Sustainability Assurance: Creating Value through Integrated Thinking
Integrated Reporting

The South African Experience

By Leigh Georgia Roberts

Few countries can claim that integrated reporting (IR) is common among domestic companies. An exception is South Africa, with many listed and public organizations having produced integrated reports for over six years. The emergence of IR as the dominant form of corporate reporting in South Africa has produced a significant number of internal and external benefits for the companies that have adopted it. One of the most beneficial is the improvement in internal integration and management; companies now have a better understanding of business value drivers, a more thorough risk analysis, improved strategic resource plans, and reduced departmental and functional siloing. It is a testament to South Africa’s focus on corporate reporting that it was—for the seventh consecutive year—ranked number one in the world in auditing and reporting standards in the World Economic Forum’s Global Competitiveness Report 2016/17.

Integrated reporting in South Africa began with the King Code of Governance for South Africa 2009 (King III), which contained the principle that “the board should appreciate that strategy, risk, performance, and sustainability are inseparable” and recommended that companies prepare an integrated report to reflect this. As the principles of King III were included in the Listings Requirements of the Johannesburg Stock Exchange (JSE), listed companies were required to prepare an integrated report or explain why they were not doing so. King III did not, however, elaborate on how this report should be structured or the content it should contain. This led to the birth of the Integrated Reporting Committee (IRC)
of South Africa, a multiorganizational, voluntary, national body that has brought together accountants, company secretaries, internal auditors, directors, institutional investors, the JSE, companies, and others with an interest in corporate reporting. The IRC developed a framework for an integrated report in 2011, which was used as a starting point for the development of the International Integrated Reporting Council’s (IIRC) International <IR> Framework, released in December 2013.

Companies listed on the JSE released their first integrated reports in 2010/2011; today, it is a common practice that has spread to the public and nonprofit sectors. Today, South African organizations follow the best practice principles and recommended practices of the recently released King IV Code.

**Evolution of Reports over Time**

IR has come a long way, and the latest reports of the top 100 JSE-listed companies are of a much higher quality than their 2011 equivalents. For starters, they are shorter—an average of 148 pages in 2015, according to Ernst & Young’s [*Excellence in Integrated Reporting Awards 2016 Survey*](http://www.erie.psu.edu/index.php?search=Excellence%20in%20Integrated%20Reporting%20Awards%202016). This is because the companies focus on including only material matters and information in the integrated report, with detailed information housed elsewhere, such as the annual financial statements, sustainability report, or on the company website. It is also the result of a trend among some companies—over half, according to the Ernst & Young survey—to include summarized or limited financial information in the integrated report, with due reference to the separately available annual financial statements. The remaining companies include the full annual financial statements, usually at the end of the report.

Another noticeable change is that the latest reports have a more considered articulation of the external environment and its effects on the company, condensing the information into important external factors neatly laid out in tables or infographics. The reports are also easier to read; they do a much better job of connecting the different (but intertwined) elements of the business, such as governance, business model, strategy, risks, and performance against strategic objectives, in the context of the external environment. There is a greatly improved connectivity between strategy and risk; indeed, the area of risk disclosure stands out for its significant improvement among JSE-listed reporters. Furthermore, companies have become good at offering relevant information on how future events can affect financial performance, such as a mining company explaining the financial impact of a one-dollar change in the price of gold to the bottom line.

In this author’s opinion, there are four areas where improvement is still needed. Firstly, the framework requires the disclosure of the outcomes of the company’s products, services, and business activities; that is, the positive and negative consequences on the six forms of capital relied on or affected by the company—financial, manufacturing, intellectual, human, social, and natural. This concept has been slightly misunder-

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stood, with companies disclosing their outputs, inputs, or desired goals rather than their effects on the capitals. Furthermore, some companies have only focused on the positive value created for stakeholders, ignoring negative or unintended outcomes. The disclosure of outcomes in reports should, however, improve following the release of the IRC’s [*Information Paper: Reporting on Outcomes*](http://www.erie.psu.edu/index.php?search=Information%20Paper%3A%20Reporting%20on%20Outcomes).

Secondly, the governance sections of the reports need work. Currently, they mostly comprise compliance-driven information rather than the most relevant information, such as the board’s composition and skills, the workings of its subcommittees, and the major issues discussed during the year that affected the value creation ability of the company.

Thirdly, many reports do not adequately disclose how a company has performed against its strategic objectives and targets. Organizations in the public sector often do this better than those in the private sector, probably because of their traditional focus of reporting performance against nonfinancial targets and the related maturity of reporting systems and assurance. This area was the topic of the IRC’s technical information paper, released in December 2016.

Finally, some of the reports lack balance; they tend to disclose only positive
information rather than a more complete overview. Fewer still contemplate what the companies are doing to mitigate negative outcomes.

A Thriving IR Industry

Unsurprisingly, an industry of sorts has risen up around IR in South Africa, and it has flourished. Firstly, many professional and industry organizations are members of the IRC. The organizations themselves offer a range of services to their members, from training courses to sector-specific publications, to updates at conferences, with many preparing their own integrated reports for their members.

