



The International Integrated Reporting Committee

Per e-mail dpresponses@theiirc.org

November 2011

Members of the Committee

COMMENTS ON THE DISCUSSION PAPER: “TOWARDS INTEGRATED REPORTING – COMMUNICATING VALUE IN THE 21ST CENTURY”

The Accounting Standards Board (ASB) is the official standard-setter for accounting and reporting in the South African public sector. As a result, many of our comments to you on the proposals in the Discussion Paper are framed within the context of their application to the public sector environment.

This comment letter has been prepared by the Secretariat of the ASB and therefore does not reflect the views of the ASB Board. Our responses to the specific questions included in the Discussion Paper are included at Annexure A to this letter.

Overall, we support the development of a Framework for Integrated Reporting.

We have noted a list of organisations in the section “Building on Developments to Date” on page 7 of the Discussion Paper. We urge the committee to liaise with the International Public Sector Accounting Standards Board (IPSASB) around the possible implications for the public sector. This liaison is particularly important as the IPSASB is currently considering the development of:

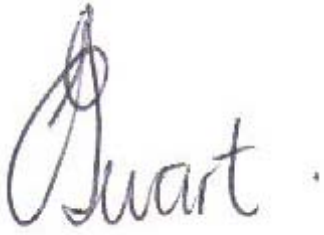
- a conceptual framework for general purpose financial reporting, which will result in more comprehensive information being reported (outside the general purpose financial statements); and
- reporting requirements in other areas such as reporting on the long-term sustainability of a public sector entity's finances.

It would be a most opportune time to engage with the IPSASB to understand the role of Integrated Reporting within the new scope of reporting which is being proposed for the public sector.

Board Members: Ms K Bromfield, Mr R Cottrell (Chairperson), Mr V Jack, Ms CJ Kujenga, Mr K Kumar,
Mr T Makwetu, Mr F Nomvalo, Mr G Paul, Mr I Sehoole
Chief Executive Officer: Ms E Swart

Should you have any queries regarding the contents of this letter, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink that reads "Erna Swart". The signature is written in a cursive style with a large, stylized initial 'E'.

Erna Swart

Chief Executive Officer

ANNEXURE A – RESPONSES TO QUESTIONS IN DISCUSSION PAPER

Question 1:

- (a) *Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?*
- (b) *Do you agree that this action should be international in scope? Why/why not?*

- (a) The preparation of a single report that outlines the linkages and interdependencies between critical areas/activities undertaken by organisations would be useful as it would provide users with a more succinct, holistic understanding of the various activities of an entity.

As has been noted in the Paper, users of various reports are, at present, often overburdened with information, resulting in “key messages” being lost in the volume and detail of information provided. A comprehensive but concise report, outlining the linkages between an entity’s activities and their contribution towards value creation, would be useful to various users as it would provide them with relevant information on which to base their decisions and actions.

- (b) The process to develop the framework for Integrated Reporting should be developed internationally as this will enable greater comparability across companies and jurisdictions. It will also avoid unnecessary costs being incurred in each jurisdiction to develop their own framework.

Question 2:

Do you agree with the above definition of integrated reporting?

The proposed definition is supported; there are however a number of areas where more detailed principles or explanations would need to be provided to ensure more consistent implementation of the reporting requirements.

For example, a detailed description of what “material” means in the context of Integrated Reporting would need to be provided in the next phase of the project. While the concept of “material” or “materiality” might be documented in existing accounting and auditing standards, such concepts may be unfamiliar to other disciplines, such as reporting on environmental issues. Also, because “materiality” is often ignored in financial reporting in favour of “compliance” based reporting, the importance of materiality and what it means will need to be emphasised if Integrated Reporting is to meet its stated objectives.

Other terms, such as “value” and “stewardship” would also require explanation, particularly in the context of their application to the public sector.

- While “value” might be more clearly understood in the private sector, e.g. returns to stakeholders, the public sector equivalent might not be. Rather than value being based on returns to stakeholder, value in the public sector might be equated to, for example (but not limited to), the provision of efficient, effective and economic goods and services.
- “Stewardship” is often seen as narrower in meaning than “accountability”, the latter is used more commonly in the public sector.

