The Institute of Internal Auditors South Africa

INTEGRATED REPORTING: TIP OF THE ICEBERG

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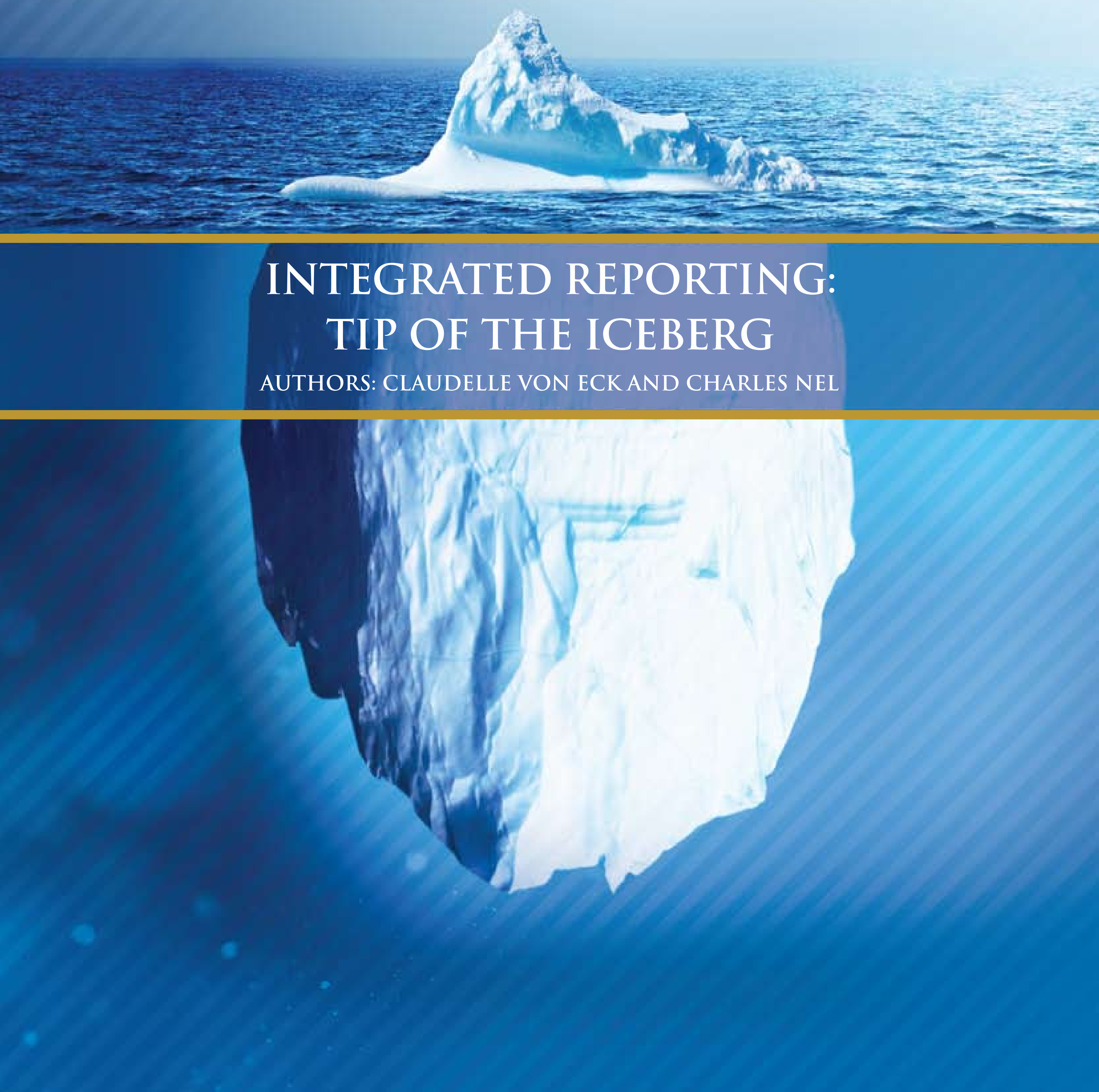

The Institute of Internal Auditors South Africa

THE INSTITUTE OF INTERNAL AUDITORS AT A QUICK GLANCE

The Institute of Internal Auditors South Africa (IIA SA) is a Section 21 non-profit organisation, affiliated to the global Institute of Internal Auditors Inc. (IIA Inc) as a National Institute. Established in 1941, the IIA Inc. has more than 180 000 members worldwide. It serves as the internal audit profession's global voice, recognized authority, acknowledged leader, principal educator, and chief advocate. The Institute is the creator and custodian of the universal International Standards for the Professional Practice of Internal Auditing. The IIA SA sets the career path standards for internal auditors in South Africa, promotes the Profession in the country as well as promotes adherence to the IIA standards. IIA SA members are accountable to the Institute in terms of their conduct as prescribed in the IIA Code of Ethics.

The IIA SA's over 8000-strong membership represents the third largest affiliate in the world, second only to the USA & Canada, and the United Kingdom. South Africa has representatives on all the major IIA Inc international committees and in the process makes a significant contribution to the direction of the Profession globally.

An internal auditor's function is to evaluate the controls that an organisation has in place to counter any risks that may prevent the organisation from achieving its objectives. To ensure this, the internal auditor tests controls, examines processes, and builds models of best practice. In recent years the expectations placed on internal auditors have increased dramatically. This is mainly due to the increased complexity and volatility in the market, which results in increased risks, that organisations are now continually faced with. In addition, King III has placed a greater emphasis on the importance of internal audit. The Institute's primary role is to support its members in meeting market expectations. Membership support revolves around professional advice, training and many other services.

Membership of the IIA SA speaks to the credibility of the internal auditor as the individual is required to work in accordance with the International Standards (IPPF) and is being held accountable against a the Code of Ethics. Are the internal auditors in your organisation members of the IIA SA? To verify, do a member search on our website www.iiasa.org.za.

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ABSTRACT

Is integrated reporting a new fad or is it going to change how organisations all over the world report to stakeholders? Is it worth taking note of or can it be written off as just another cost to the organisation that is not worth pursuing earnestly? Will it become another compliance issue which organisations adhere to begrudgingly because they have no choice? These questions are top of mind for many leaders.

