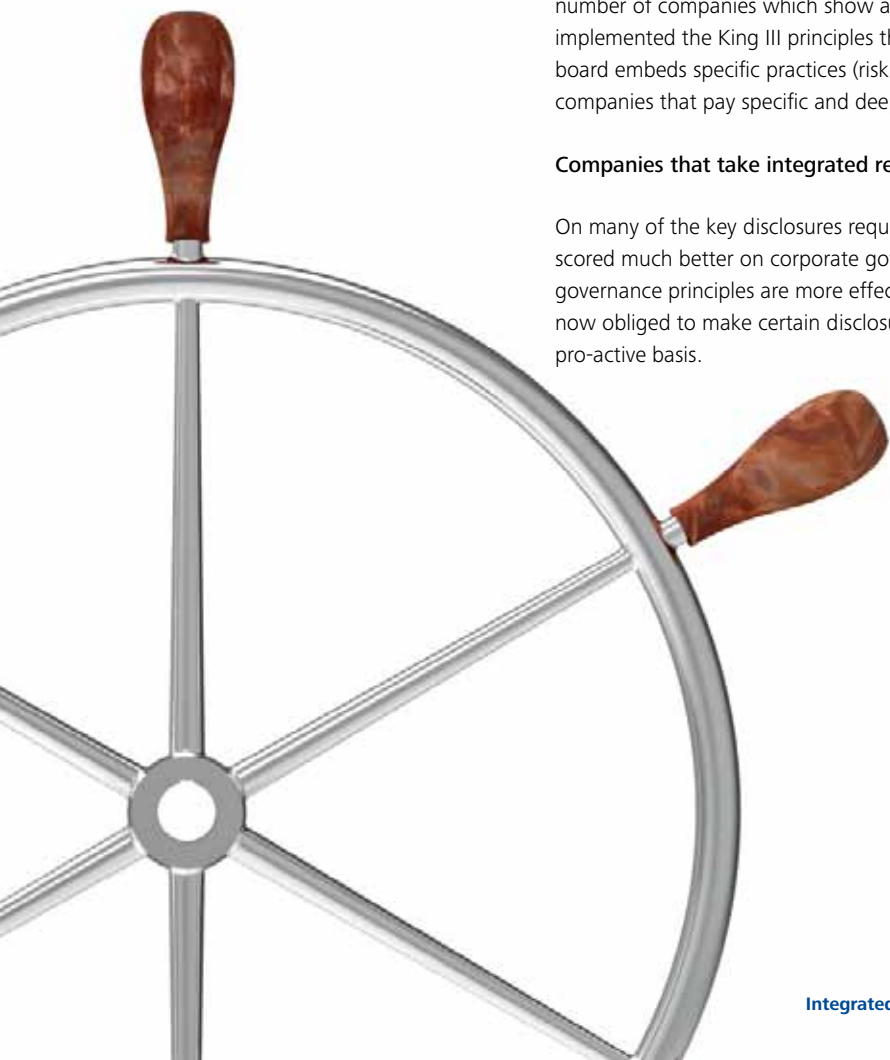
II. The most important trends that were identified

Corporate governance disclosures are steadily improving

On average, companies surveyed during Period 3 scored 59% on corporate governance. Although this remains lower than expected, it shows a steady increase in the number of companies which show an interest to properly embed the principles of King III. During the first phase of the research project it was found that most companies implemented the King III principles that relate to the structure and composition of the board, but neglected those specific principles that pertain to the way in which the board embeds specific practices (risk management, ethics performance, compliance, etc.). There has been a significant increase in Period 3 with respect to the number of companies that pay specific and deeper attention to IT governance, compliance, risk management and so on.

Companies that take integrated reporting seriously score better on corporate governance

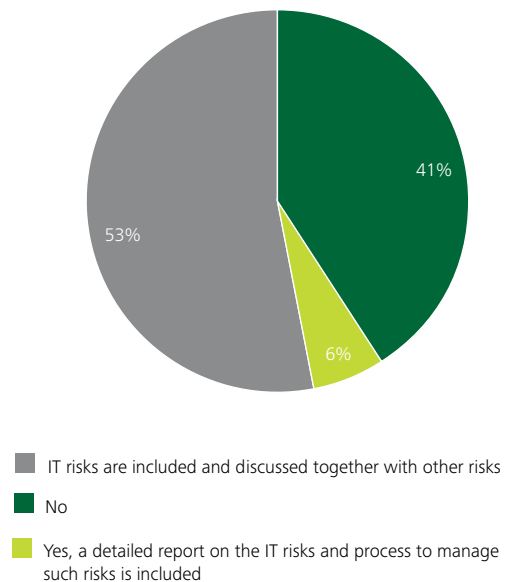
On many of the key disclosures required in terms of King III and the JSE Listings Requirements, those companies that scored in the top quarter of companies surveyed scored much better on corporate governance than those companies in the bottom half. This confirms the view expressed in the King III Report 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.



IT governance processes are maturing

The number of companies that adhere to the King III principles on IT governance has doubled over the past year. Almost 60% of surveyed companies now report that the board plays an active part in the IT governance process. 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. This increase in the results pertaining to IT governance during Period 3 may be the result of the complexity of the IT governance system, and the time and resources required to ensure the maturity of the IT governance systems and processes. Also, Parliament has made substantial progress on the promulgation of the Protection of Personal Information Bill, and this necessitates companies to re-evaluate and adjust their approach to IT governance.

Does the report contain specific information relating to IT risk management?



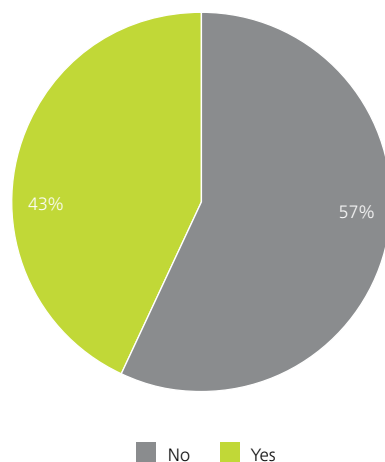
Most companies now have compliance structures in place

There has been a marked increase in the number of companies reporting that they have a dedicated compliance function in place to ensure and monitor compliance with laws, rules, codes and standards. King III had been effective for only a year when companies were required to first report on their compliance with the King III. A year later, it seems that almost 75% of companies have now finalised the required compliance structures and implemented the necessary processes in order to disclose this fact in their Integrated Report.

