

UNIVERSITY OF KWAZULU-NATAL

**INTERNAL AUDIT'S ROLE IN THE INTEGRATED
REPORTING PROCESS IN DURBAN**

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DECLARATION

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ABSTRACT

The progress of Integrated Reporting brings about an opportunity for Internal Audit to fill the role of the assurance provider on the information included in the Integrated Report. Providing assurance on the Integrated Report gives the stakeholders of the organisation more confidence in the reported information and allows for accurate decision making.

The Integrated Report is made up of various capitals that consist of financial and non-financial information. Due to non-financial information becoming more significant to the stakeholder, it becomes crucial that this information is verified by an independent assurance provider.

It is important to identify the ideal assurance provider who possesses the necessary competence and the required independence to verify that the information is accurate, valid and complete. This creates opportunities for many ideas and opinions on who the assurance provider should be and who is best suited for this role.

The study investigates whether or not a role for Internal Audit exists in the Integrated Reporting Process and what that role is. Through in-depth interviews with the Heads of Internal Audit at four JSE-listed organisations in Durban, the role of the Internal Audit Departments was compared and analysed. The outcomes of the case studies were then compared to available literature.

The research is motivated by the desire to add value to the Internal Audit profession and to allow the profession to grow. By identifying the current and future role of the Internal Audit Department in the Integrated Reporting Process, the results can assist companies to prepare for the emerging role and obtain the necessary resources to provide the required assurance.

The findings of this research identified whether or not the Internal Audit Department is currently involved in the Integrated Reporting Process, and identify what the role of the department is. Furthermore, any differences between the Internal Audit Departments within the four organisations were examined. Finally the opinions of the Heads of Internal Audit were compared to determine the future role of Internal Audit in Integrated Reporting.

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LIST OF ACRONYMS

BOD	–	Board of Directors
CAE	–	Chief Audit Executive
CEO	–	Chief Executive Officer
IIRC	–	International Integrated Reporting Council
JSE	–	Johannesburg Stock Exchange
KPI	–	Key Performance Indicator
IA	–	Internal Audit
IIA	–	Institute of Internal Auditors
IR	–	Integrated Reporting
IRC	–	Integrated Reporting Committee

CHAPTER ONE: INTRODUCTION TO RESEARCH

1.1 Introduction

“Without assurance on nonfinancial metrics, the benefits of Integrated Reporting are greatly diminished” (IIA, 2013:14). This brings about the question as to who is best suited for the role as the Integrated Reporting assurance provider.

Although there are a few contenders for the role of the Integrated Reporting assurance provider, this thesis will focus on the Internal Audit profession, whether or not it can fulfill this role and what that role is.

The Internal Audit Department is positioned in such a way that it can identify and assess risks across the organisation and provide assurance on items reported in the Integrated Report. This becomes possible because Internal Audit has a “seat at the table” from which it can influence the adoption of Integrated Reporting, which thereby improves and strengthens the Integrated Reporting Process.

“Internal Auditors can support the adoption of Integrated Reporting by fulfilling existing requirement to contribute to governance, risk management, and control processes as stated in Standard 2100” (IIA, 2013:14). In addition to the assurance that Internal Audit provides for the Integrated Report, there is an opportunity to act as an advisory function to senior management and the board, which adds value to the organization and the Integrated Report.

1.2 Background

The critical aspects of this study include the understanding of the basic aspects of the Integrated Report, analysing the need for assurance, the types of assurance provided and the Internal Auditors’ role in providing assurance.

1.2.1 The Integrated Report

King III should be applied to all organisations in South Africa but it is only a requirement for organisations listed on the Johannesburg Stock Exchange (JSE). The King III code follows an “apply or explain” principle, which requires organisations to either apply the code or to explain that a certain practice is not in the best interest of the organisation. One of the King III requirements is the use of Integrated Reporting, which not only focuses on the financial

performance, but also focuses on the sustainability of the organisation. This discloses the positive and negative impact that the organisation has on its stakeholders, thereby giving the stakeholders a more holistic view of the organisation, allowing for more informed decision making (Institute of Directors SA, 2010).

1.2.2 The Need for Assurance

With more emphasis placed on assurance on the internal controls of the organisations, it is no surprise that the same emphasis is placed on the need for assurance on the Integrated Report. For the Integrated Report to be a reliable source of information for the stakeholder to make decisions, there needs to be independent assurance that ensures that the information reported is accurate, valid and complete. A Combined Assurance Model can be implemented, led by the Internal Audit Department, to provide assurance on the Integrated Report (Wentzel, 2009).

1.2.3 Types of Assurance Providers

Different types of assurance exist that could be implemented for the Integrated Reporting Process. In the study, however, only three types of assurance will be compared. The three types are External Assurance, Internal Assurance or Combined Assurance.

The use of External Assurance provider to provide reasonable assurance on the financial statements of an organisation is already a legal requirement. Therefore, the focus of this thesis will be placed on the assurance of non-financial information.

Non-financial information can then either be verified by an external party, an internal department or by using the Combined Assurance Model. This Combined Assurance Model “coordinates assurance activities between various assurance providers, as a leading and recommended practice” (Sarens, Decaux, Lenz, 2012:3). Over time the assurance models within organisations have dramatically changed. The Combined Assurance Model has now been recognised as the most effective way to provide the stakeholders with the peace of mind that controls within an organisation are functioning adequately and information in the Integrated Report is accurate.

1.2.4 The Role of Internal Audit

The current and future role of Internal Audit in the Integrated Reporting Process was investigated by combining literature research with in-depth knowledge of the Heads of Internal Audit at some of the leading organisations in Durban.

1.3 Literature Review

The literature review gives an overview of what Integrated Reporting entails and describes various inputs, outputs and requirements of Internal Auditing. From the background on Integrated Reporting, the focus will move towards the King III requirements and how the Integrated Report can become a reliable source of information.

In order to provide reliable information, assurance activities need to be conducted on the Integrated Report. The literature review includes the various types of assurance that can be provided for the Integrated Report and the types of assurance providers. This is followed by the role of Internal Audit in the Integrated Reporting Process, as both assurance provider and as facilitator and co-ordinator of the Combined Assurance Model. Finally the way forward for Internal Audit in the Integrated Reporting process will be investigated.

The questions that the Heads of Internal Audit at the four JSE-listed organisations in the case study were asked, are based on the literature review. Supporting information was sourced from books, publications and the internet.

1.3.1 The 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” (International Integrated Reporting Counsel, 2014:2). It is a process founded on integrated thinking to show the value creation of the organisation over time (International Integrated Reporting Counsel, 2014:3). The information for this section will come mainly from the Integrated Reporting Framework and will be described in more detail. Included in this section are the eight contents elements, the capitals listed below in 1.3.1.2, the reliability of the information and the assurance provided on the information reported in the Integrated Report.

1.3.1.1 Content Elements

There are eight elements that are fundamental to the Integrated Report. The Integrated Report connects these eight elements to show the interactions between them. This could be in the form of showing how the risks and opportunities are used to tailor the organisations strategy, or linking the strategy to external factors such as technology changes and resource shortages. These content elements reflect a holistic view of the organisations activities (International Integrated Reporting Counsel, 2013).

1.3.1.2 Capitals

Capitals are stocks of value that are used to create value through the organisations activities and outputs. The capitals will be individually assessed and audit examples identified. These stocks of value are inputs into the organisation and are categorised in to the following groups:

- Financial capital
- Manufactured capital
- Intellectual capital
- Human capital
- Social and relationship capital
- Natural capital

1.3.2 Reliability of the Information in the Integrated Report

The purpose of identifying an assurance provider is to ensure that the stakeholder receives relevant and reliable information. In order to achieve this, strong emphasis is placed on robust internal controls and reporting systems. Organisations should engage with the stakeholders to become aware of reporting requirements, and then rely on Internal Audit or a similar function to provide independent and objective assurance (International Integrated Reporting Counsel, 2013:22).

1.3.3 King III on Integrated Reporting

The King III Code on Governance will be analysed for information on assurance and the role of the assurance provider. The King III Report (2009) defines an Integrated Report as "a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability" (Institute of Directors, 2009:54).

King III states that the Integrated Report should be produced annually and should include both financial and sustainability information and should replace the annual financial report.

1.3.4 Assurance on the Integrated Report

The main discussion point around the Integrated Report is the assurance that is required for reliable information to be reported. Assurance is defined as “a positive declaration intended to give confidence” (Oxford Dictionary, 2014). The much needed assurance on the Integrated Report will enhance the degree of confidence of the intended user. To gain the most value, the IIRC requires an assurance practitioner who is independent of the organisation and who is competent to perform this task, to provide assurance on the Integrated Report (International Integrated Reporting Counsel, 2014:6). More detail will be included specifically around the required assurance and the various types of assurance.

1.3.5 Combined Assurance Model

The Combined Assurance Model allows for a holistic and transparent way to provide assurance for an organisation. With this model it is easy to identify which assurance provider performs which function and whether this activity is adequate. According to King III (2009), “a Combined Assurance Model should be applied to provide a co-ordinated approach across all assurance activities. The facilitator of the Combined Assurance Model co-ordinates the efforts of management, internal assurance providers and external assurance providers in a manner that ensures collaboration” (Grant Thornton, 2012:2). This model will be looked at in context with the Integrated Reporting Process, to identify whether or not this model could be applied.

1.3.6 Role of Internal Audit in the Integrated Reporting Process

It will first be identified whether or not a role for Internal Audit in the Integrated Reporting Process exists. If it exists, the role of Internal Audit will be explored. “Internal Audit Departments broad view across the whole organisation, knowledge of the sources of information, systems and processes that generate that information and understanding of the organisation’s risks and controls puts the department in the perfect place to give a comprehensive view of how the organisation manages its capitals” (Audit and Risk, 2014). By having this insight, Internal Audit can add more value to the organisation by providing the necessary assurance.

1.4 Motivation for the Research

To provide the stakeholder with accurate and complete information, it is necessary to provide assurance that the information reported in the Integrated Report is in fact, accurate and complete. After performing some research it became evident that the role for an assurance provider on the Integrated Report has not been established. This creates the opportunity for existing assurance provider to seize the role of assurance provider on the Integrated Report.

The Internal Audit profession stood out as a possible contender for the assurance function on the Integrated Report. The reason for this is that the Internal Audit Department is an independent function of the organisation, with the required skill-set, which already provides assurance on the organisation internal controls. Due to the accessibility and know-how of the organisation, Internal Audit could provide the assurance in the most efficient manner without having to first gain an understanding of the process of the organisations and the capitals that are included in the Integrated Report. King III recommends that each organisation has an Internal Audit Department, which can be expanded to include providing independent assurance on the Integrated Report. This can be accomplished by extending the audit plan to include the verification of information reported and adding the internal controls around to the existing control tests. There is therefore motive to investigate whether or not the Internal Audit Department could perform the role.

1.5 The Importance and Benefit of the Study

The research is motivated by the desire to add value to the Internal Audit profession and to allow the profession to grow. By identifying a role for Internal Audit in the Integrated Reporting Process, the companies within the Durban area can prepare their resources to accommodate the additional tasks. The research can help smaller organisation mature their Internal Audit Departments to be in line with more established organisations. This assists the Internal Audit Department to be more established in their organisations and thereby add value and improve the organisations' operations.

1.6 Aim of the Study

The aim of the study was to identify whether or not a current role for Internal Audit exists in the Integrated Reporting Process and what that role is. The study included the direction in which the Internal Audit Profession is heading.

1.7 Objectives of the Study

The following objectives were identified for this research:

- To identify if there is a role for Internal Audit with regard to Integrated Reporting, and what this role is.
- To investigate whether or not a Combined Assurance Model is used for the assurance on the Integrated Report.
- To explore the future of Internal Audit with regard to Integrated Reporting and whether or not a standard role can be identified.

1.8 Research Methodology

A qualitative method for collection of information will be used, by conducting case studies on organisations listed in the Durban area. The case studies will be face to face interviews as the “respondents are more likely to give their undivided attention when an interviewer is present. A good interviewer will help build rapport with the respondent without, of course, in any way introducing bias by leading the respondent or “explaining” the questions in interviewees own words” (PCP, 2014:2).

The bulk of the information for the case study will be gathered from the Heads of Internal Audit of the four JSE-listed organisations. In-depth interviews will be conducted and the questions will be directed towards the involvement and responsibility of Internal Audit in the Integrated Reporting Process and what role Internal Audit plays within the Combined Assurance Model, if one exists. The maturity of the departments will also be explored, by comparing the organisations to one another and to the available literature. The questions will then be directed toward the future role of Internal Audit within in the organisation.

The questions will all be open-ended to avoid limiting the interviewees’ response. “This would give a very good idea of the variety of ideas and feelings people have, it enables them to think and talk for longer and so show their feelings and views more fully” (Palgrave Study Skills, 2014:8).