While there is increased focus by many on the integrated report, it must be understood that it is really just the tip of the iceberg. The integrated report is what is visible to stakeholders, but it is below the waterline where the value is being created. Thus, the process that leads up to producing the integrated report, i.e. the activity below the waterline, is much more important than the report itself. Integrated reporting is intended to increase transparent accountability and improve the quality and depth of information provided to stakeholders. Sadly, many organisations see the integrated report as an end in itself. Worse still, as a result of poor understanding of what the report really is, it is often assigned to the marketing department.

The process of integrated reporting is a tool that can assist organisations in steering the right integrated conversations, focussing on the important things and actions that will result in the desired outcomes. This paper uses the iceberg as an analogy to illustrate how the various aspects of integrated reporting contribute to value creation as well as how it could assist leaders in finding the weaknesses in how their organisations are being run.

Much like the depth and shape of the keel of the iceberg impacts on its direction and speed, the leadership forms the foundation of the organisation. Leadership sets the tone and strategic direction as well as provides the right context for value creation to take place. It is therefore fundamentally important that it is understood that the responsibility for integrated reporting falls squarely on the shoulders of the leadership.

The creation of value is at the heart of integrated reporting. Value is created by the interconnected use of capitals, which in this context goes way beyond the traditional lopsided focus on financial capital. More emphasis is placed on the inclusion of manufactured, intellectual, human, social and relationship as well as natural capital. Organisations should have a clear idea of how these capitals relate to each other in the value creation process and whether they are being used optimally and in the correct combination to produce the desired outputs and consequential outcomes. Just as the crystal structure and composition of icebergs differ, how the capitals are deployed and interact with each other differ from organisation to organisation.

It is the responsibility of the leadership to ensure that the value creation process is enhanced and safeguarded through adherence to good governance principles, the use of integrated thinking, adequate identification and management of risk, sound change management principles, integrated assurance and a continually watchful eye on the future.

The Corporate Governance Index produced by the Institute of Internal Auditors South Africa reveals some worrying trends around South African organisations which may have an adverse effect on their ability to create value at an optimal level. This paper highlights some of the results of the Index where South African organisations need to improve.

In the context of a world that is becoming more complex and volatile, the application of the principles enshrined in integrated reporting can hardly be disregarded. The first step is to gain an understanding of the principles and how they can be applied within the organisation, be it in the private or public sector. A phased approach in implementing the principles may be wise where the maturity level of the organisation does not allow for immediate full implementation. Taking the first step toward an organisation that fully embraces integrated reporting could very well be the first step to safeguarding the organisation for the future.

BACKGROUND

Never before have organisations found themselves in a perfect storm of the magnitude seen today. The global financial and sovereign debt crises, corporate failures, climate change, the rapid depletion of natural resources, the rapid rate and increasing scope and significance of change, unstable sovereign states, population mobility, increasing complexity and ambiguity all result in organisations having to navigate through constant turmoil. This, all while being under the scrutinising eyes of stakeholders who have the power to rapidly spread negative information about the organisation through social media platforms and the media. As much as the waters can be murky and stormy for organisations, stakeholders are finding it increasingly more difficult to predict the futures of organisations. For stakeholders, only seeing the tip of the iceberg can create angst - what lies beneath those murky waters could cause them harm or even ruin them. This has resulted in a greater expectation of transparency as investors and other stakeholders realise that what they see in the reports issued by organisations does not necessarily provide a clear picture of what is really happening within the organisation.

Even though reports issued by organisations have become more voluminous over the years, little clarity has been provided on how organisations are actually creating value and ensuring long term sustainability. The concept of integrated reporting was crystallised in King III in South Africa, driven by a need to provide a more transparent, holistic and easily understandable report for stakeholders. As the principles of King III fell into the JSE Listings Requirements on an apply or explain basis, listed companies were expected to produce an integrated report or publicly explain why they were not doing so, making South Africa the first country with such a requirement. Although there are still some concepts in need of common understanding and application, it is providing an excellent platform for transparent accountability. Integrated reporting aims to improve the quality and depth of information available to providers of financial capital and to promote an approach of reporting that communicates the full range of factors that materially affect the ability of the organisation to create value over time. It aims to enhance accountability and stewardship for the broad base of capitals and promote understanding of their interdependencies as well as support integrated thinking, decision making and actions that focus on the creation of value over the short, medium and long term (Druckman, 2014).

Fundamentally, integrated reporting is not just about transparent reporting to stakeholders, but is in itself a useful tool that aids organisations in focussing on the right things with a measure of clarity. It is about steering the right conversations and right actions to get to an outcome that benefits a broad base of stakeholders. In order to illuminate the concept further, the Institute of Internal Auditors South Africa (IIA SA) has created a model premised on an iceberg which aims to aid in the understanding of how the various elements are brought together to ensure that the focus is on the right things.

Throughout this paper reference will be made to the IIA SA Corporate Governance Index (CGI) results to give some insight on how South African organisations are faring in the various dimensions. The CGI is based on a survey completed by Chief Audit Executives in South Africa. The objective of the Index is to measure the degree to which South African organisations, both in the private and public sectors, are adhering to good governance principles. Internal auditors are best placed to evaluate the state of governance in their organisations as a result of their independence as well as the fact that they provide assurance on all aspects of the organisation. The third version of the CGI was released in August 2015. For purposes of this paper, the CGI results revealed are the averages of the survey results over the last three years.

