

INTEGRATED REPORTING COMMITTEE (IRC) OF SOUTH AFRICA

# PREPARING AN INTEGRATED REPORT: A STARTER'S GUIDE (UPDATED)



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# FOREWORD

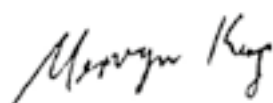
While listed companies on the Johannesburg Stock Exchange were the first to prepare integrated reports *en masse* in 2011, the move to this improved form of corporate reporting has gained momentum over the years, not only in South Africa but around the world.

This should come as no surprise as the integrated report is undoubtedly better corporate reporting with its forward-looking, strategic, holistic, accessible and concise approach. Experienced reporters, however, are often loudest in their praise of the internal benefits to the company, such as improved risk management, a steer to longer-term thinking, and better understanding of the reliance and effects on various capitals (resources and relationships). Moreover, they note that the preparation of the integrated report helps to embed integrated thinking in the company. Integrated thinking is the consideration of all the capitals relied on and/or affected by the company's business model. It is applied by the governing body and management in the best interests of the company in the longer term. It can lead to improved oversight and better decision-making through more informed choices. In today's connected world, integrated thinking is good business sense.

New reporters starting their first integrated reports have a lot to gain and look forward to.

The spread of integrated reporting throughout an economy will also be beneficial. As larger companies look to their smaller supplier companies to prepare integrated reports showing their use and effects on the capitals, the economy will gain from the move to longer-term thinking, more sustainable use of resources, and enhanced respect for the contribution of all stakeholders. Investors will add their weight by assessing the quality of integrated reports of the companies they invest in and by demanding improvement in weak areas.

I urge the governing bodies of companies and other organizations to acknowledge that the integrated report is their report. It is their voice and can be seen as part of their responsibility for accountability to the company, and through the company to its stakeholders.



**Professor Mervyn E King SC**

Chairman of the Integrated Reporting Committee (IRC) of South Africa  
Chairman of the King Committee on Corporate Governance in South Africa  
Chairman of Council of the International Integrated Reporting Council (IIRC)

August 2018

## PURPOSE OF THIS PAPER

Since it was first published in 2014, this Paper has been a practical guide for organizations in South Africa and other countries embarking on their integrated reporting journey.

The Paper is guided by the *International <IR> Framework* (<IR> Framework)<sup>1</sup> which was issued by the International Integrated Reporting Council (IIRC) in 2013. It is endorsed by the IRC of South Africa as guidance on good practice on how to prepare an integrated report. Excerpts from the <IR> Framework are italicised. It is advisable to read the <IR> Framework before going through this Paper.

This revision of the Starter's Guide follows developments since the Paper was first published. These include:

- ▶ the *King IV Report on Corporate Governance™ for South Africa 2016* (King IV™)<sup>2</sup>;
- ▶ the IRC of South Africa's technical Information Papers on the *Disclosure of Governance Information in the Integrated Report, Disclosure of Performance Against Strategic Objectives and Reporting on Outcomes*; and
- ▶ the IRC of South Africa's Frequently Asked Questions (FAQs) on *The Octopus Model* for the corporate reporting suite and *Using the 6 Capitals in the Integrated Report*<sup>3</sup>.

This Paper caters to larger organizations that have dedicated reporting resources, as well as smaller organizations that do not. It applies to any type of organization, including non-profit organizations, state-owned enterprises, municipalities and retirement funds. An organization's own integrated reporting process is influenced by its size and complexity, available resources, and other unique requirements and circumstances.

This Paper can assist organizations that are about to start or have recently started their integrated reporting journey. It identifies key areas to consider when preparing an integrated report and offers internal structures, planning and processes that experienced reporters in South Africa find useful. It does not comprehensively cover all integrated reporting matters, rather, it focuses on selected elements to form a solid foundation for the organization's reporting journey.

"Companies should start integrated reporting recognizing that it is a journey and gaps will be identified in the early years. But the journey will be valuable, because it encourages companies to think in an integrated way and to develop strategies, new data sets and new initiatives that reflect multi-faceted value creation."<sup>4</sup>

Experienced reporters attest that integrated reporting becomes easier over time. Your organization is likely to already have much of the information needed for its integrated report, such as organizational overview and external environment, strategy, risks and opportunities, and stakeholders' needs and interests. Other required information will be gathered once the necessary information-gathering systems are in place. Importantly, don't delay starting the integrated reporting process: the reporting process itself helps to identify the information you need, and experienced reporters say that the process proves to be a useful tool to understand the organization's true value drivers.

The Starter's Guide (Updated) is released for information purposes only; words such as "must" and "should" are to be read in this context. Examples given are for illustrative purposes only to explain the particular point of discussion. The term "governing body" is used in this Paper, while the <IR> Framework uses the term "those charged with governance".

1 Available at [www.integratedreportingsa.org](http://www.integratedreportingsa.org) or [www.integratedreporting.org](http://www.integratedreporting.org).

2 King IV is the corporate governance code in South Africa. Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved. Available at [www.iodsa.co.za](http://www.iodsa.co.za).

3 Available at [www.integratedreportingsa.org](http://www.integratedreportingsa.org).

4 WBCSD, Future leaders, *Integrated Reporting in South Africa: From Concept to Practice*, 2014, page 22.

## SOME BACKGROUND

“Integrated reporting enhances the way organizations think, plan and report the story of their business. Many organizations use integrated reporting as an opportunity to communicate a clear, concise, integrated story that explains how value is created within these organizations. Integrated reporting is an approach that helps businesses think holistically about their strategy and plans, make informed decisions, manage key opportunities and risks to build investor and stakeholder confidence, and help manage the organization’s performance.”<sup>5</sup>

### Why the integrated report?

“Until recently, corporate reporting has failed to keep pace with the new ways business has to be done in the 21st century. Good corporate governance, on-going stakeholder relationships, integrated thinking and the integrated report are four of the tools being used by businesses today in learning to make more with less. Stakeholders are already learning that they can make a more informed assessment about value creation from an integrated report. Integrated reporting is playing a role in meeting the world’s two great challenges – financial stability and sustainability.”<sup>6</sup>

The <IR> Framework lists the aims of integrated reporting as follows:

- ▶ *Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital*
- ▶ *Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of the organization to create value over time*
- ▶ *Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies*
- ▶ *Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.*<sup>7</sup>

Integrated thinking and the integrated report are intertwined. Through integrated thinking, organizations better integrate the information systems that support integrated internal and external reporting. *The more that integrated thinking is embedded into an organization’s activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making, and subsequently into the integrated report.*<sup>8</sup>

<sup>5</sup> International Federation of Accountants, *Creating value for SMEs through Integrated Thinking*, page 3.

<sup>6</sup> IIRC, *Pilot Programme Yearbook 2013: Business and investors explore the sustainability perspective of integrated reporting*, page 2.

<sup>7</sup> International <IR> Framework, page 2.

<sup>8</sup> International <IR> Framework, paragraph 3.7.



Some of the benefits of preparing integrated reports cited by experienced South African reporters are:

#### Internal

- ▶ Critical thinking about the business and the positive and negative value it creates
- ▶ A good management tool
- ▶ An organization-wide focus on environmental, social and governance matters that are core to the organization and its future, including improved data quality
- ▶ Improved risk management
- ▶ Improved knowledge-management processes and information for decision-making
- ▶ Focused integration of key performance indicators (KPIs), risks, and strategic objectives determined after consideration of all material capitals
- ▶ Breaking down internal silos and promoting sharing of information in the organization
- ▶ Greater alignment of internal and external reporting

#### External

- ▶ Disclosure of strategy gives context to performance and outlook
- ▶ More future-focused information
- ▶ Clear depiction of the business model increases understanding of the value creation process
- ▶ Succinct and connected reporting is easier to interpret and analyse
- ▶ Improvement in balanced reporting and transparency through:
  - providing information about all material capitals;
  - positive and negative performance and outcomes; and
  - addressing both historic performance and future outlook.
- ▶ Improves quality of communication between the organization and stakeholders that can set the foundation for trust and legitimacy
- ▶ Reduces information asymmetry

## Key concepts explained

### The six capitals

*At the core of the organization is its business model, which draws on various capitals as inputs and, through its business activities, converts them to outputs (products, services, by-products and waste). The organization's activities and its outputs lead to outcomes in terms of effects on the capitals. The capacity of the business model to adapt to changes (e.g. in the availability, quality and affordability of inputs) can affect the organization's longer-term viability.<sup>9</sup>*

In the <IR> Framework, the six capitals are categorised and described as follows<sup>10</sup>:

	<b>Financial capital</b>	<i>The pool of funds that is available to an organization for use in the production of goods or the provision of services.</i>
	<b>Manufactured capital</b>	<i>Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services. Manufactured capital is often created by other organizations, but includes assets manufactured by the reporting organization for sale or when they are retained for its own use.</i>
	<b>Intellectual capital</b>	<i>Organizational, knowledge-based intangibles.</i>
	<b>Human capital</b>	<i>People's competencies, capabilities and experience, and their motivations to innovate.</i>
	<b>Social and relationship capital</b>	<i>The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. Includes brand and reputation.</i>
	<b>Natural capital</b>	<i>All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization.</i>

<sup>9</sup> International <IR> Framework, paragraph 2.23.

<sup>10</sup> International <IR> Framework, paragraph 2.15 (extracts).

Some background continued

The organization has positive, negative or neutral effects on the capitals through its activities, products and services. Each capital affords benefits, risks and opportunities to the organization. The capitals are not mutually exclusive, rather, they are interdependent, e.g. building a factory trades financial capital for manufactured capital and could positively or negatively affect social and relationship and natural capital. The capitals affect the organization now and in the future.

In explaining how the organization creates value over time, the integrated report sets out how the organization uses and affects the capitals, and acknowledges the significant interdependencies and trade-offs in pursuing its business model and strategic objectives.

The flow of the capitals is depicted in Figure 1 on page 6.

The capitals serve as a useful completeness check to ensure an integrated report covers all aspects of the value creation story from inputs to outcomes. *While most organizations interact with all capitals to some extent, these interactions might be relatively minor or so indirect that they are not sufficiently important to include in the integrated report<sup>11</sup>.* Thus capitals that are not materially used or affected and may not materially affect the organization can be excluded (but the organization may want to explain this in the report for user understanding). The organization is not obliged to adopt the capitals as categorised in the <IR> Framework and is free to determine its own categories (if so, consider defining them in the integrated report for user understanding), for instance, some organizations prefer to see brand and reputation as part of intellectual capital.



Further information can be found at: [integratedreportingsa.org/faq-using-the-six-capitals-in-the-integrated-report/](http://integratedreportingsa.org/faq-using-the-six-capitals-in-the-integrated-report/)

Example 1

Here is an example of how an organization has referenced the capitals in the business model.