This section of the Discussion Paper notes that the main output of Integrated Reporting would be a “single report that the IIRC anticipates will become an organization’s primary report”. While the importance and need for Integrated Reporting is understood and acknowledged, by indicating that the primary report of the entity should be the Integrated Report, implies that reporting on how an entity creates and sustains value is more important than other reports which may be provided for different objectives, e.g. general purpose financial reports (including financial statements) which are provided with the primary objective of achieving accountability over an entity’s finances.

In the public sector, reports such as budgets and financial statements would be the primary reports prepared by government’s and public sector entities as these drive resource allocation decisions, provide authority for government’s actions as well as mechanisms with which they can be held accountable. Similarly, other reports can be deemed the “primary” reports to ensure accountability in other areas (service delivery, compliance with environmental issues etc).

While the Integrated Report is critical in communicating a more comprehensive picture to users of the sum total of all an entity’s activities and how these create value, this report would not be a replacement for more detailed information which is necessary to achieve accountability. The notion of the Integrated Report becoming the “primary report” is therefore not supported.

Question 3:

Do you support the development of an integrated reporting framework? Why/why not?

The development of a framework is supported as this would provide a basic set of principles which entities could use in various jurisdictions to prepare their reports.

Question 4:

- (a) *Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?*
- (b) *Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?*

- (a) The initial focus on larger companies is supported on the basis that many of these companies, particularly in South Africa, have made some strides in developing such reports and integrating the necessary processes into their activities. Consequently, they would be in a better position to comment on, pilot and implement the framework.
- (b) The concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organisations to the extent that the users of these reports are the same. In reviewing the Discussion Paper, it was unclear what the term “concepts” implied. If the reference to “concepts” is similar to, for example, those high level principles articulated in IASB’s conceptual framework, then they could be equally applicable to all types of entities (although the application of those principles may need to be explained for implementation by various types of

entities). If “concepts” refers to specific reporting requirements, then there may be a case for these to differ, based on the needs of the users of the report.

It is however noted that, within financial reporting, different users are envisaged for those users of reports prepared by:

- larger companies, whose users are limited to investors,
- small and medium sized entities, whose users may not be “broad” based if they do not have any public accountability; and
- public sector organisations, whose users are broadly resource providers and, the recipients of an entity’s goods and services.

While we agree that the concepts could be similar, we would see this decision being driven by the determination of whether the users of reports across the various entities, and their information needs, are the same.

Question 5:

Are (a) the organization’s business model, and (b) its ability to create and sustain value in the short, medium, and long term, appropriate as central themes for the future direction of reporting? Why/why not?

While both these “themes” are supported, these may need to be explored in more detail when considering their application to the public sector. For example, the “business model” may be articulated in an entity’s mandate, which is usually legislated, and often driven by a certain economic system that may be in place within a particular country.

Question 6:

Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?

In principle, the concepts of multiple capitals are supported. This is an area where additional guidance could be developed more specifically for application by governments and other public sector entities. For example, “social capitals” refers to “an organization’s social license to operate”. This is often enshrined in a country’s constitution or by the fact that certain economic systems create the need/demand for a government to provide certain goods or services.

Question 7:

Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?

The principles are supported generally. In reviewing the principles, “conciseness, reliability and materiality” have been noted as the three principles that senior management should consider in deciding what/how information should be reported. The concept of “conciseness” has not been explained in the Discussion Paper and we would urge that the next publication explore this principle. The principle of “understandability” could also be considered as critical in deciding what information should be reported and how it should be presented.

Question 8:

Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?

As with the responses to questions 6 and 7 above, the overall content elements are supported, but we believe that specific guidance may be necessary when applying these concepts to the public sector.

Question 9:

From your perspective as a policy-maker, regulator or standard-setter:

- (a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?*
- (b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?*

The benefits and challenges articulated in the paper are supported.

Question 10:

- (a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?*
- (b) What priority should be afforded to each action?*

- (a) The specific actions are supported. Based on comments made in the opening remarks to this letter and the response to question 4(b) above, it is however important to note that within this list of actions, the following interventions are deemed necessary:
 - Developing an exposure draft – clearer identification of the users of integrated reports.
 - Working with others on emerging measurement and reporting practices - liaison with the IPSASB.
- (b) No specific priorities have been identified – progressing each of these actions simultaneously are essential to the development and implementation of the framework.

Question 11:

Do you have any other comments that you would like the IIRC to consider?

No further comments.