Disclosure of the ethics performance of the company was disappointing

Only 43% of the companies in Period 3 disclosed aspects of their ethics performance, with very few companies indicating that they obtained external assurance on their ethics performance. Significant improvement is required in this area.

Is the ethics performance of the entity disclosed?



Companies show better compliance regarding the composition of boards

89% of companies in Period 3 (73% in Period 2 and 60% in Period 1) indicated that the board is composed of a majority of non-executives, of which the majority is independent. The significant increase in the number of non-executive directors may be ascribed to the implementation of the Companies Act which requires profit companies to have at least 50% of the directors appointed by shareholders (thereby limiting the number of ex officio appointments).

Most boards now make an explicit statement on the assessment of the effectiveness of the board

The number of boards that disclose the fact that they have assessed their performance have increased from 50% in Period 1 to 72% in Period 3. 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. This seems to indicate that more and more boards recognise their accountability to shareholders and stakeholders and are starting to appreciate the level of accountability and potential liability for inadequate performance.

The surveyed companies scored poorly on risk management disclosure

Only 26% of the reports in Period 3 contain clear expression by the board relating to the effectiveness of the risk management processes. 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 should determine the risk policy and set the risk appetite and risk tolerance of the company (57% of surveyed companies in Period 3 explain (albeit to a very limited extent) the role of the board in the determination of 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 from the analysis, boards would do well if they paid more attention to the pivotal role they need to pro-actively play to ensure effective risk management.

JSE Guidance on corporate governance

The JSE issued guidance with respect to corporate governance as set out in the JSE Listings Requirements. In terms of the Guidance Letter, dated 16 August 2012, listed companies are required to include in the annual report a narrative statement which sets out how the company applied each of the 75 principles of King III. The narrative must disclose how each principle was applied or provide reasons why it was not applied.

Of the companies surveyed during Period 3, 82% included a statement regarding their King III compliance. However, only 15% of companies included a King III reference table.

III Best practice examples

1. Board of directors:

Adcock Ingram Integrated Report 2011 (for the year ended 30 September 2011, pages 12-15, www.adcock.com) sets out the key elements in an innovative manner by using diagrams and tables.

The Nedbank Group Limited 2011 Integrated Report (for the year to December 2011, page 426, www.nedbankgroup.co.za) provides clear identification of various types of directors.

FirstRand Annual Integrated report 2011 (for the year to June 2011, page 67, www.firststrand.co.za) provides a good example of an easy to read, high-level overview of the focus areas of the board, and an overview of the board's activities in this regard.

2. Compliance in general:

Vodacom Integrated Report 2012 (for the year to March 2012, page 86, www.vodacom.com) provides a good example of an abridged corporate governance statement.

The Nedbank Group Limited 2011 Integrated Report (for the year to December 2011, pages 424 - 428, www.nedbankgroup.co.za) provides a most succinct summary of the various committees and other topical matters, such as the Board Charter and succession planning. It also offers a clear summary of "other" relevant committees and a very comprehensive attendance register.

The Pretoria Portland Cement 2011 Integrated Annual Report (for the year ended September 2011, pages 2-3, www.ppc.co.za) provides a succinct, useful overview page.

The Standard Bank of SA 2011 Annual Integrated Report (for the year to December 2011, page 76, www.standardbank.com) provides a high level overview of the mandate for the board and the respective board committees in easily accessible point form. Page 72 includes an organogram of the governance structure that provides clarity with simplicity.

The Group Five Integrated Report 2011 (for the year to 30 June 2011, pages 36-40, www.g5.co.za) provides a good example of the disclosure of key performance indicators and the measurement of delivery on such indicators.

The Telkom Integrated Annual Report 2011 (for year ending 31 March 2011, page 44, www.telkom.co.za) has a very clearly-documented Internal Audit section.

The Woolworths Holdings Limited 2011 Integrated Report (for the year to 30 June 2011, page 67, www.woolworthsholdings.co.za) provides a good example of an abridged remuneration report. Much information is provided in the Annual Financial Statements, but for purposes of completeness and readability, the abridged remuneration report is provided in the main body of the Integrated Report.

The Discovery Integrated Annual Report 2011 (for year ending 30 June 2011, page 115, www.discovery.co.za) contains a good compliance report.

6. Topical issues

6.1 Ownership of Integrated Reporting and the Integrated Report

As the owners of the Integrated Report, the Board should ensure the integrity of the Integrated Report and the process of Integrated Reporting.

The **actual effective ownership** by the board of the Integrated Reporting process, and the Integrated Report itself, is of significant practical importance. Based on our experience of working with our clients in this area over the last two years, it is one of the key determinants for a good Integrated Report.

There is indeed an important difference between the board actually setting and owning the agenda in this regard, or effectively acquiescing to an agenda actually set, and populated by, executive management or those that report to them and which is submitted to the board for approval, very often at a late stage of the process.

Due to the relatively early stage of development of Integrated Reporting and Integrated Reports, and a consequentially still-developing framework, a greater degree of proactiveness is indicated than is the case with the more traditional areas of responsibility, where more mature and generally-accepted frameworks are in place. This requires boards to equip themselves properly in this area, and/or to seek the appropriate assistance to properly discharge their responsibilities.

According to King III, the Board should **ensure the integrity** of the Integrated Report (Principle 2.12), and the audit committee should **oversee** the Integrated Report (Principle 3.4). Detailed requirements for audit committees in King III, that directly and indirectly impact on the effective ownership of the Integrated Report include:

- The responsibility to consider whether an **unbiased picture** of the company's position, performance or sustainability is being presented;
- The responsibility for evaluating the **significant judgements** and reporting decisions affecting the Integrated Report;
- The responsibility to understand how **materiality** for the Integrated Report has been determined; and
- The responsibility to ensure that **forward-looking** information provides a proper appreciation of the key drivers that will enable the achievement of such goals.

