

Ownership of Integrated Reporting and the Integrated Report



The actual effective ownership by the board of the Integrated Reporting process, and the Integrated Report itself, is of significant practical importance. Based on our experience of working with our clients in this area over the last two years, it is one of the key determinants for a good Integrated Report.

There is indeed an important difference between the board actually setting and owning the agenda in this regard, or effectively acquiescing to an agenda actually set, and populated by, executive management or those that report to them and which is submitted to the board for approval, very often at a late stage of the process. Due to the relatively early stage of development of Integrated Reporting and Integrated Reports a greater degree of proactiveness is indicated than is the case with the more traditional areas of responsibility, where more mature and generally-accepted frameworks are in place. This requires boards to equip themselves properly in this area, and/or to seek the appropriate assistance to properly discharge their responsibilities.

According to the King Report on Governance for South Africa (King III), the Board should ensure the integrity of the Integrated Report (Principle 2.12), and the audit committee should oversee the Integrated Report (Principle 3.4). Detailed requirements for audit committees in King III, that directly and indirectly impact on the effective ownership of the Integrated Report include:

- The responsibility to consider whether an unbiased picture of the company's position, performance or sustainability is being presented;
- The responsibility for evaluating the significant judgements and reporting decisions affecting the Integrated Report;
- The responsibility to understand how materiality for the Integrated Report has been determined; and
- The responsibility to ensure that forward-looking information provides a proper appreciation of the key drivers that will enable the achievement of such goals.

To discharge these responsibilities properly, as well as those set out in the Companies Act and contained in Corporate Law, the board should proactively set and own the Integrated Reporting agenda. In this regard, the view from executive management is obviously important to take into account in setting the agenda and framework, but once these are finalised by the board, the primary role of executive management and those that report to them is to operationalise and report back to the board within the framework thus established. If, as is generally accepted, the Integrated Report indeed reflects the collective mind of the board and the integrated thinking that is essential for business in the modern world, a more reactive approach by the board would not effectively enable capturing the essential qualities and prerequisites for Integrated Reports.

In our opinion, the practical consequences of where the board does not effectively own the Integrated Reporting process and the Integrated Report results in, amongst other things, the following shortcomings:

- An overly long report which does not achieve the key requirement of conciseness;
- A report without a clear and consistent storyline;
- A report containing a volume of information that is clearly not material from the perspective of stakeholders, but which is included to accommodate internal political interests within the company;
- A report that does not display evidence of sufficient interconnectedness and integration;
- A report where superficial and inadequate attention is paid to describing how the professed company values are actually lived and applied;
- A report that does not display evidence of the necessary trade-offs and optimisation that is part and parcel of the modern business environment;
- A report consisting of marketing-oriented material without adequate and consistent depth; and

- A report structure, format and content that may give a reader the impression that the oversight role of the Board is not as strong as it conventionally should be (e.g. management team introduced before the Board of Directors).

The purpose of an Integrated Report is to tell the unique story of the company and the manner in which it sustains and adds value in the short, medium and long term. The board is clearly intended to bear the ultimate overall accountability for the company and its journey, and has been placed in a unique position to practically discharge this responsibility by a variety of formal and informal arrangements. In order to discharge this accountability effectively, the board should therefore also embrace the proactive and effective ownership of the Integrated Reporting process and the Integrated Report.

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