MOORE STEPHENS
CHARTERED ACCOUNTANTS (SA)

It takes a King to Govern on integrated sustainability reporting

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One can speculate on how many people were familiar with the term “corporate governance” prior to 1994? The answer is, probably not that many. However, 15 years into our delicate democracy, and the term is as commonplace as apple pie, or should that be braaivleis and rugby? According to Grant Fisher, an Internal Audit Associate Director for Moore Stephens Chartered Accountants (SA), for this we can thank Professor Mervyn King and his team of lawyers, accountants and business gurus from the King Commission.

“And believe it or not, there is reason to be thankful. The hard-hearted business world of yesteryear is giving way to a compassionate capitalism, where chasing the all-mighty dollar is balanced with social responsibility and caring for the environment. Admittedly, there is a long way to go, but the third King report on corporate governance is helping to light the way.” Grant talks about a new term that is essentially important to all of us, that of ‘integrated sustainability reporting’. “The roles of the board, risk management, internal audit, and audit committees – these things have been talked about before. But integrated sustainability reporting is important because we care about the future.”

“King III stresses that integrated reporting on economic, social and environmental issues should be forward-looking so that stakeholders can make more informed assessments of the economic value of a company as opposed to its book value.” This is not the first time though that the limitations of financial reporting have been identified, albeit indirectly. On the contrary, academics and analysts alike have long since debated the notorious difficulty of relying on financial reporting as a meaningful indicator of value creation.

“EBITDA, PBIT, HEPS, dividends, Economic Value Added – everyone’s looking for a model that will tell you something about the true value of a company,” says Grant. “The well-known corporate failures of the last decade even led to an interesting comment from George W. Bush, namely that “not everything is black and white in the world of corporate accounting”.

“I can clearly remember an economics lecturer I had teaching us that wealth was ‘the present value of expected future income flows’ - that’s a big change from the difference between assets and liabilities. Most start-up companies would never get off the ground if the entrepreneurs behind them didn’t have faith that the numbers would start looking better as the first few years went by. And perhaps that’s the essence of sustainability reporting – faith. Good faith. Far from answering only to shareholders, companies have to answer to customers, suppliers, employees, and the communities in which they operate. And that takes good faith, because you can’t fool everyone all the time (even if you could pull it off once a year – sustainability reporting needs to be more often).”

This leads to the concept of a ‘reporting gap’. Financial reporting has a long history. Reporting on risk management and internal control is a little bit more recent. According to Grant, if you take a look at the annual reports of some of the better or less well-known JSE-listed companies, one thing that might strike you, is how they all seem to say the same thing about risk management and internal audit. “They all have internal audit departments with unrestricted access to the audit committee. They all have risk management processes embedded in their corporate strategies.” “It’s easy to say you’re doing something when no-one’s checking and that is why the audit profession came into being in the first place. But fret not, because King III has already thought of this and according to Principle 6.5, ‘Sustainability reporting and disclosure should have independent assurance’.” “Independent assurance may not guarantee compliance. It may not guarantee anything at all. But hopefully, it’ll help point some of the big players in the right direction, towards doing business with a conscience. And that’s the kind of business I would want to work for,” concludes Fisher.

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