The governance of reporting and the reporting of governance
The governance of reporting and the reporting of governance

Internationally the drive towards Integrated Reporting has been based on the concept that relevant data regarding a company’s strategy, risk and governance procedures must be revealed to stakeholders in a manner that aspires to interlink these elements. The vehicle through which this information is shared is the Integrated Report – an annual report that comprises a holistic and integrated representation of the entity’s efforts to enhance and preserve long term sustainability in all its dimensions, without sacrificing short term performance.

To quote the International Integrated Reporting Council (IIRC): “Integrated Reporting reflects what can be called ‘integrated thinking’ – application of the collective mind of those charged with governance, and the ability of management, to monitor, manage and communicate the full complexity of the value-creation process, and how this contributes to success over time.”

It was in the use of the words ‘integrated thinking’ that the deceptively simple principles behind Integrated Reporting revealed the full import of the change that was expected of company Boards and management.

Who governs reporting?

If the Integrated Report is to reflect the ‘integrated thinking’ of those charged with governance i.e. the Board of Directors, it follows that the report itself and the process of embedding the principles are ultimately the responsibility of the Board. The Board should therefore ensure that management embeds the process of “integrated thinking” throughout the organisation to enable it to create and sustain value and thereby ensure its future resilience.

Typically, the Board allocates accountability for “parts of the whole” to different committees. It is common for these committees, which may range from Social and Ethics, Remuneration and Sustainability to play a role in governing specific processes relating to ethics, performance, remuneration and environmental matters. In South Africa, the first country to mandate Integrated Reporting through the King Report on Governance for South Africa 2009 (King III), the level of care, duty, skill and diligence required of each director and the Board as a whole is underlined by the requirement of a statement regarding the integrity of the Integrated Report within the Report.

The Audit Committee, as custodian of the credibility of annual reporting, is usually tasked with responsibility for the combined assurance model of the entity and through that ensures the credibility of the information reported in the Integrated Report.

Clearly auditing Integrated Reports is consistent with the need for greater reliability as well as encouraging consistency. However, there is less experience in the provision of external assurance for users of non-financial data than there is for the audit of financial data, which has decades of development behind it. For this reason, the assurance arrangements companies adopt for Integrated Reporting, and which is articulated and represented in the Integrated Report itself, should be properly planned and tailored. Conceptually, the mind-set that should be adopted by the Audit Committee and Boards of Directors vis-à-vis assurance is one that considered what should be assured rather than what can be assured.

The guidance found in the literature, and the practice demonstrated by companies who are leading in this area, is clear: The Company’s key stakeholders and their moderated needs and wants, fundamentally shape the strategy. The articulated strategy results in initiatives and business processes, the attendant risks of which need to be properly managed. A very important component of managing risk and reducing it to an acceptable level is through securing the appropriate level of assurance from the appropriate parties (both internal and external to the company) that matters are indeed as they supposed, and purport to be.

What to report on governance?

There is, however, an important second aspect to governance and Integrated Reporting – the disclosure of the governance performance of the entity being reported on.

The Integrated Report as the organisation’s primary report provides a holistic view of the company’s financial and non-financial information in an understandable and integrated manner and can also be linked to more detailed reports and information, such as the annual financial statements, sustainability report and governance disclosure. This begs the question as to how much information related to governance should be included in the Integrated Report itself.
An effective reporting framework allows leaders to reflect on the social, environmental, economic and financial impacts of the organisation they lead, and demonstrate, through Integrated Reporting, integrity, transparency and accountability in their activities. Good corporate governance therefore has a direct bearing on a company’s ability to create and sustain value in the short, medium and long term.

Corporate Governance Codes around the world stress that there is always a link between good governance and legal compliance. Good governance is not something that exists separately from the law. It is entirely inappropriate to unhinge governance from the law as legally directors have to meet their duty of care, skill and diligence and their fiduciary duty.

Within the South African context, companies listed on the Johannesburg Stock Exchange (JSE) are obliged to apply the governance principles set out in King III, or explain why they opted not to do so. King III recommends that companies issue an Integrated Report and identifies several specific and material governance disclosures to be made in the Integrated Report.

In analysing approximately 100 integrated reports of companies submitted to the JSE since March 2011 (when companies listed on the JSE were expected to issue an Integrated Report in line with the recommendations in King III), most companies scored relatively well on corporate governance principles that pertain to the structure and composition of the board (balance between executive and non-executive directors, an independent non-executive chair, etc.). Scores drop substantially when specific disclosures relating to ethics, assessment of the independence of independent non-executive directors, the board’s role in determining the risk appetite and tolerance, and other issues are considered.

In general, companies that take Integrated Reporting seriously score better on corporate governance. Companies scored particularly poorly on risk management disclosure. A possible conclusion here can be that companies are not yet geared to disclose to stakeholders how effective they consider their risk management structures to be. IT risk is not being accorded the important status that it requires.

Internal audit plays an important role in providing assurance to the board regarding the effectiveness of the system of internal controls and risk management of the company. The board should report on the effectiveness of the system of internal controls in the Integrated Report.

In conclusion, the governance of the Integrated Reporting process and the Integrated Report, as well as the disclosure of the governance structure and process of the company being reported on plays a critical role in Integrated Reporting.

Without board involvement, the report cannot claim to be a reflection of the integrated thinking of those charged with governance, and without a public display of integrated thinking at the highest level of the organisation, the Integrated Report will not meet the high expectation it has set out to achieve.

Queries:
Dr Johan Erasmus – jerasmus@deloitte.co.za
Nina le Riche – nleriche@deloitte.co.za
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by
guarantee, and its network of member firms, each of which is a legally separate and independent entity.
Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche
Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting and financial advisory services to public and private clients spanning
multiple industries. With a globally connected network of member firms in more than 150 countries,
Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need
to address their most complex business challenges. The more than 200 000 professionals of Deloitte are
committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited,
its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this
communication, rendering professional advice or services. No entity in the Deloitte Network shall be
responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2014 Deloitte & Touche. All rights reserved. Member of Deloitte Touche Tohmatsu Limited

Designed and produced by Creative Services at Deloitte, Johannesburg. (807474/dbn)