Kumba Iron Ore Limited: Integrated Report 2017<sup>12</sup>

OUR BUSINESS: CREATING VALUE: UNDERSTANDING TRADE-OFFS IN THE CAPITALS

**CREATING VALUE: UNDERSTANDING TRADE-OFFS IN THE CAPITALS**

	PEOPLE	OUR RELATIONSHIPS	NATURAL RESOURCES	FINANCIAL CAPITAL	MANUFACTURED ASSETS	OUR INNOVATION
<b>CAPITALS AND TRADE-OFFS</b>	We depend on the expertise, wellbeing and motivation of employees, contractors and service providers to generate value. Providing a safe working environment, investing in training, ensuring fair labour practices and encouraging local employment are critical to optimising the contribution of our employees to the value creation process.	Developing and maintaining trusted relationships is a foundation for value creation. This has taken on added significance in recent years, with the challenging price environment requiring us to take actions that have tested many of our relationships. The trust we have developed over time has been crucial in facilitating an effective transition, informed by a common appreciation among our stakeholders of the challenging context.	Generating social and economic value through our activities has unavoidable negative environmental impacts. These arise most readily by communities around our mines, with potential negative consequences for the critical relationships. In addition to mitigating the environmental impacts of our activities, we seek to offset them through rehabilitation, the provision of energy and water services to the local community, and the responsible sharing of socio-economic benefits.	The cost of financial capital has risen as a result of reduced investor confidence both in South Africa and the mining sector more generally. Maintaining our ability to generate financial capital is constraining investment in developing the other required assets. Balancing short-term and long-term interests remains one of the more challenging trade-offs.	Our substantial financial investment in the purchase, development and maintenance of property, plant and equipment has given us the capacity to generate long-term returns. To maintain business viability, current market conditions have required changes in the application and use of key assets.	Our business model depends on having the right people in the right roles, informed by effective management systems and Company culture, producing the most efficient and effective outcomes. Investing in these skills and systems requires sufficient financial capital and can have a positive impact in developing our people. Certain process and technologies can result in reduced workforce needs, with implications for employees and key relationships.
<b>KEY INPUTS</b>	10,727 skilled and motivated employees and contractors A new experienced and diverse executive leadership team demonstrating values-driven behaviour Contracted service providers delivering on agreed terms and conditions An effective zero-harm culture programme Change in shift patterns to increase labour productivity and efficiency	Strong engagement with unionised and non-unionised workforce Positive relationships with representatives from government and regulators Mutually respectful and understanding relationship with neighbouring communities, civil society bodies and NGOs Open and timely communication with suppliers and contractors	Zero water withdrawal Energy consumption: 8.94 million GJ Oreland purchased: 201.3 Mt Land under management 98.864 hectares Inclusive mineral resources: 1,886.6 Mt	Market capitalisation: R21 billion at end of 2017 Capital expenditure to execute growth program: R219 million Cash generated from operations: R22.4 billion	Property, plant and equipment with book value of R26.6 billion Exploration, development and production operations in the Northern Cape and Limpopo provinces Marketing and sales operations in Luxembourg and Singapore	Technically skilled and experienced employees and external experts Operational development and work steps aimed at delivering the intended purpose of our heavy work in the most efficient manner Mine-driven Company culture R224.6 million invested in technology roadmap
<b>OUTCOMES</b>	Zero employee and contractor fatalities 3,875 full-time permanent employees 216.8 million invested in employee training and development Improvement in lost time injury frequency rate to 0.17 Reduction in the number of occupational health to zero Three-year wage agreement reached without any labour disruption	Non-industrial action since 2012 66% HCEA in management 21% increase in total workforce Delivery of social benefits to communities through core activities, plus R16.7 million social investments R3.1 billion @-BBBEE procurement spend R8.1 billion tax law contribution Sustained confidence from shareholders and investors R200 million spent on suppliers from our host communities	Non-hazardous waste to landfill: 1.98 kt Waste recycled: 0.04 kt 94.8 Mt year-on-year increase in mineral resources delivered Land rehabilitated in 2017: 104.8 hectares Tailings dam (active and inactive): 27,273 kt 9% increase in non-mineral waste to landfill: 0.47 kt 9% increase in non-ferrous compared with 2016 Continuing challenges with dust emissions Greenhouse gas emissions: 1.0 million tonnes CO <sub>2</sub> e	Increased market capitalisation of R122 billion at end of 2017 Earnings per share rose to R207.17 increasing from R159 per share at end of 2016 to R279 per share at end of December 2017 (138% increase) Strong general balance sheet with no debt Closed the year with a net cash position of R13.3 billion Earnings before interest and tax: R21.8 billion Dividend reinstated: R30.97 per share (taxed)	2018 production and waste production increased to 30 to 31 Mt and 170 to 180 Mt with a stripping ratio exceeding 4x 2018. Use of mines (2x) 13 years Kolumba 2018 production and waste production increased to 1.4 Mt and 55 to 57 Mt with a stripping ratio exceeding 3.8 in 2016, 3.1 in 2017 Capital expenditure for 2018 between R3.9 billion and R4.1 billion	Investment in skills development: R161.9 million Greenfield technical studies: R100 million Sibesh: DMS upgrade to LHMMS has moved to pre-feasibility stage Kolumba: recently commissioned modular plant delivered 0.5 Mt in 2017 Automated drilling and advanced process control at Kolumba
<b>ACTIONS TO ENHANCE OUTCOMES</b>	Provide leadership through responsible citizenship SR – p.44 Kumba culture and leadership programmes SR – p.38 Developing a capable and engaged workforce SR – p.36 Ensuring a safe workplace SR – p.36 Promoting the health and wellbeing of our employees SR – p.36	Addressing stakeholder interests SR – p.42 Provide leadership through responsible citizenship SR – p.44 Equity and transformation drive SR – p.42 Developing a capable and engaged workforce SR – p.36 Upholding the highest social standards SR – p.42 Making positive social contribution SR – p.42	Provide leadership through responsible citizenship SR – p.44 Water SR – p.42 Climate change and energy SR – p.44 Land stewardship SR – p.38 Air quality SR – p.42 Waste SR – p.42 Mine closure and rehabilitation SR – p.42	The strong financial performance and benefit of cash flow conversion have delivered a stronger balance sheet. This resulted in a reduced exposure to capital allocation to ensure that: - our balanced asset mix remains to provide resilience during times of volatility - debt is not used as a buffer for margin stress due to market volatility - capital expenditure to be funded from cash generated - returning excess capital to shareholders See further CFO review SR – p.46 – p.53.	Continued implementation of the mine plan and ongoing implementation of the Operating Model at Sibesh mine delivered further productivity gains and increased direct operating hours (DOH). At Kolumba mine productivity and efficiency were aided by automated drilling technology. Further information is provided in the Chief executive SR – p.1 and CFO review SR – p.45, and in the review of our strategic objectives SR – p.32.	We have maintained our focus on driving the Operating Model across the group to ensure that we have the best processes in place to deliver the highest business expectations. Implementation of the Operating Model is enhancing the Company's operational stability and efficiency. Further information is provided in the review of our strategic objectives SR – p.32.

10 Kumba Iron Ore Limited Integrated Report 2017

Kumba Iron Ore Limited Integrated Report 2017 11

11 International <IR> Framework, paragraph 2.16.

12 Kumba Iron Ore Limited, Integrated Report 2017, available at [www.angloamericankumba.com](http://www.angloamericankumba.com). This material is reproduced with permission from the publishers – to be used for information purposes only. No unauthorised reproduction is permitted and the material may not be sold.

## Value creation

*Value creation is the process that results in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs.<sup>13</sup>*

Simply put, value creation is the organization's effects on the capitals (called outcomes). These effects can be positive, negative or neutral<sup>14</sup>. Outcomes are best reported through a combination of quantitative and qualitative information.

Outcomes may:

- ▶ be internal to the organization or external;
- ▶ cover the capitals owned by the organization and those that are not; and
- ▶ occur over the short, medium and/or long term.

Some common misunderstandings about value creation include the following:

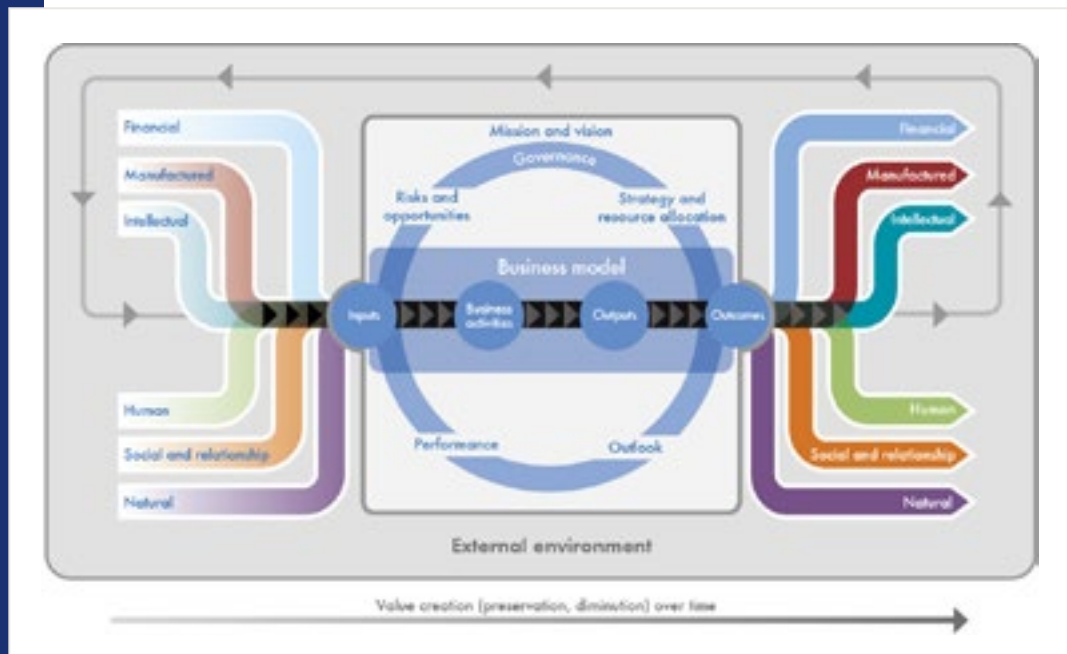
- ▶ Positive value to stakeholders: this excludes any negative outcomes on the capitals.
- ▶ Financial value added: this is financial value only and excludes other outcomes.
- ▶ Desired strategic outcomes: the actual outcomes on the capitals need to be disclosed.



Note that the <IR> Framework differentiates between outputs and outcomes:

- ▶ Outputs can only be products, services, by-products and waste.
- ▶ Outcomes are the effects on the capitals.

Figure 1: The value creation process<sup>15</sup>



<sup>13</sup> International <IR> Framework, glossary.

<sup>14</sup> For a hypothetical example of a logistics company's outcomes see page 6 of the IRC's *Reporting on Outcomes: Information Paper*, available at [www.integratedreportingsa.org](http://www.integratedreportingsa.org).