Organisations must become more mindful of what and how they report to stakeholders in the interest of the four governance principles: Fairness, Accountability, Responsibility and Transparency

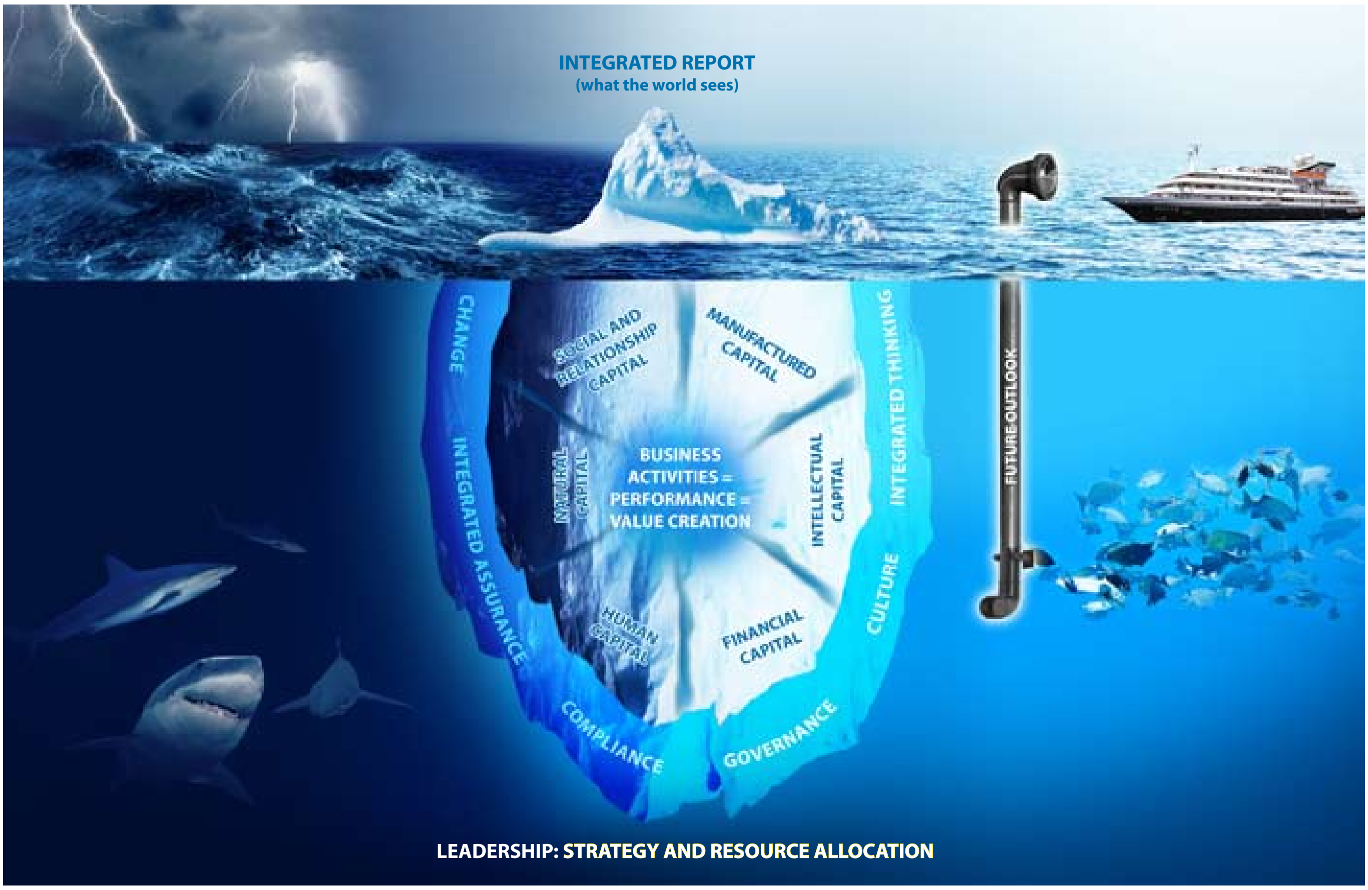
THE ICEBERG MODEL DECODED

The analogy of an iceberg was chosen as it aptly describes the reality of the organisational landscape. When looking at organisations, both in the public and private sectors, much of what is evident to the naked eye belies what lies beneath the surface. Stakeholders assessing organisations have to deal with the fact that what they see in reports coming out of the organisation is really only the tip of the iceberg. Most of the important information about the organisation lies beneath the waterline and the less transparent the water around the iceberg is, the more dangerous that iceberg could be. Most importantly, it is about whether the organisation is a responsible corporate citizen, whether optimal value is being created in relation to the available capitals and whether long term sustainability is built into the strategy and can be brought above the surface to provide transparent accountability.

Some interesting facts about icebergs (some of which will be drawn upon in this paper) include {(Diemand, 2001), (Fries-Gaither; Schirmer Lockman, 2009), (Linder, 2003)}:

- Approximately 90 percent of the iceberg is found under water and in terms of shape, no two icebergs are the same. Their origin, crystal structure and chemical composition are different.
- Ice is full of tiny air bubbles that scatter light and in the process all colour wavelengths equally. This gives the ice a white appearance.
- Icebergs travel with ocean currents, and not winds, and their speed and direction are heavily dependent on the depth and shape of the keel.
- Icebergs have a lifecycle, from being part of a glacier to being calved and then eventually deteriorating. Waves wear away at the iceberg and crash it into other icebergs or land. They deteriorate when exposed to warmer surface water and wave action. Thawing and melting create cracks that may lead to further calving. As they deteriorate, they tend to assume characteristic forms.
- The hazards they pose are different. Large icebergs pose a serious threat to structures at the sea surface and seabed structures such as well-heads, pipelines, cables and mooring systems. They pose less of a threat to shipping as they do not move very fast and can be detected with normal marine radar. Large icebergs can negatively impact on marine ecosystems as they reduce the amount of sunlight hitting the water which impacts on the production of phytoplankton that forms the base of the marine food web. Greater danger is however posed by smaller icebergs as they may not be detected by radar until they are dangerously close to the ship. This is especially true in storm conditions. Some variations in melting can occasionally cause icebergs to flip and roll. When an iceberg capsizes, it can cause a tsunami.
- Ice algae may grow in between the ice crystals or on the underside of the iceberg. The iceberg can therefore play an important role in the marine ecosystem. Small fish hide from predators by hiding in the ice holes.

INTEGRATED REPORTING: THE TIP OF THE ICEBERG



THE FOUNDATION

The iceberg's speed and direction are heavily dependent on the depth and shape of the keel

The foundation of any organisation is leadership. Often the term in its form as a noun and its form as a verb are used interchangeably, although they do not necessarily by default mean the same thing. Leadership as a noun is a label given based on position. It refers to a group of leaders responsible for the same organisation. As a verb it makes reference to specific action. The fact that an individual is in a leadership position does not necessarily mean that the person exercises leadership.

