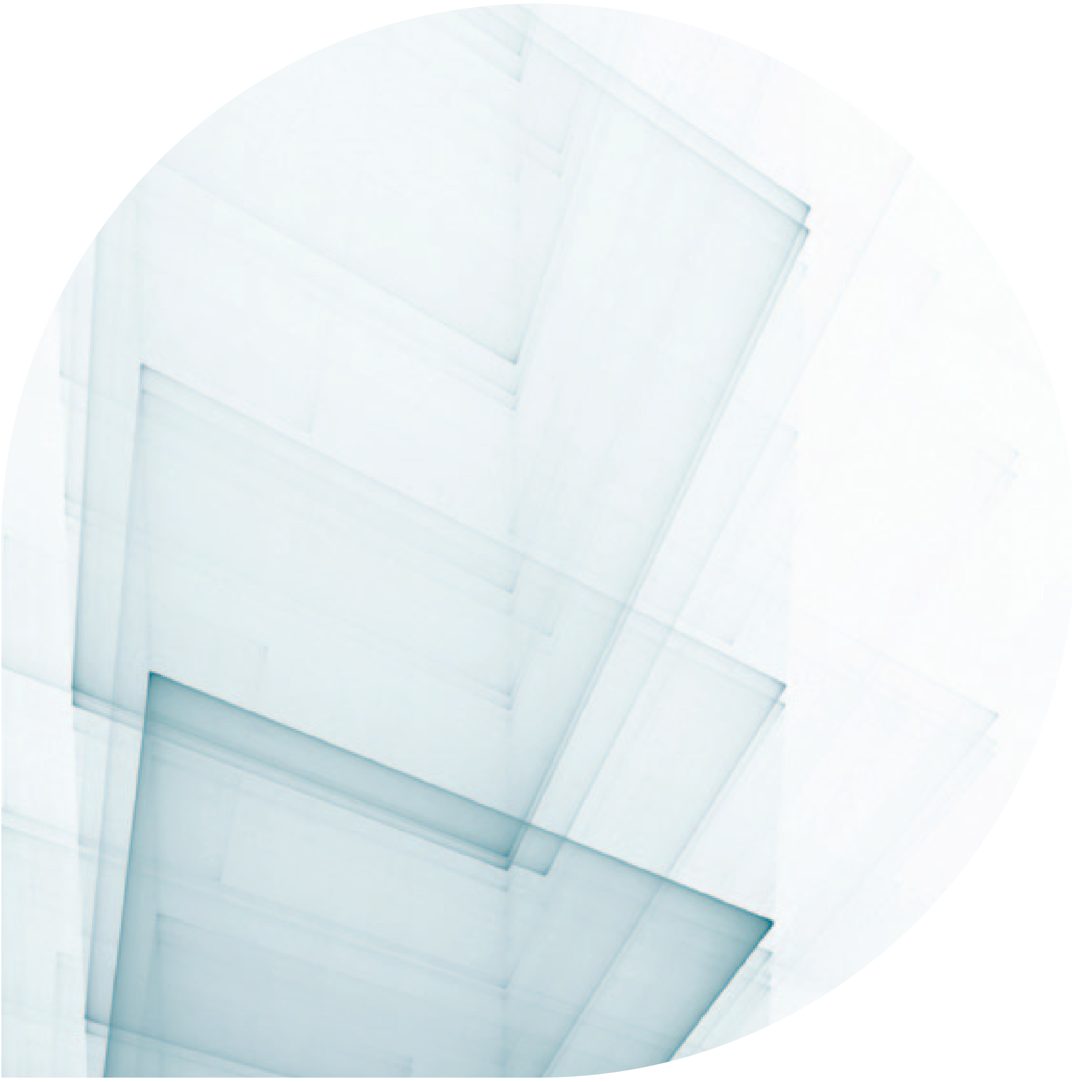

FRAMEWORK FOR INTEGRATED REPORTING AND THE INTEGRATED REPORT

DISCUSSION PAPER

25 JANUARY 2011

The Discussion Paper has been released by the Integrated Reporting Committee (IRC) of South Africa. The IRC invites public comment on the Discussion Paper.
Please email your comments to ircomments@saica.co.za

The last day for comment is 25 April 2011.

The Discussion Paper can be downloaded from www.sustainabilitysa.org

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FOREWORD

The *King Code of Governance Principles for South Africa 2009* (King III) states that "current incremental changes towards sustainability are not sufficient - we need a fundamental shift in the way companies and directors act and organise themselves". King III's recommendation that organisations adopt integrated reporting represents an important element of this 'fundamental shift' and a significant and timely evolution in corporate reporting practice.

The requirement for listed companies to file financial reports emerged out of the Great Depression in the early 1930s with the Securities Act of 1933 requiring companies to provide potential investors with sufficient information to make an informed investment decision. Much later, in the 1990s, some leading companies voluntarily began to publish sustainability reports reflecting a growing understanding of sustainability challenges and stakeholder calls for more informed corporate disclosure. Now, in the context of the global financial crisis and amidst increasing evidence that the current economic model is socially and environmentally unsustainable and that current reporting practice is not delivering, it is time for new and more effective forms of accountability.

The string of corporate collapses over the past decade has led many stakeholders to question the relevance and reliability of annual financial reports as a basis for making decisions about an organisation. Reports based largely on financial information do not provide sufficient insight to enable stakeholders to form a comprehensive picture of the organisation's performance and of its ability to create and sustain value, especially in the context of growing environmental, social and economic challenges. Sustainability reports have similarly suffered weaknesses, usually appearing disconnected from the organisation's financial reports, generally providing a backward-looking review of performance, and almost always failing to make the link between sustainability issues and the organisation's core strategy. For the most part, these reports have failed to address the lingering distrust among civil society of the intentions and practices of business. Stakeholders today want forward-looking information that will enable them to more effectively assess the total economic value of an organisation.

Recognising the shortcomings of existing reporting models, and driven by an urgent need to find more effective reporting solutions, discussions around the world have begun to focus on what has become known as integrated reporting. Underpinning this focus is a strong appreciation that the success of organisations is inextricably linked with three interdependent sub-systems – society, the environment, and the global economy.

As is outlined later in this Discussion Paper, the overarching objective of integrated reporting is to enable stakeholders to assess the ability of an organisation to create and sustain value over the short-, medium- and long-term. The users of an organisation's integrated report should be able to determine from the report whether the organisation's governing structure has sufficiently applied its collective mind in identifying the social, environmental, economic and financial issues that impact on the organisation's business, and whether these issues have been appropriately incorporated into its strategy.

An integrated report is not simply an amalgamation of the financial statements and the sustainability report. It incorporates, in clear language, material information from these and other sources to enable stakeholders to evaluate the organisation's performance and to make an informed assessment about its ability to create and sustain value. An integrated report should provide stakeholders with a concise overview of an organisation, integrating and connecting important information about strategy, risks and opportunities and relating them to social, environmental, economic and financial issues.

By its very nature an integrated report cannot simply be a reporting by-product. It needs to flow from the heart of the organisation and it should be the organisation's primary report to stakeholders.

If done properly, organisations which produce an integrated report for the first time will have to take a new look at themselves and their business models. Through the process of integrated reporting they will be encouraged to explore new and potentially innovative opportunities in their products, services, processes and markets. Integrated reporting, if effectively embraced, has the ability to improve strategic decision-making, improve performance and enhance reputation among stakeholders.