To discharge these responsibilities properly, as well as those set out in the Companies Act and contained in Corporate Law, the board should proactively **set and own** the Integrated Reporting agenda. In this regard, the view from executive management is obviously important to take into account in setting the agenda and framework, but once these are finalised by the board, the primary role of executive management and those that report to them is to operationalise and report back to the board within the framework thus established. If, as is generally accepted, the Integrated Report indeed reflects the **collective mind of the board** and the **integrated thinking** that is essential for business in the modern world, a more reactive approach by the board would not effectively enable capturing the essential qualities and prerequisites for Integrated Reports.

In our opinion, the practical consequences of where the board does not effectively own the Integrated Reporting process and the Integrated Report results in, amongst other things, the following shortcomings:

- An overly long report which does not achieve the key requirement of **conciseness**;
- A report without a **clear and consistent storyline**;
- A report containing a volume of information that is clearly **not material** from the perspective of stakeholders, but which is included to accommodate internal political interests within the company;
- A report that does not display evidence of sufficient **interconnectedness and integration**;
- A report where superficial and inadequate attention is paid to describing how the professed company **values** are actually lived and applied;
- A report that does not display evidence of the necessary **trade-offs and optimisation** that is part and parcel of the modern business environment;
- A report consisting of **marketing-oriented material** without adequate and consistent depth; and
- A report **structure, format and content** that may give a reader the impression that the oversight role of the Board is not as strong as it properly should be.

The purpose of an Integrated Report is to tell the **unique story of the company** and the manner in which it sustains and adds value in the short, medium and long term. The board is clearly intended to bear the ultimate overall accountability for the company and its journey, and has been placed in a unique position to practically discharge this responsibility by a variety of formal and informal arrangements. In order to discharge this accountability effectively, the board should therefore also embrace the **proactive and effective ownership** of the Integrated Reporting process and the Integrated Report.

6.2 Data quality and the role of the 3rd line of defence

There is no doubt that Integrated Reporting has propelled corporate reporting into a world that expects greater transparency, and that greater transparency brings greater scrutiny and increased risk.

Under this more transparent regime, companies are required to report non-financial information alongside financial information, and boards of directors and other stakeholders expect a similar level of data quality to apply to both types of information.

The dilemma that most corporates face is that financial information has been subject to clear definition, disciplined recording, internal checks and controls and intense scrutiny for many years. Non-financial information, on the other hand, is in most cases not well defined and is not routinely subjected to objective and independent scrutiny as a matter of course. Unsurprisingly, it is for this reason, that in the first year of seeking objective and independent assurance, gross misrepresentation of key indicators, previously believed to have been accurate, is often uncovered.

It therefore is advisable for those charged with governance to consider the organisation's combined assurance model carefully to ensure that the non-financial information presented in the Integrated Report has been based on data of acceptable quality and that it has been subjected to an adequate control framework.

As a first step, organisations should identify the non-financial information presented that is used in key internal or external decision making. Each company is unique in this regard, but this may, for example, include indicators core to the nature of the business (often labour-related indicators, including BBBEE and training), those used in the supply chain process (BBBEE and Health & Safety) and those that might impact a future tax (Carbon footprint and related CAPEX, if material to the organisation). As this type of information often has multiple owners who have been preparing information separately from the finance function and in a specific manner for many years, a rigorous and independent assessment performed by Internal Audit or an external service provider is essential to avoid embarrassment or worse.

Examples, based on practical experience, of matters to consider include:

- Inconsistent classification of Lost Time and First Aid Injuries – in some instances this is because different locations apply inconsistent principles and, in others the doctor's certificate is overruled to obtain a desired classification;
- Man hours worked is often not assurable, which can be due to the reliability of the data from the time recording systems, or an inability to accurately consolidate and aggregate data. As a consequence, reported total wages paid may not be correct;
- Race classification based on ID photos only, rather than on documentation or employee self-declaration and incorrect classification of foreigners leads to incorrect BBBEE statistics. This is often the case, despite external verification;
- Incorrect BBBEE classification of foreigners;
- Key training information can often not be supported and is collated in an inconsistent manner;
- Estimates are used for electricity and water consumption when meter readings are not available, but these estimates are not updated when actual meter readings become available;
- Incorrect or inconsistent application of the boundary used in assessing the carbon footprint – in particular, between owned and managed assets; and
- The basis of preparation relating to non-financial information is often not clearly defined. Indicators for customer satisfaction and availability of IT systems can differ between operating units with calculation methods often not documented.

In addition to an independent assessment of key indicators, critical processes such as rigorous risk management, stakeholder engagement and materiality determination should be included on a rotational basis in the Internal Audit plan to ensure that there are sufficient controls in place to ensure reliable execution and disclosure.

One of the most common reasons for reporting inaccurate non-financial information is the application of an inconsistent "basis of reporting" for non-financial information. In accounting language, the basis of reporting should be viewed as something similar to the accounting policies in the Annual Financial Statements – a way of publically defining the rules followed when accounting for complex matters.

Many companies have turned to existing sustainability guidelines, frameworks and standards to help guide them in presenting non-financial information in a universally understood language. Our research has identified that 61% of companies in Period 3 used the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines in the preparation of their non-financial disclosure. We can therefore conclude that GRI is the preferred "basis of reporting" in the South African context. Encapsulating principles such as materiality, stakeholder inclusiveness and reliability of data, the GRI Sustainability Reporting Guidelines provides a foundation upon which non-financial disclosure can be made.

The IIRC acknowledges the GRI Sustainability Reporting Guidelines, third generation (G3 and G3.1), amongst other frameworks, codes, standards and initiatives, in the development of integrated reporting. The influence of GRI on integrated reporting is clear and the converse is also true. As the trends within integrated reporting, including increased governance reporting and remuneration disclosure evolve, they are also having an impact on the GRI Sustainability Reporting Guidelines. The GRI is currently in the process of developing the GRI Sustainability Reporting Guidelines, fourth generation (G4).

The proposed focus by the GRI fourth generation includes governance, remuneration and supply chain and may be attributable to the trends associated with integrated reporting. It is interesting that G4 is proposing to strengthen the link between governance and sustainability performance. This is a fundamental component of integrated reporting and ensuring the sustainable strategic initiatives are measured and monitored at the highest level.

King III specifically requires that the Board should comment on the integrity of the Integrated Report. This and the potential negative impact of approving possibly incorrect key operational information in the Integrated Report should not be underestimated.