The primary task of leadership is to create value by providing a context within which the organisation can fully tap into its latent potential and shape a desired and sustainable future, in a responsible manner. Although leadership cannot be confined to the top layers of the organisations, as leadership (verb) can be exercised at any level of the organisation, in the context of this paper it will be primarily confined to the oversight bodies and executive teams.

Oversight bodies such as Boards and Councils, and their committees with delegated

IIA SA Corporate Governance Index results

Your Oversight body (such as the Board or Council) provides clear strategic direction to achieve the objectives of your organisation.

53% Of participants strongly agreed

Your executive team is functioning optimally in delivering the strategy of the organisation.

39% Of participants strongly agreed

authority, have as their main tasks the setting of strategic direction to achieve the organisation's objectives, holding those who are responsible for the implementation of the strategy accountable, and exercising accountability and responsibility toward the providers of financial capital as well as other stakeholders.

The executive team is responsible for the execution of the strategy, creating an enabling culture and environment and building competitive advantage, while remaining accountable to the oversight bodies. The ability of this team to walk in tandem, articulate a compelling vision and a sense of belonging as well as steer through change, uncertainty and ambiguity is important to the success of the organisation.

Both the oversight body and the executive team must therefore have enough knowledge of the organisation, the industry, and the broader context within which it operates in order to make a meaningful contribution to the value creation activities of the organisation. Key in the process is the ability to effectively and efficiently allocate resources and create a meaningful structure to support the strategy with its stated objectives and key desired outputs.

Leadership is about stewardship, which requires a deep understanding that the organisation is not the fiefdom of the leaders and can therefore not be treated as personal property. There is a responsibility to balance the interests of the organisation with that of the broader society. The leadership in the organisation should therefore be acutely aware of the discourse in society which may have an impact on how organisations conduct themselves. Current arguments around inclusive capitalism, where a focus on short-term financial management is tempered by incorporating social and human considerations into the management of the economy and business (Labrey, 2015), is one of those discourses which should not be ignored by leaders.

By virtue of the power that comes with their positions, leaders can either build strong organisations or destroy them. Two of the biggest characteristics of destructive leaders are incompetence and a strong focus on self-interest. The combination of the two characteristics can be potent. Oversight bodies should guard against appointing rogue unskilled executives as well as remain vigilant, as executives who start out on the right foot may very well lose their way as they become more exposed to power and greed. The recruitment process and ongoing processes of accountability should remain high on the oversight body's radar.

The CGI results in the leadership dimension are not comforting. Only 53% of participating CAEs strongly agree that oversight bodies provide clear direction and only 39% strongly agree that the executive functions optimally in delivering the strategy. Both of these percentages are not promising, but the gap between them is even more worrying. Organisations often experience a misalignment between strategy formulation and strategy implementation. When the latter, in particular, falters, the organisation is at risk of self-destruction.

It is therefore important that the oversight body not only holds the executive team accountable, but also ensures that the right people and combination of skills are recruited and that ongoing training and development is taking place. In the South African context, where there is a significant skills shortage in addition to the much needed affirmative action to redress the past, the ongoing development of the executive team is non-negotiable. If organisations are to succeed, oversight bodies must ensure that they invest in their top teams and continue to build the necessary skills set. The unique circumstances in South Africa require oversight bodies to invest more of their attention in this dimension.

Some of the competencies leaders need today to be successful include (Jack Zenger, 2014):
- Strategic perspective
- Customer focus and understanding
- Ability to spot trends and connect the dots
- Build highly engaged and committed teams
- Willingness to take risks
- Deep knowledge and expertise

In addition, in the context of dimensions discussed in this paper, leaders should be able to lead people through change and uncertainty (Von Eck, 2007), and be able to identify and effectively lead the team through ethical dilemmas. Thus, the stronger the leaders are, the better the chance the organisation has of succeeding. If the foundation is not strong enough, the iceberg could easily capsize.

VALUE CREATION THROUGH THE INTERCONNECTED USE OF CAPITALS

Icebergs' origin, crystal structure and chemical composition are different.

At the centre of any organisation's activities is the perceived value that is being created. The concept of value creation can however not be seen in isolation of the organisation's stakeholders. An important conversation the leadership should have is around: "Who are we creating value for?" Traditionally value creation has been centred on the needs of the shareholders and other providers of financial capital. This outdated view has been challenged in recent times, primarily as the power of organisations to inflict socio-economic destruction has become more evident. The collapses of economic powerhouses like Enron and WorldCom as well as the global financial crisis have only served to heighten the need to focus on the impact organisations have beyond their shareholders. Like a capsizing iceberg can create a tsunami, an organisation going through crisis can create crises around it with far reaching consequences. Governance codes such as King III have as a result placed much more emphasis on the need for organisations to focus on a broader stakeholdership, including employees, customers, suppliers, business partners and strategic alliances, local communities, society at large as well as regulators and policy makers. Understanding which stakeholders are impacted upon by the organisation's decisions and actions, may dramatically change how the organisation approaches its value creation strategies. Focussing on creating value for multiple stakeholders, inevitably means that the organisation has to look beyond competitiveness and balance that with long term sustainability.

IIA SA Corporate Governance Index results

Given the current resources, your organisation's output/delivery is at optimal levels

21.5% Of participants strongly agreed

Your organisation utilises its financial capital optimally (i.e. managing finances so as to achieve best outcomes)

38.5% Of participants strongly agreed

Your human capital resources are optimally utilised.

19.5% Of participants strongly agreed

Information and Communications Technology (ICT) is aligned to the strategic objectives of the organisation

30.5% Of participants strongly agreed

The next fundamental question that should be asked is: "How are we creating, managing and preserving that value?" This speaks to the business activities, i.e. utilising the various capitals (inputs), which result into visible performance (outputs). The International Integrated Reporting Framework refers to six capitals signalling a significant shift away from primarily focusing on financial capital and bringing into play all other elements important in the process of creating value. The capitals are (<IR> Framework, 2013):

- ***Financial capital***, which is the funds available in the production of goods or provision of services.
- ***Manufactured capital***, which is the physical objects the organisation uses in the production of goods or provision of services. Examples include buildings, machinery and computers.
- ***Intellectual capital,*** which is the knowledge-based intangible used in the process of value creation. Examples include patents, copyrights, tacit knowledge, policies and procedures.
- ***Human capital,*** which refers to competencies, capabilities, experience and aptitude for innovation of those employed by the organisation.
- ***Social and relationship capital,*** which refers to the institutions and relationships within and between communities, stakeholders and other networks. Central to this capital is the ability to share information to enhance individual and collective well-being.
- ***Natural capital,*** which is renewable and non-renewable environmental resources and processes which support the past, current or future prosperity of the organisation. These typically include example such as water, land and eco-system health.