Integrated reporting is a journey. Organisations are unlikely to achieve perfection in the first year. However, as reporting processes for the production of the supporting information are designed and improved and as the executive team begins to benefit from a more informed implementation of the governing structure's decisions, reporting will improve. Interactive communication with key stakeholders is fundamental to the success of integrated reporting as engagement leads to knowledge of the stakeholders' legitimate interests and expectations.

This Discussion Paper is breaking new ground, but I have no doubt that it is the right way to go, indeed the only way to go if we are to respond to the current challenges facing society. It is my belief that integrated reporting represents a significant and much needed evolution of reporting practice and will start influencing behaviour. It is my hope that it will prompt a greater understanding of the sustainability challenges facing humankind.

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Chairman of the Integrated Reporting Committee

January 2011

1. INTRODUCTION

The King Report on Governance for South Africa 2009 (King III) defines integrated reporting as "a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability". The overarching objective of an integrated report is to enable stakeholders to assess the ability of an organisation to create and sustain value over the short-, medium- and long-term. The users of the report should be able to determine whether the organisation's governing structure has applied its collective mind in identifying the environmental, social, economic and financial issues that impact on the organisation, and to assess the extent to which these issues have been incorporated into the organisation's strategy. An integrated report is the organisation's primary report. This Discussion Paper provides guidance on the principles to be applied in preparing an integrated report and identifies some suggested elements to be included in an integrated report, understanding that the process is evolving and that organisations will improve their reports year by year.

1.1. The context of an integrated report

Recent societal trends and events – such as the global financial crisis, the persistence of socio-economic inequality, the growing evidence of resource constraints and climate change – suggest that organisations and communities will be faced with increasing turbulence and uncertainty. This uncertainty, coupled with the changing expectations regarding the roles and responsibilities of public and private organisations, highlights the need for organisations to clearly communicate how these trends impact on their activities.

It is becoming increasingly apparent that the success or failure of organisations is dependent on their ability to create and sustain value without depleting the capital assets – financial, human, manufactured, social or natural – on which that value depends. There is similarly a growing recognition that a change is needed in the way organisations report to their stakeholders. The current reports on annual financial performance, sustainability and governance disclosure often fail to make the connection between the organisation's strategy, its financial performance and its performance on environmental, social and governance issues. Much of what is currently reported tends to be backward-looking and fails to provide stakeholders with sufficient information to make a meaningful assessment regarding the organisation's ability to create and sustain value over the short-, medium- and long-term.

Decision-making within organisations and by investors is often heavily reliant on financial information, yet this information, important as it is, may not provide a complete picture of the organisation's true situation. Further, the measurement of performance and reward structures such as management bonuses are often short-term focused which has exacerbated the leaning to short-term performance and strategies at the expense of a longer-term view.

In the context of these issues, there is a growing move towards integrated reports both nationally and internationally:

- In South Africa, King III calls for organisations to prepare an integrated report, recognising that the impact of the organisation on the environment and society, and related reputational issues, are material issues that can affect the very existence of the organisation. Following the incorporation of King III into the Johannesburg Stock Exchange (JSE) Listings Requirements, listed companies are required to issue an integrated report for financial years starting on or after 1 March 2010, or to explain why they are not doing so. Various other initiatives in the country are adding to the call for integrated reports[1].

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1. The draft *Code for Responsible Investing by Institutional Investors in South Africa* (CRISA) states that institutional investors should incorporate environmental, social and governance considerations into their investment analysis and activities, and this includes an assessment of a company's integrated report.

- Internationally, the International Integrated Reporting Committee (IIRC) – which includes in its membership the International Accounting Standards Board (IASB), the International Federation of Accountants (IFAC), the Financial Accounting Standards Board (FASB), the Global Reporting Initiative (GRI), The Prince's Accounting for Sustainability Project, and the World Business Council for Sustainable Development (WBCSD) – is currently developing guidance on an international framework for an integrated report. More broadly, there is evidence of growing pressure for organisations to report on their sustainability performance, including through an integrated report[2].

An organisation's ability to create and sustain value is determined *inter alia* by how it is led and its governance. Transparency, accountability and ethical leadership are the pillars of good governance. An effective reporting framework can allow leaders to reflect on the social, environmental, economic and financial impacts of the organisation they lead, and demonstrate, through integrated reporting, integrity, transparency and accountability in their activities.

Box 1: The benefits to an organisation of an integrated report

- The process of producing an integrated report is an excellent means for the leadership of the organisation to gain an in-depth understanding of the organisation's strategy and how it affects and is affected by environmental, social, financial and economic issues. The process also helps to improve the internal awareness of these issues and the impact they have on the organisation.
- The leadership can demonstrate to a wide range of stakeholders that it fully understands the business and the challenges facing the business, and that it is being effective in steering the organisation towards a long-term sustainable future.
- The report provides a holistic view of the organisation and is useful to any stakeholder who has a longer term interest in the organisation enabling them to make an informed assessment of its ability to create and sustain value.
- The increased transparency of the report, which contains both the positive and negative issues and challenges, can result in greater trust and confidence in the organisation and an enhanced reputation among stakeholders.
- Risk management can be enhanced because organisations will consider risks from an integrated perspective.
- The leadership's ability to demonstrate its effectiveness, coupled with the increase in transparency, could result in a lower cost of capital to the organisation.
- As organisations look for the efficiencies required to address the challenges of resource constraints, they frequently realise cost savings in their business processes and discover ways to improve their products and services.
- This process of integration encourages the development of a culture of innovation in the organisation.
- Organisations that understand and address their external challenges are likely to be more competitive in the market place, and enjoy enhanced brand value and improved customer support.
- Organisations that better understand their external environment are in a better position to exploit new business opportunities.

2. The Danish Financial Statements Act requires large companies to account for their social responsibility, and the Danish government recommends that businesses adopt the UN Principles for Responsible Investment and the UN Global Compact. The UK Companies Act brought in several important regulations that require directors to consider the impacts of the company's operations on the community and the environment. Many other jurisdictions have issued guidance for companies and State departments to provide sustainability performance information and to consider environmental and social impacts in decision-making. The IASB has issued an IFRS Practice Statement on Management Commentary.

- Research shows that employees prefer working for organisations with high integrity and of good reputation. These organisations, in turn, experience lower employment costs and better employee loyalty.
- The report can provide a platform for strategic communication with stakeholders.

1.2. What does the Discussion Paper cover?

The Discussion Paper outlines a principles-based approach to integrated reporting and the integrated report. It further seeks to offer practical direction on the integrated report. The Discussion Paper covers the objectives and principles and identifies the suggested elements to be included in the integrated report with the aim of meeting these objectives and principles. The Discussion Paper is not intended to be a checklist or prescriptive.

The Discussion Paper does not deal with the underlying financial and sustainability reporting standards and frameworks. Companies are obliged to use accepted accounting standards, such as the International Financial Reporting Standards (IFRS). There is a growing expectation on organisations to make use of the various sustainability reporting and performance frameworks available, including for example the Sustainability Reporting Guidelines of the GRI, the principles of the UN Global Compact, the guidance provided in ISO 26000, and the JSE Socially Responsible Investment Index criteria. The organisation should discern which elements of the reporting standards and frameworks will contribute to a meaningful integrated report and which represent further detail that is useful to report separately. For the purpose of the integrated report, the organisation should avoid a box-checking exercise against the frameworks.

It should be noted that it is unlikely that all of the governance disclosure required in terms of King III will be included in the organisation’s integrated report. Separate disclosure of the detailed information may be required.

1.3. Who is the Discussion Paper for?

The guidance may be used by any organisation.