6.3 The relationship between CRISA and Regulation 28 of the Pension Funds Act and Integrated Reporting

South Africa is only the second country (the first being the United Kingdom) to formally encourage institutional investors to integrate environmental, social and governance (ESG) considerations into their investment decisions.

What is CRISA?

The Code for Responsible Investing in South Africa (CRISA) was launched on 19 July 2011.

At the launch, South African Finance Minister Pravin Gordhan said the financial crisis had shown how the world needed to move from a short-term to a longer-term investment focus. He said the concept of investor returns had to be broadened to include the generation of benefits for all stakeholders in society.

South Africa is only the second country (the first being the United Kingdom) to formally encourage institutional investors to integrate environmental, social and governance (ESG) considerations into their investment decisions.

Both the King Report on Corporate Governance South Africa (King III) and the United Nations backed Principles for Responsible Investment (UN PRI) require institutional investors to properly consider ESG factors in investment decisions. CRISA aims to provide guidance to the investor community on how to give effect to these requirements.

CRISA applies to institutional investors as asset owners (e.g. pension funds and insurance companies), and their service providers (e.g. asset managers, fund managers and consultants). It is a voluntary code that encourages institutional investors and their service providers to adopt the applicable principles and practices on an “apply or explain” basis.

The five key principles of the code are:

- An institutional investor should incorporate sustainability considerations, including ESG, into its investment analysis and investment activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.
- An institutional investor should demonstrate its acceptance of ownership responsibilities in its investment arrangements and investment activities.
- Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of CRISA and other codes and standards applicable to institutional investors.
- An institutional investor should recognise the circumstances and relationships that hold potential for conflicts of interest and should pro-actively manage these when they occur.
- Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to better enable stakeholders to make informed assessments.

The effective date for reporting on the application of the code was 1 February 2012. Institutional investors need to disclose fully and publicly the extent to which the code has been applied on an annual basis. If an institutional investor has not fully applied one of the principles of the code, the reasons should be disclosed publicly while policies should be made available.

What is Regulation 28 of the Pension Funds Act?

The revised Regulation 28 of the Pension Funds Act regulates how retirement funds should invest their assets to ensure that their long-term commitments to members are met. It provides guidance to trustees on how to formulate appropriate investment strategies to provide suitable retirement benefits to members, in addition to determining assets limits. It also sets out a number of principles which will strengthen the decision-making process of trustees and improve transparency and accountability to fund members and to the Registrar.

The regulation explicitly states that prudent investing should take into account all factors that could materially affect an investment, “including factors of an environmental, social and governance (ESG) character”.

The revised Regulation 28 became effective on 1 July 2011. The Financial Services Board had subsequently provided an extension for compliance to 31 December 2011, to allow retirement funds and their service providers time to implement the necessary systems and contractual changes.

What is the link to Integrated Reporting?

Retirement funds are currently among the most significant holders of equities in South Africa. The ultimate beneficiaries of the funds are the individual members of retirement funds who have become the new owners of capital. The governing bodies of retirement funds are key financial decision makers and invest more than R2.3 trillion annually on behalf of the abovementioned individuals. The sphere of influence of institutional investors, as custodians of members' assets, is therefore profound. CRISA, Regulation 28, UN PRI and other related initiatives provide an enabling framework for institutional investors to engage and hold investee companies accountable for sustainable returns.

John Oliphant, chairman of the stakeholder committee that drafted CRISA noted that "as long-term investors with fiduciary duties, we simply cannot afford to ignore the importance of integrating sustainability issues, including ESG, into long-term investment strategies. As institutional investors we have the ability to influence and encourage the companies in which we invest to apply sound governance principles and to care for the environment in which they operate."

The long-term investment window of institutional investors typically extends beyond 30 years which is linked to the average work life of an individual. The ability of an organisation to enhance and preserve long-term sustainability in all its dimensions, without unduly sacrificing short-term performance is therefore pivotal in terms of this investment perspective.

The question often posed is: how does one assess whether an organisation will be sustainable in the long-term? Stakeholders have been inundated with multiple types of corporate reporting during recent times, with the key message often being lost in the detail.

The development of Integrated Reporting is designed to enhance and consolidate existing reporting practices, to move towards a reporting framework that provides the information needed to assess organisational value in the 21st century. According to the IIRC, the Integrated Report combines the different strands of reporting (financial, management commentary, governance and sustainability reporting) into a coherent whole that explains an organisation's ability to create and sustain value. The Integrated Report is a single report that the IIRC anticipates will become an organisation's primary report.

The IIRC launched a global investor network in March 2012. This network was established to provide an investor's perspective on the shortcomings of the current corporate reporting regime. According to the IIRC, the network is also expected to provide constructive challenge and feedback on the output of the IIRC's pilot programme, as well as "to engage with peers in the investor community".

What is happening in practice?

The creation of various codes, frameworks, networks and initiatives targeted at institutional investors and their service providers, highlights the pivotal role of these entities in promoting and driving long-term business sustainability. It is clear that the effect of these codes will only become evident after a period of time. Participation is mostly on a voluntary basis: user education has to take place and these measures have to become embedded in the business environment. A real change in behaviour will only be evident once long-term sustainability considerations are entrenched in the DNA of organisations and those of the people leading them.

Discussions with executives from different industries and businesses revealed that the impact of these codes is still in the very early stages, with proactive engagement from asset owners and service providers still not clearly evident in most instances. Early in 2013, CRISA will have been in effect for a period of 12 months and we expect to see an increased level of activity leading up to this milestone. The Responsible Investor website has recently reported on a confidential survey of senior investment practitioners, highlighting the “deafening silence from asset owners on socially responsible investing and environmental, social and governance issues” (www.responsible-investor.com/home/article/deafening_silence_on_esg/).

We encourage asset owners and their service providers to play a more active role, which could typically include proxy voting, collaboration with co-investors on ESG matters, publishing investment policies and service level agreements with service providers, as well as using valuation methods that incorporate ESG considerations.

It is up to the responsible investor to embrace the frameworks created by CRISA and Regulation 28 and thereby to contribute to the establishment of a sustainable future.