An advantage of using the case study method is that it is considered to be a powerful means to illustrate the real situation. The information obtained through the interviews will be analysed by focusing on only the relevant information (Palgrave Study Skills, 2014:8).

The case study method will take place on the organisations premises and will rely on the researcher as the instrument for data collection by being both inductive and deductive and the data will be based on the participants meaning.

1.9 Limitation of the Study

The limitation of using a qualitative approach and conducting face to face interviews are the following (Creswell, 2014):

- Time constraints
- Organising information
- Generalising findings
- Limited sample

The limited sample size may have not added enough information to provide a comprehensive process for Internal Audits responsibility around Integrated Reporting, but it provided a guideline of what has been implemented thus far. It looks into the future of the Internal Auditors' role in Integrated Reporting.

A further limitation is the lack of available literature as this topic did not previously exist, so limited information is available to research.

1.10 Research Analysis

The process of analysing the data will be performed according to Creswell's (2014:199) seven steps. The steps can be interrelated and do not necessary have to be in order:

- **Step 1:** Organise and prepare the data for analysis.
- **Step 2:** Read through the data and gain an understanding of the holistic picture of that the interviewee describes.
- **Step 3:** Code the data into segments or categories to analyse more in-depth.
- **Step 4:** Describe the information in more detail.
- **Step 5:** Describe the themes identified, into a finding structure.

- **Step 6:** Interpret the information that is documented.

The interpretation of the information was formulated into a conclusion, which identified whether or not Internal Audit has a role to play within the Integrated Reporting Process. This could help organisations to plan their resources and to cater for the additional requirements of the Board of Directors. The conclusion could further help the International Integrated Reporting Council to identify a suitable assurance provider for the Integrated Reporting Process.

1.11 Structure of the Study

The proposed brief contents of the dissertation are as follows:

- Chapter One

This is the introduction which explains the purpose for the research that was undertaken.

- Chapter Two

This chapter is the literature review. It provides a critical analysis and evaluation of existing knowledge pertaining to each of the research objectives.

- Chapter Three

The case study describes the responses of the Head of Internal Audit at four JSE listed organisation in Durban. Through in-depth interviews, the current role of the Internal Audit Department has been identified at the four organisations and the strategic view of the future role of Internal Audit has been documented.

- Chapter Four

The analysis compares the information provided by the Head of Internal Audit at the four organisations that were selected for this study. This information was analysed to identify similarities and differences between the operations of the Internal Audit Departments. By comparing the involvement of the Internal Audit Departments in the Integrated Reporting Process, the maturity of the various organisations was revealed.

The results of the initial analysis were compared to the available literature to identify the differences between them.

- Chapter Five

This is the conclusion which explains whether or not there is a role for the Internal Audit Department in the Integrated Reporting Process.

1.12 **Summary**

This chapter outlines the approach to the study. A brief description of the various areas of the research was given. This was followed by a review of the key literature topics that will be identified and analysed. The motivation, importance and benefit of the study, key objectives and limitations are identified. The structure of the study is then discussed with brief notes on the chapter contents. Chapter two presents literature which is relevant to the research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The role of Internal Audit as an assurance and advisory function for Integrated Reporting should be explored, as more organisations are moving toward Integrated Reporting. Of 250 Global companies, 95% already report on sustainability, which raises the need for assurance for the accuracy and completeness of that information (Global Reporting Initiative, 2013). As the need for assurance on the reporting items increases, more emphasis is placed on finding the best suited assurance provider to provide the required assurance on the Integrated Report.

In this chapter, the Integrated Report is studied in more detail. The various assurance types were discussed to identify whether or not the Internal Audit Department can be seen the best suited assurance provider for the Integrated Report. The role of the assurance provider would, however, not be limited to providing only assurance, but taking a more strategic role in assessing the risk of an organization in the short, medium and long term (Institute of Internal Auditors, 2013).

2.2 Integrated reporting

“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” (International Integrated Reporting Counsel, 2014:2) It is a process founded on integrated thinking, to show the “value creation” of the organisation over time (International Integrated Reporting Counsel, 2014:3).

The Integrated Reporting Framework is principle-based and therefore no specific key performance indicators (KPIs), measurement methods or disclosure requirements exist, but merely prescriptions to ensure that there is comparability across the organisation (International Integrated Reporting Counsel, 2013). This gives organisations the flexibility to create the report according to its individual circumstances. The responsible individuals within the organisation should apply their judgement when deciding which matters are material and should be reported on, and how to disclose these items in the report. The items reported should be disclosed in such a way that it is in line with generally accepted measurements.

Reporting on the performance of an organisation has come a long way. Annual reporting started with only the financial status of the organisation. This is called Single Bottom Line

reporting. Thereafter the reporting structure changed to include sustainability and environmental items, which is called the Triple Bottom Line reporting. Included in the 2009 King III report was the requirement for all organisations to create an Integrated Report. Due to the lack of guidance to create such a report, the International Integrated Reporting Council (IIRC) launched the Integrated Report Framework.

The Integrated Reporting Framework was developed by forming discussion groups with leading organisation and using the discussion papers as input for the creation of the framework. The key elements that were revealed in this discussion paper were incorporated into the International Integrated Reporting Framework (International Integrated Reporting Council, 2013).

The Integrated Report gives a better overview of the organisations strategy, governance, performance and prospects, in the context of its external environment. This leads to the creation of value in the short, medium and long term. With an Integrated Report the stakeholders will have a more holistic view of the organisation and its activities (Sustainability SA, 2014).

Integrated Reporting has become more important as stakeholders of the organisations have become more demanding on the complete performance of the organisation and how the organisation creates value over time. This helps the stakeholder to make informed decisions by analysing the report and identifying the future value creation ability of the organisation.

The Integrated Report should indicate whether the organisation affected the economic life of the community, positively or negatively, and how it will enhance the positive, and decrease the negative impact. Sustainability should be embedded in the organisation and this should be included in the Integrated Report and should be integrated in the organisations processes. The Audit Committee should decide on an assurance provider that is independent and should provide assurance over material elements. The Audit Committee should oversee the information provided for the Integrated Report. They should ensure that the sustainable information is reliable and they should agree to the financial results (Institute of Directors, 2009).

The key aspects of the report “revolve around leadership, sustainability and corporate citizenship” (Dialogue, 2013:3). It is imperative that the leaders of the organisation are characterised by the ethical values of transparency, responsibility and accountability to

achieve sustainable economic, social and environmental performance. Sustainability becomes the focal point of the Integrated Report as “Nature, society, and business are interconnected in complex ways that should be understood by decision-makers” (Trialogue, 2013:5). It is also stated that the organisation is a corporate citizen and should therefore act in a sustainable manner (Trialogue, 2013).

Two concepts are used in the Integrated Report, namely, “the capitals” and “value creation process” (International Integrated Reporting Counsel, 2013:14). According to the International Integrated Reporting Framework, the definition of the capitals is “stocks of value that are increased, decreased or transformed through the activities and outputs of the organisation. They are categorised in this Framework as financial, manufactured, intellectual, human, social and relationship, and natural capital” (International Integrated Reporting Counsel, 2013:5). These are not required categories for organisations, but a guideline for the structure of the report to ensure all important capitals are included. The categories and descriptions of the capitals are explained in more detail in section 2.2.1.

The “value creation” process is the organisations ability to create financial return for the investors of the company. This is, according to the International Integrated Reporting Framework, “interrelated with the value the organization creates for stakeholders and society at large through a wide range of activities, interactions and relationships” (Sustainability SA, 2014:6). Any material items that are required for the organisation to create value should be included in the Integrated Report.

It is the International Integrated Reporting Councils vision that, one day, all organisations will report on their business practices in the form of an Integrated Report. This will improve the quality of the information, promote a more “cohesive and efficient approach to corporate reporting” (International Integrated Reporting Counsel, 2014:4) and increase the accountability and responsibility of the various capitals that are used to generate the information in the Integrated Report.

2.2.1 Content Elements

There are eight elements that are fundamental for the Integrated Report and that should be included in the report. The Integrated Report connects the eight elements to show the interactions between them. This could be in the form of showing how the risks and opportunities are used to tailor the organisations strategy, or linking the strategy to external

factors such as technology changes resource shortages. The content elements reflect a holistic view of the organisations activities (International Integrated Reporting Counsel, 2013).

The first element is an overview of what the organisation does and in which environment it operates. This could include the history of the organisation, the core business and the different revenue streams (International Integrated Reporting Counsel, 2013).

The second element is governance. Governance explains how the organisation is directed and controlled. According to the Economic Times (2009) corporate governance is a “set of systems, principles and processes by which a company is governed. They provide the guidelines as to how the company can be directed or controlled such that it can fulfil its goals and objectives in a manner that adds to the value of the company and is also beneficial for all stakeholders in the long term. The stakeholders are the Board of Directors, management, shareholders to customers, employees and the society” (The Economic Times, 2009).

The third element is explaining the business plan. This involves documenting the goals of the organisation and the details of how these goals will be achieved. The core of the business plan includes detail on how the organisation plans to generate the revenue and expenses it incurs (Berry, n.d).

Fourth on the list of elements are the risks and opportunities that the organisation identifies. This includes the major risks the organisation faces, and how it is planning to mitigate the risks, or how to use the opportunities that arise, to achieve the organisations objectives.

The fifth element focuses on the way forward. This includes the allocation of resources, which is defined as “the apportionment of productive assets among different uses and allocating these resources in such a way to promote efficiency and equity and maximise the output of these resources” (Encyclopaedia Britannica, 2014).

The sixth element is an element that has been included in reporting, even before Integrated Reporting was introduced. This is the performance of the organisation. This element should present the outcomes of the organisations strategic objectives in terms of the effects on the capitals.

The seventh element is forecasting or the “outlook” of the organisation (International Integrated Reporting Counsel, 2013). The forecast predicts any uncertainty, may it be good or

bad, that the organisation faces while trying to achieve the strategic objective. The uncertainty should be further broken down into the potential implications that this could have on the business model and future performance.

The eighth element is deciding on the relevancy of information. Namely, what is considered material and adds value to the report, and how to quantify and evaluate these items (International Integrated Reporting Counsel, 2013).

2.2.2 **Capitals**

The capitals included in the Integrated Report are stocks of value that are used to create value through the organisations activities and outputs. These stocks of value are inputs into the organisation and are categorised in the following manner:

- **Financial Capital**

This comprises of the funds that are available for the production of goods or delivery of services, and are obtained through operations, investments or debt financing (International Integrated Reporting Counsel, 2013:12).

- **Manufactured Capital**

These include assets that are manufactured for the organisation to produce goods or the delivery of services, however, these also include assets that could have been manufactured by the reporting organisation for the sale of assets or the use for production or services. Included in manufactured capital are buildings equipment and infrastructure such as roads and bridges (International Integrated Reporting Counsel, 2013:13).

- **Intellectual Capital**

This is split into two types. The first is non-tangible assets in the form as patents, copyrights, software and rights and license, and the second is the actual knowledge the organisation has accumulated by ways of systems, procedures and policies to achieve objectives more efficient and effectively (International Integrated Reporting Counsel, 2013:13).

- **Human Capital**

Human capital involves the skills, competencies and experience of the people within the organisation. The competencies of the people need to be aligned with the requirements for the organisational governance Framework, risk management and ethical values. This can only be

accomplished if the strategy is communicated and implemented and the people within the organisation lead, manage and collaborate to improve processes (International Integrated Reporting Counsel, 2013:13).

- Social and Relationship Capital

An organisation needs to build relationships with and between the communities it operates in. This includes enhancing individual and collective well-being by striving to build and protect the external stakeholders. This could be in the form of developing the infrastructure (such as roads, ports, bridges, and waste and water treatment plants) as well as sharing norms, common values and behaviours (International Integrated Reporting Counsel, 2013:13).

- Natural Capital

Included in the report are the natural resources that the organisation uses for past, present and future profits. This includes air, water, land, minerals and forests as well as the biodiversity and eco-system health (International Integrated Reporting Counsel, 2013:13).

The capitals give the creator of the Integrated Report a guideline for to the information that should be included to create a holistic report. The creator should also decide on which information should be included to create the best possible report, on which the stakeholders can base their decisions. In order to do this, the Integrated Reporting Framework recommends basing the information on the following criteria (International Integrated Reporting Counsel, 2014:13):

- Relevance

The information reported must be relevant to the organization and relevant for the user to make a decision.

- Completeness

The report must include all relevant information from all areas of the organization. No information is omitted from the report.

- Reliability

The information reported must be reliable due to reasonable assurance, provided that the information has been verified.

- Neutrality

The information must be free from bias, both from preparer and assurance provider.

- Understandability

The information reported must be understood by the intended users.