The Discussion Paper is intended both for the leadership of the organisation (to assist them in exercising their judgment on the organisation’s reporting activities and in deciding what should be included in the integrated report), as well as for those tasked with preparing the integrated report.

In applying the guidance the organisation may adopt a multi-disciplinary approach drawing on input from different functional units with the ultimate responsibility resting with the organisation’s governing structure.

1.4. Who developed the Discussion Paper?

It is a requirement that companies listed on the JSE produce an integrated report. In May 2010, the Integrated Reporting Committee (IRC) was formed by the Association for Savings & Investment South Africa (ASISA), Business Unity South Africa (BUSA), the Institute of Directors in Southern Africa (IoDSA), the JSE Ltd, and The South African Institute of Chartered Accountants (SAICA). In September 2010, the Banking Association South Africa (BASA) and the Chartered Secretaries Southern Africa (CSSA) joined the IRC. The IRC is chaired by Professor Mervyn King, the chairman of the King Committee.

The IRC commissioned a working group comprising financial and sustainability practitioners to develop guidelines on good practice in integrated reporting (see Acknowledgements).

The IRC shares information with the international body, the IIRC. The IRC’s aim is to ensure that local guidance is in line with international guidance issued by the IIRC.

1.5. Integrated reporting and the integrated report

It is important to appreciate the distinction between the process of integrated reporting and the product of the integrated report, which is only one part of the broader suite of the organisation’s communication activities with its stakeholders.

An organisation’s business operations affect many different stakeholders, directly or indirectly. Stakeholders can be defined as entities or individuals that can reasonably be expected to be significantly affected by the organisation’s activities, products and services, and whose actions can reasonably be expected to affect the organisation’s ability to successfully implement its strategy.

Organisations should have interactive communication processes in place so that the legitimate interests and expectations of their key stakeholders can be considered and addressed. The acquired information from this engagement process enables the executive team to implement, and the governing structure to monitor, the organisation's long-term strategy on a more informed basis.

The integrated report is only one part of the organisation's broader and ongoing communication with stakeholders and should provide an integrated view of the organisation's strategy and total performance.

While the integrated report should be kept as concise as possible its length will depend on the volume of material information to be conveyed and the complexity of the organisation and its industry.

The integrated report is the organisation's primary report. It could, however, be linked to more detailed reports and information, such as the annual financial statements, sustainability report, governance disclosure etc. The detailed reports may be necessary in order to provide detailed information for specific user groups to facilitate deeper analysis of the organisation and comparability between peers, and to comply with statutory requirements. The reports should be made easily accessible to users, for example through the organisation's website.

An integrated report is not simply an extract from the traditional annual report or a combination of the annual financial statements and the sustainability report. Such an approach would run the risk of simply providing data that does not empower stakeholders to gain a complete and informed understanding of the long-term viability of an organisation and its ability to create and sustain value.

1.6. The objectives of integrated reporting and the integrated report

The overarching objective of integrated reporting in general, and the integrated report in particular, is to report to stakeholders on the strategy, performance and activities of the organisation in a manner that enables stakeholders to assess the ability of the organisation to create and sustain value over the short-, medium- and long-term. Further, it is to foster appreciation, both within the organisation and among its stakeholders, of the extent to which 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.

Within this context, the integrated report should:

- Reflect the extent to which:
  - the organisation's governing structure has applied its collective mind in identifying and addressing the social, environmental, financial and economic issues that impact the organisation;
  - these issues have been integrated into the organisation's strategy;
  - a systematic process exists to take into account material financial, social, economic, environmental and governance issues in the organisation's strategic decision-making, in determining its key performance and risk indicators (KPIs and KRIs[3]), and in reviewing and reporting on its performance; and
  - performance metrics adopt a more forward-looking and holistic perspective without an undue emphasis on short-term financial performance.
- Respond to the information needs of stakeholders by providing sufficient material information about the organisation's performance.
- Provide high-level information about the existing resources of the organisation, any claims against it, and how efficiently and effectively the organisation's executive team and governing structure have discharged their responsibilities to use the organisation's resources responsibly.

1.7. What is an integrated report?

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

3. Key risk indicators are defined in King III as the indicators by which key risks (those which the company perceives to be its most significant risks) can be easily identified.

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.

To achieve the stated objectives of integrated reporting and the integrated report the Discussion Paper identifies suggested elements to be included in the integrated report (Section 3):

• A description of the **scope and boundary** of the integrated report.	Section 3.1.
• A concise **overview of the organisation and its activities**, a statement of its business model describing the manner in which it currently creates value, and an overview of its governance structure.	Section 3.2.
• A description of the **risks and opportunities** that are material to the organisation's current and anticipated activities. These risks and opportunities are identified based on a review of financial, social, environmental, economic and governance issues and trends, an assessment of the organisation's material impacts on financial, social, economic and environmental systems, and a review of its relationships with key stakeholders.	Section 3.3.
• A description of the organisation's **strategic objectives** demonstrating how these have been informed by the risks and opportunities, including sustainability issues. The report should give an indication of the organisational competencies required to realise the strategic objectives, and a succinct list of the KPIs and KRIs that will track performance against the strategic objectives and competency requirements. This should cover the short-, medium- and long-term periods.	Section 3.4.
• An account of the **organisation's performance** in terms of its strategic objectives, its material social, environmental, economic and financial impacts, its KPIs and KRIs.	Section 3.5.
• A statement of the organisation's anticipated activities and **future performance objectives**, informed by its assessment of recent performance and understanding of societal trends and stakeholder expectations.	Section 3.6.
• An overview of how the organisation **remunerates** employees and senior executives, including factors that could influence future remuneration.	Section 3.7.
• A brief **analytical commentary** that reflects the understanding of the organisation's governing structure and executive team regarding the nature of the organisation's current and anticipated performance in the context of the organisation's strategic objectives. The organisation should report how it can improve its positive material impacts and how it can eradicate or ameliorate its negative material impacts.	Section 3.8.

2. REPORTING PRINCIPLES

This section outlines the reporting principles that should be considered when exercising the judgment required in preparing an integrated report. The reporting principles describe the outcomes a report should achieve and are intended to guide decisions relating to the report boundary, the information to be reported on, and the manner in which the information is presented. In considering these aspects, the organisation's strategy and risks should be taken into account, as well as the legitimate interests and expectations of stakeholders. Judgment is required when determining the extent of the detail disclosed about the organisation's strategy. It is not intended that the organisation should disclose competitive information. The organisation, however, should not fail to provide relevant information that would not compromise it.

Global companies face particular challenges in determining the information to be reported. The *OECD Guidelines for Multinational Enterprises*[4] could be useful in helping organisations make these decisions.

The reporting principles are intended to assist the organisation to prioritise the various issues to be addressed in the report.

Information included in the integrated report may be supported by information provided in other more detailed reports, such as the annual financial statements and sustainability report. While the principles applied in compiling the detailed reports will equally apply to the underlying information, they would not necessarily apply to the same degree in the integrated report.

There are three categories of reporting principles:

- Principles informing the report scope and boundary
- Principles informing the selection of the report content
- Principles informing the quality of the reported information

2.1. Principles informing the report scope and boundary

The organisation needs to define the scope and boundary of the integrated report.

Full disclosure on scope and boundary setting

In identifying the entities represented in the report and describing the reporting approach for each entity the organisation should consider the nature of its influence and/or control over the entity, as well as the extent to which the entity can impact on the organisation's ability to create and sustain value. When explaining the process used for identifying the entities and defining the reporting approach, the organisation should consider the principles provided in IFRS, as well as those contained, for example, in the *Sustainability Reporting Guidelines* of the GRI and other relevant initiatives.