Forum for the Future, an independent non-profit organisation which operates globally with business and government to inspire new thinking, build creative partnerships and develop practical solutions, commented on investments in 2011, stating that “Investment is about the future. How the future turns out determines the returns on investments and the volatility of these returns. But, in turn, the pattern of investments (where capital is allocated) itself helps to determine the type of future we get. Therefore, in order to make the right decisions for our sustainable and responsible investments, we need to form a plausible view of what a sustainable economy looks like and to determine what our role should be in allocating capital to enable it.”

6.4 The Social and Ethics Committee and the management of the Ethics Performance of the Company

The Social and Ethics Committee acts as the social conscience of the business.

The Social and Ethics Committee

During the public hearings on the Companies Bill conducted by the Portfolio Committee on Trade and Industry in 2007, a proposal was made to include a requirement in the new Act to oblige certain companies to appoint a member of a trade union as a board member (director). The Portfolio Committee rejected this proposal, but presented a compromise. It was argued that there is a definite need in the South African context to encourage large companies (especially those companies that have a significant impact on the public interest) not only to act responsibly, but also to be seen doing so and to account, from the public interest perspective, for their decision-making processes and the results thereof.

In essence, it was argued that these companies should be obliged to develop a social conscience, and behave like responsible corporate citizens. As such, the Companies Act now provides the Minister of Trade and Industry with the authority to require certain companies to have a Social and Ethics Committee, having regard for the impact such companies have on the public interest.

However, regardless of the requirement to appoint a Social and Ethics Committee, the directors and prescribed officers of ALL companies are bound to act in accordance with an acceptable standard of conduct. In terms of this standard, directors and prescribed officers are obliged to act in the best interest of the company. In this regard, the Act subscribes to the “enlightened shareholder value approach” – which requires that directors are obliged to promote the success of the company in the collective best interest of shareholders, which includes, as appropriate, the company’s need to take account of the legitimate interests of other stakeholders including among others, the community, employees, customers and suppliers.

In terms of section 72 of the Companies Act (read with Companies Regulation 43), the following companies should have appointed a Social and Ethics Committee within one year after the Act became effective (i.e. by 30 April 2012):

- Every state owned company;
- Every listed public company; and
- Any other company that has, in any two of the previous five years, had a public interest score of at least 500 points.

The Social and Ethics Committee must comprise not less than three members. These members may be directors or prescribed officers of the company, however, at least one must be a director who is not involved in the day-to-day management of the company’s business – a non-executive director – and must not have been so involved during the previous three financial years.

In terms of Companies Regulation 43, a Social and Ethics Committee has to monitor the company's activities with regard to matters relating to:

- **Social and economic development**, including the company's standing in terms of the goals and purposes of:
 - The 10 principles set out in the United Nations Global Company Principles;
 - The OECD recommendations regarding corruption (refer to the Organisation for Economic Co-operation and Development (OECD) website for further details (www.oecd.org));
 - The Employment Equity Act, No 55 of 1998;
 - The Broad-Based Black Economic Empowerment Act, No 53 of 2003;
- **Good corporate citizenship**, including the company's:
 - Promotion of equality, prevention of unfair discrimination and measures to address corruption;
 - Contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed; and
 - Record of sponsorship, donations and charitable giving;
- The **environment, health and public safety**, including the impact of the company's activities and of its products or services;
- **Consumer relationships**, including the company's policies and record relating to advertising, public relations and compliance with consumer protection laws; and
- **Labour and employment** matters.

If one considers the requirements of King III with respect to ethical leadership and ethical behaviour, it appears advisable to assign to the Social and Ethics Committee some of the responsibilities in this regard. The additional functions may include:

- Reviewing the adequacy and effectiveness of the company's engagement and interaction with its stakeholders;
- Considering substantive national and international regulatory developments, overseeing their operationalisation as well as practice in the fields of social and ethics management;
- Reviewing and approving the policy and strategy pertaining to the company's programme of corporate social investment;
- Determining clearly-articulated ethical standards (code of ethics), and ensuring that the company takes measures to achieve adherence to these in all aspects of the business, thus facilitating a sustainable ethical corporate culture within the company;

- Monitoring that management develops and implements programmes, guidelines and practices congruent with the company's social and ethics policies;
- Reviewing the material risks and liabilities relating to the provisions of the code of ethics, and ensuring that such risks are managed as part of the company's risk management programme;
- Reviewing the company's performance in implementing the provisions of the code of ethics and the assertions made in this regard;
- Obtaining independent external assurance of the company's ethics performance on an annual basis, and including in the Integrated Report an assurance statement related to the ethics performance of the company; and
- Ensuring that management has allocated adequate resources to comply with social and ethics policies, codes of best practice and regulatory requirements.

The Social and Ethics Committee must report to shareholders at the Annual General Meeting. At least one member of the Committee must attend the Annual General Meeting of the company to report back to shareholders on the activities of the company. Although there is no legislative requirement for the Committee to issue a written report, it is recommended that the a written report be included in the company's Integrated Report, Director's Report or its Governance report, whichever is the most appropriate in the circumstances.

Management of the ethics performance of the Company

A Social and Ethics Committee constitutes a formal structure which can facilitate appropriate attention to the soft, but very important, dimensions of how a company actually goes about its business, specifically its value system with regard to ethical standards.

It is clearly of pivotal importance that the professed and advertised value system and ethical standards of conduct of the company are in fact applied and lived in practice. Ongoing recent well-publicised international corporate deficiencies in actual ethical performance and the profound continuing negative consequences should serve as a salutary warning to boards of directors of the importance of getting this right, also in South Africa.

King III provides a principle-based framework on the basis of which a company should establish an ethical culture and good corporate citizenship. The two principles relevant for this purpose are articulated as follows:

- Principle 1.1: The board should provide effective leadership based on an ethical foundation.
- Principle 1.3: The board should ensure that the company's ethics are managed effectively.

For all three of the periods surveyed, a very significant proportion of companies limit the description of their approach to the management of their ethics performance to three aspects only;

- The appropriate values, including that of integrity and ethical conduct, are emphasised, articulated and positioned;
- The assertion is made that a code of conduct has been developed, approved and disseminated to all employees;
- Readers are informed that a fraud or whistle blowing “hotline” has been established and, in some cases, high level feedback about incidents logged via this medium is provided.

