

Integrated Reporting Committee (IRC) of South Africa

Comment submission to the IIRC

19 March 2020

Topic Paper 1: Responsibility for an Integrated Report

Q1. Should the emphasis of Paragraph 1.20 shift from a statement of responsibility to process-related disclosures? Please explain.

Response:

The statement of responsibility should remain a requirement of the Framework. The statement may be supplemented by process-related disclosures.

Explanation:

- It should be noted that the statement of responsibility commonly appears in South Africa's integrated reports and it can be considered as standard and best practice.
- In South Africa, and many other jurisdictions, the governing body is accountable for the accuracy and integrity of the integrated report (as is the case with other external reports) regardless of whether or not it includes the statement of responsibility. Indeed, if the integrated report is not accurate or misrepresents information in any material respect, it is likely, in certain instances, to expose the governing body to legal and reputational liability. That said, the inclusion of the statement of responsibility is significant in that the governing body is publicly seen to be taking responsibility for the integrity of the integrated report, and that it is willing and able to make such a statement on the basis of actions taken (such as process-related disclosures) in support thereof.
- In practice, the inclusion of the statement of responsibility in the integrated report has the added benefit of "focusing the mind" and "affecting the behaviour" of relevant sub-committees of the governing body (using the words of a practitioner).
- Paragraph 1.20 also importantly covers the compliance aspect, namely that the governing body has applied its mind to the integrated report and that it meets the

19 requirements of the Framework. Failure to ensure such compliance risks the integrated report being relegated to the status of a marketing brochure.

- By shifting to process-related disclosures only, as proposed, many of the non-process confirmations that stakeholders rely on (including the integrity and credibility of the integrated report) may be lost.
- Further, there is a difference between the governance oversight of the processes that lead to disclosure and the sign-off of the actual disclosure.
- Nonetheless, it is considered that the addition of process-related disclosures could add to the credibility of the information in the integrated report.

Q2. To which systems, procedures and controls should the guidance refer?

Response:

The integrated report should inform on why the organization is comfortable that the information in the report is reliable and can be seen as credible by users. Such information could include systems, policies and procedures, key roles and responsibilities, assurance approach to the integrated report etc.

The disclosure would also explain the organization's combined assurance process in the preparation and presentation of the integrated report. Combined assurance refers to the range of internal and external verification processes applied by the organization.

Q3. Should the guidance encourage the disclosure of key roles and responsibilities in the integrated reporting process? Please explain.

Response:

As stated in our response to Q2 above, the integrated report should inform on why the organization is comfortable that the information in the report is reliable and can be seen as credible by users. Such information could include the key roles and responsibilities of those involved in the preparation and presentation and approval process.

Q4. Should the guidance cite a voluntary statement of responsibility from those charged with governance (provided local regulations and legislation permit) as best practice? Please explain.

Response:

The statement of responsibility should remain as presently stated in the Framework. Should the IIRC change course and decide to remove the statement of responsibility as a requirement of the Framework, then at the very least, it should be cited as a voluntary statement and as a best practice recommendation.

Explanation:

- As stated in our response to Q1, the inclusion of the statement of responsibility adds to the perceived credibility of the integrated report.

Q5. Is there value in clarifying the term “those charged with governance”?

Response:

There is no need to clarify what is meant by the term “those charged with governance” as it is a recognized and well-understood concept in South Africa and in many other parts of the world.

If deemed necessary, country-specific clarification could be provided by the national bodies for integrated reporting or governance.

Topic Paper 2: Business model considerations

Q1. Should the Framework explore illustrative examples and visual techniques to elevate the significance of outcomes?

Response:

We agree with the need for greater clarity on outputs vs outcomes, and that the significance of outcomes should be elevated as stated in the proposal. Illustrative examples can further assist in the understanding and application of what is meant by outputs and outcomes.

