Integrated Reporting

Answers To Frequently Asked Questions

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Leadership

"SA was the first country to mandate integrated reporting for all listed companies. "Every major capital market must follow SA's lead soon — this ultimately needs to be the universal global practice." Judge Mervyn King

Transparency

"The notion of transparency strikes some people as giving away the company secrets, but it's about providing more clarity, about how and why you make the decisions you make." Michael Krzus co-author of One Report, Integrated Reporting for a Sustainable Strategy, along with Robert G. Eccles, senior lecturer of Business Administration at Harvard University.

The goal of International Integrated Reporting Committee (IIRC)

"The goal of the IIRC is not to increase the reporting burden on companies and other entities. Rather, it is to help them and all their stakeholders make better resource allocation decisions. All of us have a stake in a sustainable society. While integrated reporting alone cannot ensure sustainability it is a powerful mechanism to help us all make better decisions about the resources we consume and the lives we lead." Ian Ball, CEO of the International Federation of Accountants.

Reality

"The world has never faced greater challenges: over-consumption of finite natural resources, climate change, and the need to provide clean water, food and a better standard of living for a growing global population. Decisions taken in tackling these issues need to be based on clear and comprehensive information; but, , we are at present "battling to meet 21st Century challenges with, at best, 20th Century decision making and reporting systems." The Prince of Wales

Foreword

With the King III Code on Corporate Governance effective from 01 March 2010 and the special emphasis on Integrated Reports that are expected from companies for all financial years ending 28 February 2011, many questions than answers have surfaced.

Nkonki Inc has noted most of the questions that most clients have and formulated this publication which focuses on providing answers to the most Frequently Asked Questions on Integrated Reporting. We have selected the following dozen questions for which we provide some detailed answers to:-

1) What is Integrated Reporting?
2) Is there an existing Global Framework on Integrated Reporting?
3) What will be the objectives of this Global Framework on Integrated Reporting?
4) Why are the current reporting standards not considered adequate?
5) What are the recommended elements of an Integrated Report?
6) What are the principles that should form the process of Integrated Reporting?
7) When must my company start to worry about Integrated Reporting?
8) Is Integrated Reporting a fashionable requirement or is it here to stay?
9) Will investors be interested in an Integrated Report?
10) Is an Integrated Report expected to be a One report or different reports?
11) What Governance processes does King III Code prescribe over Integrated Reporting?
12) What are the main elements that are required to embed sustainability successfully in my company?

If there are any other questions you would like to see answered which are not covered in this publication, please email **IntegratedReporting@nkonki.com**, and our team of experts will be of assistance to you.

Sindi Zilwa
Chief Executive Officer

What is Integrated Reporting?

Principle 9.1 of King III describes an Integrated Report as a "Holistic and Integrated representation of the company's performance in terms of both its finances and its sustanaibility."

According to the International Integrated Reporting Committtee, Integrated Reporting "Demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing."

Some view an Integrated Report as "A report to stakeholders on the strategy, performance and activities of the organization in a manner that allows stakeholders to assess the ability of the organisation as a whole to create and sustain value over the short, medium and long term."

Is there an existing Global Integrated Reporting Framework?

No there is none. In December 2009 The Prince of Wales convened a high level meeting of investors, standard setters, companies, accounting bodies and UN representatives.

At the meeting it was agreed that The Prince's Accounting for Sustainability Project and the Global Reporting Initiative should work together with other organizations to establish an international body.

The purpose of this international body will be to oversee the creation of a generally accepted integrated reporting framework that would connect financial and sustainability reporting.

The formation of the International Integrated Reporting Committee ("IIRC") was formally announced in August 2010.

What will be the objectives of the Global Integrated Reporting Framework?

According to the IIRC's website, the objectives for an integrated reporting framework will be to:

- Support the information needs of long-term investors, by showing the broader and longer-term consequences of decision-making;
- Reflect the interconnections between environmental, social, governance and financial factors in decisions that affect long-term performance and condition, making clear the link between sustainability and economic value;
- Provide the necessary framework for environmental and social factors to be taken into account systematically in reporting and decision-making;
- Rebalance performance metrics away from an undue emphasis on short-term financial performance; and
- Bring reporting closer to the information used by management to run the business on a day-to-day basis.

