Audit Committee Forum™ Alert 3

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Responsibilities of the Audit Committee with regard to Integrated Reporting

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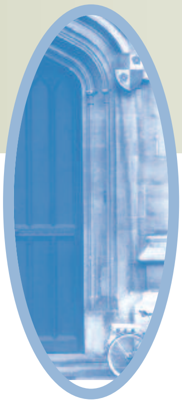

Responsibilities of the Audit Committee with regard to Integrated Reporting

This Alert is being issued ahead of the relevant effective date[1] of King lll as a guideline to inform entities and afford them the opportunity to prepare themselves for these requirements.

Unless otherwise stated, all references in this document relate to extracts from "The King Report on Governance for South Africa" (King III), Chapter 3. These sections have been reproduced with the permission of the Institute of Directors in Southern Africa.

King II had a chapter on integrated sustainability. The concept of reporting on economic, social and environmental performance is thus not new. However, King III increases the emphasis by the introduction of integrated reporting, a holistic and integrated representation of the company's performance in terms of both its finances and its sustainability.

Integrated reports

Para 24

"Every year all companies should prepare an integrated report that conveys adequate information about the social, economic and environmental impact of the company on the community in which it operates."

Para 25

"In its consideration of the integrated report, the audit committee should consider any factors that may predispose the management to present an incomplete or misleading picture of the company's position, performance or sustainability. Such factors may include, for example, a perceived need to counter adverse market sentiment or to report the achievement of performance targets on which bonus payments depend."

In terms of the "GRI sustainability reporting framework – G3 Guidelines", in considering these factors, the following should be taken into account.

[1] King III is effective 1 March 2010

Materiality

The information in a report should cover topics and indicators that reflect the organisation's significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders.

Stakeholder inclusiveness

The reporting organisation should identify its stakeholders and explain in the report how it has responded to their reasonable expectations and interests.

Sustainability context

The report should present the organisation's performance in the wider context of sustainability.

Completeness

Coverage of the material topics and indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental, and social impacts and enable stakeholders to assess the reporting organisation's performance in the reporting period.

Paras 26-29

"The audit committee should:

- *be responsible for evaluating the significant judgments and reporting decisions affecting the integrated report made by management, including changes in accounting policies, decisions requiring a major element of judgement and the clarity and completeness of the proposed financial and sustainability disclosures*
- *require explanations from management on the accounting of significant or unusual transactions and should consider the views of the external auditor's in these instances*
- *understand how the board and the external auditor (and any other relevant external assurance provider) evaluate materiality for integrated reporting purposes*
- *be informed of any monitoring or enforcement actions against the company, for example by a regulatory agency, on a timely basis, to allow the audit committee to be involved in the company's response to such monitoring or actions*
- *consider any evidence that comes to its attention that brings into question any previously published financial or sustainability information, including complaints about this information. Where necessary, the audit committee should take steps to recommend that the company publicly correct the previously published financial or sustainability information if it is materially incorrect*
- *carefully review forward-looking statements of financial or sustainability information to ensure that the information provides a proper appreciation of the key drivers that will enable the company to achieve these forward-looking goals."*

King II introduced the concept of sustainability reporting, but this was a separate concept and separate document, and not integrated into the financial information. With King III there is an increased emphasis on sustainability and its inseparable interface with strategy and control.

Furthermore, King III introduces specific duties for the audit committee with regard to integrated reporting.

Financial

Paras 30-33

"The audit committee has a specific responsibility to comment on the financial statements, the accounting practices and the internal financial control of the company and as such the audit committee should keep the board apprised on these matters.

The audit committee's review of financial reports should encompass the annual financial statements, interim reports, preliminary or provisional result announcements, summarised integrated information, any other intended release of price-sensitive financial information and prospectuses, trading statements, circulars and similar documents.

Scrutiny by the audit committee should not be confined to the primary financial statements and should extend to all relevant narrative information which should present a balanced view of the company's performance.