<sup>15</sup> International <IR> Framework, page 13. Copyright © December 2013 by the International Integrated Reporting Council (the IIRC). All rights reserved. Used with the permission of the IIRC.



## Integrated thinking

Integrated thinking is *the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term.*<sup>16</sup>

In essence, integrated thinking means shifting from a short-term, exclusively financial focus to considering the organization's outcomes over the short, medium and long term. The organization that embeds integrated thinking considers all of the capitals it relies on and affects in its strategy, risks and opportunities, outlook and daily decision-making, as well as their integration and management. This improves the organization's prospects for success and longevity because, at the very least, they can pose a significant risk to the organization – the effect it has on the capitals affects their future availability, quality and affordability to the organization.

Organizations embed integrated thinking at three levels: the governing body, senior management and employees. The governing body approves the integrated strategic objectives and senior management implements them and filters them down to employees (some tools often used include performance rating and remuneration).



### The benefits of integrated thinking are many and include:

- ▶ More cohesive approach to decision-making which focuses on value creation in the short, medium and long term.
- ▶ Informed strategy that seeks to increase the positive effects and minimise negative effects on the capitals.
- ▶ A wider view of risks that reflects the reality of the business.
- ▶ Improved understanding of opportunities.
- ▶ Deeper understanding of business processes and identification of process gaps.

## Integrated report

*An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.*<sup>16</sup>

The integrated report clearly and concisely tells the complete story of the organization. It differs from the old-style annual report, which emphasised financial reporting, in that it focuses on value creation over the short, medium and long term. The integrated report emphasises strategic focus and future orientation, connectivity of information, and the capitals and their interdependencies. (Refer to paragraphs 2.21 to 2.29 in the <IR> Framework for a very useful explanation of the integrated report's components and how they link to each other in building the organization's value creation story in the report.)

The integrated report is the voice of the governing body which is responsible for the report. A good integrated report tells the organization's value creation story well – in a balanced, concise, understandable, complete and transparent manner.



In determining how the integrated report fits into the organization's corporate reporting suite, the analogy of an octopus gives a clear picture. "The head of the octopus can be seen as the integrated report. The head is connected to the multitude of arms with each arm representing a detailed report or communication, such as the annual financial statements, sustainability report, governance report, remuneration report, regulatory reports and so on. The integrated report ... connects the different types of information, including the financial to the non-financial, and in so doing explains how the company creates value and how it can continue to create value in the future."<sup>17</sup> The integrated report contains all the material information about the organization and it references supplementary reports, or other information, for more detail (which can be in printed format or on the website). Smaller organizations, however, often release a single report with the integrated report in the front section followed by the annual financial statements.



**Further information can be found at:**

[integratedreportingsa.org/faq-the-octopus-model/](http://integratedreportingsa.org/faq-the-octopus-model/)



**The King IV context in South Africa<sup>18,19</sup>**

King IV, and other national corporate governance codes, operate alongside local legislation and regulations, and provide a standard and framework for what is considered good governance.

King IV was issued on 1 November 2016 by the Institute of Directors in Southern Africa and the King Committee on Corporate Governance in South Africa. It is effective for financial years starting on or after 1 April 2017. The Johannesburg Stock Exchange (JSE) requires listed companies to disclose their implementation of King IV (through the application and disclosure regime stated in King IV) in reports and notices issued after 1 October 2017.

King IV sets out four desired governance outcomes: ethical culture, good performance, effective control and legitimacy, and identifies 17 principles that embody the aspirations of the journey towards good governance. The recommended practices associated with each principle are applied to give effect to that principle<sup>20</sup>.

King IV is aligned with the <IR> Framework and shares the concepts of integrated thinking, the capitals and the value creation process.

The preparation of an integrated report is a recommended practice of King IV and, in this regard, it is stated: "When drafting King IV, reliance was placed on the International <IR> Framework as issued by the International Integrated Reporting Council. The Integrated Reporting Committee of South Africa has endorsed the International <IR> Framework as good practice on how to prepare an integrated report and its further guidance on integrated reporting should be followed"<sup>21</sup>.

When preparing the integrated report and deciding on the extent of King IV disclosure to be included in the integrated report, the organization considers the seven Guiding Principles of the <IR> Framework. Information that does not meet the Guiding Principles can be included in a supplementary report or on the organization's website. The integrated report includes cross-references to where the disclosure information can be found.

<sup>17</sup> *Integrate: Doing Business in the 21st Century*, Mervyn King and Leigh Roberts, Juta and Company Ltd, 2013, page 72.

<sup>18</sup> IRC, *Disclosure of Governance Information in the Integrated Report: An Information Paper*, page 4, available at [www.integratedreportingsa.org](http://www.integratedreportingsa.org).

<sup>19</sup> King IV has five sector supplements, one of which is the *Supplement for Small and Medium Enterprises*. This can be found at [www.iodsa.co.za/page/DownloadKingIVapp](http://www.iodsa.co.za/page/DownloadKingIVapp).

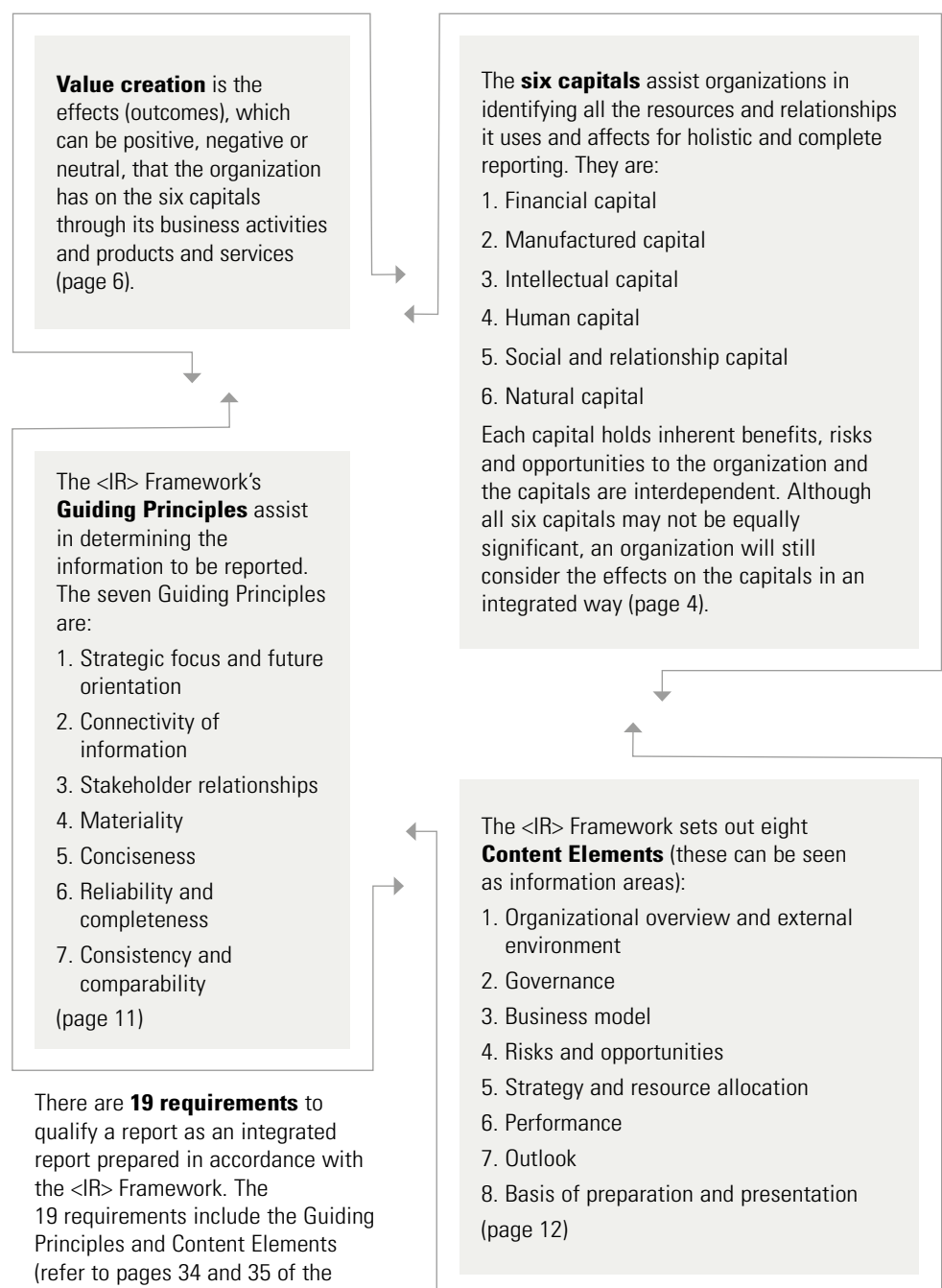
<sup>20</sup> The recommended practices may be scaled in accordance with proportionality – that is, considering the organization's size, resources, complexity and impact of operations.

<sup>21</sup> King IV, page 28.

## The International <IR> Framework

The **integrated report** tells the organization’s value creation story clearly and concisely. It gives a holistic view of the organization’s current position, as well as its strategic goals and how it intends to reach them. Users should be able to assess how the organization creates positive and negative value over time, for itself, its stakeholders and the environment.

The <IR> Framework is **principles based** and sets out the fundamental concepts, Guiding Principles, and Content Elements of an integrated report. The fundamental concepts underpin the Guiding Principles, which inform the preparation, content and presentation of the report, and the Content Elements give the information areas to be reported. The structure of an integrated report is not prescribed (it is best structured to suit the organization’s value creation story) and applying the Guiding Principles and Content Elements should not be seen as a “tick box” exercise.



## Planning and preparing the integrated report

**The governing body has ultimate accountability...**  
(page 16)

It is essential that the organization's leadership buys in and participates in its integrated report. The governing body owns the report – it gives final approval of the report, and the material matters therein, and oversees its preparation.

**The reporting process does not have to be complicated...**  
(page 14)

There is no one-size-fits-all integrated report or integrated reporting process. The reporting process is scalable and may require effort in proportion to the size and structure of the organization – the process need not be complicated.

However, the need for responsibility and early and thorough planning cannot be emphasised enough. The governing body may designate a senior executive responsible for the preparation of the report.

**Determining materiality is one of the cornerstones of an effective report...**  
(page 21)

Applying materiality means that the organization reports on all the matters that substantively affect its ability to create value. Material matters cover all aspects of the organization – strategy, governance, performance, prospects, and the six capitals. The integrated report discloses the process for determining materiality and the governing body approves the process and identified material matters.

**Reliable information is important for the integrity and credibility of the report...**  
(page 17)

Collecting non-financial data and translating it into an accessible format can be challenging at first. In practising integrated reporting, organizations become better at collecting and integrating this data, which can improve their business operations and decision making.

The governing body determines the assurance approach for the report, which often includes internal and/or external assurance.

**Aim to produce a frank and balanced report...**

The integrated report should be transparent, accessible and understandable. A good integrated report is clear, concise, easy to understand and uncluttered by detailed information or information that is not material. The report is the organization's value creation story; additional and detailed information can be housed in supplementary reports, fact sheets or the website.