Figure 2 - 1 shows the different types of capitals that influence an organisation and in turn, should be included in the Integrated Report. Where previously only the financial information was reported, it is now just one component of the annual report. The figure further shows how the organisation creates value as the various inputs into the organisation are transformed through business activities into outputs. From there, the components are reported as the outcomes, in terms of the capitals, which are in line with the mission and vision of the organisation. The outcomes are the consequences of the capitals, as a result of the organisations activities and outputs. The outcomes could be positive or negative.

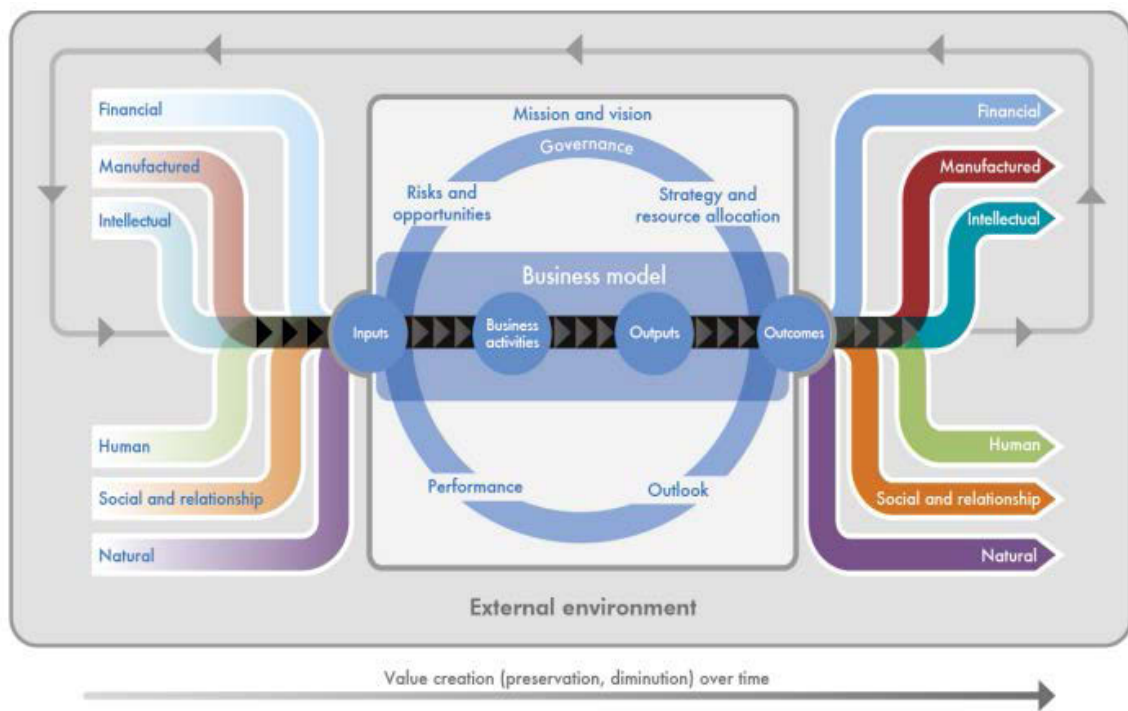


Figure 2 - 1: Transformation of Capital Inputs to Outcomes, Through Business Activities
Source – The International Integrated Reporting Framework, the Value Creation Process (International Integrated Reporting Counsel, 2013:14).

2.3 King III on Integrated Reporting

Integrated Reporting principals have been developed more rapidly in South Africa because all listed companies are required to submit an Integrated Report, on an apply or explain basis, in accordance with King III. This was due to the political turn in 1994, which created the need for more transparency, equality and disclosure of information.

The first King Code on Corporate Governance focused on the need for companies to disclose a balanced view of the organisation. The second King Code included the need for an integrated approach, which involved looking beyond financial reporting and including social and environmental issues facing the organisation and the impact on its stakeholders. It was the King III Code on Corporate Governance which, during the financial crisis, expanded on Integrated Reporting and the need for further transparency.

King III defines Integrated Reporting as “a holistic and integrated representation of the company’s performance in terms of both its finance and its sustainability” (Institute of Directors, 2009:54). Shortly after King III was published, the International Integrated Reporting Council was founded to assist in the development of best practice principles for reporting. The reason for establishing the International Integrated Reporting Council, was that King III did not specify what is expected from organisations when creating their Integrated Report. The IIRC, therefore, developed a principle-based approach to guide the listed organisations in the process of creating their Integrated Report. “Integrated reporting is a global movement and South Africa is aligned and firmly part of this movement” (Druckman, 2013:20).

Since the release of the King III Code on Corporate Governance, many organisations and large state-owned companies have issued Integrated Reports. This will grow now that the Framework has been developed, and more organisations will be issuing Integrated Reports.

2.4 Reliability of the Information in Integrated Report

In line with providing the stakeholder with a holistic view of the organisation, is ensuring that the information provided is relevant and reliable. In order to achieve this, strong emphasis is placed on robust internal controls and reporting systems. In addition, organisations should engage with the stakeholders, and rely on Internal Audit or a similar function and independent external assurance (IIRC, 2013:22). It is a combined effort to ensure that the information provided for the Integrated Report is accurate, complete and adds value to the stakeholder.

Those charged with providing effective internal controls, performance management and reporting systems, ultimately have the responsibility to ensure that the “organisation’s strategy, governance, performance and prospects lead to value creation over time. They are responsible for ensuring that there is effective leadership and decision-making regarding the preparation and presentation of an Integrated Report, including the identification and oversight of the employees actively involved in the process” (International Integrated Reporting Counsel, 2013:22).

By using audit trails in the Integrated Report, senior management are given the ability to judge the integrity of the information. This method of ensuring reliability and integrity of information could potentially be included in the report to give the stakeholders peace of mind (Isometrix, 2014).

2.5 Assurance on the Integrated Report

Assurance is defined by the Oxford Dictionary as “a positive declaration intended to give confidence” (Oxford Dictionary, 2014). In the Integrated Reporting Process, assurance is the process of providing a conclusion that enhances the degree of confidence that the intended user can place on the organisation. In order for this to happen, the IIRC requires an external practitioner who is independent of the organisation and who is competent to perform this task (International Integrated Reporting Counsel, 2014:6).

There are two processes that make up the Integrated Reporting Process. The first process is identifying and creating the structure of the report. This is done by identifying which items need to be included in the report by deciding on the materiality of the information and how it impacts the end user of the report. The second process is the underlying data that is included in the Integrated Report. This includes the key risks, strategy, opportunity, performance indicators, financial and non-financial information and correlating the information into a report. The process includes ensuring that the data that is included in the report is accurate and complete. In most organisations this data has been created before the existence of the Integrated Report, for review by Senior Management to make strategic decisions. To ensure accuracy of this information, management review and data processing controls were applied (International Integrated Reporting Counsel, 2014:28).

It has become necessary to provide assurance on the two processes to ensure that both the structure of the Integrated Report is correct and that all the material information is included to generate an accurate and complete the report.

The assurance that is required is not on the quality of the strategy or the performance of the organisation but rather whether or not the information is reported according to the Integrated Reporting Framework. This ensures the completeness of the report and provides the stakeholder with the required information to make an informed decision.

Assurance can be split into three types, namely, limited assurance, reasonable assurance and a combination of the two types. Limited assurance is a less detailed level of assurance that is cost effective but it is less conclusive than the other types.

Reasonable assurance, on the other hand, is what external auditors provide on the financials of the organisation. This ensures that no material misstatement is included in the report. A more detailed explanation of the three types of assurance, according the International Integrated Reporting Council, is as follows:

- Reasonable assurance

In this type of assurance, the assurance provider reduces the risk of inaccurate, incomplete and invalid reporting to an acceptably low level. It is, however, still less than absolute assurance. The assurance provider uses procedures to identify and assess the risk of material misstatement of information reported in the Integrated Report. The assurance provider then designs and performs procedures to respond to the assessed risk to obtain reasonable assurance to support the conclusion (International Integrated Reporting Counsel, 2014:14).

- Limited assurance

The assurance provider reduces the risk to a lower level, but still higher than that of reasonable assurance. “The nature, timing and extent of procedures performed is limited compared with the necessary in a reasonable assurance engagement, but is planned to obtain a level of assurance that is, in the assurance providers judgment, meaningful” (International Integrated Reporting Counsel, 2014:14).

In order for the assurance to be meaningful, the assurance provider has to ensure that the intended user has confidence in the information reported and the assurance provided. The

conclusion would be expressed in a form that conveys whether or not the assurance provider believes that there is a material misstatement.

- Hybrid or mix of difference levels of assurance

This method combines limited and reasonable assurance. The preparer of the Integrated Report might request that different levels of assurance are provided for different information in the Integrated Report (International Integrated Reporting Counsel, 2014:14).

The IIRC recommends a hybrid assurance, by providing limited assurance on hard numbers, and reasonable assurance on soft data and the completeness of the report (International Integrated Reporting Counsel, 2014:6). The table below shows a summary of the different assurance approaches by listing the advantages and limitations of each of the assurance methods.

Table 2 - 1: The Advantages and Limitations of Three Types of Assurance

Approach	Advantages	Limitations
Reasonable assurance on the entire report	<p>Reasonable assurance conveys the assurance provider’s opinion on the accuracy and completeness of information of the content items (e.g. entity's value creation ability) of the Integrated Report.</p> <p>Limited assurance is preferred by the user of the report as it is at the same level as the assurance provided by external auditors on the financials of the organisation. The implications of reasonable assurance are therefore easy to understand by the user.</p>	<p>The disadvantage of reasonable assurance is that it requires more detailed testing than limited assurance. This therefore would be more costly and the need for higher skilled assurance providers is needed. The benefit of reasonable assurance often outweighs the benefits or willingness of the preparer.</p>

Approach	Advantages	Limitations
<p>Limited assurance on the entire report</p>	<p>The advantage of limited assurance is the cost effectiveness, which will reduce the overall cost of the preparer. The reason for the cost effectiveness is the amount of human resources would also be limited as the testing isn't in so much detail.</p> <p>For the user of the Integrated Report, the advantage is that the report includes less detail due to limited testing and can be more transparent as than reasonable assurance.</p>	<p>The assurance provider has to use professional judgement to select the material items of the Integrated Report. This is due to a lack of resources to perform testing on all items, therefore limiting the assurance to material items only.</p> <p>The task of the assurance provider is to convince the user and preparer that the materiality study revealed the most important items that require assurance and that by providing assurance on these items that limited assurance for the entire Integrated Report is still meaningful.</p> <p>The disadvantage for the user of the report is that they may not be comfortable with only limited assurance. The user may inappropriately place more reliance on the opinion of the assurance provider's conclusion of the assurance than what they should.</p>
<p>Hybrid or mixed levels of assurance on the report</p>	<p>"Different levels of assurance may be more suitable for the different types of information in on Integrated Report" (International Integrated Reporting Counsel, 2014:30). Some items do not require detailed testing to provide the user and preparer the peace of mind that the information is accurate and complete and therefore limited assurance suffices. For other</p>	<p>The users may have difficulty in understanding the assurance provider's summary of the assurance provided as some items have limited assurance and others reasonable assurance. This could result in a complex summary that is difficult to communicate to the stakeholder and even more difficult to understand which areas have been chosen for limited vs. reasonable assurance.</p>

Approach	Advantages	Limitations
	<p>information it may be a legal requirement to provide reasonable assurance.</p> <p>The hybrid or mixed level of assurance could indicate the progress the organisation makes towards providing reasonable assurance on the entire Integrated Report.</p> <p>Although the cost will not be as low as purely limited assurance the cost could be managed by only requesting reasonable assurance on certain items in the Integrated Report.</p>	<p>By providing different forms of assurance on various items, the assurance could come across as showing the user on which areas the organisation places value and “could be viewed as contrary to the concepts of the Integrated Report as it might isolate certain information from other information and not consider connectivity”</p> <p>(International Integrated Reporting Counsel, 2014:30).</p>

Source – Assurance on IR: an exploration of issues, Merits and limitation of various assurance providers for IR (International Integrated Reporting Counsel 2014:30).

Independent assurance on the Integrated Report will give the report more credibility over the long term. Stakeholders can place more reliance on information with proper assurance in place. The assurance makes the organisation more trustworthy, which will assist the organisation in achieving its goals.

The information reported in the Integrated Report needs to be trustworthy and reliable in order for a stakeholder to make a decision based on the report. The IIRC calls this “Investment Grade” reporting. In order to provide “Investment Grade” reporting that is credible, independent assurance needs to be implemented. This will assist, amongst others, senior management and others charged with governance of the organisation, to achieve a level of comfort that the information is “Investment Grade” and providers of financial capital then will invest in the organisation (International Integrated Reporting Counsel, 2014:6).