Whereas these aspects are certainly part of important building blocks in facilitating ethical behaviour, they are – in the absence of other measures – clearly deficient in meeting the applicable principles required by King III, as noted above, as well as the proper discharging of the responsibilities of boards in this regard.

While it is true that the concept of effectively managing, and reporting on, ethics performance is a new (and somewhat soft) formal requirement, the application of a comprehensive framework covering all the applicable dimensions will assist in complying with the requirements. However, more importantly, it also significantly reduces the likelihood of ethical failure and the attendant potential disastrous consequences for the company and its directors.

In order to provide practical guidance, we suggest the following framework elements (with a brief description of possible high level components for each) to facilitate the effective management of ethics performance:

- **Clear ethical standards** need to be set
 - The values of the company, including those relating to ethics, should be articulated and approved by the board.
 - An appropriate code of conduct should be developed and similarly approved.
 - The respective roles of the board, executive management, employees and, where applicable, stakeholders should be clearly described. The opportunity to establish ethics as a matter “beyond mere compliance” should be used.
- Adequate **practical arrangements** must be in place to support the meeting of ethical standards
 - The role of the board (including that of the Social and Ethics Committee), executive management and a single, senior, designated responsible person (chief ethics officer) and their relationships should be determined, documented and approved.
 - Specific ethics risks and opportunities in relation to the company’s operating context should be formally and rigorously identified and documented.
 - The adequacy of resources to properly perform on the responsibilities allocated should be considered.
 - The establishment of a hotline that is anonymous and effective.

- Maintaining and building ethical **awareness**
 - The establishment of training programmes (including using e-learning and education about ethical dilemmas), the design of communication programmes and the initiation of awards;
 - Content of exco and board agendas.
- **Measuring and monitoring** ethical status
 - Conducting surveys and interpreting their results, analysing the root cause of relevant incidents (including those emanating from the hotline), board evaluations, peer reviews;
 - Formal reports.
- **Effective leadership** and the **management of ethics**
 - Tone at the top (including that of the board);
 - Effective pro-active and re-active leadership and management.
- Reporting on actual **ethical performance**
 - Regular and accurate internal written feedback and assessment of the state of ethical performance to executive management and board;
 - Annual written assessment for external purposes;
 - Standard item on the board agenda.
- Obtaining, and furnishing, acceptable **assurance** on ethical performance
 - Adopting a combined assurance approach to ethics performance which reduces the risk of incorrect information, and the existence of an inappropriate ethical culture, to an acceptable minimum;
 - Establishing and maintaining the trust of stakeholders by the furnishing of appropriate external and independent assurance.

It is possible that there might be an overlap between the types of issues dealt with by the Social and Ethics Committee and other board committees (audit, risk, sustainability, etc.).



It is important for the members of the Social and Ethics Committee to understand the role and function of this committee vis-à-vis the other board committees. The key function of this committee is to act as the social conscience of the business and to ensure that the company behaves like a responsible corporate citizen. This function should cover all aspects of the business, including its sustainability, impact on the environment, relationship with all its stakeholders, interaction with and impact on the community within which it operates, the treatment of and investment in its employees, its health and safety practices, black economic empowerment, the ethical corporate culture, and so on.

It is important that this committee assumes the responsibility to ensure that the board sets the appropriate tone, and that the behaviour and messages of the board and the directors support and contribute to the company's ethical corporate culture. As such, the Social and Ethics Committee will inevitably have to ensure open communication channels with the audit, risk, executive, nomination, remuneration and sustainability committees. It will have to involve itself in the approach of the other board committees to operational and business decisions in order to ensure consistent behaviour from a social and ethics point of view.

Of course, each committee has a very particular mandate, and will approach agenda items from a very specific perspective. For this reason it is important that the board, as a collective, coordinates and integrates the different perspectives to ensure effective, responsible and ethical business decisions and conduct.

6.5 Disclosure of remuneration - a hot topic

The disclosure of director remuneration is a key indicator of accountability and transparency.

Remuneration of directors is increasingly one of the most hotly debated topics in the corporate governance arena, due mainly to some infamous recent examples and the resultant tension between shareholders demanding to understand and to be able to rationalise their directors' remuneration levels and methods, and the directors' desire for privacy in their financial affairs.

In terms of the Companies Act, 2008 companies should provide full disclosure of each individual executive and non-executive director's remuneration in the Annual Financial Statements of the company, giving details as required in the Act of base pay, bonuses, share-based payments, granting of options or rights, restraint payments and all other benefits (including present values of existing future awards). Similar information should be provided for the prescribed officers of the company.

Both the IRC SA and IIRC draft frameworks propose that the Integrated Report sets out how the remuneration of directors is linked to performance in the short, medium and long term, including how it is linked to the organisation's use of and impact on the resources and the development and maintenance of relationships on which it depends. In other words, the Integrated Report should contextualise the remuneration as disclosed in the Annual Financial Statements.

What is required here is not necessarily only the disclosure of the total remuneration paid to the directors and prescribed officers of the company, but it should include an explanation, in plain and understandable language, of how remuneration is used to ensure that directors deliver on the key performance indicators linked to the strategic objectives of the company.

A key challenge in this regard is to ensure that the Integrated Report illustrates the link between the strategic objectives of the company, the key performance indicators, the remuneration policy and the way in which the remuneration package of each director and prescribed officer is determined. The Report should explain to the reader the utilisation of base pay, bonuses, and short and long term incentives in relation to the performance of the company/directors with respect to both financial and non-financial performance indicators.

The director's right to remuneration

Both executive and non-executive directors provide services to the company for which they are entitled to be remunerated. Executive directors generally enter into an employment contract in which their remuneration is agreed upon. In many cases, non-executive directors have no formal contract with the company but are paid a standard level of fees for attending board and committee meetings.

The Memorandum of Incorporation of a company generally provides for the remuneration of the directors, both for the services they provide as directors and any expenses that they incur on behalf of the company.

Except where the company's Memorandum of Incorporation provides otherwise, the Companies Act determines that the directors are entitled to remuneration for their services as directors only if such remuneration is authorised by a special resolution approved by the shareholders within the preceding two years.

In this regard it is important to distinguish between remuneration paid to directors in terms of an employment contract (in the case of executive directors), and remuneration paid for services as directors. In terms of the Companies Act, shareholder approval is only required for the latter.