The integrated report should be balanced and transparent, reflecting both good and poor performance and outcomes. Users have said that unbalanced reporting damages an organization's credibility.

The integrated report should not be seen as yet another compliance burden. It is a good communication tool that also offers many internal benefits for the organization.

Integrated reporting is a journey. It is unlikely that the organization will meet all objectives for its integrated report in the first year, but reporting will improve as the organization remains committed to the journey.

An effective integrated report increases transparency which, in turn, builds the trust of stakeholders.

The <IR> Framework has 19 requirements to be met if the integrated report is stated as being in accordance with the <IR> Framework. These requirements include the Guiding Principles and Content Elements<sup>22</sup>.

## Using the Guiding Principles

The Guiding Principles inform the preparation, content and presentation of the integrated report. They are a guide as to what information should be considered for the report (for a full explanation of the Guiding Principles see the <IR> Framework pages 16 to 23).

### Strategic focus and future orientation

*An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals.*

The integrated report covers high-level, strategic and forward-looking information.

### Connectivity of information

*An integrated report should show a holistic picture of the combination, inter-relatedness and dependencies between the factors that affect the organization's ability to create value over time.*

The integrated report shows the connection between past, present and future performance; financial and non-financial information; the capitals; qualitative and quantitative information; and the connections between information in different parts of the report.

### Stakeholder relationships page 23

*An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.*

The integrated report explains the importance of the various stakeholder groups to the organization and the needs, interests and expectations of these. Importantly, it also shows the feedback loop – that is, how the organization has used the information received from stakeholders (for instance, in strategy, risks and opportunities or material matters). The governing body will comment on the quality of the organization's key stakeholder relationships. Stakeholder feedback on the integrated report is also useful.

### Materiality page 21

*An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.*

The integrated report is a high-level, concise report that is uncluttered by detailed and unnecessary information. It only covers important information and matters that substantively affect the organization's ability to create value over the short, medium and long term. Additional or detailed information can be placed in supplementary reports or on the website.

### Conciseness

*An integrated report should be concise.*

A concise integrated report omits immaterial or duplicate information and offers a crisp presentation and a logical easy-to-read structure. High-level, material information, tables, graphs and infographics (used strategically and informatively) aid conciseness.

<sup>22</sup> Refer to pages 34 and 35 of the International <IR> Framework for the full list of requirements.

**Reliability and completeness**  
page 17

*An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.*

Integrated reporting requires reliable, complete and balanced disclosure. That is, the good, poor and neutral performance, and the positive and negative outcomes on the capitals. When the available information is imprecise, estimates can be used with explanation of their basis. Appropriate internal control processes are needed to ensure that the risk of material misstatement of information is reduced.

**Consistency and comparability**

*The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.*

The integrated report explains any significant changes in the reporting year, for instance to strategy, targets or performance measurement. Industry benchmarks and ratios are tools for consistent reporting and comparisons in an industry. An integrated report translates raw data into useful information.

## Using the Content Elements

The <IR> Framework lists eight Content Elements (akin to information areas) that connect to each other in the organization's value creation story. Each Content Element is stated as a question to be answered in the report. The <IR> Framework does not prescribe content, but gives suggestions for content which is helpful to organizations.

The eight Content Elements offer a useful report structure by covering the various information areas in the organization's value creation story. While the integrated report will include all eight Content Elements, they do not have to be presented in a specific order. Rather, the organization builds the report structure around its unique value creation story. Experienced reporters have variably structured their reports around the Content Elements, their strategic objectives, material matters or the capitals. (For a full explanation of the Content Elements see the <IR> Framework, pages 24 to 29.)

**Organizational overview and external environment**

*What does the organization do and what are the circumstances under which it operates?*

The external environment, including economic conditions, technological changes, societal issues and environmental challenges, sets the context within which the organization operates. The mission and vision encompass the organization, identifying its purpose and intention in clear, concise terms.

**Governance**

*How does the organization's governance structure support its ability to create value in the short, medium and long term?*

"The integrated report needs to disclose sufficient governance information to allow users to make informed assessments of the organization's governance and how governance supports the value creation process. The report can help stakeholders decide to what extent decisions are made through a mindful process and will inform their opinion as to the prospects and longer-term viability of the organization."<sup>23</sup>

Avoid a compliance-oriented, "tick-box" approach and focus on explaining the governance in the organization, the quality of governance, and how it supports the organization's value creation process.



Further information can be found at:

[integratedreportingsa.org/reporting-on-governance-information/](https://integratedreportingsa.org/reporting-on-governance-information/)

**Business model**  
page 24

*What is the organization's business model?*

The business model explains the value creation process as shown in Figure 1 on page 6. It is often graphically depicted, with links to other sections of the report where more information can be found.



Further information can be found at:  
[integratedreportingsa.org/reporting-on-outcomes/](https://integratedreportingsa.org/reporting-on-outcomes/)

**Risks and opportunities**

*What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?*

*An integrated report identifies the key risks and opportunities that are specific to the organization, including those that relate to the organization's effects on, and the continued availability, quality and affordability of, relevant capitals in the short, medium and long term.*



Refer to King IV, Principle 11, for the recommended practices on the governing body's role and responsibility regarding risk management, including disclosure recommendations.

**Strategy and resource allocation**

*Where does the organization want to go and how does it intend to get there?*

The organization sets out its strategic objectives and the strategy to achieve them over the short, medium and long term. The KPIs used to measure achievement of the strategic objectives, plus the targets, are also disclosed.

"There may be sensitivity among some organizations in disclosing their strategy in reports. This sensitivity should be balanced with the need for stakeholders to understand and assess the organization's ability to create value in the short-, medium- and long-term. Many organizations have successfully communicated strategy without revealing the underlying tactics being deployed."<sup>24</sup>

**Performance**  
page 26

*To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?*

Performance is against the strategic objectives and targets.

The detailed annual financial statements are often positioned at the end of the report or in a separate supplementary report (larger organizations often include summarised financial information in their integrated report with a reference to the detailed annual financial statements).



Further information can be found at:  
[integratedreportingsa.org/reporting-on-performance/](https://integratedreportingsa.org/reporting-on-performance/)

**Outlook**  
page 29

*What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?*

**Basis of preparation and presentation**  
page 21

*How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?*

# PREPARING THE REPORT

“Develop a multi-year plan for achievement with bite-sized chunks which you can build on year on year. It takes time to introduce different aspects of an integrated report to the organization, for systems to be set up to bring them into the operational process, and for the organization to become comfortable with them.”<sup>25</sup>

## The reporting process





### Planning

The organization can begin planning for its integrated report at the start of the reporting period (its financial year). When planning timelines, it helps to work backwards from the date on which the report has to be released. The timeline will include dates for the governing body approval procedures. Clear instructions and firm timelines will minimise the reporting process.

It is important to consider how the existing reporting processes and reports (such as internal reports, sustainability report and financial statements) will fit into the integrated reporting process so as to avoid duplication and overburdening resources. (See the octopus model for the corporate reporting suite on page 8.)

Planning covers all aspects of preparation and takes into account the nature, size and complexity of the organization. The reporting process need not be complicated. The following questions, where applicable, can help with planning and assigning responsibilities.

 <b>Who</b>	<ul style="list-style-type: none"><li>• Who is responsible for the overarching reporting process?</li><li>• Who will contribute information?</li><li>• Who will collect/collate the information?</li><li>• Who will write the integrated report?</li><li>• Which senior manager will review the report before it is submitted to the executive team?</li><li>• Which governing body committee, if any, will approve the final report before it is submitted to the governing body?</li><li>• Who is the audience of the various reports included in the reporting suite?</li><li>• Who will design, typeset and publish the integrated report?</li></ul>
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 <b>What</b>	<ul style="list-style-type: none"><li>• What reports are included in the corporate reporting suite (integrated report, annual financial statements, sustainability report, notice of annual general meeting, etc.)?</li><li>• What frameworks (including reporting and governance frameworks) will guide/influence the integrated report?</li><li>• What regulatory and/or legal requirements impact the integrated report?</li><li>• What information and data will be included?</li><li>• What information and/or data will be assured – internally and/or externally?</li><li>• What is the budget for the reporting suite?</li></ul>
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<sup>25</sup> UK Green Building Council, *Practical how-to guide: Implementing Integrated Reporting*, page 8.





## How

- How will the integrated report be structured?
- How will the material matters be identified?
- How will accuracy and reliability be ensured?
- How will the information be collected (templates, interviews, internal reports, etc.)?
- How will the report be released (print, digital, both)?



## When

- When does the reporting process start?
- When does the final report have to be distributed externally (release date)?
- When will the material matters be identified/confirmed and approved?
- When are the key touch points/milestones?
- When are the key dates that information will be available; for example, when are final performance and financial data/numbers available?
- When is the first draft of the report due?
- When is assurance scheduled (if applicable)?
- When are key executive committee, governing body committee and governing body submission and meeting dates?



## A reporting team

Ideally, a senior executive will be responsible for the reporting process and set up an integrated reporting team (committee or steering group; small or large). This team will provide overall direction, give guidance, monitor the preparation process, and approve the integrated report for submission to the executive team and then to the governing body.

When establishing the team, consider the nature and size of the organization, the reporting complexity, available resources and other internal constraints. The roles and responsibilities will be established upfront and agreed with the governing body – clear accountability and dedicated resources are key to success.

Also consider the current reporting structures and:

- include individuals from the external and internal reporting teams and other areas of the business: finance, strategy, investor relations, stakeholder engagement, corporate communications, sustainability, internal audit, technical (operational) units, legal, company secretary, etc. It may not be necessary to represent every area – this will depend on the organizational structure, existing reporting processes and the individuals. Smaller organizations can have smaller teams and achieve the same objective;
- include individuals who have comprehensive knowledge of the business; and
- appoint strong and senior leadership to the team compiling the report.

## Governance of the integrated report and reporting process

The governing body has ultimate accountability for the integrated report which requires that it applies its collective mind to the reporting process and the report produced.

The <IR> Framework calls for a statement from the governing body to be included in the integrated report. However, it allows an easing-in period for including this statement.

*An integrated report should include a statement from those charged with governance that includes:*

- ▶ *An acknowledgement of their responsibility to ensure the integrity of the integrated report*
- ▶ *An acknowledgement that they have applied their collective mind to the preparation and presentation of the integrated report*
- ▶ *Their opinion or conclusion about whether the integrated report is presented in accordance with this Framework.*

*or, if it does not include such a statement, it should explain:*

- ▶ *What role those charged with governance played in its preparation and presentation*
- ▶ *What steps are being taken to include such a statement in future reports*
- ▶ *The time frame for doing so, which should be no later than the organization's third integrated report that references this Framework<sup>26</sup>*

Ideally, the governing body's statement is prominent, preferably near the front of the report, and includes the approval date. In many jurisdictions the governing body may be held accountable for the accuracy and integrity of the integrated report regardless of whether it includes such a statement. If the report is not accurate or misrepresents information in any material respect, it might expose the governing body to liability in certain instances.