The assurance on the Integrated Report will have different advantages for different stakeholders. The users of the report place reliance on the report to assess whether or not the organisation is conducting business in a manner that meets all of the stakeholders' interests. Assurance builds the stakeholder's confidence in the information provided and gives clarity into the organisations holistic results (International Integrated Reporting Counsel, 2014:10).

The other benefactor of the assurance is the preparer of the Integrated Report. The preparer gives those charged with governance an in-depth overview of the organization and the information provided by management. It gives the directors peace-of-mind that the information reported is accurate and complete, as they are responsible for the Integrated Report (International Integrated Reporting Counsel, 2014:10).

The advantage of providing assurance on the Integrated Report is that the opinion will inform Senior Management and the Board of Directors of any identified weaknesses in the report. It will provide recommendations on how to mitigate the weakness to reduce the risk of material misstatements in the report and to improve the organisations Integrated Report (International Integrated Reporting Counsel, 2014:29).

The challenges to providing independent assurance will include finding the right competencies and skills to review the Integrated Report, determining the depth of the review and the cost of the assurance (Institute of Internal Auditors, 2014:8).

Currently the challenges that exist are that the assurance methodology does not yet exist and Integrated Reports have not yet achieved a level of maturity. Other challenges arise from future information that is reported, which is difficult to validate. If these challenges are not addressed, then it could then lead to inconsistent reporting resulting in an untrustworthy report (Institute of Internal Auditors, 2014:8).

2.6 Combined Assurance Model

With the increasing diversification of risks within organisations, it becomes almost impossible for an individual assurance function to identify problems in time. These risks can be external risks such as politics, changes in the economy, environmental and social movements or internal risks relating to the organisations operations. It is therefore often necessary for most

companies to have a holistic approach to risk management and assurance activities. This must include reviews, opinions and advice from multiple sources.

The Integrated Reporting Framework and King III place emphases on a Combined Assurance Model, “which coordinates assurance activities between various assurance providers, as a leading and recommended practice.” (Sarens *et al.*, 2012:3) This approach “coordinates risk management for all aspects of the company's operations – financial and non-financial” (Asia Centre of Excellence for IA, 2013:3).

Where previously the assurance providers, such as the Internal Audit Department and the compliance function, performed their activities in silos, it has now become best practice to combine these efforts to provide a more efficient and effective assurance process. This method will ensure better transparency and ensure that assurance is provided consistently amongst the organisation.

Apart from the increasing diversification of risks, assurance is also necessary for the various descriptions and categories of capital items (refer to section 8.1.3). Assurance is required for financial and non-financial information and is the key to providing accurate and complete information (Asia Centre of Excellence for IA, 2013). By not using a combined method to provide assurance, the board and senior management often lack the understanding of the global picture for their risk exposure. This could result in gaps in the risk management process as the various functions work independently and not as one assurance activity combining their efforts into one report.

For a Combined Assurance Model in Integrated Reporting to function properly, it is important to determine who fulfils which role. The combined method will be companywide and involve staff at all levels. It is therefore crucial that one function takes ownership to consolidate and coordinate the assurance functions across all departments to prevent duplication and conflict of interest. All the various assurance functions should work together to provide the Board of Directors with a complete risk register with the most relevant risks applicable to the organisation. They should also provide a breakdown of whose responsibility to provide information about the risks. This information should then be consolidated into one report as the board and senior management often lack the understanding of the global picture for their risk exposure. This prevents gaps in the risk management process as the various functions produce one assurance report covering all risks within the organisation.

It is important for the Internal Audit Department, which coordinates the various assurance providers, to have an understanding of the organisations operations and to know where to obtain the non-financial information that the Board of Directors require. The Internal Audit Department would need unrestricted access to information and to people and they would report directly to the board. The department within an organisation that would be best suited for this role is Internal Audit. "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations" (Institute of Internal Auditors, 2013:1). In this definition it is clear that the Internal Audit Department meets the requirements needed to lead the Combined Assurance Strategy within the organisation. The definition of Internal Auditing further states that the department "helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes" (Institute of Internal Auditors, 2013:1), specifying exactly what is necessary for an assurance function. It is therefore clear that the internal audit should be given a more defined role within the combined assurance process as well as "a business partner to the different departments, as an advisor to the management, and as a supporter to the Board" (Asia Centre of Excellence for IA, 2013:4).

The need for internal audit will grow as organisations develop a better understanding of what Internal Audit does and how it can be utilised to manage risk effectively, improve governance and safeguard the interests of the stakeholders. Organisations can then cope "better in today's complicated environment and provide a greater sense of assurance to their shareholders" (Asia Centre of Excellence for IA, 2013:6).

2.7 The Role of Internal Audit in Integrated Reporting

An opinion on the internal controls of the organisation should be provided alongside a statement that the information reported has been verified and is accurate and complete. In many organisations, the Board of Directors, through the Audit Committee, will engage the Head of Internal Audit to provide such a written assessment on their behalf. The assessment will document the effectiveness and adequacy of the controls implemented around the organisations functions and controls, but not about the verification of information reported. By implementing a solid Internal Control Framework in the organisation and ensuring that it is functioning effectively, it should result in accurate information being reported to the organisations stakeholders. The written assessment on the internal controls is communicated

to the Audit Committee and the Board of Directors on a regular basis (Centre of Excellence for IA, 2013).

In order for the Head of Internal Audit to provide such a statement, the Internal Audit Department, as part of a combined assurance process, needs to apply risk-based plans to determine the adequacy and effectiveness of controls. Although Internal Audit is only the third tier in the Three Lines of Defence model, it is the responsibility of Internal Audit to ultimately provide assurance that the first two tiers are controlling the organisational risks adequately and effectively. The three lines of defence as well as a well-developed combined assurance method, provide the Board with accurate and reliable information on the controls relating to the reporting items (Centre of Excellence for IA, 2013).

As part of the combined assurance approach, it is the responsibility of the external auditor to assure that the financial statements have been audited in compliance with the international auditing standards. Internal Audit, on the other hand, focuses on risks that the organisation faces that are financial and non-financial that could prevent the organisation from achieving its objectives (Centre of Excellence for IA, 2013).

The Internal Audit Department should also be seen as a consultant to Senior Management on how an organisation's strategy, governance, performance and prospects, in the context of its external environment, leads to the creation of value over the short, medium and long term.

2.7.1 The Assurance Role

The specific roles, as per the Institute of Internal Auditors, for the Internal Audit Department to perform in the Integrated Reporting Process include the following:

- The Internal Audit Department should review the risks identified by management and the Board of Directors relating to compliance, reputation, external environment, internal operations and financial risk. These risks should all be included in the Integrated Report (Institute of Internal Auditors, 2010).
- The department should be accountable to stakeholders for verifying and proving assurance on corporate social responsibility-related reporting items (Institute of Internal Auditors, 2010).

- Internal Audit should address compliance to rules, regulation and laws as well as focusing on governance, ethics, transparency, environment and community investment. More detail and examples of the assurance role are provided below (Institute of Internal Auditors, 2010).

2.7.2 The Advisory Role

Internal audit should perform consulting activities that assist management with the roll-out of the Integrated Report. This could be performed by advising on the process design of the Integrated Report and recommending improvements to the roll-out phase (Institute of Internal Auditors, 2010). The benefits of using a maturity model to assess the organisations maturity, with opportunities to improve sustainability and the benefits, thereof should be communicated by internal audit to Senior Management and the Board of Directors. As soon as the Integrated Reporting Process is functioning as required, internal audit should act as a third line defence in providing assurance to the Board of Directors on the effectiveness and efficiency of the Integrated Report (Heyl, 2011).

2.7.3 How to Prepare for Integrated Report

The Internal Audit Department should make a strategic change within the organisation by changing the charter to include the scope and objectives relating to sustainability and the Integrated Report. To achieve a better understanding of this new role, Internal Audit should educate itself on sustainability (Heyl, 2011:10). Once Internal Audit has obtained the required knowledge and the skills, the focus should be shifted to evaluate and assess the organisations business strategy to ensure that it is in line with a sustainability strategy.

The Internal Audits risk-based approach should be broadened to include the identification of sustainability risks. Managing these risks, however, is management's responsibility. Internal Audit should review the stakeholder engagement process and review and approve the adequacy thereof. This includes identifying who the stakeholders are, the materiality of the items reported, issues that need to be raised, as well as the prioritisation of those issues and the communication to and from the stakeholders. It should also provide assurance on sustainability related reporting items in line with the Combined Assurance Model (Heyl, 2011:10).

In a mature organisation Internal Audit can provide further consulting functions that, according to Machaba (2013:27) include the following:

- The Internal Audit Department can report on the performance of the sustainability progress in the organisation in a language that is easily understood by the Audit Committee and the Board of Directors.
- The Internal Audit Department should enhance the organisations operations by assessing, through process observations, data managing and leading practice, the effectiveness and efficiencies of those operations and recommend improvements.
- The Internal Audit Department should apply external assurance Frameworks to perform sustainability and Integrated Reporting testing. An example is the IAASBA Assurance Framework.
- The Internal Audit Department should perform detailed audits on non-financial information in preparation for the Integrated Report.
- The Internal Audit Department should identify leading regulatory changes and verify processes that are in place to monitor and effectively communicate change.
- The Internal Audit Department should identify key trends and opportunities and recommend these to Senior Management to enhance the value creation process of the organisation.

The table that follows shows sections 4B and 4C of the proposed Integrated Reporting Framework, which are mapped to the Internal Audit Standards 2110 and 2120 (IIA, 2013). The Integrated Reporting guidelines are compared to the Internal Audit Standards, showing the responsibilities of Internal Audit in terms of the Integrated Report. Many of the Standards can be directly linked to requirements in the Integrated Report that show that Internal Audit is a capable function to provide assurance. By complying with the standard, Internal Audit will assist in meeting the organisations objectives while helping to prepare for the move toward Integrated Reporting.

Table 2 - 2: Comparison between Integrated Reporting Framework and the Internal Audit Standards

GOVERNANCE AND RISK WITHIN THE <IR> FRAMEWORK	GOVERNANCE AND RISK WITHIN THE <i>STANDARDS</i>
4B GOVERNANCE	GOVERNANCE
4.10 – Asks: How does the organization’s governance structure support its ability to create value in the short-, medium- and long-term?	2110 – The internal audit activity must assess and make appropriate recommendations for improving the governance process.
4.11 – Addresses leadership structure and practices.	2110.A1 – Addresses evaluating design, implementation, and effectiveness of the organization’s ethics-related activities.
4.12 – Addresses significant compensation policies and practices.	2110.A2 – Addresses whether information technology governance supports the organization’s strategies and objectives.
4C OPPORTUNITIES AND RISKS	RISK MANAGEMENT
4.13 – Asks: What are the specific opportunities and risks that affect the organization’s ability to create value over the short-, medium- and long-term, and how is the organization dealing with them?	2120 – The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.
4.14 – Addresses key opportunities and risks and the availability of relevant capitals.	2120.A1 – Addresses evaluating risk exposures relating to the organization’s governance, operations, and information systems.
4.15 – Addresses specific sources of opportunities and risks, assessment of risk, and steps being taken to create value or manage risks.	2120.A2 – Addresses evaluating potential for the occurrence of fraud and management of fraud risk.
4.16 – Addresses avoidance of “boilerplate” disclosures, inclusion of practical information, and requirements for specific disclosures.	2120.C1 – Addresses reviewing for consistency of risk with engagement’s objectives and being alert to other significant risks.
4.17 – Addresses the approach to risks fundamental to the ability of the organization to create value.	2120.C2 – Addresses incorporating knowledge of risks gained from consulting engagements into evaluation of the risk management processes.

Source – Integrated Reporting and the Emerging Role of Internal Audit, Deciphering Internal Audits Role in Integrated Reporting (Institute of Internal Auditors, 2013:10).

2.7.4 Internal Audits Approach to the Six Types of Capitals

The Internal Audit Department has the capability of providing assurance for each of the Six Capitals that should be included in the Integrated Report. The following show examples of how these capitals could be audited to provide reasonable assurance:

- Financial Capital

External Auditors are usually the assurance providers for the financial information of an organisation and perform their annual financial review. They express an opinion on the financial statements of the organisation by inspecting the organisations' accounting records. The opinion is based on the compliance with the applicable accounting standards of the entity, such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS), as well as the fair presentation of the financial statements. "They must assert whether financial statements are free of material misstatement, whether due to error or fraud" (Centre of Excellence for IA, 2014).