It's important to realise that the Framework's definition of value creation includes the creation as well as the diminution or preservation of the capitals. This means that value creation is not only value created for stakeholders but covers the consequences of doing business on the other capitals too.

If the strategy of the organisation is its recipe for success, then the capitals are the ingredients which are fundamental to the strategy. For every organisation the de-

IIA SA Corporate Governance Index results

Your organisation has implemented an effective stakeholder management plan

17.5% Of participants strongly agreed

gree of relevance of each of the capitals will differ, but very much like baking a cake, the ingredients cannot exist in isolation outside of the cake. The ingredients must be mixed in predetermined measures and play a role in the overall structure of the cake. Similarly, the leadership should have conversations around how the various capitals interact and what would prevent, or is currently preventing, the extraction of optimal value in bringing the capitals together.

The responsible use of the capitals, with an acute awareness of the fact that natural resources are finite, is a stewardship responsibility of the leadership of the organisation. How the capitals are used can influence future access to those capitals. For example, organisations that exploit their labour may find it increasingly more difficult to attract high performing human capital, or eco-systems, that are damaged as a result of negative exploitation, may not be restorable.

The third question that needs to be asked is: "How do we measure the value that we have created?" Value is in the eye of the beholder. In other words, the outcomes of the value creation process are judged by the stakeholders affected by those outputs. Therefore, while it is important that the organisation has internal processes in place to ensure that the output is at an optimal level as well as of appropriate quality, it is also vitally important that the organisation has an understanding of how its stakeholders measure and view its output. The organisation should therefore have processes in place through which stakeholder feedback can be obtained. That feedback should ideally be reviewed in the context of the business model, risks and strategy, and where necessary the strategy and business plans should be revised to incorporate the insights received from the stakeholders' feedback. This would lead to a dynamic strategy instead of one that is static and in danger of fast becoming outdated.

The fourth question that must be asked is: "Are we destroying value for any of our stakeholders?" The notion of an organisation being a corporate citizen, and it therefore being required to act responsibly is espoused in the King Code. There is growing pressure on organisations, from various interest groups and regulators, to act responsibly. Ethical leadership requires a deep understanding of who the stakeholders are and endeavours to ensure that they are not adversely affected by the decisions and actions of the organisation due to negligence or greed. This ranges from mining companies not dumping toxic chemicals in what is drinking water for communities downstream, to not evading tax and not contributing to the failing state of the economy. Much like the iceberg plays an important part of the marine ecosystem and can create considerable damage on the seabed or on the surface, organisations do not exist in isolation and can create value for those around it or cause considerable damage in the economic landscape. Like the iceberg that becomes shelter to small fish and home to algae, the organisation has stakeholders that depend on its existence. Leaders should therefore ask themselves whether they are at the helm of organisations that add value or destroy value.

Ice algae may grow in between the ice crystals or on the underside of the iceberg. The iceberg can therefore play an important role in the marine ecosystem. Small fish hide from predators by hiding in the ice holes.

THE INVISIBLE SHAPERS OF WHAT HAPPENS BENEATH THE WATERLINE

Ice is full of tiny air bubbles that scatter light and in the process all colour wavelengths equally. This gives the ice a white appearance.

The process of utilising the capitals to create value requires certain elements to be in place to ensure the optimal use of the capitals. These include governance, culture, compliance, manoeuvring through change, integrated thinking, integrated assurance and guarding against what can destroy the iceberg.

Governance

The Organisation for Economic Cooperation and Development defined corporate governance as a set of relationships between a company's management, its board, its shareholders and other stakeholders (OECD, 2004). In South Africa the King Code promotes a stakeholder approach to governance with an emphasis on business ethics. In other words, decisions taken by the board must be in the best interest of the organisation, but also consider the legitimate interests and expectations of stakeholders (IoDSA, 2009).

While the concept of good corporate governance has grown in stature in the last number of years there are still some challenges in ensuring that it becomes entrenched. These include:

1. Different interpretations of what good governance is.
2. It being seen as a compliance issue without any real understanding of the principles and value of governance. Thus a tick box approach accompanied by lip service being all too common.
3. Different interpretations of what good governance is can at times create friction across borders.

Globally there are however increasing signs of convergence of governance. Convergence refers to the increasing similarity in practices, processes and structures across borders. When two countries adopt similar corporate governance laws there is de jure convergence between them. On the other hand, when practices converge it is referred to as de facto convergence (Khanna, Kogan and Palepu, 2006). Some of the drivers of convergence are the integration of financial markets, product market integration, diffusion of codes of good governance and harmonising of accounting rules (Yoshikawa, Rasheed, 2009).

IIA SA Corporate Governance Index results

Your organisation is committed to implementing relevant good corporate governance principles (as outlined in King III or the National Treasury governance frameworks).

54% Of participants strongly agreed

When it comes to corporate governance, your organisation goes beyond a mere tick box exercise - i.e. there is a deep understanding of the principles and philosophy of good governance

33.5% Of participants strongly agreed

The CG Index shows that although there is a fair amount of commitment In South Africa to implement good governance principles (54% of the CAEs strongly agreed that this is the case), the majority of organisations still apply a tick box approach. Only 33.5% of the CAEs strongly agreed that there is a deep understanding of the principles and philosophy of good governance displayed in their organisations. Given the importance of good governance in relation to the economic health of the country, this statistic is very worrying and an indictment on the leadership.

Culture

In terms of shape, no two icebergs are the same.

The leadership sets the tone and pace of the organisation's culture, although many underestimate the power of culture in the organisation. Organisational culture differentiates organisations and is the core ingredient in the competitiveness of the organisation. It serves to unite staff, generates commitment, directs behaviour and serves as a conduit to the attainment of goals and objectives. The organisation's purpose, values, norms, standards, heroes, rites and rituals, communication networks, myths and stories all play important roles in shaping the culture of the organisation. It could be said however that a bad culture can have more devastating effects on an organisation than a poorly developed strategy.