It is critical that the governing body and executive team have clear understanding and agreement on the aims of the integrated report and the requirements of the <IR> Framework. The governing body will approve the governance process that will guide the integrated report and, it is suggested, designate a senior executive responsible for the report who provides it with regular updates (refer page 15).



Refer to King IV, Principle 5, for the recommended practices on the governing body's role and responsibility regarding external reporting.

### Example 2

Here is an example of how an organization disclosed the governing body's statement in the report.

#### Sanlam Limited: Integrated Report 2017<sup>27</sup>



<sup>26</sup> International <IR> Framework, paragraph 1.20.

<sup>27</sup> [www.sanlam.com/investorrelations/Pages/reports.aspx](http://www.sanlam.com/investorrelations/Pages/reports.aspx).

## Reliability and assurance

If senior management, executives and the governing body receive integrated information in their monthly or quarterly reports and agenda packs, they can better develop the organization's value creation story. It also improves internal reporting for integrated decision-making.

### Reliable information

Preparing an integrated report is considerably easier if reliable information is timeously available. The aim is to get all information systems on par with mature financial information systems. The strategic objectives will determine the performance, outcomes and other information that is needed.

When determining the accuracy and completeness of non-financial information for the integrated report, consider the following questions:

- ▶ Is the right information being used, i.e. are the quantitative and qualitative aspects being measured and monitored relevant and appropriate?
- ▶ Are there standardised processes for compiling the information, and are they manual or automated?
- ▶ What level of management review takes place and is the information assured (internally and/or externally)?
- ▶ Are those responsible for preparing the information appropriately trained?
- ▶ Is there personal accountability for the information?
- ▶ What other internal controls are in place to ensure the accuracy of information?

For effective integrated reporting, the organization needs to define and embed non-financial data collection and information systems. This process requires financial and human resources. Obtaining reliable information takes time, sometimes a few years. A team (or an individual in smaller organizations) can be appointed to implement and be accountable for these non-financial systems. A cost-benefit analysis can aid implementation when the organization has limited resources. Implementation can be staggered across reporting periods and, where possible, build on existing reporting structures and systems.

Data collection and information systems, continually improve, aided by regular reporting (the more the organization reports and reviews, the more gaps become apparent). Improvement can save time and costs, and result in better internal and external reporting, which in turn benefits integrated thinking and decision-making.



Experienced South African reporters improved the reliability and comparability of their non-financial performance disclosure through the following internal processes:

- ▶ Having documented processes for compiling KPI information, such as:
  - detailed definition;
  - method of measurement;
  - method of calculation (automated/manual/combination);
  - source of information (i.e. what system or report is used and is it internally/externally gathered);
  - risks associated with compiling the information (i.e. what can go wrong);
  - controls in place to safeguard the information and address identified risks; and
  - who is responsible and accountable for the compilation and approval of the information.
- ▶ The documented processes are formally approved, stored in a central database, and are easily accessible.
- ▶ There is regular review (usually annually) to keep information current and complete.
- ▶ Individuals involved are appropriately trained.
- ▶ Internal audit (where applicable) reviews the process of how the information is compiled, and assists in identifying gaps and risks.
- ▶ Automated data is ideal, but will depend on the cost-benefit analysis and available resources and can take some time to implement.

## Assurance

Various internal and external sources can provide assurance over the integrated reporting process, specified material information or KPIs in the report in order to enhance reliability. This assurance can form part of the integrated report's governance process. The integrated report will explain what information has been assured, by whom and according to which standards or guidance.

In determining the assurance approach, often termed combined assurance, the governing body may consider the existing assurance on financial and non-financial information, as well as the processes supporting other information. The governing body may require reports, such as assurance reports on sustainability KPIs and ISO certification, from internal and/or external auditors and other external assurance providers. For example, the organization might appoint an independent external party to provide assurance on the reported lost time injury rate, while still relying on management representations over the commitments to improve safety. These two aspects may provide assurance to the governing body on the reliability of the overall disclosed safety information.

It is important to consider the internal and external assurance approach early in the planning process as it affects costs and timelines.

Internationally, work is being done on developing standards that can be used in the independent external assurance of the integrated report and the reporting process.



Refer to King IV, Principle 15, for the recommended practices on the assurance of external reports.

## Example 3

Here is an example of how an organization disclosed its assurance approach.

### Barclays Africa Group Limited: Integrated Report 2017<sup>28</sup>

#### Assurance

Our external reports contain a range of information which is governed by a diverse set of regulations, frameworks and codes. Processes and systems are not equally mature across the reports. For integrated reports specifically:

- disclosures are evolving alongside integrated reporting practices;
- management applies significant judgement in deciding what information to report;
- interpretive, abstract, qualitative or forward-looking information is subjective, which limits the extent of assurance; and
- among other technical challenges, the difficulty in developing suitable criteria and the related records, systems and controls currently inhibit a complete assurance of the content of integrated reports.

Our internal controls, management assurance, and compliance and internal audit reviews support the accuracy of our integrated report. We obtained external assurance on select indicators, and the external auditors have reviewed this report to ensure no information or statements contradict the audited annual financial statements.

We appointed PricewaterhouseCoopers Inc. (PwC) and Ernst & Young Inc. (EY) to undertake a limited assurance engagement on selected key performance indicators set out in our Balanced Scorecard (marked with a <sup>44</sup>). The external assurance report issued by PwC and EY that contains their unmodified conclusion, and refers to the basis of measurement for these indicators, is available at [barclaysafrica2017ar.co.za](http://barclaysafrica2017ar.co.za).

EY and KPMG Inc. have audited the Group's annual financial statements and have issued an unmodified opinion on these financial statements which are presented in accordance with IFRS.

Empowerdex has verified the BBBEE performance for our South African operations <sup>45</sup> (marked with a <sup>45</sup>). They have confirmed a Level 2 BBBEE rating.

## Writing and compiling the report

When writing and compiling the integrated report, aim to produce a frank and balanced report that:

- ▶ has a logical flow and does not duplicate information;
- ▶ is engaging and easy to read (use simple language and avoid jargon);
- ▶ uses visual elements to make information more succinct, accessible and comparable (infographics, graphs, tables, flowcharts, etc.);
- ▶ focuses on the organization's material matters and information (avoiding 'fluff' in the report);
- ▶ balances positive and negative information on the organization, its performance and outcomes;
- ▶ balances historic information and future outlook; and
- ▶ facilitates comparison with industry peers, as well as the organization's past performance.

A good integrated report avoids boilerplate (generic) disclosures and does not resort to being a "tick-box" exercise. It tells the organization's value creation story as guided by the <IR> Framework.



Experienced South African reporters have found the following useful when compiling their reports:

- ▶ Perform a gap analysis on the previous year's integrated report (including stakeholder comments received). This identifies any gaps and areas for improvement. Clear, realistic reporting objectives (that take resource availability into account) address weaknesses for continuous improvement.
- ▶ Create a report skeleton by referring to the Content Elements, agreed report structure and other company-specific standard disclosures. A report skeleton assists in identifying the required information and monitoring progress.
- ▶ Cross-reference and connect information in the report; for example, using icons can:
  - reflect strategic objectives throughout the report to connect other content to strategy;
  - highlight the capitals throughout the report; and
  - indicate whether performance exceeds, disappoints or meets expectations (to ensure performance reporting is correctly interpreted by users of the report).
- ▶ Innovative use of infographics can make the report more informative, clearer, more concise and less monotonous. Ensure the content is easy to understand and not open to interpretation.
- ▶ Staying up-to-date with technical Information Papers and other international developments, as well as reporting trends.
- ▶ Reading the integrated reports of organizations recognised for good reporting.

## Website and other platforms

As the integrated report is a concise, high-level report, organizations often provide stakeholders with more detailed information on their website. This might include supplementary reports, fact sheets, statistical tables (refer to the octopus model on page 8). The integrated report will directly and accurately reference the relevant additional information through page numbers in other reports or URLs to the website. Importantly, the integrated report is a standalone and complete report, including all material information and matters (refer to materiality on page 21).

Information on the website and supplementary reports will ideally follow the same governance process as the integrated report.

## The report content

The integrated report will include all eight Content Elements set out in the <IR> Framework (refer to page 12). This section offers new reporters selected useful information but is not a comprehensive review of all the Content Elements.

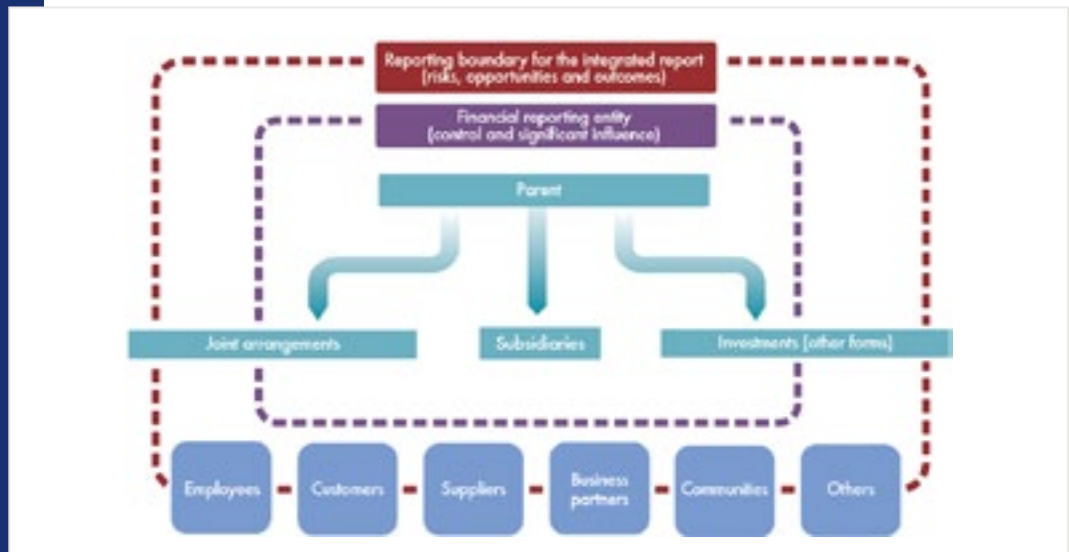


### Report boundary

The <IR> Framework guides organizations in determining the boundary of their integrated report – as depicted in Figure 2. Specifically, any matter (whether or not the organization can influence or control it) that can materially affect the organization’s ability to create value in the short, medium or long term would fall within the boundary of the integrated report. Simply put, the boundary is the financial reporting boundary plus the risks, opportunities and outcomes that are material to the organization that stem from external stakeholders and resources.

Multiple subsidiaries, joint ventures or complex supply chains make determining the report boundary a bit more complicated. However, the overall principle is that if a matter could materially affect the organization, and vice versa, then it falls within the boundary of the report.