Even though this assurance is often satisfactory, internal auditors can assist in providing assurance around the financial capital by performing financial disciplinary reviews. These include looking at the controls around the financial statements rather than the information reported on the financial. Testing controls often includes tracing reported items back to the source documents, however, this is to test the adequacy of the control. Other controls include the segregation of duties, and delegation of authority. Internal Audit is also in a position to provide a consulting service for the cash flow of the organisation, assisting in setting limits and recommending controls for monitoring and managing the cash flow of the organisation. The following are ways to audit the six types of capitals:

- Manufacturing Capital

A section of this capital is included in the scope of External Audit. The External Auditors, as part of the financial statements review, have to provide an opinion on the fixed assets of the organisation. This, however, is a purely financial opinion by testing the accuracy, completeness and validity of the fixed assets. Due to the fixed assets often representing a material amount on the balance sheet, it is essential for the Internal Audit Department to review the financial and operational controls. The various activities around fixed assets should be reviewed, including the purchasing and disposal of fixed assets to ensure no misstatement is recorded and that funds are not misused. The operational side of fixed assets should also be included in the annual review of Internal Audit to ensure that assets are used to their full potential. The Internal Audit Department should provide assurance on the controls around fixed assets (Coetzee, du Bruyn, Fourie, Plant, and van der Linde, 2008:22).

- Intellectual Capital

Due to most intellectual capital having a monetary value attached, they are reflected on the financial statements and will be included in the scope of the External Auditors. What Internal Auditors should look at, is the existence and safekeeping of intellectual property. Internal Audit needs to provide assurance that the intellectual property belongs to the organisation and that policies and procedures exist to monitor these. They also need to ensure that contingency plans for the intellectual property exist. The accuracy will be audited and the use and safekeeping will be audited by External Audit and Internal Audit respectively.

- Human Capital

Human capital can be split into governance and risk management and the people involved and their skills and their competence. As part of the normal risk-based audits, Internal Audit will look at the governance structures within the organisation. A separate risk management division should exist within the organisation that should provide assurance over the management of risk. Internal Audit, however, often plays a vital role in identifying high risk areas and determining whether or not these risks are mitigated. In the Integrated Report, the risk management department should provide assurance on the management of risk and as part of the Combined Assurance Model. Internal Audit can provide assurance on the corporate governance as part of the audits and test for compliance to governance frameworks, such as King III or COBIT.

To provide assurance on the people, their skills and their competencies, the Internal Audit Department has to perform thorough human resource reviews to ensure that the correct people are employed and that skilled employees are retained. It goes further to ensure that employee reviews are performed. This ensures that the correct skills are employed and that the necessary competencies exist. The employment process should be evaluated to ensure that controls are in place and to ensure that high level people are hired who are in line with to the organisations ethics and values. Internal Audit cannot provide assurance that the correct people are hired, but they can provide assurance and recommendations on controls that should be implemented to ensure that the correct people are hired and retained (Coetzee *et al*, 2008:42).

- Social and Relationship Capital

Although Social and Relationship information this falls outside the usual ambit of Internal Audit, the information reported can be verified and an opinion can be expressed on the process of developing the infrastructure of the organisation, and ways to improve the well-being of the organisation. This should be in the form of determining whether or not the developments and corporate social investments exist and if resources were misspent on the projects. Internal Audit can provide assurance on the validity of the facts and figures by identifying the success of the projects.

In South Africa, a part of this capital is the BBBEE accreditation level which, that each company is required to accomplish as a South African corporate citizen. These figures are most often audited by an external service provider, who also issues the certificate. These service providers have certain requirements for organisations to obtain a specific BBBEE level for the organisation. Internal Audit, as the facilitator of combined assurance, should ensure that this certification is received on an annual basis and that the accreditation service provider is sound.

- Nature Capital

The Nature Capital is often reported by the sustainability department if the organisation has a dedicated department. The figures include the CO₂ emissions, and environmental impacts on land, water and air. Internal Audit should obtain the necessary competencies to audit these figures and information, by providing assurance on the validity and accuracy of the information. Most processes for reporting information are similar due to reported items having source documents, but it is important to be able to assess the source documents for reliability and relevance. This skill needs to be acquired by the Internal Audit Department.

2.8 Institute of Internal Auditor's Views on the Role of Internal Audit

Internal Auditing is, by definition “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes” (Institute of Internal Auditors, 2013).

According to the Institute of Internal Auditors, the Internal Audit Department may provide assurance on an Integrated Report, however, the Audit Committee would be in a better position as the oversight body of the Internal Audit Department, to determine whether or not

the department is independently suitable to provide assurance on such a report. The Institute of Internal Auditors of South Africa has the view that the assurance given on an Integrated Report is not an isolated matter. A process should be created to identify the different aspects that are incorporated in an Integrated Report and these should be evaluated and reported on during the course of the year by different assurance providers. A Combined Assurance Model would best suit this role, which would include assurance providers such as External Auditors, Internal Auditors, Compliance Officers, regulatory bodies and more. The level of independence that is required should therefore be based on these factors, while taking into consideration the fact that duplication of efforts is not a desired effect for this entire exercise. It would be suitable for Internal Audit to be the facilitator of the combined assurance as the department is well situated in the organisation (Institute of Internal Auditors, 2012).

Although Internal Audit could, as a part of the Combined Assurance Model, perform an assurance function for the Integrated Report, Senior Management remains accountable for integrity of information reported. The Institute of internal auditors is not of the opinion that the assurance function needs to be performed by an external assurance provider.

2.9 The Way Forward for Internal Audit

The way forward for Internal Audit in the Integrated Reporting Process is still uncertain as most companies are still focusing their resources on improving their Integrated Report to reach the required level and to be in line with the Integrated Reporting Framework. Nothing prevents the Internal Audit Department from defining their own way forward in the process, until a standard has been set.

According to Prof. King “The issues surrounding audit and assurance on Integrated Reporting are complex. The International Auditing and Assurance Standards Board (IAASB) is in discussions to start developing what is described as an international standard offering assurance as to the process of Integrated Reporting rather than the content. This is because it will take so long to develop even limited assurance on the content” (KPMG, 2014).

Until a standard is developed for the assurance provider to provide assurance, Internal Audit Departments develop their own process that focuses on providing limited assurance on the Integrated Report. This will assist Internal Audit Department to become more involved in the strategic decision making process of organisations to give assurance for the controls around the Integrated Reporting Process. In order for the Internal Audit Department to be able to

provide such assurance before the strategy is implemented, evidence must be given that the department has the necessary competencies, skills and it must be evident that the department remains independent (Accountancy SA, 2014).

The Internal Audit Department will therefore have to grow and become more prominent as more reliance is placed on it. To grow the department, highly qualified individuals need to be employed and continuous development needs to occur. Organisations will cooperate more effectively with Internal Audit and respect the assurance consulting service that is provided.

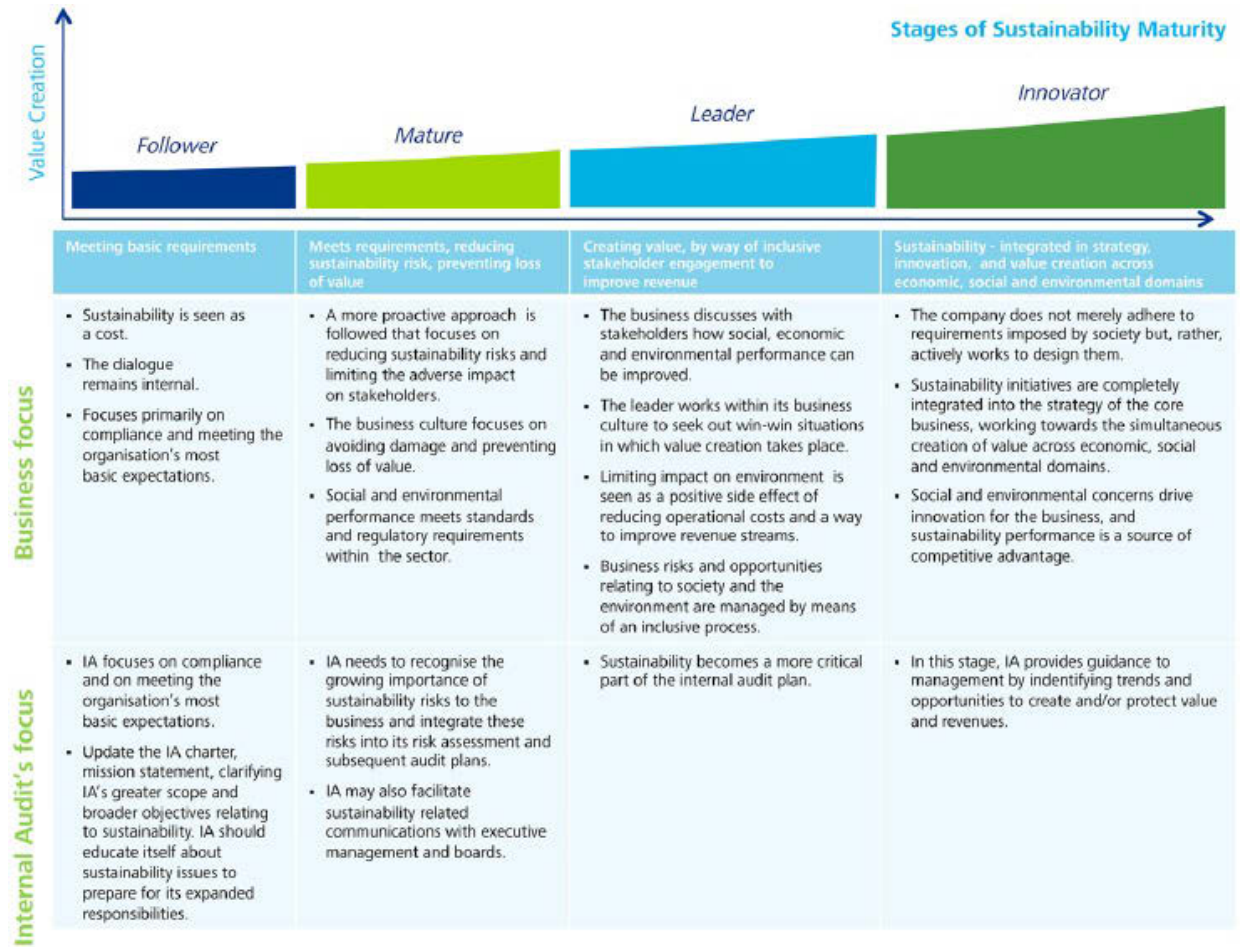
Internal Audit Department will exist in organisation not because of legislation or other regulatory requirements, but because the value added will exceed the cost of this department. This will happen through growing the Internal Audit profession and developing more tools in order for Internal Audit to add more value to the organisation (Heyl, 2011).

“The South African internal auditors could become responsible to audit the controls that are in place to ensure the accuracy, validity and completeness of elements of the Annual Integrated Report” (Accountancy SA, 2014). In order to perform this additional function the Internal Audit Department will be subject to increased scrutiny from the stakeholders to ensure the Internal Audit activity possesses the required resources and skills. The new role will, however, be “accompanied by critical guidelines that will also need to be met” (Accountancy SA, 2014).

The Internal Audit Department will move towards an outcomes-based approach in the Integrated Report, by auditing the processes and controls associated with the risk of misstatement. “This involves shifting the focus to expressing an opinion on the outcome and may lead to less familiar territory” (Accountancy SA, 2014).

When the Internal Audit Department matures, the responsibilities and focus of the department will change (see table below). Internal Audit will move from a compliance function to providing assurance and eventually consulting on best practice for sustainability matters and identifying trends and opportunities to create value and revenue.

Table 2 - 3: Stages of Sustainable Maturity and the Internal Auditor's Role



Source – The Role of Internal Auditing in Integrated Reporting, a Blend of the Right Ingredients (Heyl, 2011:9)

2.10 Chapter summary

Due to the lack of guidance from King III on the creation of the Integrated Report, the International Integrated Reporting Council was formed to develop an Integrated Reporting Framework. The Framework was created based on the input of leading organisations, through discussion groups.

The Integrated Reporting Framework was developed to assist the organisations in creating a report that shows the organisations value creation over the short, medium and long term. Although the framework refers to the reliability of the report, it currently does not give details or recommendations on the assurance of the Integrated Report as these are still in the process of being developed through discussion groups across the world.

Three types of assurance on the Integrated Report were identified, namely, reasonable assurance, limited assurance and a hybrid of both. The advantages and disadvantages of the three types were discussed but regardless of the type of assurance, the literature required that either of the three should be provided by an independent and competent assurance provider.

The literature supporting Internal Audit profession to provide the assurance on Integrated Reporting was analysed to identify whether or not the profession was capable of providing the assurance. The research revealed that the Internal Audit Standards are in line with the requirements of the assurance needed on the Integrated Report.

The way forward of the Internal Audit profession as the Integrated Reporting assurance provider was based on the future requirements of the assurance provider. This was compared to the maturity model of the Internal Audit Departments, to identify where the role of Internal Audit as the assurance provider and the maturity level meet.