Explanation:

- The term outputs refers to “products, services, by-products and waste”. To enhance clarity, consideration could be given to firstly, replacing the term with what it largely refers to, namely products and services, and secondly, treating any by-products and waste as outcomes (effects on the capitals).
- The IRC of SA has a technical Information Paper highlighting the distinction between outputs and outcomes: *Reporting on Outcomes: An Information Paper*, available on <https://integratedreportingsa.org/reporting-on-outcomes/>
- In Figure 2 in the Framework, greater visual distinction between the business model (drawing inputs from the six capitals to create outputs) within the organization’s value creation process (which extends to the outcomes on the six capitals) may enhance understanding.
- We see the Framework as being clear on the point that outcomes are broad ranging and address the positive, negative or neutral effects on the six capitals and that these occur over time (the short, medium and long term). In the integrated report, those outcomes material to the organization are disclosed.
- For enhanced understanding we suggest consideration of the use of the terms, as found in *The King IV Report for Corporate Governance™ for South Africa 2016* (King IV), of positive value creation, negative value creation and neutral value creation in the Framework.
- When providing illustrative examples emphasise that outcomes cover positive, negative and neutral effects, and that they cover the short, medium and long term. And there should be strong emphasis that transparent and balanced reporting requires the disclosure of all material outcomes.

- When giving illustrative examples it needs to be explicitly stated that they are not to be seen as exhaustive or prescriptive.

Q2. Should the Framework further explain the link between outcomes and value creation by including an illustrative example?

Response:

We agree that further explanation is needed to highlight outcomes and value creation.

Explanation:

- Illustrative examples can be used to advantage in this instance: they can show how the organization's value creation process results in positive, negative or neutral effects on the six capitals.
- As stated in our response to Q1 above, for enhanced understanding we suggest consideration of the use of the terms, as found in King IV, of positive value creation, negative value creation and neutral value creation in the Framework.
- As stated in our response to Q1 above, when providing illustrative examples emphasise that outcomes cover positive, negative and neutral effects, and that they cover the short, medium and long term. And there should be strong emphasis that transparent and balanced reporting requires the disclosure of all material outcomes.

Q3. Should Sections 4C (Business model) and 4F (Performance) of the Framework further reinforce:

- i. That the term "value creation" also reflects cases in which value is preserved or eroded?
- ii. The importance of providing evidence to support claims and conclusions made in the integrated report?

Response:

- Regarding i, the Framework explicitly states that the term "value creation" also reflects instances where value is preserved or eroded. However, given the misunderstanding in some quarters, extra emphasis may be needed here. As stated in our response to Q1 above, for enhanced understanding we suggest

consideration of the use of the terms, as found in King IV, of positive value creation, negative value creation and neutral value creation in the Framework.

- Regarding ii, the notion of “evidence” is stated in the Framework is desirable to support disclosures made and we agree that this a best practice recommendation. However, we would not like to see the undesired and unintended consequence of preparers omitting disclosure entirely because no quantitative information is available; at the least qualitative disclosure should be given in the integrated report.
- It should be emphasised that while an organization may not have systems in place to measure all outcomes, it is still required to report on all material information and should not simply leave them out due to the absence of quantifiable information or evidence.

Q4. Should the Framework clarify its coverage of longer-term impacts on society and nature, under its existing “outcomes” definition?

Response:

To reduce misunderstanding, it may be useful to clarify that the Framework’s “outcomes” term includes the impacts on the environment and society (as it should when organizations properly consider the six capitals and the consequences of their inputs, activities and outputs).

Topic Paper 3: Charting a path forward

Q1.

- a. Do you agree with the proposed change to Paragraph 1.7? Why or why not?
- b. Do you agree with the proposed change to Paragraph 1.8? Why or why not?