Figure 2: Entities/stakeholders considered in determining the reporting boundary<sup>29</sup>



<sup>29</sup> International <IR> Framework, Figure 3, page 20.

### Example 5

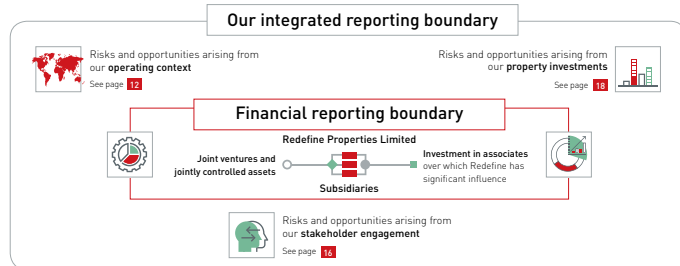
Here is an example of how an organization disclosed the boundary of the integrated report.

#### Redefine Properties Limited: Integrated Report 2017<sup>30</sup>

##### Boundary and scope

The major emphasis is placed on the group's South African operations as they account for 73% of the group's distributable earnings and 81% of the group's property asset platform. With regard to operational numbers, such as gross lettable area (GLA), we only include statistics from our directly owned South African property portfolio. Details of our investments in subsidiaries, joint ventures, jointly controlled assets and associates appear in our annual financial statements. Detailed information on our separately listed and managed interests in associates and listed investments, which comprises the bulk of our other property assets, is provided in their annual reports, which are available on their websites.

We have used issues arising from our stakeholder engagement processes and the quality of our relationships as key in determining which matters to report on.



### Material matters

The integrated report will include information required by the 'Basis of preparation and presentation' Content Element which asks the question: *How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?*<sup>31</sup>

Hence, the following is included in the report:

- ▶ *A summary of the organization's materiality determination process*
- ▶ *A description of the reporting boundary and how it has been determined*
- ▶ *A summary of the significant frameworks and methods used to quantify or evaluate material matters*<sup>32</sup>

Determining the material matters is one of the cornerstones of a concise and uncluttered integrated report. It ensures the integrated report discusses all, and only, the matters that substantively affect the organization's ability to create value. The materiality determination process, therefore, needs to be rigorous and stand up to scrutiny.

*A matter is material if it could substantively affect the organization's ability to create value in the short, medium or long term.*<sup>33</sup> Typically, a material matter is one that substantively affects, or has the potential to substantively affect, the organization's strategy, governance, performance, prospects or capitals. They are often the matters discussed at governing body and executive meetings and, importantly, they cover all the capitals and the short, medium and long term for holistic and complete reporting.

Section 3D of the <IR> Framework sets out the materiality determination process and is a useful guide. A summary of the materiality determination process, including the governing body's role in the process, is given in the integrated report.



Refer to King IV, Principle 5, for the recommended practices on the governing body's role and responsibility regarding materiality.



Further information can be found at:  
<https://integratedreportingsa.org/materiality-in-integrated-reporting/>

<sup>30</sup> [www.redefine.co.za/investors/integrated-reports/latest-integrated-reports](http://www.redefine.co.za/investors/integrated-reports/latest-integrated-reports).

<sup>31</sup> International <IR> Framework, paragraph 4.40.

<sup>32</sup> International <IR> Framework, paragraph 4.41.

<sup>33</sup> International <IR> Framework, glossary.



The following can be useful in determining material matters<sup>34</sup>:

- ▶ Ensure a consistent understanding and definition of materiality at the start of the process.
- ▶ Agree the steps for identifying and prioritising potential material matters.
- ▶ Involve executive and senior management in the materiality decision-making process (oversight).
- ▶ Use multiple sources to identify potential material matters, including (but not limited to):
  - board and executive matters discussed;
  - inputs and outcomes on the capitals (the business model);
  - stakeholder information on their needs, interests and expectations;
  - risk and opportunity analysis and assessment;
  - strategy over the short, medium and long term; and
  - reviewing other integrated reports particularly in the same industry.

### Example 6

Here is an example of how an organization disclosed their materiality determination process and material matters.

#### Life Healthcare Group Holdings Limited: Integrated report 2017<sup>35</sup>

**MATERIAL MATTERS**

The Group defines a matter as material if it has a direct or indirect impact on our ability to create, preserve or erode financial, economic, environmental and social value for the Group and its stakeholders. A range of internal and external influencers were taken into account when distilling these material matters. These included strategy, the board's agenda, management reports, external operating environment, stakeholder expectations (page 40) and the key risks analysis (page 43).

The Group no longer recognises the 'growth through expansion' material matter as it stood in our previous report.

The broad nature of this material matter was assessed, and the key elements of the definition were incorporated into other Group material matters. All relevant aspects and impacts of our relationships with medical healthcare funders were consolidated into a stand-alone material matter.

Life Healthcare regards the following matters as material in the short, medium and long term. We engage and respond to the material matters through our strategic focus areas as indicated for each.

### 1. Cost of care

**C**ost of care impacts on the Group's profitability and growth in all of our territories.

The following factors impact on the cost of care:

- Costs of input materials and services to operate efficiently and with a high level of quality (closely linked to the 'quality of care standards' material matter)
- Exchange rate impacts on imported necessities such as surgical consumables and medical equipment
- The volume of patients exceeding healthcare
- Patient attraction, as approximately 75% of patients on medical insurance in South Africa are not directed to particular hospitals
- Affordability of southern African private medical insurance market and existing members buying down their medical insurance options or abstaining from using medical insurance
- South African medical healthcare funders, which are a significant revenue source, and provide access to patients – refer to the 'Medical healthcare funders' material matter
- Labour cost, which accounts for about 44% of total Group overheads, including wage increases and scarce and critical skills such as specialised and registered nurses
- Ability to adapt nursing staffing levels to align with occupancies and to meet the needs of the patients
- Partnerships with doctors and other medical professionals
- Increases in onerous regulators which are routinely accompanied by increased costs to achieve compliance
- Governments' continued drive to reduce healthcare costs

Strategic focus areas	Affected stakeholder groups
	Government; shareholders; investors and financiers; industry and regulatory bodies; patients; medical healthcare funders; government as a customer; doctors and consultants; suppliers

### 2. Specialised skills shortages

**S**outh Africa has a general shortage of doctors, pharmacists, specialist nurses, registered nurses, specialised ICU nurses and other healthcare professionals that may adversely impact service delivery, cost of care and growth. Some of Alliance Medical's markets are experiencing a shortage of radiography skills. Poland's shortage of qualified medical personnel is expected to increase.

The following factors impact on skills shortages:

- A highly competitive employment market with above-inflation wage increases provided by the South African government and other institutions
- Training of nurses in South Africa through the Life College of Learning – a registered higher education institution
- Skills development, training, bursaries and sponsorships
- Leveraging skills and knowledge transfers from facilities in Alliance Medical, Poland and India to South Africa, specifically in areas such as oncology (India), and gynaecology and cardiology (Poland)

Strategic focus areas	Affected stakeholder groups
	Government; employees; doctors and consultants

### 3. Government relationships

**G**overnmental impacts range from originating laws and regulations to issuing licences to operate. The government is the main source of revenue for Alliance Medical and Scammed, and contributes significantly to southern Africa and Max Healthcare's revenue.

The following factors impact on government relationships:

- PPPs directly affect government policies and spending
- Bed licenses are required for bronchial and generalist separation in southern Africa
- Revenue and profitability are impacted by any healthcare regulatory reforms and tariff changes
- The public sector provides a significant portion of Alliance Medical's revenue, making the reforms, contract awarding and reductions or delays in payments, highly significant to profitability. In addition, Alliance Medical operates across other European countries, although slightly less material from a revenue stance. Its revenue in these countries can also be impacted by regulation and policies

Strategic focus area	Affected stakeholder group
	Government: government as a customer

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LIFE HEALTHCARE \_ INTEGRATED REPORT \_ 2017 33

34 Adapted from GRI's *Forging a Path to Integrated Reporting*, page 26.

35 [www.lifehealthcare.co.za/investor-relations/results-and-reports/](http://www.lifehealthcare.co.za/investor-relations/results-and-reports/).



## Stakeholder relationships

The <IR> Framework Guiding Principle states... *an integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.*<sup>36</sup>

Stakeholders are defined as... *those groups or individuals that can reasonably be expected to be significantly affected by an organization's business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organization to create value over time. Stakeholders may include providers of financial capital, employees, customers, suppliers, business partners, local communities, NGOs, environmental groups, legislators, regulators, and policy-makers.*<sup>37</sup>

Ongoing stakeholder engagement is part of usual business activities and there is ample available guidance on ways to engage (day-to-day liaison, meetings, roundtables, surveys, interviews etc.). Regular feedback to the governing body keeps it informed of key stakeholders' legitimate and reasonable needs, interests and expectations, and how the organization is (or is not) responding to them.

Understanding the perspectives and views of key stakeholders helps the organization in many ways: it can highlight market trends and inform the organization's strategy, risks and opportunities.

This understanding also assists in identifying the organization's material matters. "An effective reporting process should ideally include explicit provision for a process of dialogue between the organization and its key stakeholders, in addition to relying on internal processes. If undertaken effectively, this dialogue process should enhance the organization's ability to create and sustain value by building trust between the parties and by providing a valuable input into the organization's strategy development process. It is recommended that systems are put in place to facilitate this dialogue and ensure that the organization is responsive to the views and interests of its stakeholders."<sup>38</sup>

The organization can develop a process to collate feedback from key stakeholders. Interactions can be recorded with the date, content and form of engagement, and the information kept in a central repository.

Matters identified during stakeholder engagement will not always be among the organization's material matters disclosed in the integrated report. Such matters could be dealt with through other communications, for instance:

- ▶ supplementary reports (e.g. a sustainability report);
- ▶ communications on the website (e.g. fact sheets);
- ▶ one-on-one engagement with affected stakeholders;
- ▶ individual letters/reports to these stakeholders; and
- ▶ public releases.

An effective integrated report will show how the key matters raised by stakeholders have influenced the organization's strategic objectives, risks and opportunities and its material matters (this is the feedback loop).



Refer to King IV, Principle 16, for the recommended practices on the governing body's role and responsibility regarding stakeholders, including disclosure recommendations.

<sup>36</sup> International <IR> Framework, paragraph 3.10.

<sup>37</sup> International <IR> Framework, glossary.

<sup>38</sup> IRC, *Framework for Integrated Reporting and the Integrated Report: Discussion Paper*, 25 January 2011, page 21, available at [www.integratedreportingsa.org](http://www.integratedreportingsa.org).

### Example 7

Here is an example of how an organization reported on their stakeholder relationships.

### Reunert Limited: Integrated Report 2017

*Pillar three: Sustainability review continued*

#### STAKEHOLDER RELATIONSHIPS

Our stakeholders are integral to our business; we strive to follow a customer-centric approach to retain and grow our customer base; our employees play a vital role in achieving our desired performance; we rely on effective relationships with our supply chain to deliver our products and services.