Chapter three discusses the appropriateness of the chosen research design and the process for the data collection.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this study was to identify whether or not a role for Internal Audit exists in the Integrated Reporting Process. To conduct this research, a qualitative research design was used to “show how all of the major parts of the research project work together to address the central research questions in the study” (von Diether, n.d). Based on the limitation of the lack of availability of information on this research topic, a case study approach was used to gather information from organisations in the Durban area.

3.2 Appropriateness of the Research Design

The three types of research designs that were available for this thesis are qualitative, quantitative and a mixed method. For this research all three types were analysed to determine which one would provide the most value to the study.

The quantitative research method includes gathering quantitative data through a sampling technique to make a generalisation of a greater population (Lund Research, 2012). The data collected from the sample has to be statistically analysed to examine the data. The results are assessed against “the quality of their findings in terms of reliability, internal and external validity, and construct validity” (Lund Research, 2012). The findings are reported using either statements, tables, graphs or a combination of the three. This research method is used if the underpinning theory is based on a large population. For the purpose of this thesis, however, the quantitative method is not applicable as only a few JSE-listed organisations have their head office in the Durban area.

The qualitative research method can be in the form of “auto ethnographies, case study research, ethnographies, grounded theory, narrative research and phenomenological research”, however, regardless of what form is used to gather the information the characteristics are often the same. The process of gathering information is based on research conducted in the thesis and often evolves as the thesis progresses. “They use theory in a variety of ways - sometimes drawing on theory to help the research process; on other occasions, using theory to develop new theoretical insights” (Lund Research, 2012). The sample for this method is often specifically selected with the goal of studying departments that are most likely to give

appropriate feedback. The method of obtaining information can be performed in many ways but is often in-the-field. The quality of the finding is dependent on the reliability of the source, the knowledge and skills of the interviewee and the conformability of the information. The findings are presented “through personal accounts, case studies, narratives, and other means that identify themes or abstracts, processes, observations and contradictions, which help to address their research questions” (Lund Research, 2012). The qualitative method best suited the thesis as information needed to be gathered directly from the Heads of Internal Audit Departments that would identify whether or not the Internal Audit Department can provide assurance on the Integrated Report. The questions would be developed based on available literature and the answers would be presented in case study format to compare the Internal Audit Departments at four selected JSE-listed organisations.

Another research method is the mixed method. This is a combination of the qualitative and quantitative methods. Both types of data are collected and are either compared separately or are mixed together. The method is often used when “conducting qualitative research to explore an issue and uncover major themes, before using quantitative research to measure the relationships between the themes” (Lund Research, 2012). A problem with the mixed method is that the two methods are almost opposites and this could make it difficult to focus on the goal of the thesis. The reason for not applying this method was that there was no quantitative data that could be collected that would assist in determining the details of the role of Internal Audit at the four organisations.

3.3 Research Design

A qualitative method for collection of information was used by conducting case studies on organisations listed in the Durban area. The case studies were to be face to face interviews to gather information as the “respondents are more likely to give their undivided attention when an interviewer is present. A good interviewer will help build rapport with the respondent without, of course, in any way introducing bias by leading the respondent or “explaining” the questions in his/her own words” (PCP, 2014:2).

The bulk of the information for the case study was gathered from the Heads of Internal Audit of the organisation. In-depth interview were conducted and the questions were around the involvement and responsibility of Internal Audit for the Integrated Report and the role Internal Audit plays within the Combined Assurance Model, if one exists. The maturity of the Internal Audit Department was also investigated to identify what specific services Internal Audit

provides with regard to the Integrated Report. Finally the questions were directed to the future of Internal Audit and where the Internal Audit Department within that organisation was moving toward (PCP, 2014).

All the questions were open-ended, which encourages open, thoughtful answers and include the interviewee's values and opinions. "This gave a very good idea of the variety of ideas and feelings people have, and enabled them to think and talk for longer and so show their feelings and views more fully" (Palgrave Study Skills, 2014:8).

An advantage of using the case study method is that it is considered to be a powerful means to illustrate the real situation, which were compared and reported in the findings section of the thesis.

The information obtained through the interviews was analysed by focusing on only the relevant information. The case study method usually took place on site, relied on the researcher as the instrument for data collection and was both inductive and deductive and based on the participants meaning.

3.4 Pilot Study

The first interview with Company X was used to determine the quality of the questionnaire and the detail of the answers that were provided by the Head of Internal Audit. The initial questionnaire was based on available literature and the underlying objective of the thesis, but based on the information received after the first interview, adjustments were made to the questionnaire and a follow up interview was performed with Company X. The updated questionnaire was used for the other three organisations to ensure that the data collected can be compared and analysed.

Based on the pilot study, an internal validity was conducted to confirm the correctness of the study design. The pilot testing of the questionnaire assisted in modifying the questionnaire to be correct and include all questions necessary to gather the required information to come to a conclusion (von Diether, n.d).

By using the modified questionnaire an external validity was performed. The outcomes of the questions were compared to identify these would be similar at all of the organisations. The questions in the case study were all understood by the Heads of Internal Audit. Regardless of

the details of the responses being different, the questions were answered in a similar fashion (von Diether, n.d).

3.5 Setting and Participants

A list of all the JSE-listed organisations in Durban was reviewed to identify participants for the case study. The table below shows all the organisations with their head office in the Durban area and the type of Internal Audit Function they have.

Table 3 - 1: List of JSE-listed Companies in the Durban Area and the Type of Internal Audit Function

Name of company	Type of Internal Audit function
RCL Foods	In-house Internal Audit department
The Spar Group	In-house Internal Audit department
Mr Price Group	In-house Internal Audit department
Illovo Sugar	In-house Internal Audit department
Combined Motors Holding	In-house Internal Audit department
Grindrod	In-house Internal Audit department
Adapt IT	Outsourced Internal Audit department
ARB Holdings	In-house Internal Audit department
Argent Industrial Limited	In-house Internal Audit department
Santova Limited	No Internal Audit department

An in-house internal audit function is a department within the company and all the Internal Auditors are employees of the company. An outsourced Internal Audit functions consists of contractors or consultants who are not employed by the company.

Santova Limited has reported in their Integrated Report that “the Group does not have a fully-fledged internal audit department as envisaged by King III as the Board of Directors believe that, at this stage in the Group’s development, there are sufficient checks and balances in place to gain adequate assurance that controls are operating effectively” (Santova Limited, 2014).

All eight organisations were contacted to request participation in the case study however only four agreed to participate. Based on the size of the four organisations and their Intern Audit

departments it was decided that the data from these four companies would suffice to draw a conclusion.

The Heads of Internal Audit at each of the organisations were contacted and requested to participate in the study. Due to the Head of Internal Audit making the decisions for the direction of the Internal Audit Department at each of the organisations it was satisfactory to only interview them. This sample is large enough to represent the population of JSE-listed organisations with Head Quarters in the Durban Area.

3.6 Instrumentation

A questionnaire was created based on information from the literature review and later modified after the interview with the Head of Internal Audit at Company X. This type of research did not require the development of a new instrument as the focus of the thesis is to gain information on the role of Internal Audit in the Integrated Reporting Process, and by asking open-ended questions this could be accomplished. An interview agenda was created and used at all four interviews to keep them consistent and ensure that the participant was well informed of the process and the use of the data gathered. The agenda can be found in Appendix 1. The questions were asked in a specific order to ensure that the line of thought was kept and only relevant data was collected.

3.7 Procedure

The interviewees were asked for permission to record the interview for later analysis. This permission was obtained both verbally and in writing. The interview was based on the agenda to ensure that all questions were asked and no information excluded. The interviews were held in the offices of the Heads of Internal Audit for the convenience of the interviewee. The background of the thesis was explained to the Head of Internal Audit followed by the purpose of the research and the benefit thereof. Once the Head of Internal Audit was fully aware of the whereabouts of the research, they were asked the questions. Once the interview was finished the interviewees were asked if they had any questions or concerns. Thereafter, the meeting was concluded.

3.8 Data Processing and Analysis

The results of the four questionnaires were compared and analysed to identify similarities and differences. These were compared to the available literature to investigate the difference between theory and practice.

The following steps were taken to process and analyse the information.

- Step 1: Prepare the data

The first step was to transform the data collected into written text before the analysis could be started. This was necessary as all the data was collected by using a voice recorder during the interviews.

Step 2: Define the categories of data

The unit of analysis was based on the questions asked. Every Head of Internal Audit was asked the same questions in order to collect comparable data. The questions would serve as the categories for the study as these would be compared. The questions were based on available literature to be able to create a comparison between literature and the Heads of Internal Audit's answers.

Step 3: Test the categories

As a test the first question that each of the Heads of Internal Audit had to answer was compared to determine if there are similarities and if the comparison would yield information that would contribute to the thesis.

Step 4: Sort all the data

The answers to all the questions were sorted in the same order for each interview.

Step 5: Assess the consistency

In order to determine if the answers were consistent, a table was created to compare the answers. Even though the answers differed the information could be compared to draw a conclusion.

Step 6: Draw a conclusion

From the comparison of information a conclusion was drawn. The results did not yield the same answer for all companies for all the questions, however, this became part of the finding (Zhang, Y. and Wildemuth, B., 2009).

3.9 Ethical Considerations

The Heads of Internal Audit were identified as the gatekeepers at the four organisations. Consent forms and information letters were given to them with the request to gather information through interviews. The general purpose of the study was communicated, and any concerns that the individuals had, were addressed. Company X requested that their name would not be mentioned in the thesis and this request was honoured.

All four Heads of Internal Audit signed and stamped the consent form and information letter agreeing to participate in the thesis. The signed consent forms and information letters were attached to an ethical clearance application, which was approved by the University of KwaZulu-Natal. Interviews with the Heads of Internal Audit were conducted after the approval from the University was received. Interviews only commenced after the consent forms were signed and ethical clearance was obtained.

3.10 Summary

The various types of research methods were compared, in order to identify the best method for this thesis. The qualitative method was selected based on the criteria that matched the needs for this thesis.

A pilot study was performed to ensure that the questions were enough to gather the required information to draw a conclusion. The setting and instruments for the case study were based on the convenience of the interviewee and the ability to gather only relevant information in the most efficient manner.

The ethical requirements were followed to ensure that the case studies were conducted in an ethical manner with the required permission from both the Heads of Internal Audit and the University of KwaZulu-Natal.

CHAPTER FOUR: CASE STUDY

4.1 Introduction

Four JSE listed companies that operate in Durban in KwaZulu-Natal were approached to conduct a study to identify the role of Internal Audit in the Integrated Reporting Process. Each of these four organisations has produced an Integrated Report for at least the last three years, but without any assurance on the information reported. The organisations all have an in-house Internal Audit Department that provides assurance and consulting functions within the organisation.

The heads of the Internal Audit Department were each asked a series of questions to identify their involvement in the Integrated Reporting Process and their opinion with regard to where the Internal Audit Department is heading within Integrated Reporting. For the Internal Audit Department to include the Integrated Report in their annual plan, it must to fall within the scope of the Internal Audit Department and therefore the charter was inspected.

Questions around the size of the department were asked, to be able to put their current capacity and involvement in the Integrated Report into context. Furthermore, questions were asked around their independence and who correlates the Integrated Report in order to establish whether or not these departments are independent enough to perform this function.

In order to provide an assurance, the Internal Audits have to possess the necessary competencies to perform the function and therefore a question relating to the quality of the Internal Audit Department was asked.

The final questions focused on the way forward for the Internal Audit Department in the Integrated Reporting Process. This was based on the opinion of the Head of Internal Audit and where they plan to take their department in the future.

The conclusion for each case study is a summary of the organisations Internal Audit Department and the role they currently play in the Integrated Reporting Process.

4.2 The SPAR Group

“In the 1860’s with the emergence of grocery chains in South Africa, a group made up of eight wholesalers were given exclusive rights to the SPAR name and brand in 1863, and serviced 500 small retailers. Over time and through many mergers and takeovers, today the SPAR Group Ltd operates six distribution centres, supplying goods and services to 788 SPAR stores across South Africa” (SPAR Group, 2013:4).

“The SPAR Group Limited is primarily a wholesaler and distributor of goods and services to independent retailers who trade under the SPAR brand” (SPAR Group, 2013:4). The 2013 Integrated Report is the third Integrated Report published by the SPAR Group. Even though the Integrated Reporting Process is one with many hurdles, the SPAR Group managed to improve every year with more meaningful information and they ensured that the stakeholder was well informed of the operations.

The SPAR Group listed on the Johannesburg Stock Exchange in 2004, and before that, the Internal Audit Department was a value adding service that did not follow the Internal Audit standards. After the listing, more pressure was applied by the Audit Committee for the Internal Audit Department to fall in-line with the Internal Audit standards. The Audit Committee questioned the independence of the Internal Audit Department and requested the Head of Internal Audit to employ more staff to be able to independently perform the audit outside of the business operations.

