

Should the Annual Financial Statements be included in the Integrated Report?



The question is often asked whether or not the complete set of financial statements must be included in the Integrated Report. In order to answer this question, we need to look at the requirements of the new Companies Act.

The Companies Act, 2008 requires every company to prepare annual financial statements and to present such statements to shareholders at a shareholders meeting (an annual general meeting (AGM) in the case of public companies). An interesting development in the new Act is the fact that the Act allows companies to provide any person (even shareholders) with a summary of the financial statements, as long as it sets out the steps required for such a person to obtain the complete set of financial statements. Specifically, in providing the notice of the AGM to shareholders, the Act requires the notice to include either the financial statements to be presented or a summarised form of these statements.

In terms of the old Companies Act, the company had to send a copy of the annual financial statements to each shareholder prior to the AGM. This was usually done in the form of an Annual Report (the annual financial statements formed an integral part of the Annual Report). This is no longer required by the new Companies Act, The Act now merely requires that, as part of the notice to attend an annual general meeting, the company must include either a copy of the annual financial statements, or a summary of the annual financial statements (with direction as to how a complete set may be obtained). So, where a company elects to attach its Integrated Report to the notice for an annual general meeting, it must still comply with the requirements of the Act and either include the complete set of financial statements or include a summary that meets the requirements as set out below, including information on how to acquire a full set.

Where a company prepares summarised financial statements, the Act states that (section 29(3)):

- (a) any such summary must comply with any prescribed requirements; and
- (b) the first page of the summary must bear a clear prominent notice –
 - i. stating that it is a summary of particular financial statements prepared by the company, and setting out the date of those statements;
 - ii. stating whether the financial statements that it summarises have been audited, independently reviewed, or are unaudited;
 - iii. stating the name, and professional designation, if any, of the individual who prepared, or supervised the preparation of, the financial statements that it summarises; and
 - iv. setting out the steps required to obtain a copy of the financial statements that it summarises.

The form requirements pertaining to summarised financial statements will be applicable where the company presents any person with summarised financial statements in lieu of the complete set of financial statements (e.g. to shareholders as part of the notice for an AGM, to a bank as part of a loan application, to a contracting party as part of contractual obligations). However, where highlights or key features of a company's financial information are published in a booklet or forms part of a presentation, and it is clear that shareholders (and other stakeholders) will not rely on the information so provided, these legislative requirements will not apply. This is because it would not be the intention of the company to publish the information or present the highlights or key features as a substitute for the complete set of the company's financial statements in those circumstances. Where it can reasonably be assumed that stakeholders may rely on the summarised financial information, the company should ensure that the summary complies with the provisions of section 29(3).

As stated above, every company is obliged to prepare and present annual financial statements to shareholders. This statutory requirement is not negated or circumvented when a company issues an Integrated Report. In essence, the Integrated Report is addressed to key stakeholders (which may include shareholders) and is intended to tell the integrated story of the company. Although some financial information may form part of the Integrated Report, the company is nevertheless obliged to keep the complete set of financial statements on record (even electronically) and to make this available to shareholders on request.

With respect to the form and content of a summary of financial statements, there is no prescribed standard. The guidance in the preparation of summarised financial statements as determined by the relevant financial reporting standards should be applied. Currently none of the IFRS, SA GAAP or IFRS for SMEs contains guidance for the preparation of summarised financial statements.

The JSE confirmed that the Companies Act allows for summary financial statements to be distributed to shareholders; unfortunately neither the Act nor the Regulations provided for the prescribed requirements for a summary. As such, the JSE indicated that where listed companies provide shareholders with summarised financial statements, the summary of financial statements must

- be prepared in accordance with the framework concepts and measurements and recognition requirements of IFRS and the AC 500 standards as issued by the Accounting Practices Board or its successor and
- must also as a minimum contain
 - (i) the information required by IAS 34: Interim Financial Reporting (in other words the disclosure requirements) and
 - (ii) a statement confirming that it has been prepared.

Thus, if a company provides a copy of its Integrated Report (with summarised financial information included) to shareholders (without supplying complete set of financial statements or a summary) the summarised financial information in the Integrated Report should comply with the requirements of section 29(3).

Recommendation: It is recommended that a summary of financial information (compiled in terms of IAS34 and in compliance with section 29(3) of the Companies Act) be included in the Integrated Report, and that reference is made as to how the complete set of the financial statements can be accessed electronically.

The Integrated Report should contain a note in which reference is made to the requirements of section 29(3):

- stating that summarised financial information is included in the Integrated Report
- provide the date of the financial statements of the company and an indication as to whether the financial statements to which the summarised information refers have been audited, independently reviewed, or are unaudited
- provide the name, and professional designation, if any, of the individual who prepared, or supervised the preparation of the financial statements of the company, and
- setting out the steps required to obtain a copy of the complete set of financial statements of the company (this may include a reference to the company's website).

The Integrated Report should only include summarised financial information (preferably prepared in accordance with IAS 34, and audited where appropriate). The complete set of financial statements should not be included or attached, but should rather be made available to stakeholders on the company's website or in another electronic form.

Queries:

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