Where the boundary of the integrated report differs from that of other more detailed reports, such as the annual financial statements, this fact should be disclosed stating the discrepancy. For example, in the case of a joint venture (JV) only a portion of the financial performance might be included in the consolidated financial information, whereas the full extent of its carbon emissions would typically be included if the reporting organisation has operational control over the JV[5].

The integrated report deals with performance during the reporting period. Where there are significant events that occur after the end of the reporting period, but before the integrated report is finalised, the report should include a description of the event and where possible an explanation of the likely impact.

Defining scope and boundary can involve determining:

- The entities to be represented in the report (e.g. subsidiaries, JVs, franchisees).

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4. http://www.oecd.org/department/0,3355,en_2649_34889_1_1_1_1_1,00.html

5. For example, if greenhouse gas emissions are a material issue for the organisation it may consider the guidance on boundary setting provided in the WBCSD's *Greenhouse Gas Protocol*.

- The nature of the information to be provided for each entity (e.g. full or *pro rata* performance data, disclosure on the management approach applied to that entity, or general narrative reporting on the relevant risks and opportunities associated with that entity)[6].

2.2. Principles informing the selection of the report content

To ensure the integrated report presents a balanced and reasonable picture of the organisation and its activities careful determination is required about the information to be included in the report. Determining the report content necessitates a high degree of judgment, care and skill.

To be useful, information needs to be both relevant and faithfully represented. In preparing an integrated report consideration should be given to the factors that may influence the assessment or decision-making of stakeholders and the organisation. Items that are not material to making such a decision should not be included in the integrated report.

This section explains the principles of relevance and faithful representation and outlines how they can be applied in exercising the judgment required when preparing an integrated report, particularly in relation to considering materiality.

Relevance and Materiality

Relevance has to do with providing information that assists stakeholders to evaluate the organisation's performance and to make assessments about the ability of the organisation to create and sustain value over the short-, medium- and long-term. It also applies to the impacts, both positive and negative, that the organisation has on social, environmental, financial and economic systems. Information that is capable of making a difference in the assessments and decisions of stakeholders is relevant even if some users choose not to take advantage of it or are already aware of it from other sources.

Materiality

An item is material if it is of such importance and has an impact that could substantively influence the assessments and decisions of the organisation or its stakeholders. Materiality is a measure or threshold against which information can be evaluated. The nature of an integrated report is that of a strategic overview, accordingly, the more detailed reports will follow other materiality levels.

- For financial information, materiality is used in the sense of the magnitude of an omission or misstatement of accounting data that misleads users and is usually measured in monetary terms. Materiality is judged both by relative amount and by the nature of the item.
- In the context of sustainability, materiality is a more difficult measure to define and a great deal of judgment is required. An organisation is faced with a wide range of sustainability issues on which it could report and thus it is important for the organisation's leadership to apply its mind to what needs to be reported. Relevant issues are those that may reasonably be considered important for reflecting the organisation's financial, environmental, economic and social impacts, or influencing the decisions of stakeholders.

Materiality needs to be considered at three levels:

- Are all the 'right things' being reported?
- Are these 'right things' being reported accurately? What level of error or omission in the data would influence the assessments and decisions of stakeholders and the organisation? In this instance, the level of materiality is different across issues and even within a particular issue it may be different across sectors.
- Is the organisation being responsive to the legitimate interests and expectations of its key stakeholders (sometimes referred to as stakeholder inclusiveness)? The organisation needs to explain in the report how the key stakeholders' legitimate interests and expectations are being addressed.

6. The GRI's *Boundary Protocol* may be useful in determining reporting boundary. http://www.globalreporting.org/NR/rdonlyres/CE510A00-5F3D-41EA-BE3F-BD89C8425EFF/0/BoundaryProtocol.pdf

Faithful Representation

To be useful, the information in an integrated report needs to be relevant and should faithfully represent the situation and circumstances. The goal of faithful representation is to ensure that the information presented is complete, neutral and free from error.

Where an issue is relevant but cannot be fully faithfully represented, for instance there is significant uncertainty, inclusion of a description of the issue is appropriate (e.g. a manufacturing organisation suffers a spill of toxic material into a river but the full financial cost is unknown).

Complete

Complete means that all material information that could affect the assessment or decisions of stakeholders is included in the report. This applies to both positive and negative items. Issues and results should not be combined or offset to present a more favourable situation than actually exists. In addition, the organisation should consider issues throughout its sphere of influence.

Neutral

Neutral information has no bias in the selection or in the presentation of information. The overall presentation of the report's content should provide an unbiased picture of the organisation's performance. The report should avoid selections, omissions or presentation formats that are reasonably likely to unduly or inappropriately influence a decision or judgment by the user. The report should include both favourable and unfavourable results, as well as issues that can influence the decisions of stakeholders, in proportion to their materiality.

Free from error

Free from error implies there are no errors or omissions in the description of the information, and that the process used to produce the reported information has been selected and applied without error. This does not imply that the information will be perfectly accurate in all respects. It does imply that where amounts are estimates, this is clearly communicated, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate. The level of comfort can be enhanced through independent assurance.

2.3. Principles informing the quality of the reported information

Having decided on the information to include in the integrated report, using the principles outlined above, every effort should be made to ensure the information is presented as effectively as possible. The information presented should meet appropriate quality criteria. The principles set out below guide choices on ensuring the quality of the reported information, including its proper presentation. Decisions related to the process of preparing information for the report should be consistent with these principles.

Comparability and consistency

- Information is more useful if it can be compared with similar information from other organisations and with similar information for the same organisation for a different time period. Where reporting policies have been changed, the organisation should explain the reasons for the change and describe the impact.
- Comparability is necessary for evaluating performance. Information should be presented in a manner that allows users of the report to compare the information reported on financial, social, economic and environmental performance against the organisation's past performance and its strategic objectives and targets.
- Where possible an organisation should include industry or other organisations' targets in order for a user to benchmark the organisation's actual performance within the correct context.

Verifiability

- Users will have more confidence in information that is verifiable. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single-point estimate to be verifiable; a range of possible amounts and the related probabilities can also be verified.
- It is not possible to verify all explanations and forward-looking information. To help users decide whether or not they want to use that information, disclosure of the underlying assumptions, the methods of compiling the information and any other relevant information should be included in the report. Misrepresented information, overly optimistic or overly conservative statements can be misleading and affect the assessments and decisions of stakeholders and may affect the reputation of the organisation.

Timeliness

- Timeliness means having information available to stakeholders in time to be capable of influencing their assessments and decisions. Generally, the older the information, the less useful it is. Certain historical data, however, can be useful to identify and assess trends.
- Reporting should occur on a regular schedule and information should be available in time for stakeholders to make informed decisions. Relevance is often dictated by the timing of the communication. For example, if an organisation discovers a material issue that would affect stakeholders' assessments, that information should not be held back until the integrated report is released since it may be received too late to be relevant.

Understandability or clarity

- Organisations should strive to present information in a way that is understandable, accessible and usable by the organisation's key stakeholders. The implications of certain data may need to be explicitly stated. Organisations should avoid the use of jargon, and where the use of technical terms is unavoidable a glossary of terms would be helpful to users of the report.