The Integrated Report is compiled by the company secretary but the Audit Committee provides oversight over the Integrated Report. The audit committee has, in a statement, given their opinion on the assurance provided on the financial information in the Integrated Report, and they were satisfied with the information reflected on the report as being accurate and complete. “The Audit Committee is satisfied that the company has optimised the assurance coverage obtained from management, internal and external assurance providers in accordance with an appropriate Combined Assurance Model” (SPAR Group, 2013:46).

Included in the report is all the material information in the form of issues and elements that can have a high impact on the sustainability of the organisation over the short, medium and long term. This approach includes information that is material to all the stakeholders of the SPAR Group and not just the organisation.

The internal and external auditors both report to the audit committee on a periodic basis. The Group's Internal Auditor and the external auditors have unrestricted access to members of the committee and the Chief Executive Officer, and attend all formal committee meetings.

4.2.1 Correlation of the Integrated Report

The Company secretary, in conjunction with the financial director, creates the Integrated Report. The report was generated in line with the following requirements and standards in place:

- JSE Limited Listings Requirements
- Companies Act, No 71 of 2008, as amended
- Revised King Code of Governance Principles and the King Report on Governance (King III)
- Consultation Draft of the International Integrated Reporting <IR> Framework
- Global Reporting Initiative (GRI) G4 sustainability reporting guidelines
- On what items in the Integrated Report does Internal Audit provide assurance?

(SPAR Group, 2013:4)

4.2.2 The Combined Assurance Model

“The audit committee has implemented a Combined Assurance Model at the SPAR Group and this model is facilitated and coordinated by the Internal Audit Department” (SPAR Group 2013:4) The Combined Assurance Model includes assurance providers from all areas of the organisation including external audit, IT quality and risk department, risk management and Internal Audit. The combined assurance is facilitated by Internal Audit in collaboration with risk management department.

4.2.3 The Combined Assurance Model's Role in the Integrated Reporting Process

Although all of the above mentioned department and assurance providers are included in the Combined Assurance Model, not all departments contribute to the assurance of items on the Integrated Report. External auditors provide assurance on the financials of the organisation, whereas Internal Audit and Risk Management only provide assurance on the risk information that is included in the Integrated Report. The other assurance providers in the Combined Assurance Model have not been tasked to specifically provide assurance on the items reported in the Integrated Report.

4.2.4 Size of the Internal Audit Department

“A new Internal Auditor, Mr S Naidoo, was appointed during the year, while the Internal Audit team was boosted by the appointment of two staff members to assist the function in carrying out its duties” (SPAR Group, 2013:46).

The SPAR Group Internal Audit Department consists of the Head of Internal Audit and 2 trainee internal auditors. The growth in the function has only occurred in the last financial year, as the Head of Internal Audit realised that for such a large organisation, only one Internal Auditor is not sufficient. The Internal Audit Department, however, still uses “guest” auditors from within the business which impairs their independence. These audits are called “cross audits” and they are used due to a lack of expertise and knowledge in the current Internal Audit team.

Cross audits are one of the methods used to audit various areas of the organisation. These, however, are mostly financial and operational methods. The external auditors can then rely on some of the assurance on the controls for the financials. The cross audits are performed by using the divisional accountants at the Distribution centres to audit the other Distribution Centre. The previous Head of Internal Audit set up the audit programs and together with the key personnel, performed the audit. They sacrificed the independence for the benefit of using experts in the areas of review. This process was then implemented on various areas within the organisation. Senior managers knew where the problems were and could identify risk areas faster.

The Head of Internal Audit wanted to minimise staff and maximise outputs by using more auditing tools to enhance the efficiency of the Internal Audit Department. As the need for more assurance and consulting work increases, the staff compliment increases.

4.2.5 The Internal Audit Charter

The Internal Audit charter does not specifically state that Internal Audit provides assurance on the Integrated Report, but more broadly provides assurance on the internal controls of the organisation. These internal controls are for financial, operational and compliance areas of the organisation. Internal Audit has the duty of providing the Board of Directors and Senior Management with reasonable assurance that the internal controls are functioning adequately. Included in the internal controls are controls for information that is pulled into the Integrated Report, therefore the Internal Audit charter caters for the Integrated Report indirectly.

4.2.6 Integrated Reporting Control Review

At the time of the interview no controls around the Integrated Report are reviewed as the department is still at a very immature stage. The department will first identify high risk areas that the organisation faces before assessing the controls around the Integrated Report. Even though it is necessary for the Internal Audit Department to provide assurance on the controls, they currently do not possess the resources to review these areas and to include them in the annual Internal Audit plan.

4.2.7 Internal Audits Assurance on the Integrated Report

The Internal Audit Department currently only provides assurance on risk management information on the Integrated Report. This is done by verifying the risks that are identified, as critical risks, to the organisation. Internal Audits function is to assess the risks and ensure proper controls are in place to mitigate the risks. The risk management of the organisation currently falls under the duties of the company secretary as it is still in development phase. Senior management has not as yet bought into the idea of risk management and the benefits thereof. A new risk system was implemented in 2013, however, this is still in the beginning phase and not all areas of the business have been included on the system. The risk management department, in collaboration with Internal Audit, will over the next year improve on the enterprise risk management of the SPAR Group. Internal Audit will, on a continuous basis, review the risk management and assist in achieving the objectives.

4.2.8 Competency of the Internal Audit Staff

The SPAR Group promotes training and skills enhancement for all employees and financially supports those individuals requesting further training and development. Even though time is given to those employees to achieve their goals for increased competencies, a balance needs to be obtained that promotes the achievement of the Internal Audit Department's objectives. The Head of Internal Audit hired only highly skilled individuals and most of the training that is specific to SPARs operations will happen through on-the-job-training. This will enhance the skills of the Internal Audit staff. Specific training for Integrated Reporting will happen at later stage when more focus is placed on assurance for the Integrated Report.

4.2.9 Independence of the Internal Audit Department

According to the Integrated Report, one of the responsibilities of the Audit Committee is to ensure the independence of the Internal Audit Department. This is achieved by providing the necessary resources, organisational position and authority (SPAR Group, 2013:46).

The independence at SPAR has been questioned by the Audit Committee due to the practice of using cross audits in the organisation. According to King III the department should be completely independent from operations but by using operational staff to perform audits, the objectivity and independence is impaired.

The Head of Internal Audit reports directly to the Audit Committee and has unrestricted access to the Chairman of the audit committee. This ensures that the Internal Audit Department is able to report without influence from senior management. The Head of Internal Audit wants to move away from cross audits in the future, to be able to be completely independent.

4.2.10 Internal Audits Defined Role in the Integrated Reporting Process

According to the Head of Internal Audit, Internal Audit will not have a defined role within the Integrated Reporting Process. The department will continue to be an assurance provider within the Combined Assurance Model, however, no specific areas of the Integrated Report will be assigned to the Internal Audit Department. The main reason for this is a lack of resources and that high risk areas should receive priority over the Integrated Report. Due to no work being performed around the Integrated Report, currently it is difficult to establish a defined role Internal Audit.

4.2.11 Responsibility and Accountability for Assurance on the Components of the Integrated Report

The finance department should be held accountable for the Integrated Report and Internal Audit should not. Internal Audit remains a part of the Combined Assurance Model and does not provide specific assurance on the Integrated Report and will therefore not be held responsible or accountable for components reported to the stakeholders. The finance report currently provides the most important information to the stakeholders according to the Head of Internal Audit and therefore only external auditors should be held accountable.

Internal Audit currently does not provide an opinion on the assurance it provides on the internal controls at the SPAR Group, as the department has not reached that maturity stage yet. It is the Internal Audit Department's plan to be able to provide reasonable assurance on the internal controls of the organisation and the Integrated Report.

4.2.12 The Way Forward for the Internal Audit Department

The Internal Audit Department has been appointed to provide assurance and consulting services for the implementation of the Enterprise Resource Planning and Financial software and will focus their resources on this. The Head of Internal Audit does, however, want to increase the assurance provided to the SPAR Group. This will include expanding the department as well as identifying high risk areas that require more assurance. Only if an item in the Integrated Report is considered a high risk, will it be included in the Internal Audit plan. The Head of Internal Audit would like to provide verification services for senior management on the Integrated Reporting areas that are of a high risk but that will only happen when more resources are employed and the SAP project is completed.

4.2.13 Summary:

According to the Integrated Report published by the SPAR Group "the financial information contained in this report has been independently audited by Deloitte & Touche. Non-financial data has been self-assured, with the exception of the group's BBBEE verification, which was evaluated independently by Empowerdex for the 2012 year" (SPAR Group, 2013:4). The self-assurance has not been performed by the Internal Audit Department but rather by senior management of the departments submitting information for the Integrated Report. The Internal Audit Department has not achieved a maturity level where there is capacity to provide assurance on the Integrated Report by assessing the adequacy of controls and verifying the information report. If Internal Audit wants to perform these functions in the near future, then the independence will be crucial to convince stakeholders that reasonable assurance was provided on the accuracy, validity and completeness of the information.

4.3 Grindrod

Grindrod was established in 1910 by Captain John Grindrod as a clearing and forwarding agency in Durban (Grindrod, 2014). With steady growth the company has become an established brand. With a market plunge in 1999, the group worked hard to manage to achieve an all-time high profit of R2.2 billion in 2008. With services in freighting, trading, shipping and financial, the company become one of the biggest listed companies in the Durban area (Grindrod, 2014).

“The Grindrod integrated annual report provides stakeholders with a basis for assessing Grindrod’s ability to create and sustain value to ensure short-, medium- and long-term viability. The report provides a complete and balanced review of Grindrod’s financial, social and environmental performance within the context of its strategy and material assessed risks and opportunities for the period 1 January 2013 to 31 December 2013, including information on subsidiaries and local and international joint venture partners and associates” (Grindrod, 2013).

The 2013 Integrated Report was the third Integrated Report that was published by the organisation and it has improved each year with more relevant and reliable information.

An interview with the head of the Grindrod Internal Audit Department was conducted and the following questions were asked to get insight information into the current and future functions of the organisation, in terms of the Integrated Reporting Process.

4.3.1 Correlation of the Integrated Report

Grindrod’s Integrated Report is compiled with the interest of the stakeholder in mind. The report is compiled with “material significant economic, environmental and social aspects and its performance in the wider context of sustainability within the context of the reasonable expectations and interests of its stakeholders. Where appropriate, sustainability information is disclosed inclusive of subsidiaries, joint ventures and associated companies” (GRI, 2014:1). The company secretary is responsible for the compilation, but assistance is provided from various departments within the organisation.

4.3.2 The Combined Assurance Model

A Combined Assurance Model exists at Grindrod and consists of the Three Lines of Defence Model. These lines of defence are:

- 1st Line – Management

Management ensures that information is valid, accurate and complete through processes/controls and reviews.

- 2nd Line – Internal Assurance

Internal Audit provides independent assurance that information is valid, accurate and complete via review of controls and substantively.

- 3rd Line – External Assurance

External Audit, or other parties, provide assurance that information is valid, accurate and complete.

A Combined Assurance Model aims to optimise the assurance coverage by ensuring that internal assurance providers and external assurance providers provide assurance on the key risk areas affecting the organisation.

The combined assurance provided by internal and external assurance providers and management should be sufficient to tell the audit committee that the significant risk areas within the group have been adequately addressed, and suitable controls exist to mitigate and reduce these risks.

With these two clear objectives in mind, Internal Audit, in consultation with management, have developed an assurance plan for sustainability reporting that ensures that all risks are being assured. This enables the organisation to focus on significant areas, which require the appropriate technical skills, reducing repetition, minimal business and operation disruptions and potential cost savings.

The Audit Committee will ensure that a Combined Assurance Model is applied to provide a co-ordinated approach to all assurance activities and to ensure that the combined assurance received is appropriate to address all the significant risks of the company. The Committee will monitor the relationship between the external assurance providers and the Company

(Grindrod, 2013:5). Internal Audit has been tasked by the Audit Committee to co-ordinate the combined assurance and to ensure that it is adequately applied within the organisation.

4.3.3 The Combined Assurance Models Role in the Integrated Reporting Process

Currently only the external auditors provide an opinion on the Integrated Report. Internal Audit assists this process. According to the Grindrod Integrated Report, “independent assurance is undertaken on a limited basis in conjunction with the Combined Assurance Model” (Grindrod, 2013:92).

4.3.4 Size of the Internal Audit Department

The Grindrod Internal Audit Department currently has eight full time internal auditors and one risk manager. The organisation moved to an in-house Internal Audit Department in 2011 and has grown ever since. Previously, the Internal Audit work was performed by Deloitte, who still assist on projects where the Internal Audit Department lack resources and/or competencies. During peak times, an additional four temporary internal auditors are hired to assist with the demands from the Audit Committee. The Head of Internal Audit believes that the department will grow over the next few years to be able to perform assurance and consulting functions for all the areas of the business.