Response and Explanation:

- Regarding a, we agree with the proposed change, but further suggest that the words “to providers of capital” are superfluous in amended Paragraph 1.7 as stated. The omission of these words would see amended Paragraph 1.7 read as: “The primary purpose of an integrated report is to explain how an organization creates value over time. It therefore contains relevant information, both financial and other.”
- Such a change will reflect the integrated report as the value creation story of the organization - to be read by all those interested in the organization’s ability to create value over time.
- Regarding b, we agree with the inclusion of “providers of financial capital” in amended Paragraph 1.8.
- This is in line with the global recognition of the contribution of all resources and relationships in the value creation process of an organization. It will promote understanding that all the capitals are ‘provided’ by the organization’s stakeholders, including customers, employees, investors, partners and suppliers, and the resources relied on.

Q2. What considerations should inform the IIRC’s strategic deliberations on the role of technology in future corporate reporting?

Response:

Integrated reporting and governance are the fundamentals or core of corporate reporting. Technology impacts the quality, channel and timing of the communications about the organization’s value creation process. The IIRC should continue with its specialist committee on technology to stay informed of latest developments and offer guidance and information to preparers on the use of technology in the underlying

reporting process, for example, real-time integration, artificial intelligence, robotics, Internet of Things etc.

It should be pointed out that technology should not result in an abdication of responsibility and the determination of materiality by the governing body (this cannot solely be left to algorithms).

Q3. Are there further ways in which the Framework can enhance the assurance-readiness of integrated reports?

Response:

The IIRC should take cognizance of the International Auditing and Assurance Standards Board (IAASB) EER Guidance and assess where the Framework can accommodate the Paper's "suitable criteria".

Some other suggestions:

- Require organizations to use the standard definitions of the six capitals per the Framework and remove the option of using their own definitions.
- An organization should consider all of the six capitals in the context of its business; we contend that none of the capitals are likely to be irrelevant to an organization.
- Consider explaining the range of internal and external verification processes using the words of King IV in its description of combined assurance: "A combined assurance model incorporates and optimises all assurance services and functions so that, taken as a whole, these enable an effective control environment; support the integrity of information used for internal decision-making by management, the governing body and its committees; and support the integrity of the organization's external reports." Assurance should be understood broadly so as to include the coordinated effort of all assurance providers. While internal and external auditors play a key role in the assurance process, they are not the only sources of assurance – the assurance role of the governing body, management and organizational subject-matter experts should not be overlooked.
- If specific guidance on measures to enhance the assurance-readiness of reports are introduced, care is needed that these do not result in a tick-box exercise.

Q4. Consider the following statement: Matters of assurance rest with regulators and related standard setters, and not with voluntary reporting frameworks. Do you agree or disagree? Please explain.

Response:

Agreed, the field of expertise of the IIRC is not and should not be assurance.

Explanation:

- The IIRC should, however, be aware of assurance developments and ensure that the Framework remains assurance friendly.
- The development of an assurance strategy is the responsibility of those charged with an organization's governance, while the how to is the responsibility of the international standard-setters.

Q5. Are there further matters that the IIRC should consider:

- a. In the modernization of the Framework?
- b. As part of its strategic agenda?

Response:

- As regards a, improved explanation of:
 - Integrated thinking: its strategic importance and practical implementation, including how users of the integrated report can gauge the degree of integrated thinking in the organization from its integrated report.
 - Value creation (from a positive, negative and neutral perspective).
 - What strategy means and how the key components link to the other Content Elements.
 - The IRC of SA releases a technical information paper each year focusing on an area where we have observed improvement in reporting is needed. The Papers offer further explanation of the Framework's requirements and useful key considerations for reporting. We refer you to our Papers covering Outlook, Balance, Governance, Outcomes and Performance, available on our website www.integratedreportingsa.org

- As regards b:
 - Enhance the understanding and practical implementation of integrated thinking within organizations starting with the governing body.
 - Encourage the formation of more national bodies to promote integrated reporting at grassroots level.
 - Accelerate the coordination of a structured approach with other initiatives and frameworks, which are currently underway.
 - Encourage retirement funds, institutional investors and medium-sized enterprises to prepare integrated reports, applying integrated thinking.