3. SUGGESTED ELEMENTS TO BE ADDRESSED IN THE INTEGRATED REPORT

The elements listed below are those that are seen as being appropriate to consider for inclusion in the integrated report if the report is to meet the stated objectives of integrated reporting and the integrated report. The suggested elements are neither prescriptive nor intended to limit what is included in the report. Judgment should be exercised in determining which elements the organisation should report on, as well as the structure of the report. The following is provided for broad guidance purposes only.

3.1. Report profile

(What is the scope and boundary of the report?)

The report should include a brief description of the scope and boundary of the integrated report.

The organisation's governing structure should, in terms of King III, acknowledge its responsibility for ensuring the integrity of the report in a statement accompanying the report (refer to the example in Annex 3).

Some examples of what could be considered for inclusion in the report are:

- The reporting cycle (e.g. annual) and the period covered by the report.
- The reporting boundary, noting the geographic scope, the entities represented in the report (e.g. subsidiaries, JVs, franchisees), and the nature of the information provided for each entity (e.g. operational performance, management performance or general narrative description).
- The process used for identifying the reporting boundary.
- The reporting principles that have been applied (e.g. the principles outlined in Section 2, the principles relating to financial statements in terms of IFRS, the sustainability elements in terms of the GRI, and those provided in King III).
- The policy and practice relating to seeking assurance on the report, the nature and scope of assurance provided for this particular report, any qualifications arising from the assurance, and the nature of the relationship between the organisation and the assurance providers.
- Significant restatements from prior reporting periods.
- Reference to major supporting documentation that may be separately available (e.g. the annual financial statements, sustainability report, and other communications with stakeholders).

3.2. Organisational overview, business model, and governance structure

(How do we create value and make decisions?)

The report should include an overview of the organisation, the manner in which it currently creates value, and a description of its governance structure. The level of detail provided should be sufficient for stakeholders to make an informed assessment on the organisation's ability to create and sustain value over the short-, medium- and long-term, and on how efficiently and effectively the organisation's executive team and governing structure have discharged their responsibilities to use the organisation's resources responsibly.

Some examples of what could be considered for inclusion in the report are:

- A brief *organisational overview* noting:
  - The organisation's name, size and the location of its operations and activities.
  - The principal activities of the organisation, including its products and services.
  - The organisational structure, including the principal divisions, subsidiaries, associates and JVs.
- A concise statement of the *business model* describing the manner in which the organisation currently creates value.
- High-level information about the existing resources of the organisation and any claims against it.

- A brief description of the material aspects of the *governance structure*, which may include the following:
  - A diagram of the governance structure, noting the committees and authority levels.
  - An outline of general governance aspects, including the key policies, ethical approaches, and commitments approved by the organisation's governing structure, as well as the ancillary processes for determining key strategic and tactical approaches.

3.3. Understanding the operating context

(What are the circumstances under which we operate?)

The report should provide information to allow stakeholders to assess the extent to which the organisation's ability to create and sustain value (in the short-, medium- and long-term) is based on financial, social, environmental and economic systems and its relationships with key stakeholders.

Some examples of what could be considered for inclusion in the report are:

Identifying material issues, impacts and relationships

- A brief description of the financial, social, environmental, economic and governance *issues and trends* that are relevant to the organisation's current and anticipated activities. In identifying these, the organisation should consider and identify issues and trends that are relevant to its sector, its products and services, the markets and regions where it operates, as well as the issues and trends that may be specific to the organisation itself. In doing this, the organisation could consider:
  - Global issues and trends (e.g. exchange rate fluctuations, commodity prices, climate change and demographic developments), as well as local issues and trends (e.g. broad-based black economic empowerment, HIV/Aids and socio-economic inequality).
  - Issues and trends that have an immediate bearing on the organisation, as well as those that have an anticipated future impact.
- A concise statement of the significant *impacts* – both positive and negative – of the organisation's decisions and activities on financial, social, environmental and economic systems, identifying those that have material implications for its ability to create and sustain value, and where the organisation has the potential to optimise or lessen these impacts.
  - Direct impacts could include the direct economic value generated and distributed, the significant use of (or impact on) natural resources, and the material contribution to societal challenges such as skills development and broad-based black economic empowerment.
  - Indirect impacts could include the influence on the performance and material impacts of other organisations and individuals within the value chain, and the indirect contribution to employment generation and wealth distribution.
- The organisation should consider the quality of its *relationships* with stakeholders and the potential to impact on the organisation's ability to create and sustain value. The report should briefly:
  - Identify the key stakeholder groups and describe how the organisation's relationship with each group may impact on its ability to create and sustain value.
  - Describe the organisation's current and anticipated approach to developing and maintaining an effective relationship with each stakeholder group. This may include a report by the organisation's corporate stakeholder relationship officer or similar role tasked with managing the interactive communication with stakeholders.
- A description of the process that has been followed to identify the *issues, impacts and relationships* and to determine those that are material to the organisation and its ability to create and sustain value. To avoid concerns about being selective in identifying material issues, the organisation should explain why any issues that are often considered relevant to its sector or location have not been identified as material. A more detailed explanation of the process for determining materiality may be made available separately. The process of identification might include a review and response to each of the criteria included within the *Sustainability Reporting Guidelines* of the GRI and other guidelines.

Identifying risks and opportunities

- A concise statement of the principal *risks and opportunities* having a bearing on the organisation's current and anticipated activities based on its material issues, impacts and relationships. A table could be included listing the risks and opportunities with a summary of the organisation's response to each and perhaps a cross-reference to a more detailed response elsewhere in the report or in other reports.
- Where there is any doubt that the organisation, or a major component of the organisation, may be a going concern, the reasons for that concern and the factors that may influence the outcome should be communicated.

3.4. Strategic objectives, competencies, KPIs and KRIs

(Where do we want to go and how do we intend to get there?)

Informed by the analysis outlined above, the organisation should provide a statement of its strategic objectives and targets, an indication of the organisational competencies required to realise these objectives, and a succinct list of KPIs and KRIs that will track performance against the strategic objectives and competency requirements. This should cover the short-, medium- and long-term periods.

Some examples of what could be considered for inclusion in the report are:

- A concise statement of the *strategic objectives* that have been made with the aim of creating and sustaining value over the short-, medium- and long-term. The statement should clearly demonstrate how these strategic objectives are informed by the organisation's business model, its material issues, impacts and relationships, and its identified risks and opportunities. While the focus should be on identifying the strategic objectives for the organisation as a whole, in some instances it will be appropriate to describe the broad strategic objectives at the level of significant business units.
- An indication of the organisational *competencies* (internal systems, personnel and culture) required to realise its strategic objectives in the context of the material issues, impacts and relationships. This may include the systems, personnel and culture relating to compliance management, trends analysis, data management, stakeholder relationships, risk management and innovation.
- A list of priority *KPIs and KRIs* with a brief description of each outlining how they have been determined, including any frameworks used.

3.5. Account of the organisation's performance

(How have we fared over the reporting period?)

An important part of the integrated report is an account of the organisation's performance. This includes current financial performance and other appropriate measures of performance. This should include a brief description of the organisation's activities taken in respect of its strategic objectives and targets, as well as a concise review of the outcome of these activities. While the performance review should be primarily at a group level, depending on the nature of the organisation it might also entail a high-level review of performance for each of the significant business units. The performance review should be integrated in a holistic manner throughout the report.