The matrix below lists our primary stakeholder groups and illustrates the level of power/influence of the stakeholder versus their interest. This assessment is based on input from executive management, strategy development sessions and feedback from employees. There were no significant changes since the prior year.

Our governance processes and the effectiveness of stakeholder management, including our approach to stakeholder inclusivity, are being reviewed to ensure alignment with King IV recommendations.

We adopt our various engagement methods to each individual stakeholder group's needs. This includes our interim and annual reporting suites, meetings and forums, presentations, site visits, surveys, etc.

Significant matters identified through stakeholder engagements at business unit level are escalated to group level where applicable. If necessary, these are addressed by the Board.

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REUNERT LIMITED

*Pillar three: Sustainability review continued*

**Shareholders, bankers and the investment community**  
*Providers and influencers of financial capital*

<p><b>Stakeholder expectations and concerns</b></p> <ul style="list-style-type: none"> <li>&gt; Sustainable growth and acceptable returns on investments</li> <li>&gt; Appropriate use of surplus cash, including investment in new businesses and capacity in existing businesses</li> <li>&gt; Alignment of remuneration with performance</li> <li>&gt; Timely response to market changes</li> </ul>	<p><b>Group response</b></p> <ul style="list-style-type: none"> <li>&gt; Executing the Reunert strategy which includes investment in existing businesses to ensure organic growth and targeting selected acquisitions</li> <li>&gt; Return of excess cash through share buybacks</li> <li>&gt; Engagement on the remuneration policy structure</li> </ul>								
<p><b>Key statistics</b></p> <p>185 direct investor interactions</p> <p>Beneficial shareholders holding of 5% or more:</p> <table border="1"> <tr> <td>Government Employee's Pension Fund</td> <td>Bargenel Investments Proprietary Limited*</td> <td>Public Investment Corporation Limited</td> <td>Allen Gray Proprietary Limited</td> </tr> <tr> <td>13%</td> <td>10%</td> <td>11%</td> <td>6%</td> </tr> </table> <p>Major holdings through fund managers in excess of 5%: Share ownership analysis</p>		Government Employee's Pension Fund	Bargenel Investments Proprietary Limited*	Public Investment Corporation Limited	Allen Gray Proprietary Limited	13%	10%	11%	6%
Government Employee's Pension Fund	Bargenel Investments Proprietary Limited*	Public Investment Corporation Limited	Allen Gray Proprietary Limited						
13%	10%	11%	6%						

**Partners**  
*Suppliers, service providers, channel partners (including franchisees) and other business partners are integral to the supply chain and in delivering our products and services*

<p><b>Stakeholder expectations and concerns</b></p> <ul style="list-style-type: none"> <li>&gt; Partnerships that provide growth opportunities</li> <li>&gt; Long-term security of supply</li> <li>&gt; Volatile prices and the related impact on business performance and sustainability</li> <li>&gt; Transformation requirements, including BBBEE ratings</li> </ul>	<p><b>Group response</b></p> <ul style="list-style-type: none"> <li>&gt; Long-term supplier agreements</li> <li>&gt; Strive for good relationships with OEMs</li> <li>&gt; Implementation of new business models and/or new empowerment structures</li> <li>&gt; Implementation of the transformation strategy</li> </ul>
<p><b>Key statistics</b></p> <p>More than 5 500 suppliers</p> <p>37 Nathan's Franchises</p> <p>320 ECN distributors</p> <p>R5,7 billion in goods and services purchased</p>	

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REUNERT LIMITED

### Business model

The <IR> Framework Content Element states ...*an organization's business model is its system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term.*<sup>39</sup>

See Figure 1 on page 6 for the value creation process. The definitions of the key elements of the business model are:

<b>Inputs</b>	<i>The capitals (resources and relationships) that the organization draws upon for its business activities.<sup>40</sup></i>
<b>Business activities</b>	<i>Business activities include the planning, design and manufacture of products or the deployment of specialized skills and knowledge in the provision of services.<sup>40</sup></i>
<b>Outputs</b>	<i>An organization's products and services, and any by-products and waste.<sup>40</sup></i>
<b>Outcomes</b>	<i>The internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs.<sup>40</sup></i>

<sup>39</sup> International <IR> Framework, paragraph 4.11.

<sup>40</sup> International <IR> Framework, glossary.

The <IR> Framework recommends a simple diagram showing the organization's value creation process from inputs to outcomes, with clear explanation of the relevance of the various elements.

In drawing up the business model it helps to focus on information that is material in explaining the organization's operations. There is clear differentiation between inputs, outputs and outcomes. The information therein links to the information in other Content Elements, such as strategy, risks and opportunities, external environment, outlook and governance. It has been said that get the business model right and the rest of the report flows.



Experienced South African reporters have found the following useful when drawing up the business model:

- ▶ Give the material inputs into the business in the year.
- ▶ Make clear differentiation between the organization's outputs (they can only be products, services and waste) and outcomes (effects on the capitals).
- ▶ Cross-reference to where the main outputs can be found to obviate a long list in the diagram.
- ▶ Cross-reference to stakeholder information.
- ▶ Consider all capitals (assists with completeness).
- ▶ Be clear that the diagram is the business model.
- ▶ It is useful to review whether the components of the material KPIs are covered in the business model.

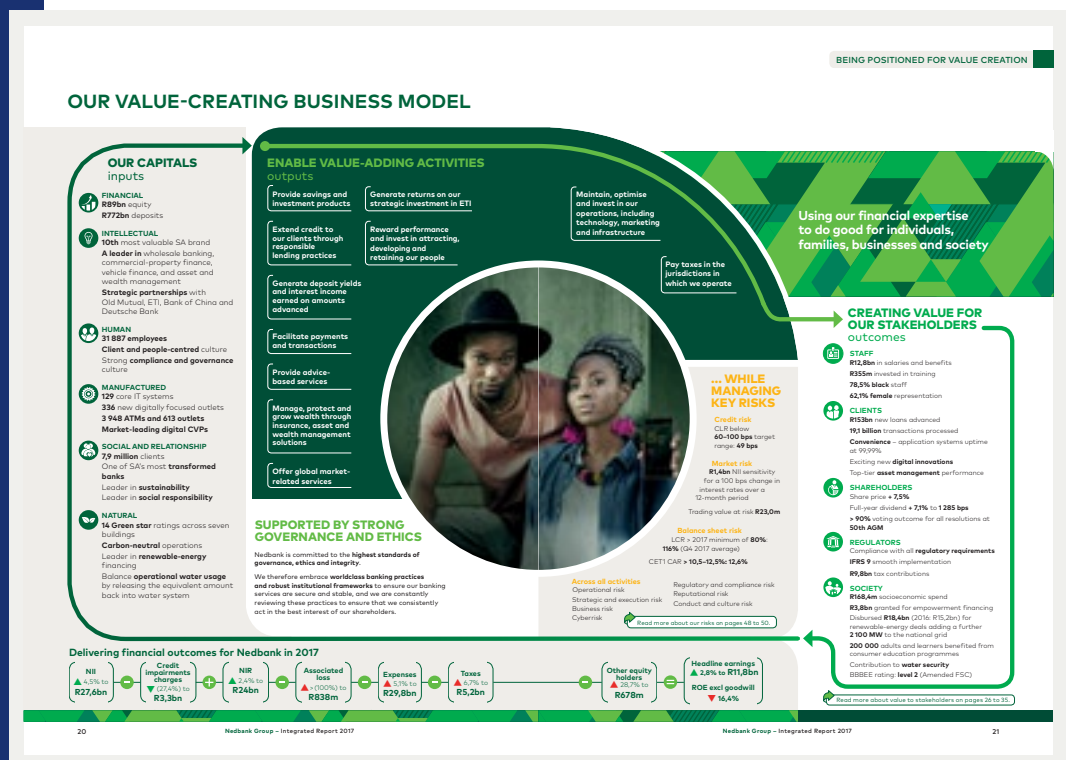


Further information can be found at:  
[integratedreportingsa.org/reporting-on-outcomes/](http://integratedreportingsa.org/reporting-on-outcomes/)

### Example 8

Here is an example of how an organization reported their business model.

Nedbank Group Limited: Integrated report 2017<sup>41</sup>



## Performance and KPIs

Meaningful disclosure of performance is essential to enable a critical assessment – internally by the governing body and management and externally by stakeholders – of the extent to which the organization is achieving its strategic objectives.<sup>42</sup>

KPIs (and other quantitative indicators) compare and track performance against past and current targets and determine future targets. Ideally, KPIs are consistent year-on-year and any changes are explained.

New reporters often ask which of their many KPIs are needed for the integrated report. A good integrated report covers all the core or strategic KPIs, being those that:

- ▶ substantively affect strategy;
- ▶ measure management's progress/success on strategic objectives; and
- ▶ link to management's remuneration.

Additional KPIs can be shown in the report but be wary of falling into the trap of including too many – disclose what is the most useful to understanding the organization's ability to create value over time.

The <IR> Framework lists the common characteristics of suitable quantitative indicators (KPIs):

- ▶ *Relevant to the circumstances of the organization*
- ▶ *Consistent with indicators used internally by those charged with governance*
- ▶ *Connected (e.g. they display connectivity between financial and other information)*
- ▶ *Focused on the matters identified by the organization's materiality determination process*
- ▶ *Presented with the corresponding targets, forecasts or projections for two or more future periods*
- ▶ *Presented for multiple periods (e.g. three or more periods) to provide an appreciation of trends*
- ▶ *Presented against previously reported targets, forecasts or projections for the purpose of accountability*
- ▶ *Consistent with generally accepted industry or regional benchmarks to provide a basis for comparison*
- ▶ *Reported consistently over successive periods, regardless of whether the resulting trends and comparisons are favourable or unfavourable*
- ▶ *Presented with qualitative information to provide context and improve meaningfulness*<sup>43</sup>