The organisational culture largely drives how capitals are used to create value. It also drives the degree to which the organisation is a responsible corporate citizen. A core component of being responsible is ethics. The CGI indicates that 65.5% of participating CAEs strongly agreed that the right tone is being set at the top (a promising statistic), while only 60% strongly agreed that ethics is an important part of the organisational culture. It is clear that there is a gap between the tone at the top and what is being practiced within the organisation. This may be an indication that leaders are not always ensuring that the rhythm in the organisation is in sync with their drumbeat. Assuming that once the tone is set that it will automatically filter down, while not fully comprehending what influences the organisational rhythm, can leave leaders vulnerable and steering in the wrong direction.

Furthermore, not having a clear understanding of the ethical dilemmas the organisation may face could lead to decisions that may negatively impact on the organisation and/or stakeholders. Leaders should, as part of the culture, have conversations around the potential ethical dilemmas the organisation may face (internally and externally) and how best to respond to them.

IIA SA Corporate Governance Index results

The Oversight body (such as the Board or Council), sets a clear tone of zero tolerance toward unethical behaviour, including fraud and corruption in your organisation.

65.5% Of participants strongly agreed

Ethics is an important part of your organisational culture

60% Of participants strongly agreed

Compliance

There are two major categories of compliance. The first category is focused on external laws and regulations. Laws, regulations and rules are generally implemented with a motivation to protect the economy and society. The more regulated an industry, the more emphasis there is on compliance. The second category is internally focused with emphasis on the organisation's own values, policies, procedures and codes of conduct, which are intended to harmonise the operations of the organisation.

IIA SA Corporate Governance Index results

Your organisation complies with relevant legislation, regulations and standards

52.5% Of participants strongly agreed

Often organisations take a mere tick box approach to compliance without a deep understanding of the principles behind them. Furthermore, the cost of governance and compliance results in leadership seeing it as a "grudge purchase" as opposed to realising the value thereof. The CG Index indicates that only 52.5% of CAEs strongly agree that their organisations comply with relevant legislation, regulations and standards. This is concerning as the cost of non-compliance can be devastating to both the organisation and society. It is therefore advisable that organisations adopt an integrated approach to compliance which promotes the mapping of regulatory requirements and changes against, and interfacing with, the organisation's own policies and process. There is a view that the term compliance is inadequate as it does not depict the organisation as an actively responsible citizen, but rather an entity that is a reactive recipient of rules. A more enlightening interpretation of compliance includes an engagement beyond the legal to include ethical and social responsibilities. In this context some leading compliance consultants are now referring to an integrity programme instead of the more simplistic obedience to rules (Parker, 2002).

It is imperative that oversight bodies have a clear understanding of the regulatory and legislative requirements that the organisation is subjected to and ensure that there is an effective compliance/integrity programme in place. Such a programme must include the cultivation of a culture that embraces and promotes adherence to regulatory requirements. Thus it is important that all employees be trained on what compliance requirements the organisation faces as well as understanding the importance of adherence to compliance requirements and the consequences of non-compliance. In addition, an entrenchment of a compliance culture necessitates a link to the organisation's performance management system.

Navigating through Change

Change in itself can be disruptive, unpredictable as well as create a fair amount of uncertainty. With a staggering 75% of change efforts that fail, change is a dynamic that cannot be ignored or taken lightly. In order to ensure the survival of the organisations they lead, the leadership must understand the dynamics within the system that is becoming increasingly more complex, be able to plan for the future in an increasingly turbulent environment and lead the organisation through change and uncertainty (Von Eck, 2007). The chaotic environment within which organisations find themselves requires of the leadership to instil within the organisational culture the ability to continually adapt as well as being able to deal with constant ambiguity. With an unpredictable future, the leadership has to find the very fine balance between committing to a futuristic strategy while creating enough flexibility to adjust to the unanticipated changes to the future. All this while maintaining a dynamic balance between the organisation and its environment. It inevitably means that the leadership must ensure that employees have the skills to continually anticipate and adapt to change, but also move at a pace that the majority can absorb.

The continuum of change ranges from framebreaking (radical transformation) to incremental (tweaking) change. Thus the type of change being dealt with determines the interventions needed by the leadership. Change in an organisation can be triggered by either internal or external factors, but is often underestimated because the leadership has failed to understand the complexity of change. Some of the factors contributing to the complexity of change include:

- `The type of change (frame breaking or incremental)
- The velocity of change
- The direction of the change
- The unpredictability of change
- Uncertainty around the scale the impact of the change
- Different types of change occurring concurrently

- The risks associated with the change
- Potential chain reactions caused by the change
- The human factor
- Expectations of stakeholders

Failure by the leadership to consider all factors in an integrated approach increases the risk that the change effort may fail.

Integrated thinking

The International Integrated Reporting Council (IIRC) defines integrated thinking as the *active* (added emphasis) consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects. It is the leadership's responsibility to ensure that value is created over the short to long term. Integrated thinking is key to the creation of value as it takes into account the connectivity and interdependencies between the capitals the organisation uses or affects, the capacity the organisation has to respond to the legitimate needs and interests of stakeholders, the business model in relation to the strategy, how it responds to the external environment, and the risks and opportunities it faces as well as the organisation's activities, performance and outcomes.

Integrated thinking leads to integrated decision making which is crucial in an era where organisations are required to be responsible corporate citizens.

In order to ensure that the organisation is able to attain integrated decision making, it is necessary that it moves beyond a silo mentality and have active programs in place that promote integrated thinking. It requires a culture which encourages cross functional teams, collective responsibility and accountability, coordinated feedback loops with all employees seeing themselves as intelligence agents and risk managers working in the interest of the organisation and it stakeholders. It further requires a common understanding permeating throughout the organisation on what value means, how it is created and for whom value is being created. Key to all of this is the accuracy of information and extracted knowledge in the very complex systems in which decisions are made.