Some examples of what could be considered for inclusion in the report are:

- A concise account of the activities undertaken during the reporting period to address the strategic objectives and material impacts, and to ensure the organisation has the required organisational competencies to deliver on its strategic commitments.
- A concise description of the outcome (noting both successes and failures) of its activities in terms of its strategic objectives and targets, material impacts, KPIs and KRIs. Sufficient information should be provided to enable an assessment of performance trends and key patterns in terms of the organisation's strategic commitment areas and material impacts. This review of performance should be consistent with the principles outlined in Section 2. Brief commentary should be provided on the nature of the information collection and data management process.

Box 2 – Including summary financial information in the integrated report

For listed companies the integrated report may, depending on the volume of material information and the complexity of the organisation, be separate from the more detailed annual financial statements. The integrated report, however, should be able to stand alone and thus should provide sufficient financial information to enable an informed opinion to be made. It is suggested that the following financial information should be included in the integrated report:

- Abridged financial statements (e.g. statement of financial position, statement of comprehensive income, statement of changes in equity, and statement of cash flow).
- Explanation of factors influencing change in profits (e.g. changes in volume of inputs or outputs, selling price, input costs, exchange rates, acquisitions or disposals of business or discontinued operations).
- Identification of unusual/non-operating items included in the results – a reconciliation to headline earnings/core earnings or whatever measure management believes is the most meaningful measure of financial performance.
- Segmented information where relevant.
- Financial investment in future capacity (e.g. capital expenditure, research and development expenditure, acquisition of business).
- Factors that may influence future cash flows, such as capital commitments and contingencies.
- Financial value added by the business and how it was applied (e.g. employee benefits, taxes paid, providers of capital and reinvested).
- Economic value (as opposed to financial issues) should be specifically addressed – i.e. value added to the community, sharing of wealth, distribution of wealth etc.

The financial information used in the integrated report should be derived from and be in alignment with the information contained in the audited annual financial statements. Organisations should not change accounting policies for presentation of information in the integrated report. For listed companies this would imply that the recognition and measurement principles, as well as the presentation principles of IFRS will be applied. The integrated report will probably not include all of the detailed disclosures required by IFRS.

3.6. Future performance objectives

(Informed by our recent performance, what are our future objectives?)

In addition to reporting on the performance during the reporting period, the integrated report should include a forward-looking statement of the organisation's anticipated activities and performance objectives, informed by its assessment of recent performance and understanding of societal trends and stakeholder expectations.

- The report should include a clear statement of intent regarding future performance, ideally including specific performance targets. The statement of intent and any accompanying targets should be aligned with the organisation's assessment of the changing societal context, be consistent with its strategy and KPIs and KRIs, and be responsive to the expectations of key stakeholders.
- The report should include a forward-looking reflection on the internal systems, personnel and culture that the organisation has identified as being required to address its identified risks and opportunities and to ensure delivery on its strategy. It should outline the anticipated activities being considered to develop the required systems, personnel and culture.

3.7. Remuneration policies

(What is our approach towards remuneration?)

An integrated report should provide high-level information on how employees in general and senior executives in particular are remunerated. Disclosure should include how they have been remunerated in the current period, as well as factors that will influence future remuneration. The application of King III and compliance with other regulatory requirements, such as IFRS and the JSE Listings Requirements, will require disclosure of more detailed information.

The disclosure in respect of current remuneration should indicate the extent to which the remuneration is fixed and variable and the factors that influence the variable element. As this is likely to differ for different levels of employees, judgment should be exercised to determine how employees should be grouped when providing this disclosure. Separate disclosure should be given for senior executives, for example the executive directors of a company. Disclosure should be provided of the major components of employment costs, for instance salaries and wages, housing benefits, post-employment benefits, etc. Consideration should also be given to disclosing comparatives for the total cost to the organisation per employee at the different levels.

Judgment should be exercised in determining the extent of the disclosure in respect of employees. In some cases, disclosure of wage agreements may be appropriate. Disclosure of material share-based payment awards would be appropriate if significant in relation to either current or future remuneration.

As senior executives are instrumental in determining the strategy of the organisation, it is important to understand how that strategy could influence their future remuneration. KPIs that could influence senior executive remuneration should be identified and the extent to which that could influence remuneration disclosed.

3.8. Analytical commentary

(What are the views of the leadership about the organisation?)

The report should include a brief analytical commentary that reflects the understanding of the members of the organisation's governing structure and executive team regarding the nature of the organisation's current and anticipated performance in the context of the organisation's strategic objectives. The organisation should report how it can improve its positive material impacts and how it can eradicate or ameliorate its negative material impacts.

Consideration should be given to both the nature of the organisation as well as the reporting principles of Section 2 in deciding the issues to be addressed and the information to be presented. Inclusion of appropriate ratios of financial, economic, environmental, social and governance information, as well as summarised historic information is likely to be appropriate.

4. ASSURANCE

Independent assurance lends credibility to the organisation's activities and reporting with regard to the accuracy, completeness and reliability of disclosure in the integrated report, whether it relates to financial, social, environmental, economic, or governance information.

Assurance processes over financial information are well established and the requirements for assurance over a company's financial reporting have not changed.

King III recommends that the organisation's board should ensure the integrity of the integrated report and allows the board to delegate to the audit committee the evaluation of sustainability disclosure. The audit committee should review the sustainability issues in the integrated report to ensure they are reliable and that there is no conflict with the financial information.

King III recommends that the audit committee should engage the external auditors to provide assurance on summarised financial information, and it also recommends that the sustainability reporting and disclosure should be independently assured.

When determining the integrated reporting assurance strategy, a combined assurance model should be followed taking into account assurance provided by management, internal audit, external audit, and any other external assurance provider, such as ISO certification and BEE verification.

Developing the ideal integrated report will be a journey for many organisations and so too will the extent and level of assurance. With time all material environmental, social, financial, economic, and governance issues could be covered with reasonable assurance.

Where integrated reports present summary information derived from the more detailed annual financial statements and sustainability report already audited or assured, auditors would report on such aspects in accordance with International Standards on Auditing (ISAs) and the underlying detailed reports should be accessible to users.

ISAs are the professional standards used to audit financial information. King III refers to the International Standard on Assurance Engagements 3000: *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and AccountAbility's AA1000 *Assurance Standard* (AA1000AS) for the assurance of sustainability information.

Organisations should engage at an early stage with their auditors and other external and internal assurance providers to determine the aspects of the integrated report that are to be subject to audit or assurance, and the applicable financial reporting and sustainability or quality frameworks to be applied to the information reported. Assurance cannot generally be expressed on prospective and future information; however, organisations can obtain assurance on the processes and assumptions leading to forward-looking statements.

ANNEX 1 – KING CODE OF GOVERNANCE PRINCIPLES FOR SOUTH AFRICA 2009 AND INTEGRATED REPORTING

In the introduction to the *King Code of Governance Principles for South Africa 2009* (King III) the chairman of the King Committee, Professor Mervyn King, writes:

> "All entities should apply the principles in the Code and consider the best practice recommendations in the Report. All entities should by way of explanation make a positive statement about how the principles have been applied or have not been applied. This level of disclosure will allow stakeholders to comment on and challenge the board on the quality of its governance. The manner of application will differ for each entity and it is likely to change as the aspirational nature of the Code should drive entities to continually improve governance practices. It is important to understand that the 'apply or explain' approach requires more consideration – application of the mind – and explanation of what has actually been done to implement the principles and best practice recommendations of governance."[7]

King III recommends that entities should adopt integrated reporting to enable stakeholders to make a more informed assessment of the economic value of a company. The term 'integrated report' is used throughout the Code and is explained in chapter 9:

> "The integrated report should … have sufficient information to record how the company has both positively and negatively impacted on the economic life of the community in which it operated during the year under review, often categorised as environmental, social and governance issues (ESG). Further, it should report how the board believes that in the coming year it can improve the positive aspects and eradicate or ameliorate the negative aspects."[8]

The Discussion Paper does not repeat all of the suggested disclosures contained in King III, rather it sets out a framework within which such disclosures can be reported using the principles of 'apply or explain' and 'substance over form'. The Discussion Paper should be read in conjunction with King III.