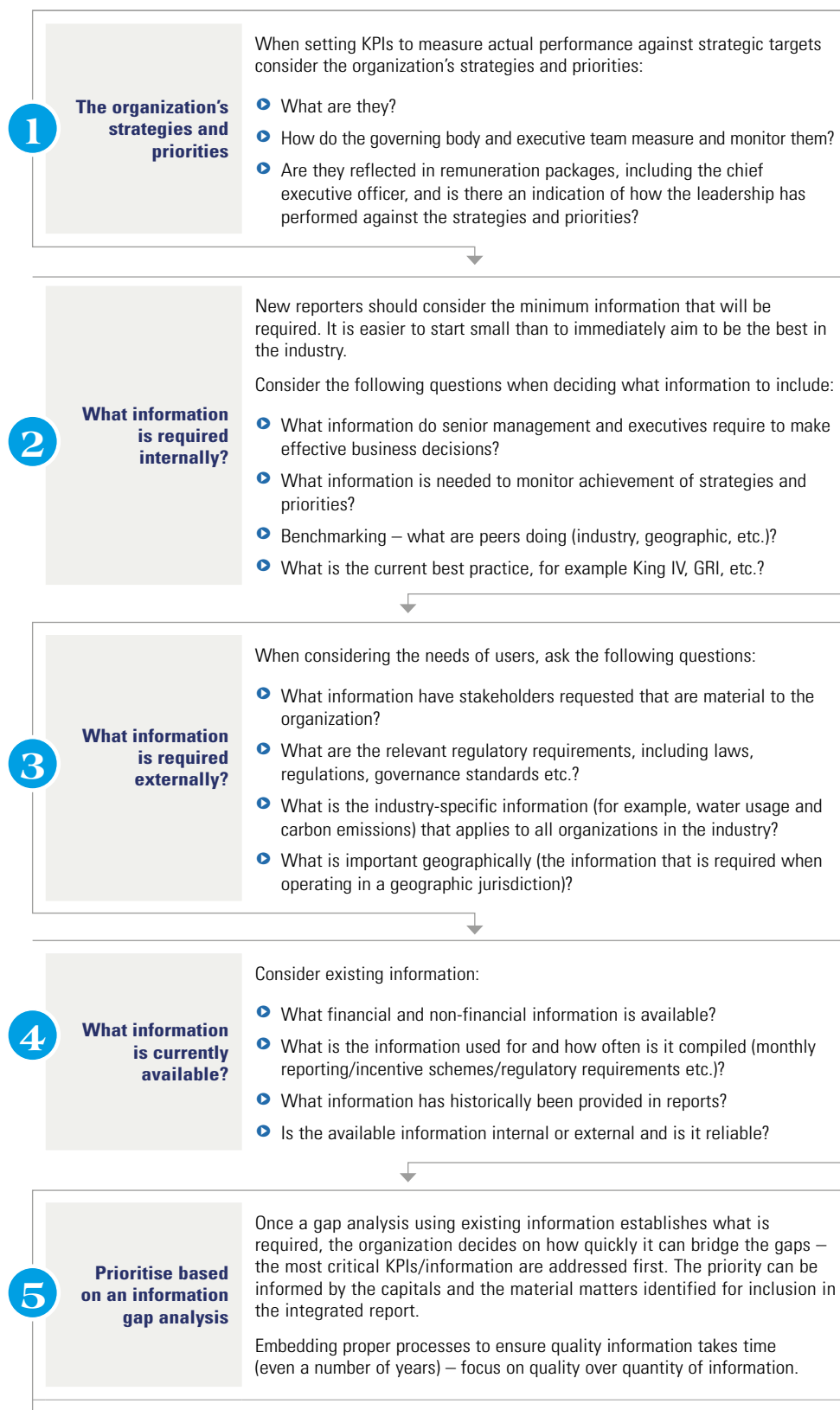


Further information can be found at:  
[integratedreportingsa.org/reporting-on-performance/](https://integratedreportingsa.org/reporting-on-performance/)

<sup>42</sup> IRC, *Disclosure of Performance against Strategic Objectives: An Information Paper*, page 1, available at [www.integratedreportingsa.org](http://www.integratedreportingsa.org).

<sup>43</sup> International <IR> Framework, paragraph 4.53.

The following table is helpful to organizations setting KPIs for the first time or where previously only financial KPIs had been set.



Experienced reporters have found that a KPI register – a spreadsheet, Word document or a more complex database containing all relevant information such as the KPI owner, definition, measurement method, actual performance, targets etc. – improves the integrated reporting process. These reporters often ask their assurance providers to assure the performance against core or strategic KPIs.

### Example 9

Here is an example of how an organization reported KPIs, targets and performance.

#### Truworths International Ltd: Integrated Report 2017<sup>44</sup>

### GROUP

#### Group financial and operating targets

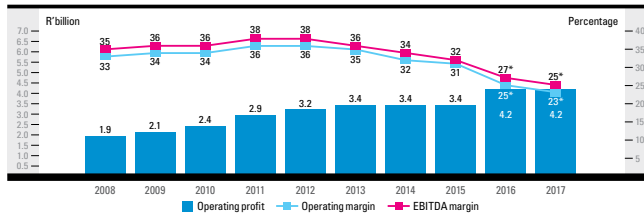
Targets are published to provide guidance to shareholders on the Group's financial performance objectives for the forthcoming financial period. Targets and performance are benchmarked against JSE-listed apparel retailers and best-in-class global listed fashion retailers. The targets are reviewed annually by the board, based on actual performance and the outlook for the period ahead.

	Actual 2017	Target 2017	Target achieved	Local benchmark*	Global benchmark**
Gross margin (%)	52.6	51–55	√	44.3	56.1
Operating margin (%)	23.3	21–25	√	16.6	14.9
Return on equity (%)	31	30–35	√	30	29
Return on assets (%)	26	22–27	√	26	22
Inventory turn (times)	4.5	3.0–4.0	√	3.8	3.3
Asset turnover (times)	1.1	0.9–1.3	√	1.6	1.6
Net debt to equity (%)	18	25	√	–	–

\* The local benchmarks are based on the average ratios for comparable JSE-listed apparel retailers for the 2017 period.

\*\* The global benchmarks are based on the average ratios for global fashion retailers, H&M and Inditex, for the 2016 period.

#### OPERATING PROFIT TREND



\* Impacted by the acquisition of Office.

## Outlook

An integrated report offers users future-oriented information, as opposed to the historical view of financial reporting prevalent in the old-style annual report.

The <IR> Framework Content Element states: *An integrated report should answer the question: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?*<sup>45</sup>

This does not mean that the organization has to provide a detailed analysis of future performance in the integrated report. Rather, the organization's outlook covers its informed view on the likely future external environment, how this will affect the organization, and the view on achieving strategy in the future and the major challenges and uncertainties to achievement.



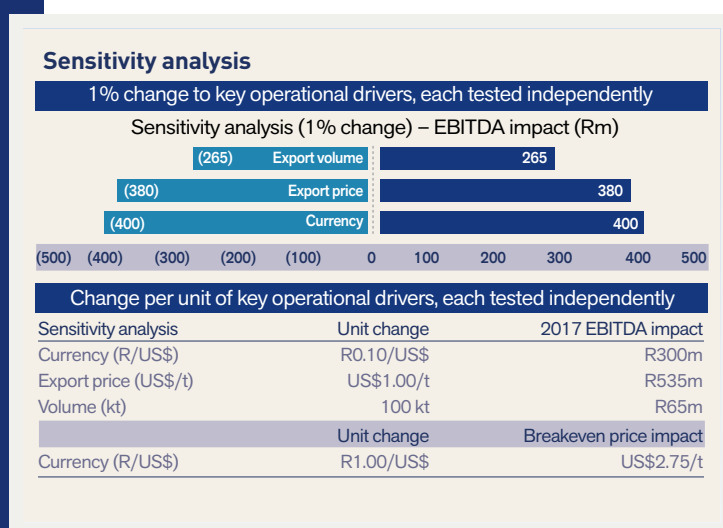
Experienced South African reporters have used various means to illustrate outlook information, including:

- ▶ Current and projected costs that influence future profits.
- ▶ Sensitivity analyses.
- ▶ Projected commodity prices and exchange rates and their effect on the organization.
- ▶ Anticipated changes in regulations.
- ▶ Expected macro-economic conditions and how these will affect the organization.

### Example 10

Here is an example of how an organization disclosed a sensitivity analysis as part of its information on outlook.

#### Kumba Iron Ore Limited<sup>46</sup>



<sup>45</sup> International <IR> Framework, paragraph 4.34.

<sup>46</sup> Kumba Iron Ore Limited, Integrated Report 2017 [www.angloamericankumba.com](http://www.angloamericankumba.com). This material is reproduced with permission from the publishers – to be used for information purposes only. No unauthorised reproduction is permitted and the material may not be sold.

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We hope you find this Paper useful and welcome your comments and suggestions addressed to the IRC Secretariat, Sandy van Esch at [sandy@integratedreportingsa.org](mailto:sandy@integratedreportingsa.org)

The following IRC publications are available on our website at [www.integratedreportingsa.org](http://www.integratedreportingsa.org)

- ▶ *Disclosure of Governance Information in the Integrated Report: An Information Paper*
- ▶ *Disclosure of Performance against Strategic Objectives: An Information Paper*
- ▶ *Reporting on Outcomes: An Information Paper*
- ▶ *FAQ: The Octopus Model*
- ▶ *FAQ: Using the Capitals in an Integrated Report*
- ▶ *FAQ: Audience of the Integrated Report*

Our website also offers the latest integrated reporting awards in South Africa, blogs, a webcast of our Annual Conference, articles and academic research papers.

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The IRC is a voluntary association not for gain in South Africa, founded in May 2010. The role of the IRC as a national body is to provide direction on matters relating to integrated reporting and integrated thinking in South Africa through technical information and guidance, conferences and other activities.

The IRC's Board comprises: Professor Mervyn King (Chairman), Professor Suresh Kana (Deputy Chairman), Leigh Roberts (CEO), Graeme Brookes (JSE), Parmi Natesan (IoDSA), Loshni Naidoo (SAICA), Sunette Mulder (ASISA), Larissa Clark (EY) and Stephen Sadie (CSSA).

The IRC Working Group comprises individual experts engaged in the development and promotion of integrated reporting in South Africa.

The IRC has organizational members (professional and industry bodies), corporate members and honorary members. Its founding members are: Association for Savings and Investment SA (ASISA), Institute of Directors in Southern Africa (IoDSA), JSE Ltd and the South African Institute of Chartered Accountants (SAICA).

Our other organizational members are: Auditor-General of South Africa (AGSA), Banking Association South Africa (BASA), Chartered Secretaries Southern Africa (CSSA), Council of Retirement Funds for South Africa (Batseta), Government Employees Pension Fund (GEPF), Institute of Internal Auditors of South Africa (IIASA), Financial Sector Conduct Authority (FSCA), Chartered Institute of Management Accountants South Africa (CIMA SA) and the South African Institute of Professional Accountants (SAIPA).

In April 2017 the IRC welcomed its first corporate members. Our 2018/19 members are: Discovery Ltd, Ernst & Young (EY), Eskom Holdings SOC Ltd, Government Employees Medical Scheme (GEMS), Ince Ltd, Liberty Holdings Ltd, Nampak Products Ltd, Nedbank Ltd, PwC, Redefine Properties Ltd, Royal Bafokeng Platinum Ltd, Sasfin Holdings Ltd and SNG Grant Thornton.

Our honorary members are: Professor Mervyn King, Dr Gavin Andersson, Ansie Ramalho, Leigh Roberts, Professor Bob Scholes, Professor Suresh Kana, Garth Coppin, Hester Hickey, Corli le Roux, Karin Ireton, Dirk Strydom and Graham Terry.

The IRC thanks all its members for their continued support and commitment to integrated reporting.

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# IRC OF SA MEMBERS



GREYMATTER & FINCH



concept to context

INTEGRATED REPORTING COMMITTEE (IRC) OF SOUTH AFRICA