Why are the current reporting standards not considered adequate?

Current reporting standards such as International Financial Reporting Standards (IFRS) or US Generally Accepted Accounting Principles (US GAAP) require organisations to produce a fair and reasonable account of their business in audited financial reports. Firstly, these standards are meant to disclose historical information and are not futuristic, yet the sustainability of the company's future depends on the impact of the present on the economic, social and environmental future.

Secondly these standards do not consider the 5 sets of capitals required to secure the future of any organization namely:- Financial, Physical or manufactured, Intellectual capital, Natural capital and Social capital.

Integrated Reporting will help to bring together data that is relevant to the performance and impact of a company in a way that will create a more profound and comprehensive picture of the risks and opportunities a company faces, specifically in the context of the drive towards a more sustainable global economy.

"Integrated Reporting demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing." *International Integrated Reporting Committee.*

What are the recommended elements of an Integrated Report?

In terms of the discussion paper released by the Integrated Reporting Committee working group in January 2011, the following elements are recommended:-

1. A description of the scope and boundary of the integrated report.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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.
7. An overview of how the organisation remunerates employees and senior executives, including factors that could influence future remuneration.
8. 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.

What are the principles that should form the process of Integrated Reporting?

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

Principle 1

Effective communication with stakeholders is essential.

Principle 2

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.

Principle 3

Integrated reporting and disclosure should be formalised as part of the company's reporting processes.

Principle 4

Effective reporting should take place at least once a year.

Principle 5

Integrated reporting and disclosure should have independent assurance.

When must my company start to worry about Integrated Reporting?

At the time of formulating your business strategies and not at the time of reporting.
Integrated Reporting requires that your company's business strategies be geared to answering the three basic questions namely:

*What is the **Financial** Impact of this strategy?*
*What is the **Social** Impact of this strategy?*
*What is the **Environmental** Impact of this strategy?*

How your company has, and will generate true value and manage the risks which threaten the future viability of your 5 capitals namely, Financial, Physical, Intellectual, Natural and Social Capital is the starting point to an effective Integrated Report.

Is Integrated Reporting a fashionable requirement or is it here to stay?

Integrated Reporting is here to stay. As The Prince of Wales said at the first annual Accounting For Sustainability (A4S) meeting in 2006: "There was a time when we could say that there was either a complete lack of knowledge, or at least room for doubt, about the consequences for our planet of our actions. That time has gone. We now know all too clearly what we are actually doing and that we need to do something about it urgently. Better accounting must be part of that process."

Secondly, it is anticipated that , by 2020 (or sooner), the International Integrated Reporting Committee (IIRC) has to fulfill the vision of mandatory integrated corporate reporting by all listed companies, and hopefully all private companies and other types of organizations and institutions of any significance. This itself is no small challenge, requiring at the very least the collaborative international political will of the G20 and BRIC countries to achieve. No sure thing, but essential if real progress is to be made towards sustainable business enterprise.

South Africa is one of the very few countries that have led the way in making the Integrated Reporting mandatory for SA listed companies. Also with the King III Code on Governance in South Africa applicable to all companies, this is a one way road to evolutionalising corporate reporting, and therefore here to stay. The sooner your company's business strategies become aligned with what needs to be reported, the better.

Will investors be interested in an Integrated Report?

Yes they will be interested. South Africa has a final Draft Code for Responsible Investing By Institutional Investors In South Africa which is expected to be finalized by July 2011. This Code seeks to encourage institutional investors and their service providers (asset, fund managers and consultants) to put in place certain measures aimed at ensuring responsible investing. The Code is voluntary on an "apply or explain" basis. The Code consists of only four principles (The UK is the only other country with a code for institutional investors) namely:-

Principle 1:

An institutional investor should incorporate Environmental, Social and Governance (ESG) considerations into its investment analysis and activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries.

Principle 2:

An institutional investor should demonstrate its ownership approach in its investment arrangements and activities.