In general, the organisation's governing structure should use integrated reporting to demonstrate how it is:

- Fulfilling its governance duties and responsibilities.
- Providing ethical leadership.
- Ensuring effective engagement and communication with stakeholders is taking place.
- Ensuring the organisation is and is seen to be a responsible corporate citizen.

King III's principles of integrated reporting and disclosure

King III identifies the following principles that should inform the process of integrated reporting:

- Effective communication with stakeholders is essential.
- Integrated reporting should be focused on substance over form and should transparently disclose information that is material, relevant, accessible, understandable and comparable with past performance of the company.
- Integrated reporting and disclosure should be formalised as part of the company's reporting processes.
- Effective reporting should take place at least once a year.
- Integrated reporting and disclosure should have independent assurance.

7. *King Code of Governance Principles for South Africa 2009* - Introduction and Background, paragraph 13

8. Ibid – Introduction and Background, paragraph 9

ANNEX 2 – GUIDANCE ON THE PROCESS FOR DEVELOPING AN INTEGRATED REPORT

This annex aims to provide practical guidance to organisations on the process to be followed and the activities to be undertaken when developing an integrated report. While this guidance seeks to be useful to all organisations, including those that have already produced combined financial and sustainability reports, some elements will be of particular relevance to organisations that do not currently have the experience or systems in place to produce sustainability or integrated reports.

While there may be a close connection between integrated reporting and the development of an organisation's strategy and risk management practices, this guidance focuses specifically on the process associated with developing an integrated report and it does not address those elements relating primarily to strategy development or risk management processes.

The following steps are suggested when developing an integrated report:

- Step 1 – Ensure organisational understanding of the implications of integrated reporting.
- Step 2 – Plan the reporting process and define the report scope and boundary.
- Step 3 – Determine the material risks and opportunities that impact on the organisation's ability to create and sustain value.
- Step 4 – Implement systems to ensure responsiveness to the organisation's key stakeholders.
- Step 5 – Establish internal systems to accurately obtain and monitor performance data.
- Step 6 – Develop and implement an appropriate assurance process.
- Step 7 – Compile and structure the integrated report.
- Step 8 – Ensure the organisation's governing structure approves the report.
- Step 9 – Publicly release the integrated report.

Step 1 – Ensure organisational understanding of the implications of integrated reporting

The first step in the process is to ensure there is clear understanding and agreement within the organisation's executive team and its governing structure on the principles and objectives of integrated reporting and the implications of developing an integrated report. There should be clarity, in particular, on the extent to which an integrated report differs from existing financial and sustainability reports, and an understanding that it is not the same as a combined report. The organisation's governing structure should also appreciate the expectation that it has applied its collective mind in identifying the social, environmental, economic and financial issues that affect the organisation's ability to create and sustain value.

Step 2 – Plan the reporting process and define the report scope and boundary

Another useful preliminary step is to agree on a project plan for the reporting process. Ideally, this should be informed by the understanding within the organisation's governing structure and executive team of the implications of integrated reporting (Step 1). The plan should result in an appropriate governance process being defined and implemented, with agreed deliverables, time frames and assigned roles and responsibilities, including provision for final sign off by the governing structure. In developing the plan, the organisation should seek to develop a process that will result in an integrated report that meets the objectives and principles outlined in this Discussion Paper.

An important part of the planning process is to define the scope and boundary of the report. This will involve determining which entities to represent in the report (e.g. subsidiaries, JVs, franchisees) as well as agreeing the nature of the information to be reported for each entity (e.g. the full or *pro rata* performance data, disclosure on the management approach applied to the specific entity, or general narrative reporting on the relevant risks and opportunities associated with that entity).

Additional guidance on boundary setting

Useful additional guidance on boundary setting is available:

- International Financial Reporting Standards (IFRS) on aspects of financial reporting
- The *Boundary Protocol* of the GRI on setting boundaries for sustainability reports
  http://www.globalreporting.org/ReportingFramework/ReportingFrameworkDownloads/
- The World Business Council for Sustainable Development's *Greenhouse Gas Protocol* relating to greenhouse gas reporting
  http://www.ghgprotocol.org/

Step 3 – Determine the material risks and opportunities that impact on the organisation's ability to create and sustain value

The organisation's executive team should determine the risks and opportunities that are material to the organisation's current and anticipated activities and relate to its ability to create and sustain value over the short-, medium- and long-term. The risks and opportunities will differ for each organisation depending, for example, on its location, industry and customer base. The process of identifying risks and opportunities should include a review of financial, social, environmental and governance issues and trends, an assessment of the organisation's material impacts on financial, social, environmental and economic systems, and a review of its relationships with key stakeholders.

Ideally, this process should happen as an integral part of the organisation's normal strategy formulation and risk management activities. In addition to being informed by these internal activities, the identification of material risks and opportunities should also be informed by the views and interests of key stakeholders and by a consideration of the expectations of society relating to responsible organisational conduct as outlined, for example, in relevant codes of practice (see the additional guidance box below).

The integrated report should include a transparent account of the process that was followed for determining the material risks and opportunities.

Additional guidance on identifying material issues and trends

There are many guidance documents and codes of practice that can assist with the process of identifying the organisation's material issues and trends, including:

- International Organisation for Standardization (ISO) guidance on *Social Responsibility ISO 26000* (see also Annex 1 of *ISO 26000*, which provides numerous examples of cross-sectoral and sector-specific codes of practice
  http://www.iso.org/iso/catalogue_detail?csnumber=42546)
- The GRI's *G3 Sustainability Reporting Guidelines*
  http://www.globalreporting.org/ReportingFramework/ReportingFrameworkDownloads/
- United Nations Global Compact's *Blueprint for Corporate Sustainability Leadership*
  http://www.unglobalcompact.org/docs/news_events/8.1/Blueprint.pdf
- World Business Council for Sustainable Development's guidance *Translating Environmental, Social and Governance Factors into Sustainable Business Value*
  http://www.wbcsd.org/Plugins/DocSearch/details.asp?DocTypeId=251&ObjectId=MzgzMDY
- Ceres (2010) *The 21st Century Corporation: The Ceres Roadmap for Sustainability*
  www.ceres.org
- International Council on Mining and Metals (ICMM) *Sustainable Development Framework*
  http://www.goodpracticemining.org/documents/jon/ICMM_SD_Principles.pdf

Step 4 – Implement systems to ensure responsiveness to the organisation's key stakeholders

An effective reporting process should ideally include explicit provision for a process of dialogue between the organisation and its key stakeholders. If undertaken effectively, this dialogue process should enhance the organisation's ability to create and sustain value by building trust between the parties and by providing a valuable input into the organisation's strategy development process. It is recommended that systems are put in place to facilitate this dialogue and ensure that the organisation is responsive to the views and interests of its stakeholders.

As noted in Step 3, the views and interests of the organisation's key stakeholders should be considered as part of the process of identifying the material risks and opportunities. This could be undertaken by assessing the views expressed as part of existing processes of engagement with investors, employees and other stakeholders, and/or it could be an engagement process undertaken specifically as part of the organisation's integrated reporting process.