In addition, diversity plays an important role in how organisations think, depending on its strategy and how the leadership respond to and manage diversity. A study conducted by Roberson and Park (2004) suggests that diversity reputation may signal information about the organisation's ability to respond to changes and compete in an increasingly diverse business environment. Diversity reputation may thus give investors a view on the organisation's future (Roberson and Park, 2004). However the real value of diversity is only realised when team members are encouraged to express their different viewpoints. Different perspectives usually makes for better decisions and creative solutions (Lencioni, 2009). A challenge for the leadership is therefore to acknowledge the power of diversity, proactively pursue diversity and create an atmosphere where diversity is embraced, in the context of integrated thinking.

Integrated assurance

Integrated reporting, in an increasingly more complex and fast changing world requires assurance that is integrated with better risk coverage, control efficiencies and oversight. Integrated assurance should include assurance on both what lies above the waterline (the actual integrated report) as well as the iceberg that lies beneath. In order to ensure that optimal assurance is provided in the organisation, there should be more than just a combining of fragmented assurance reports. There is a need for the methodologies, frameworks and approaches of assurance providers to evolve and lead to the holistic embracing of the principles and elements of integrated reporting, while taking into account who assurance is provided for (Hoffman, 2014). Integrated assurance brings in additional elements such as consideration of the nature of the assurance as well as optimising the cost and quality of assurance, while leveraging off the enterprise risk management systems and associated value drivers (KPMG, 2014).

IIA SA Corporate Governance Index results

Your organisation uses a combined assurance framework to provide a co-ordinated approach to assurance activities

31% Of participants strongly agreed

Integrated assurance success factors include (Hoffman, 2014; IIRC, 2014):

- A clear understanding of the audience assurance is provided for and the value being added for the users thereof;
- Robust internal systems, assurance mechanisms that contribute to credibility and trust;
- A common risk and control language;
- An appropriate level of assurance;
- Communication protocols among assurance providers;
- Minimal overlap of work; and
- Ensuring that assurance providers have the necessary diverse skills and experience as well as a high degree of professional judgement and scepticism required in the context of integrated reporting.

Where applicable, assurance must be in accordance with the standards governing a particular profession, for example the International Professional Practices Framework (IPPF) governing the internal audit profession and the SA Board for People Practices' Human Resources Standards. The IAASB has also given guidance in its paper on assurance on the integrated report.

Internal audit is ideally placed to play the role of coordinator of the activities of the internal and external providers of assurance, to ensure proper coverage, improved communication among the providers and minimisation of duplication of efforts (Clemens, 2014). A well-coordinated approach ensures that there would be fewer disruptions to the organisation, a better use of scarce resources as well as ensuring that no unknown assurance gaps exist (Beale, 2013). If coordinated properly, integrated assurance should lead to less assurance fatigue and reduce the cost of assurance.

The CGI indicates that many organisations in South Africa are still to migrate to an integrated approach to assurance. Only 31% of participating CAEs strongly agreed that their organisations use a combined assurance framework to provide a coordinated approach to assurance activities. Thus maturity in integrated assurance is still to take root.

GUARDING AGAINST WHAT CAN DESTROY THE ICEBERG

Icebergs travel with ocean currents and not winds. Waves wear away at the iceberg and crash it into other icebergs or land.

Organisations today face many more risks than in years gone by as there has been an increase in the volatility in the operating environment as well as the complexity organisations have to face. It is vitally important that the leadership continually identify what can go wrong by analysing the threats, current and future exposure and their potential impacts as well as ensuring that controls are in place to mitigate the risks insofar as it is possible and cost effective.

Some of the external factors which increase organisations' exposure to risk include:
- Evolving social-economic and political contexts
- Shifts in global economic power
- Changing consumer concerns and buying behaviour
- Shifts in global political power
- Emerging technology (E.g. how will the advancement of robotics impact on the organisations, directly or indirectly)
- Cyber attacks
- Broadening distribution patterns
- Food and water scarcity
- Tearing of the social fabric
- Climate change
- Shifting regulations
- Increasing convergence and competition
- Industrial espionage
- Globalisation
- Widening gap between the haves and have-nots
- Devastating diseases (E.g. Ebola, Avian flu)

- Population increases beyond capacity (competition for resources)
- Energy crisis
- Migration

Some internal factors driving risk within organisations include:
- Inability to optimise the use of capitals
- Lack of checks and balances
- High staff turnover
- Inadequate recruitment processes
- Toxic relationship between management and labour
- Short terms view
- Sabotage by insiders
- Health and safety factors
- Power struggles
- Lack of innovation
- Inadequate financial systems

It is clear from the CGI that the one dimension where the leadership in South African organisations are failing is in the arena of risk management. Given the volatile environment and increasing complexity, organisations that do not have strong risk management processes in place may find themselves out of business in the future. Disturbingly, only 30.5% of CAEs reported that the process of managing risks within organisations is adequate. Only 45.5% reported that the process of identifying risk was aligned to the organisation's strategic objectives. A staggering 85% reported that their process of mitigating against external risks was less than adequate.

IIA SA Corporate Governance Index results

The process for identifying risks is aligned to your organisation's strategic objectives

45.5% Of participants strongly agreed

The process of managing risks within your organisation is adequate.

30.5% Of participants strongly agreed

Your organisation utilises scenario planning to mitigate against unexpected external risks that may arise well beyond the boundaries in which the organisation operates

15% Of participants strongly agreed

Not adequately identifying and managing the risks the organisation may face could have dire consequences for the organisation, but also for its stakeholders and society at large. The leadership's responsibility to manage risks effectively could extend far beyond the immediate environment of the organisation.

Integrated reporting promotes a sense of responsibility beyond the organisation's shareholders. There is an increasing call on organisations to be responsible corporate citizens that understand the needs and interests of stakeholders and address those in its decision making processes. Depending on the size and reach of the organisation, it could potentially have a significant impact on the economy if it finds itself in trouble and could even trigger a ripple effect into other economies. The global financial crisis is a prime example of how a ripple effect can reverberate through the global economy. The leadership of any organisation can no longer afford to only focus internally on the needs of the organisation. From a purely business perspective, the leadership must understand that those ripple effects could boomerang back and have a negative impact on the organisation. For example, if stakeholders are negatively affected, the reputational damage the organisation may suffer, could become an insurmountable cost in the end. Thus the ongoing identification of new emerging risks and effective risk management involving all the capitals is not a luxury, but an absolute necessity.