Principle 3:

Where appropriate, institutional investors should consider a collaborative approach to promote acceptance and implementation of the principles of this Code and other codes and standards applicable to institutional shareholders.

Principle 4:

Institutional investors should be transparent about their policies how the policies are implemented, and how the Code is applied to enable stakeholders to make informed assessments.

This includes full public disclosure at least quarterly, to its stakeholders, including the ultimate beneficiaries, to what extent it applies this Code. If an institutional investor does not apply some or any of its principles or recommendations or applies them differently from how they are set out in the Code, it should transparently explain the reasons for this. The disclosure by institutional investors should not be limited to the integrated report but also be made accessible through publication on its website, quarterly client reporting and through other appropriate means of communication to stakeholders.

This Code which has been signed by most SA Institutional Investors is bringing the consideration of ESG issues for their investee or prospective investee companies into their radar screen.

Is an Integrated Report expected to be a One report or different reports?

Integrated reporting should be an output that communicates the company's strategy and performance for a given period, and therefore can be communicated in many different formats to meet the needs of different stakeholders.

Previously, it has been common for companies to publish financial and governance information in their annual reports, and environmental and social information in their sustainability reports. However, in many cases it has been difficult to see the link between the two. The aim of integrated reporting is that these aspects be brought together. A number of companies have done so successfully, such as BASF, Novo Nordisk, United Technologies Corporation, Philips and Veolia Environment etc. In South Africa, a number of companies are moving towards producing One Integrated Report which is not as thick as it was when two reports were produced, as the duplicated reporting has been eliminated. Other do produce a report with links to various on line reports, and that is considered acceptable. What is not considered acceptable is different standalone reports that are not interrelated.

What are the main elements that are required to embed sustainability successfully in my company?

- Board and senior management commitment;
- Understanding and analysing the key sustainability drivers for your company;
- Integrating the key sustainability drivers into the organisation's strategy;
- Ensuring that sustainability is the responsibility of everyone in your company and not just of a sustainability department;
- Breaking-down sustainability targets and objectives for the company as a whole into targets and objectives which are meaningful for individual subsidiaries, divisions and departments;
- Processes that enable sustainability issues to be taken into account clearly and consistently in day-to-day decision-making through the 3 questions namely: What is the Financial Impact? What is Social Impact? And what is Environmental Impact?
- Extensive and effective sustainability training;
- Including sustainability targets and objectives in performance appraisal;
- Champions to promote sustainability and celebrate success; and
- Monitoring and reporting sustainability performance regularly.

What Governance processes does King III Code prescribe over Integrated Reporting?

Principle 9.1

The board should ensure the integrity of the company's integrated report.

Principle 9.1.2

A company should have controls to enable it to verify and safeguard the integrity of its integrated report.

Principle 9.1.3

The board should delegate to the audit committee to evaluate sustainability disclosures. The audit committee should recommend independent assurance over sustainability reporting to the board.

Principle 9.1.5

The integrated report should be prepared every year.

Principle 9.1.6

The integrated report should report effectively about the goals and and strategies of the company, as well as its performance with regard to Economic, Social and Environmental issues.

Principle 9.1.7

The integrated report should focus on substance over form and disclose information that is complete, timely, relevant, accurate, honest and accessible and comparable with past performance of the company. To contain also forward looking information.

Principle 9.2

Sustainability reporting and disclosure should be integrated with the company's financial reporting.

Principle 9.2.1

The board should include commentary on the company's financial results.

The objective of an integrated report, in the words of Mervyn King, chairman of the IRC, is to:

"Provide stakeholders with a meaningful and concise overview of the organisation. An integrated report is not simply bolting the sustainability report to the financial report. It incorporates, in clear language, material information from these and other sources to enable stakeholders to evaluate an organisation's performance and to make an informed assessment about its ability to create and sustain value."

Principle 9.2.2

The board must disclose if the company is a going concern.

Principle 9.2.3

The integrated report should describe how the company has made its money.

Principle 9.2.4

The board should ensure that the positive and negative impacts of the company's operations and plans to improve the positives and eradicate or ameliorate the negatives in the financial year ahead are conveyed in the integrated report.

Principle 9.3

Sustainability reporting and disclosure should be independently assured.