With respect to the special resolution approving the remuneration to directors for their services as directors, the resolution may be phrased widely to provide parameters within which the remuneration committee may calculate the exact amounts. It is therefore not necessary to obtain shareholder approval for each payment to a particular director. This approach is in line with the principles as set out in King III.

Remuneration policy

King III suggests that the remuneration committee be tasked with setting and administering remuneration policies in the company's long-term interests. The committee should consider and recommend remuneration policies for all levels in the company, but should be especially concerned with the remuneration of senior executives, including executive directors, and should also advise on the remuneration of non-executive directors.

“In proposing the remuneration policy, the remuneration committee should ensure that the mix of fixed and variable pay, in cash, shares and other elements, meets the company's needs and strategic objectives. Incentives should be based on targets that are stretching, verifiable and relevant. The remuneration committee should satisfy itself as to the accuracy of recorded performance measures that govern vesting of incentives. Risk-based monitoring of bonus pools and long-term incentives should be exercised to ensure that remuneration policies do not encourage behaviour contrary to the company's risk management strategy.” King III Report principle 2.15 par 151

King III proposes that the remuneration policy of the company be approved by shareholders, and that the board should be responsible for determining the remuneration of executive directors in accordance with the approved remuneration policy.

It is recommended that the remuneration committee set well-defined criteria against which individual directors should be assessed. Directors often have a number of directorships within the same group, some executive and some non-executive. It is therefore not unusual for an individual to receive emoluments in various forms and from various sources.

Remunerating directors can take a number of forms, and there is on-going debate as to the most appropriate way of both compensating the director for his or her time, and aligning their interests with the long term interests of the company they serve. It is unusual for a remuneration policy to employ only one type of remuneration and often a variety of different remuneration methods are negotiated.

Companies Act requirements

Section 30(5) of the Companies Act requires that the disclosure of the remuneration of each director and prescribed officer in the Annual Financial Statements of the company

“... must show the amount of any remuneration or benefits paid to or receivable by persons in respect of

(a) services rendered as directors or prescribed officers of the company, or

(b) services rendered while being directors or prescribed officers of the company

(i) as directors or prescribed officers of any other company within the same group of companies, or

(ii) otherwise in connection with the carrying on of the affairs of the company or any other company within the same group of companies.”

The effect of these requirements is that all remuneration paid to or receivable by a director or prescribed officer must be disclosed. Thus, not only the remuneration paid to or received by the director or prescribed officer for services to the company, but also all other remuneration received by the director or prescribed officer for services rendered as a director or prescribed officer to any other company with the group, or in connection with the carrying on of the affairs of the company. One person's remuneration may have to be disclosed by more than one company in the same group of companies.

Consider the following: Company B is a subsidiary of Company A. Person X is a director of Company A, and is also a prescribed officer of Company B (as he takes decisions that, in his capacity as director of the holding company, impacts the subsidiary to such an extent that it constitutes executive management or control with respect to the subsidiary). He receives remuneration from company A, but is not paid by Company B for any of the services rendered to Company B. In terms of the requirements as set out above, his remuneration for services as a director of the company (Company A) must be disclosed in the annual financial statements of Company A (see Section 30(5)(a) above). If one regards the position from the perspective of the subsidiary Company B, the remuneration paid to person X by Company A will also have to be disclosed in the annual financial statements of Company B. This is so, because all remuneration paid to or receivable while being a prescribed officer of the company (in this case Company B) **for services as a director of any other company within the same group of companies** (Company A) must be disclosed. (See 30(5)(b)(i) above).

In order to ensure compliance, a company will have to make a list of all its directors and prescribed officers (the individuals for which disclosure will be made) and then determine the structure of the group of which the company forms a part. In this regard the definition of a group should be considered (the Act refers to any other company within the same group – this means disclosure will have to account for all other companies in the group, and not only the subsidiaries of the company in question). For purposes of this section, the company will have to take into account all companies in the group – thus upward, downward and sideways.

Disclosure is required of all remuneration paid to or receivable by the directors and prescribed officers of the company **for services as a director or prescribed officer of any other company within the same group of companies**.

Note: The Act requires all remuneration paid to or receivable by directors and prescribed officers to be disclosed. It does not only account for remuneration paid by the company, or another company in the group. Rather, it focuses on the amounts a director or prescribed officer earns for services as a director or prescribed officer (to the company or any other company within the group), or for the carrying on the affairs of the company (or any other company within the group).

6.6 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, 91% of the reporters in Period 3 included issues labelled as material in their Integrated Reports. However, only 17% 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 directly 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.



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).

6.7 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 sufficient repeat cycles of reporting have 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.

¹ Walter Savage Landor, “Marcus Tullius and Quintus Cicero”, *Imaginary Conversations* (1824-53)

² <http://www.quoteopia.com>

6.8 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”³.

³ AA1000 Stakeholder Engagement Standard 2011, Accountability 2008

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.

- **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.

		Stakeholder influence on organisation			
		No influence	Low influence	Some influence	Formal power/ high influence
		<i>Stakeholder's support for the business has little or no impact on its success</i>		<i>Stakeholder's support for the business can highly impact the business' success</i>	
Organisation impact on stakeholder	Stakeholder is highly dependant on organisation - no choice	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		Strategic threat or opportunity - invest in engagement process to understand concerns and develop solutions	
	No direct impacts - stakeholders have broad range of choice	Low priority - provide access to general channels of information and feedback		Keep involved and informed - but ensure balance between concerns of high influence stakeholders and those people actually impacted by decisions	

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.



6.9 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.

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.

6.10 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.

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:
 - (i) the information required by IAS 34: Interim Financial Reporting (in other words the disclosure requirements) and
 - (ii) 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 IAS 34 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.