The hazards iceberg pose are different. Large icebergs pose a serious threat to structures at the sea surface, seabed structures such as wellheads, pipelines, cables and mooring systems. They can also negatively impact on marine ecosystems as they can reduce the amount of sunlight hitting the water which impacts on the production of phytoplankton that forms the base of the marine food web. Greater danger is however posed by smaller icebergs as they may not be detected by radar until they are dangerously close to the ship. This is especially true in storm conditions. Some variations in melting can occasionally cause icebergs to flip and roll. When an iceberg capsizes, it can cause a tsunami.

NOT FORGETTING THE FUTURE

While it is becoming increasingly more difficult to predict the future due to the volatility in the environment, it is important that enough time is spent on imagining the possible futures that may transpire and how they may impact on the organisation. Without an understanding of what future the developing trends are pointing to, the leadership may very well steer the organisation in the wrong direction and set it up for failure. Where organisations only had to deal with patterned change in the past, the current rate of change inevitably spell out a vastly different future to what the world is today. Some of the megatrends that are busy shaping a new future and the resultant questions that should be asked include:

- The increase in life expectancy will have a profound impact on societies. How do living longer affect live patterns and how does that in turn impact on organisations? Does the standard retirement age need to change? What does the organisation need to do to facilitate extended retirement age? How does an aging consumer base impact on the organisation? Human enhancement, e.g. organs being grown for replacement of failing ones and robotic skeletons, adds a new dimension to the increase in life expectancy. How does the organisation deal with individuals that can do more than the average employee can?
- The convergence of practices, media, technology, products, industries, etc. have an impact on how organisations compete. Globalisation has brought with it multiple areas of convergence as well as interdependencies.
- Technology has a significant impact on how the future is being shaped. What will the world look like 20 years from now? Nanotechnology, 3D printers, robotics, cyberspace, internet based artificial intelligence, etc. will create a whole different landscape.
- Relay working across time zones is becoming more of a reality. Will the organisation embrace the trend and rethink how it employs people?
- Digital interconnectedness is changing how people interact. How does the organisation operate in a hyper-connected world?

Unless the leadership is able to imagine the possible futures and how the organisation would survive in those possible futures, the future may very well overrun the organisation.

THE TIP OF THE ICEBERG

Ultimately, what is reported to the world appears in the integrated report. The Integrated Report is the visible outcome of the Integrated Reporting process, which is a culmination of all aspects covered in the preceding pages of this document. "The Integrated Report is the home of information about the company strategy and the business model, whilst ensuring that all the information that is included is material to the organization's value creation story" (Banerjee, 2015). It is intended to be an accountability tool that gives stakeholders insight into the strategy, the business model, long term sustainability and future outlook of the organization as well as how it responds to risks, uncertainties, challenges and opportunities.

Often questions are asked around how much information should be revealed on the strategy and the business model without giving away the organisation's competitive advantage. However, the strategy is but one component of the organisation's ability to create value and be successful. The ability to implement, in other words how the capitals are utilized to create value, is a far better indicator of success than the strategy itself.

The reporting process should not be a mere tick box exercise. The Integrated Reporting Committee (IRC) of South Africa says that the writing and compiling of the Integrated Report should aim to produce a frank and balanced report. The IRC in its publication 'Preparing an Integrated Report: A Starter's Guide' refers to the following points on what the Integrated Report should look like (IRC, 2014):

- Engaging and easy to read (uses simple language and avoids jargon)
- Has visual elements to make the information more succinct, accessible and comparable (info graphics, graphs, tables, flowcharts, etc.)
- Facilitates comparison with peers in the industry, as well as the organisation's past performance year-on-year
- Is focused on the organisation's material matters (avoid having "fluff" in the report)
- Is balanced in that it includes important positive and negative information on the organisation and its performance
- Is balanced between historic performance and future outlook

Responsibility for the Integrated Report and the process of integrated reporting that leads up to it, lies with the leadership of the organisation. While the marketing department is responsible for the aesthetics and distribution of the report, ownership of the report lies with the leadership. Where the "Integrated Report" is merely a compilation of various reports put together by the marketing department, it clearly demonstrates a lack of understanding around what integrated reporting truly is. If integrated reporting and integrated thinking are entrenched in the culture of the organisation, the reporting process becomes a lot easier. The process of reporting may in turn highlight gaps in the integrated reporting processes which the organisation can then rectify. It therefore becomes a dynamic process which continually improves over time.

WHAT SHOULD ORGANISATIONS EXPECT OF INTERNAL AUDIT?

Internal audit is ideally placed to be an integrated reporting agent as it touches every aspect of the organisation. Internal audit plays both an assurance and advisory role in the organisation. In its assurance role, internal audit should be able to give the leadership a view on the integrated reporting processes in the organisation as well as the accuracy and completeness of the information in the integrated report. As alluded to earlier in this paper, internal audit is also ideally placed to take on the responsibility of co-ordinating the integrated assurance processes.

In its capacity as best practice advisor, internal audit plays an important role in helping the leadership to connect the dots and articulate the developing trends and assist in determining the most material matters to the organisation to be included in the integrated report. As it touches all functions in the organisation, it can play a strong change agent role, assist in breaking through the silos, facilitate the process of integrated thinking and improve efficiencies.

CONCLUDING REMARKS

Integrated reporting with all its facets, can only succeed if the leadership has a deep understanding of the principles and are truly committed to following the path. The leadership should ensure that an environment is created in which integrated thinking and decision making is entrenched in the culture. Such a state does not develop on its own. It requires the leadership to set the tone at the top, walk the talk, encourage others to follow, create interventions to develop deep understanding and commitment, ensure that the organisation has the resources and skills needed for integrated reporting to thrive. Without the expressed commitment of the leadership, integrated reporting efforts are likely to fail.

It is vitally important that there is agreement on the relationship between the strategy and the six capitals and that this is an organisation-wide understanding. There should be a shared understanding of how value is created and how risk should be managed. In addition, the leadership should ensure that the structure and reporting lines in the organisation do not stifle integrated thinking. Territorial and hierarchical leadership styles tend to hinder the objectives of integrated thinking. Organisations should rather explore how the interconnectedness in the digital era could be exploited to enhance their efforts to integrate thinking.

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