The audit committee should be informed when there is a disagreement on auditing or accounting matters between the management and the external auditors. Where an accounting opinion has been requested from a person other than the external auditor of the company, the reasoning for the accounting treatment adopted should be obtained and should be approved by the audit committee before the committee's recommendation is made to the board. The audit committee should also be satisfied with the credentials of the person providing such an opinion.

For the audit committee to assist the board to make a statement on the going concern status of the company, it should review a documented assessment prepared by management of the going concern status of the company. To enable the audit committee to conduct a thorough discussion, management should document the key assumptions in reaching their conclusions."

King II required the audit committee to review:

- The reliability and accuracy of the financial information provided to management and other users of financial information, and whether the company should continue to use the services of the current external and internal auditors; and
- Any accounting or auditing concerns identified as a result of the internal or external audits.

However, this is further emphasised and expanded on in King III.

Sustainability

Paras 34-36

"The board is responsible for the integrity of integrated reporting. The audit committee should be tasked by the board to assist by overseeing the integrity of the integrated report. As part of this assigned responsibility, the audit committee should recommend the annual financial statements for approval by the board. The overseeing of sustainability issues in the integrated report should be delegated to the audit committee by the board.

The audit committee should assist the board in approving the disclosure of sustainability issues in the integrated report by ensuring that the information is reliable and that no conflicts or differences arise when compared with the financial results.

The audit committee should recommend to the board to engage an external assurance provider to provide assurance over material elements (such elements should be determined by the relevant committee responsible for overseeing the sustainability reporting) of the sustainability part of the integrated report. The audit committee should evaluate the independence and credentials of the external assurance provider."

Previously, the audit committee did not have any specific duties with regard to sustainability reporting.

In addition, there is now a new recommendation for assurance to be obtained over material elements of sustainability reporting.

Interim results

Paras 37-40

"The board should periodically review the needs of users of financial information of the company and, based on that review, determine whether interim information should be provided every six months or more frequently, for example quarterly.

The audit committee should consider whether the external auditor should perform assurance procedures on interim results and should make a recommendation to the board in this regard. Considerations could include modifying the audit report on the last set of annual financial statements or identifying issues regarding the previously issued interim results.

Where the external auditor is engaged to perform a review of the interim results, the audit committee should review the results of such engagement.

Where the external auditor is appointed to perform a publicly reported review of the interim results, the report of the external auditor should be made available to users of the interim results and should be summarised in the interim results."

These requirements have not changed significantly.

Summarised information

Paras 41-45

"Due to the volume and complexity of information conveyed in the integrated report, users benefit from a summary of the integrated report. The company should therefore prepare a summarised integrated report in addition to the complete integrated report.

The objective of the summarised integrated report is to give a concise but balanced view of the company's integrated information. In preparing the summarised integrated report, companies should give due consideration to:

- *providing key financial information. The International Financial Reporting Standard on Interim Reporting (IAS 34) provides useful guidance as to which financial information and notes should be included;*
- *providing sufficient commentary by the company to ensure an unbiased, succinct overview of the company's financial information; and*
- *providing the company's key performance measures regarding sustainability information.*

Summarised integrated information should be derived from the underlying integrated report and should include a statement to this effect.

The audit committee should engage the external auditors to provide an assurance report on summarised financial information, confirming that the summarised financial information is appropriately derived from the annual financial statements.

Both the complete and summarised integrated reports should be made available to stakeholders electronically and should be placed on the company's website. The board should however consider the nature of its stakeholder base in determining the appropriate method of disseminating the summarised integrated report. Where a large proportion of stakeholders do not have electronic access to the company's information, hard copies of the summarised integrated report should be made available to all the stakeholders on written request to the company's secretary or directed to the company's registered office."

This requirement for a summarised integrated report is a new concept and is based on the fact that the full integrated reports are expected to contain a lot more information than was presented previously.

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