6.11 Assurance

Introduction

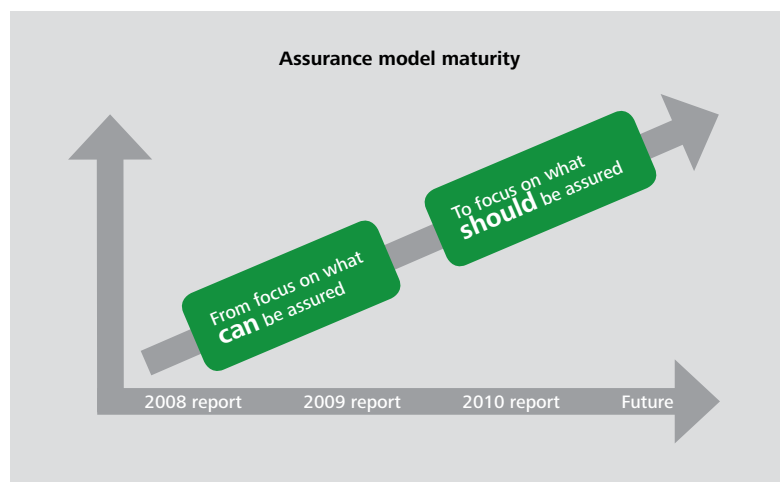
The Assurance arrangements companies adopt for Integrated Reporting, and which is articulated and represented in the Integrated Report itself, should be properly planned and be tailor made. The Audit Committee members are the architects, acting for and on behalf of the owners - the Board of Directors.

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.

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.

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:



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 6.7).

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:

AA 1000 Assurance Standard (2008) vs ISAE 3000

Standard	Level of Assurance	
ISAE 3000	Limited	Reasonable
AA 1000 AS	Moderate	High

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.

Illustrative example of assurance process

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

Group Five's Integrated Report 2011 (for the year to 30 June 2011, pages 50-51, www.g5.co.za) provides an example of the disclosure of an actual assurance process and dispensation in an Integrated Report.

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 gaps, 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 a requirement for rationalisation and improvement?

6.12 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 sets 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.”⁴

⁴ Quoted from Miers, D.R. & Page, A.C. 1990. *Legislation*. 2nd edition. London: Sweet & Maxwell (Miers & Page 1990:177) as quoted by Goldswain, G.K. in “The purposive approach to the interpretation of fiscal legislation - the winds of change” published in *Mediterranean Accountancy Research* Vol. 16 No. 2 2008: 107-121 on page 117.)

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.



6.13 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 A, 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

7. Questions directors should ask when assessing the Integrated Report

Subject	Question
1. Report content and structure	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?
	1.2. Is the risk disclosure balanced with regards to financial, economic, social and environmental risk and has a credible mitigation plan been provided?
	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.)
	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?
	1.5. Have measurable targets relating to the wider sustainability agenda been set and disclosed?
	1.6. Where summary financial information is provided, has it been reported in accordance with IAS 34: Interim Financial Reporting?
	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?

Subject	Question
2. Corporate context	2.1. Does the Integrated Report describe the corporate context of the company in a holistic manner?
	2.2. Is the corporate context communicated in an easy-to-understand format by using maps, diagrams, timelines and other innovative methods?
	2.3. Does the report ascribe to the basic principles of reporting by disclosing the scope, period, limitations and exclusions?
	2.4. Is the intended target audience for the Integrated Report described, as well as the rationale for choosing these stakeholders?
	2.5. Does the report apply and embed qualitative characteristics? <ul style="list-style-type: none"> • 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?

Subject	Question
4. 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.)
5. 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.)
6. 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?

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

Subject	Question
7. Corporate Governance	<p>7.1. Given the Corporate Governance disclosures which are included in the Integrated Report, will stakeholders generally conclude that the company:</p> <ul style="list-style-type: none"> 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? <p>7.2. Is it clear from the company's Integrated Report that governance, strategy, risk, performance and sustainability are intrinsically linked?</p> <p>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?</p> <p>7.4. Does the Integrated Report include an assessment by the board of:</p> <ul style="list-style-type: none"> 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? <p>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?</p>

8. 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 continue!

Annexure A: 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:

Framework, regulation or standard	Acronym	Purpose	Status
Companies Act no. 71 of 2008	Companies Act	Legislating companies incorporated in South Africa. Applicable from 1 May 2011 onwards.	Compulsory legal framework for companies incorporated in South Africa.
King Code on Governance Principles	King III	The third report on Corporate Governance clarifying principles and practices of good governance for South African companies.	"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.
International Financial Reporting Standards	IFRS	<p>This is a financial reporting framework issued by the International Accounting Standards Board.</p> <p>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 IFRSs 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.</p>	<p>Listed companies in South Africa are required to apply IFRSs 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.</p> <p>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.</p>
The Global Reporting Initiative Third Generation	GRI G3	A global sustainability reporting framework supplemented by sector specific guidelines.	<p>This voluntary framework with an obligatory self declaration of level of application is most commonly used in South Africa to guide sustainability disclosure.</p> <p>Application levels range from C to A, with C indicating the minimum disclosure.</p> <p>Some companies seek independent assurance over their application level. A process is underway to refresh the G3.1 version of the Guidelines with version G4. The G4 version is expected to be released in 2013.</p>

Framework, regulation or standard	Acronym	Purpose	Status
International Organisation for Standardisation	ISO	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.	Voluntary, but often required as part of supply chain management and used as guiding standard for legal compliance.
AccountAbility	AA	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).	Voluntary standard and framework used for managing sustainability performance. Organisations can choose to obtain assurance over application of the AA standards.
Greenhouse Gas Protocol Corporate Accounting and Reporting Standard	GHG Protocol	Protocol/procedure to calculate the carbon footprint for an organisation. GHG Protocol is the most widely used standard.	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.
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 fulfill 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 an assurance process 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 was 1 February 2012.

Framework, regulation or standard	Acronym	Purpose	Status
International Council For Mining and Metals	ICMM	Established to improve sustainable development performance in the mining and metals industry.	<p>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:</p> <ul style="list-style-type: none"> • 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.
United Nations Global Compact	UNGC	<p>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:</p> <ul style="list-style-type: none"> • Mainstream ten principles in business activities around the world • Catalyse actions in support of broader UN goals, including the Millennium Development Goals (MDGs) 	Participation in the UNGC is voluntary. Participants are required to adopt and report on the 10 principles.
Equator Principles	EPs	The Equator Principles are a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions.	Adoption of the EPs is voluntary. Some of the major finance houses in South Africa have adopted the Equator 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 2010 was the first year of disclosure.

Framework, regulation or standard	Acronym	Purpose	Status
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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