Principle 9.3.1

General oversight and reporting of sustainability should be delegated by the board to the audit committee.

Principle 9.3.2

The audit committee assists the board by reviewing the integrated report to ensure that the information contained in it is reliable and that it does not contradict the financial aspects of the report.

Principle 9.3.3

The audit committee should oversee the provision of assurance over sustainability issues.

How will the language between financial issues and ESG issues be standardized?

The Global Reporting Initiative is currently working on the standardization process through an ESG reporting standard. The development process for G4 started in January 2011and GRI intends G4 to be an ESG reporting standard that can become the general accepted protocol for environmental, social and governance reporting internationally.

The key objective for G4 will be to make ESG reporting more mainstream, which will require it to be more robust and assurable. It will also offer guidance on report formats and will be linked to technological solutions, and normative ESG frameworks, such as the United Nations Global Compact and OECD Guidelines. And last, but not least, it will provide the ESG content reporting guidance for integrated reporting.

What are the most common barriers to Integrated Reporting?

Common barriers include:-

1.Lack of understanding of what is required to be reported;

2.Lack of buy in into the reasons and importance of Integrated Reporting;

3.Lack of Resources to execute the Integrated Business strategies to enable integrated reporting;

4.Existing Silos between Financial goals and sustainability goals;

5.Individual and company scorecards that do not take into account the ESG issues;

6.Lack of understanding of the 5 Capitals that enable long term sustainability of the company;

7.Lack of Paradigm shift from a historic reporting approach to a futuristic approach;

8.Lack of data availability, harmonization and comparability;

9.Viewing of Integrated Reports as accounting for Corporate Social Responsibility Issues only; and

10. Overall view of Integrated Reporting as a reporting tool and not a business management process.

What are these 5 capitals we need to consider in managing our company?

Intellectual capital:

Intangibles such as capacity to innovate, patents, software and management systems and relational assets such as the quality of relationships with suppliers and joint venture partners. Reporting issues include: governance structure in relation to its capacity to monitor sustainability performance targets; integration of sustainability in compensation structures; expenditures on sustainability-related R&D; capacity building with the supply chain to achieve company-wide sustainability targets and standards.

Natural capital:

Goods and services provided by the natural environment such as biodiversity, clear air, clean water, forests, fisheries, and arable land. Reporting issues include: a company's understanding and integration of the value of ecosystems services in product design; climate change strategy; carbon emissions expressed in absolute terms and relative to national and/or global commitments; biodiversity protection policy; application of lifecycle analysis and product design and stewardship policy.

Financial capital:

Funds, either owned or borrowed by the firm, that are available for productive uses. Reporting issues include: explication of relationship between financial risks and liabilities associated with future current or future government regulations; risk associated with the application of new or unproven technologies; financial implications associated with pending or recent legal actions taken by or against the firm.

Physical or Manufactured capital:

All forms of Physical assets namely, Property, Plant and Equipment, Manufactured Goods, Inventory, Work in Progress, etc.

Included are Systems, procedures, protocols and codes that enable work to be accomplished at continuously higher levels of productivity. Reporting issues include: nature and performance of occupational health and safety systems; adoption of generally-accepted sustainability-related codes and norms, and monitoring and enforcement mechanisms to track compliance with such codes and norms; quality, reach and efficacy of social compliance audits in the supply chain.

Social capital:

Cohesion, cooperation and community among individuals in a network that enhance individual and collective well-being. Reporting issues include: mechanisms for stakeholder engagement and methods for assessing their effectiveness; content and enforcement of human rights policies throughout the value chain; policies for protecting privacy of employees and customers, and all transformation related issues.

Conclusion

Given our experience, the above questions are the most Frequently Asked, and we trust that the answers provided will go a long way towards easing your burden in the Integrated Reporting space.

Integrated reporting is forcing companies to look at their businesses as an integrated whole rather than just at its component parts. Historically, companies would have reported largely and often solely on financial performance, that time is now gone.

We are willing to partner with you should you feel overwhelmed with the Integrated Reporting Requirements.

Email us on **IntegratedReporting@nkonki.com**

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