During the stakeholder engagement process it may become apparent that there are differences between what a particular stakeholder group considers material and the view of the organisation. These variances need to be captured by the organisation and evaluated. This may or may not lead to the organisation re-evaluating its own view of material financial, environmental, social, economic and governance issues.[9]

Additional guidance on stakeholder engagement

There are various guidance documents available that can assist the organisation in planning and undertaking stakeholder engagement, including:

- AccountAbility *AA1000 Stakeholder Engagement Standard*
  http://www.accountability21.net/uploadedFiles/publications/SES%20Exposure%20Draft%20-%20FullPDF.pdf
- The International Finance Corporation's *Stakeholder Engagement and the Board*
  http://www.ifc.org/ifcext/cgf.nsf/AttachmentsByTitle/FOCUS8/$FILE/FINAL+Focus8_5.pdf
- The European Alliance for Corporate Social Responsibility's *Proactive Stakeholder Engagement*
  http://www.csreurope.org/data/files/toolbox/Stakeholder_engagement.pdf
- International Federation of Accountants (IFAC) *Sustainability Framework*
  http://web.ifac.org/sustainability-framework/ohp-determining-materiality

Step 5 – Establish internal systems to accurately obtain and monitor performance data

In addition to ensuring that systems are in place to obtain stakeholder input and feedback, the organisation should ensure it has appropriate internal management systems for accurately obtaining and monitoring relevant financial, environmental, social, economic and governance information. This should include information relating specifically to the material risks and opportunities identified for inclusion in the integrated report (Step 3), as well as information for the purpose of the reports that form part of the broader integrated reporting process, including, for example, a separate (e.g. online) sustainability report. When identifying these information needs, the organisation may wish to consider in particular the recommendations provided in the GRI's *G3 Guidelines* (also see the other initiatives listed in the box under Step 3).

Management systems involve defining principles, policies, structures and procedures. Organisations are encouraged to benchmark their KPIs against those of their peers. Trend analysis should be done where historical data is available, and performance against targets should be reported.

9. An example of a global company that has done this effectively and has openly reported on these variances is Holcim (see page 8 of Holcim's 2009 Sustainable Development Report).

Step 6 – Develop and implement an appropriate assurance process

Assurance processes over financial information are well established and the requirements for assurance over a company's financial reporting have not changed. Assurance processes over the environmental, social and governance issues are less developed and organisations should engage at an early stage with their auditors and other external and internal assurance providers to determine the aspects of the integrated report that are to be subject to audit or assurance.

When determining the integrated reporting assurance strategy, it is recommended that a combined assurance model should be followed taking into account assurance provided by management, internal audit, external audit and other external assurance providers, such as ISO certification and BEE verification.

For the purposes of listed companies, King III requires that the company's audit committee makes a recommendation to the board on the need to engage an external assurance provider to assure the material sustainability elements of the report.

Step 7 – Compile and structure the integrated report

Once the steps listed above have been followed an organisation should be in a good position to draft the text and finalise the design and publication of its integrated report. In deciding on the structure of the report the organisation should consider the guidance provided in this Discussion Paper (Section 3) as well as examples of leading reporting practice locally and internationally.[10]

In terms of the writing style, content and design, the organisation should seek to produce a frank report that is engaging and easy to read, that focuses on the organisation's material issues, facilitates comparison with peers and with its own performance year on year, and meets the objectives and principles outlined in this Discussion Paper. Adopting an innovative approach that delivers on these aspects is typically far more effective than adopting a checkbox approach to reporting.

Step 8 - Ensure the organisation's governing structure approves the report

It is important for the relevant governing structure to approve the report. For listed companies, King III specifically tasks the audit committee with responsibility for oversight of the integrated report. Among other things, the audit committee's role is to approve the identified material issues and to ensure the information is reliable and that no conflicts arise when compared to the financial results. (Refer to Annex 3.)

Step 9 – Publicly issue the integrated report

Each organisation should identify the appropriate way to release its integrated report. This could be in the form, for example, of a media announcement (including the results announcements in newspapers), SENS announcement, formal launch, or the use of an interactive website.

General

While the process above is explained in nine steps, it should be appreciated that there needs to be a review process at least at the end, but possibly with each step, providing feedback loops to earlier steps as part of a continuous improvement process.

There are a number of good reference documents on integrated reporting, including:

- The Prince's Accounting for Sustainability Project *Connected Reporting: A practical guide with worked examples* http://www.accountingforsustainability.org/output/page186.asp
- Robert G. Eccles and Michael P. Krzuz *One Report: Integrated Reporting for a Sustainable Strategy* http://www.amazon.com/One-Report-Integrated-Reporting-Sustainable/dp/0470587512
- Robert G. Eccles, Beiting Cheng and Daniela Saltzman (edited by) *Landscape of Integrated Reporting Reflections and Next Steps*
- Guidance documents from accounting firms
- www.sustainabilitysa.org

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10. Some well-known examples of reports from global companies (available online) include: Novo Nordisk, Philips and BASF. For other examples (in South Africa and internationally) it is useful to consider the findings of recent reporting awards, which are increasingly recognising credible integrated reports. www.CorporateRegister.com is also a good source of internationally recognised reports.

ANNEX 3 - STATEMENT BY THE GOVERNING STRUCTURE OF AN ORGANISATION TO ACCOMPANY THE INTEGRATED REPORT

The board of directors (Board) acknowledges its responsibility to ensure the integrity of the integrated report. The Board has accordingly applied its mind to the integrated report and in the opinion of the Board the integrated report addresses all material issues, and presents fairly the integrated performance of the organisation and its impacts. The integrated report has been prepared in line with best practice pursuant to the recommendations of the King III Code (principle 9.1). The Board authorised the integrated report for release on …………

SIGNED BY DIRECTOR A, OR A AND B, WHO HAVE BEEN DULY AUTHORISED THERETO BY THE BOARD

RESEARCH REFERENCES

Draft Code for Responsible Investing by Institutional Investors in South Africa

Ernst & Young *Integrated report – Content outline*

Global Reporting Initiative (GRI) *G3 Sustainability Reporting Guidelines*

Institute of Directors in Southern Africa Sustainability Development Forum *Integrated Reporting*

KPMG *Integrated Reporting: Closing the loop of strategy*

King Code of Governance Principles for South Africa 2009

King Report on Governance for South Africa 2009

PricewaterhouseCoopers *Steering Point Integrated Reporting; Integrated Reporting – What does your reporting say about you?*

OECD *Guidelines for Multinational Enterprises*

Robert G. Eccles and Michael P. Krzus *One Report: Integrated Reporting for a Sustainable Strategy*

The Prince's Accounting for Sustainability Project *Connected Reporting: A practical guide with worked examples*

The International Accounting Standards Board *Conceptual Framework for Financial Reporting 2010; Management Commentary (exposure draft)*

www.sustainabilitysa.org

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The Discussion Paper has been released by the Integrated Reporting Committee (IRC) of South Africa. The IRC invites public comment on the Discussion Paper. Please email your comments to ircomments@saica.co.za

The last day for comment is 25 April 2011.

The Discussion Paper can be downloaded from www.sustainabilitysa.org

The Integrated Reporting Committee (IRC) of South Africa comprises the following organisations

ASISA Association for Savings & Investment SA

BUSA Business Unity South Africa

Institute of Directors Southern Africa

JSE Johannesburg Stock Exchange

SAICA The South African Institute of Chartered Accountants develop.influence.lead.

The Banking Association South Africa

Chartered Secretaries Southern Africa