South Africa’s Big Six accounting and auditing firms have specialized teams that offer integrated reporting advisory services. Full assurance on integrated reports, rather than assurance of some of the performance or sustainability information in the report, is not yet a reality, but is certainly likely once international standards setters have settled the matter. In August 2016, the IAASB released a discussion paper “Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements,” which includes consideration of assurance on the integrated report.

There is also a range of boutique consultancies offering IR advisory services, some with a background in accounting and others from the sustainability and strategy spheres. More recent entrants to the industry include management consultancies that have recognized the opportunity for services in the areas of integrated thinking and valuing outcomes.

IR has spurred surveys and rankings of integrated reports in South Africa. The EY and Nkonki Inc. awards cover all the top 100 JSE-listed companies, as well as the top state-owned companies. The Chartered Secretaries South Africa (CSSA) award covers listed and state-owned companies, as well as nonprofit organizations. The awards encourage ongoing improvements in reporting and highlight emerging trends.

IR is also covered in the accounting and reporting syllabuses of most universities. The expanse and depth of IR has made it a popular topic among masters and doctoral students.

Integrated Thinking

IR has also spurred the concept of integrated thinking; indeed, many believe that adopting integrated thinking throughout the business is more critical than preparing the annual integrated report. Enlightened investors look for integrated thinking in the companies they invest in; it shows that the board and management are aware of all the capitals needed to ensure the ongoing viability of the business. The essence of integrated thinking is the management of the six capitals. An enlightened board will set or approve the company’s strategic objectives only after considering all the capitals important to the viability of the business; management will implement these objectives throughout the company and ensure that the staff recognize their importance.

When South African companies were first called on to publish integrated reports, they did not have the luxury of integrated thinking. Their first reports nevertheless endeavored to show the company’s business model, strategy, and risks, as well as its most important resources and relationships. Some companies were indeed already operating on
an integrated basis, but had not formalized these processes into an integrated management model. In other companies, integrated reporting has led to integrated thinking. This process does not happen overnight; it takes time to become business as usual.

**Integrated Reporting Tips**

There should be an executive champion who leads the preparation process. In some companies, the finance director/chief financial officer has responsibility for the integrated report; in others, it is the company secretary, head of corporate affairs, or investor relations. In most cases, the chairman and the board’s audit committee will sign off on the integrated report. The involvement of the board is a key factor. The integrated report is viewed as the board’s report, and the board can help ensure a smooth preparation process.

A multidisciplinary steering committee of employees can contribute to the content of the integrated report. These employees would mostly come from finance, strategy, sustainability, corporate affairs, governance, and risk. This committee reports to the project director.

Deciding which of the company’s various reports to print, which ones should go on the website, and how they all fit together was initially an issue for companies. Adapting the IRC’s “octopus model” has helped; the integrated report is seen as the head of the octopus, linking to detailed reports such as the annual financial statements, sustainability report, remuneration report, and other compliance reports.

There is a need for internal systems that measure, monitor, and report on the non-financial performance figures. Collecting this information on a par with financial information has been labor intensive for some companies. For example, the finance director of a large financial services company has said that their nonfinancial systems improved considerably only when they were brought under the finance umbrella.

The integrated reporting process runs more smoothly when the performance figures are a part of the regular monthly or quarterly management review processes. Some companies now also produce integrated board reports throughout the year.

Setting the correct key performance indicators (KPI) to accurately measure the achievement of the strategic objectives improves and furthers IR and integrated thinking. External assurance of these KPIs is common and a key consideration in public acceptance of integrated reports.

Including the achievement of strategic objectives in departmental scorecards, as well as individual performance and bonus assessments, is often cited as a success factor in achieving integrated thinking.

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Companies have said that ensuring personal responsibility, whether for achievement of strategic objectives or for the information needed for the report, is also important.

Some companies bring in consultants to perform a technical review of their integrated report. This external review checks alignment against the 18 requirements of the framework and gives feedback on readability and connectivity.

**The Impact of King IV**

The King IV Code, released on November 1, 2016, emphasizes integrated thinking in a business and again recommends the preparation of an integrated report. King IV rests on much of what is in the framework and is likely to spur a renewed focus on integrated thinking. It is also likely to broaden the reach of integrated reporting in South Africa, as it recommends that other sectors—small- and medium-sized enterprises, nonprofits, retirement funds, state-owned enterprises, and municipalities—prepare integrated reports and apply integrated thinking.

IR has undoubtedly been good for corporate reporting in South Africa. It has broadened internal and external understanding of the value drivers of a business, both financial and nonfinancial. It has increased the quality of reporting on strategy and risks, as well as key resources and stakeholder relationships. Research has suggested that IR is beneficial to the value of a company by attracting long-term investors. Critically, IR has either spurred or supported integrated thinking and integrated management within businesses. The benefits and rewards of IR are directly correlated with the amount of effort a company puts into its integrated report, integrated thinking, and integrated management.

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