The reason for moving away from Deloitte as the out-sourced Internal Audit service was to cut costs and to build in-house knowledge and experience. By changing the function to an in-house meant that the knowledge and expertise will be retained at Grindrod. Currently the Internal Audit Department functions on a co-sourced model where the majority of the resources are in-house, Deloitte, however, consults on various projects and trains staff at Grindrod.

4.3.5 The Internal Audit Charter

The Internal Audit Charter does not include the Integrated Report specifically, but areas such as sustainability and people are included as part of the annual audit plan.

According to the Head of Internal Audit, the charter will more than likely not include the Integrated Report, as it is a more generic document defining the role of Internal Audit as an assurance and consulting activity, which assess the adequacy of controls.

The Internal Audit Department has been appointed as the custodian of ensuring that the information reported in the Integrated Report is valid, accurate and complete. This process, however, takes time to implement and time to provide reasonable assurance.

4.3.6 Integrated Reporting Control Review

Internal Audit is the custodian of the sustainability matrix, which shows the high risk sustainability areas of the organisation. The diagram below shows the various areas of risk and indicates who is responsible in providing assurance on the respective areas.

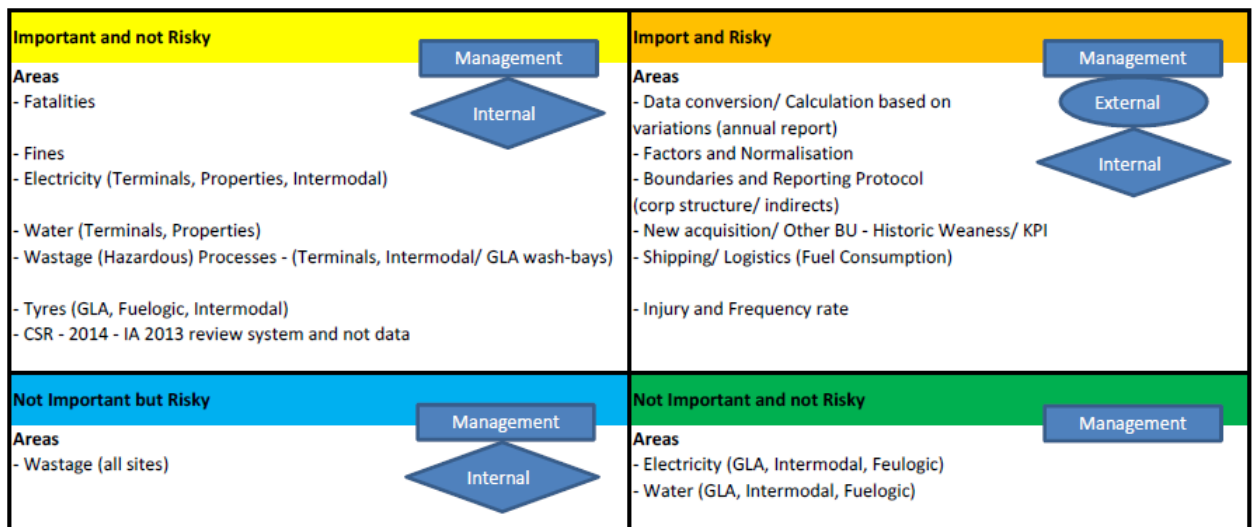


Figure 4 - 1: Risk Matrix for High Risk Areas in the Integrated Report.

Source: Grindrod Internal Audit Department

All Key Performance Indicators (KPI) have been ranked in one of four quadrants, namely: important and risky; important and not risky; not important but risky; and not important and not risky.

Based on the technical quantification methods required for the individual KPI and the current control requirements in which they operate, these KPI's have been ranked in these quadrants where the level of assurance required, varies. This has resulted in a more focused assurance plan that applies adequate focus on significant risks. The level of external assurance has been reduced to specific key risk areas.

Part of the Internal Audit annual plan is to verify the adequacy of the controls regarding the important and risky, important and not risky and not important but risky areas. This information is directly reported in the Integrated Report and therefore needs to be verified by an independent source.

According to Grindrod a similar matrix will be established in the near future for other reported items such as the people aspect of the organisation.

4.3.7 Internal Audits Assurance on the Integrated Report

At the moment Internal Audit only provides specific assurance on sustainability items. The internal department includes other areas in their Annual Internal Audit Plan but these are not areas in the organisation from which information is included directly in the Integrated Report.

The Grindrod Board of Directors have stated in their Integrated Report that “independent assurance is undertaken on a limited basis in conjunction with the Combined Assurance Model”, thereby stating that only some items have been verified.

The Internal Audit Department identifies key risk areas to assess what could go wrong, and to identify which figures could be reported incorrectly or inaccurately in the Integrated Report. These risks are identified by performing a risk assessment on all items reported and by creating a priority matrix similar to the sustainability matrix, which already exists. After all the risks are identified they need to be rated according to the potential impact that the misstatement could have on the stakeholders decision making process. The stakeholders include investors, government, non-governmental organisations (NGO's) and analysts. The internal auditors, through the risk assessment, ask themselves what information the stakeholder relies on, to make informed decisions and have determined which risk areas are high risk. The high risk areas are then audited by the Internal Audit Department. This will indicate where to focus the resources to add the most value to the organisation.

With regards to the sustainability information in the Integrated Report, the process was changed by first identifying the area that needs to be reviewed (which in this case was sustainability) and then to audit the accuracy and validity of the information. A risk workshop then was performed. This ensured that even if overall sustainability is not a high risk to the bottom line of the organisation, it would still be reviewed, and the information produced

would be verified. This is a proactive approach to ensure the information on the Integrated Report is accurate and complete.

For all audits performed by the Internal Audit Department, a similar approach is used. This approach looks at the systems, processes and people for each area under review and from there, the Internal Audit Department audits from source, to verify the numbers reported. For example, auditing the invoices for fuel consumption and recalculate the CO2 emissions for the Grindrod vehicles, in order to verify that the amount reported in the Integrated Report is accurate.

4.3.8 Competency of the Internal Audit Staff

Three years ago, before the Internal Audit Department was started, all of the Internal Audits were performed by Deloitte, a consulting company. This means that three years ago, all the skills and competencies were outsourced.

In the second year, after appointing the Head of Internal Audit and starting the Internal Audit Department, Grindrod reduced the consultancy fee by training the in-house Internal Audit staff to the same competencies level as the consultants. This training was performed by Deloitte on the audit methodology that they previously followed at Grindrod.

The Internal Audit Department attended workshops and external training on how to perform the various audits at Grindrod, even though the principles were to a large extent the same for each audit at any organisation and the staff members already possessed these skills. After the initial training was complete the Internal Audit Department performed on-the-job training to ensure that every staff member possessed the skills that are required for effective audits.

Deloitte is currently validating findings and evidence for the Grindrod Internal Audit Department to ensure that the audits are performed at a high standard and that assurance is provided, as requested by the Audit Committee.

The Internal Audit Department has the necessary resources, such as budget and time, to increase skills in the department to address areas of the Integrated Report, either by sending staff on training or by hiring the necessary skills. There is, however, still a shortage of internal auditors to provide assurance on each aspect of the organisation. The high risk areas are prioritised and are audited to provide limited assurance to the Audit Committee.

4.3.9 Independence of the Internal Audit Department

As stipulated in the Integrated Report, “Grindrod’s Internal Audit Department, which reports directly to the audit committee, operates in terms of an approved charter that defines its purpose, authority and responsibilities. Internal Audit Departments independently of all other business operations and has free and unrestricted access to all areas within the group, including management, personnel, activities, locations and information” (Grindrod, 2013).

All Internal Audit activities are performed in compliance with International Internal Audit Practice, and the methodology and standards required by the South African Institute of internal auditors.

The Internal Audit Department reports functionally to the Audit Committee and administratively into the Chief Executive Officer, to maintain the independence. According to the Head of Internal Audit, the department functions independently of the organisations operations and could therefore provide assurance on items on the Integrated Report.

4.3.10 Internal Audits Defined Role in the Integrated Reporting Process

According to the Head of Internal Audit, Internal Audit is already defined in the charter by being an assurance provider for the organisation, which includes areas that feed into the Integrated Report. The Internal Audit Department sits within the Combined Assurance Model as the coordinator and contributor. Internal Audit is also in charge of the sustainability risk matrix.

Although the role isn’t specifically defined as being an assurance provider for the Integrated Report, the Head of Internal Audit believes that as more risk matrixes from other areas of information are created and Internal Audit is put in charge of these areas, roles will become more defined. The role will be further defined as Internal Audit becomes more involved and as the department matures.

4.3.11 Responsibility and Accountability for Assurance on the Components of the Integrated Report

In the future, Internal Audit could provide an opinion on the assurance, similar to how external financial auditors provided an opinion on the financial statements, but at the moment only external audit provides assurance on the report. Although the external auditors provide

some reliance in the Internal Audit Department, this is still only involved with financial controls and verifying the accuracy and completeness of information reporting in the financial statement.

The Internal Audit Department is looking after the Combined Assurance Model and is responsible for making sure that the Combined Assurance Model is implemented as per the Audit Committee requirements. The Combined Assurance Model does not provide assurance on the complete Integrated Report and therefore Internal Audit cannot provide an opinion on the assurance.

Due to lack of number of skilled staff members, the Internal Audit Department does not cover each risk area of the organisation and can therefore only provide limited assurance.

4.3.12 The Way Forward for the Internal Audit Department

According to the Head of Internal Audit, “as more stakeholders become more sensitive to the information in the report, the more people will be relying on the figures.” Investors begin to look at companies holistically and they assess whether or not these companies are environmentally and socially responsible. Information that was previously irrelevant has suddenly become important to stakeholders in making informed decisions. Stakeholders want to be informed on all aspects of the organisation and they want to focus on information other than just the financial information. This brings new risk to the organisation. The information the Integrated Report could be incorrectly presented and therefore does not reflect accurately on the report. As stakeholders become more reliant on this information, more assurance is required. Currently there is very limited assurance and this needs to improve.

Some items on the Grindrod Integrated Report have not been validated and verified, and so there is currently no assurance that this information is accurate, valid or complete. For example, the Corporate Social Responsibilities, training spent and other “people” statistics. The Head of Internal Audit believes that this information will be included in the future Internal Audit plan to provide assurance on the controls on the information and to verify that the information is accurate and complete. There will be increased demands for Internal Audit Department with regard to assurance on the items reported in the Integrated Report.

4.3.13 **Summary**

The directors of Grindrod have stated that some assurance was performed by the Combined Assurance Model, and an external independent assurance would be provided at a later stage.

The head of the Internal Audit Department stated that through the Combined Assurance Model the organisation can rely on the assurance provided by in-house auditors instead of seeking external assurance.

The Internal Audit Department will continue to coordinate and facilitate the Combined Assurance Model and will strive towards providing assurance on all aspects of the Integrated Report. The approach that Internal Audit decided to follow, was assessing the Integrated Report from a risk perspective and identifying areas of high risk that could have an impact on the stakeholder.

Currently only the sustainability information is included on the risk matrix and is audited by the Internal Audit Department, but this practice will continue for the other reporting items too. The Internal Audit Department at Grindrod is in a position to provide an independent opinion on the assurance and, with a few more resources, will be able to provide the necessary assurance required by the stakeholder.

4.4 Company X

The Internal Audit Department at Company X was established by the Board of Directors 15 years ago with a small team of five staff members. This team has expanded to over 30 Internal Audit staff providing assurance and consulting activities for the business.

All matters that are considered to be material to the business have been incorporated in this report. Material matters have been identified and prioritised after taking into consideration the following:

- Items that are considered of high importance to the Board and executive management
- Issues derived from key stakeholder engagement
- Strategic objectives and key business risks arising from the Group's Strategic Planning Framework
- The business model and values
- External factors that impact on the Group's ability to create value in the short, medium and long-term.

Company X published their first Integrated Report in 2011 and has since then published three Integrated Reports, each improving on the previous one. The report covers areas such as People, Corporate Citizenship, and Risk Committee and Internal report, amongst other areas.

According to the Board of Directors of Company X “the board is pleased with the progress made both on the sustainability journey and on Integrated Reporting, but recognises that it is premature to subject the reporting to an external verification at this point. An external verification has, however, been sought for the BBBEE accreditation level for the 2011 year. The verification was carried out by BEESCORE, a SANAS-accredited organisation. Group Internal Audit has verified the information contained in the transformation committee report and the report on our people. The external auditors verified the information in the remuneration report”.

The assurance that Company X currently has, is various assurance providers for information reported in the Integrated Report, including the external auditor's verification of the remuneration of the executives of Company X. Another assurance provider is SANAS accredited organisation and BEESCORE (Pty) Ltd, who verify the South African Broad-Based Black Economic Empowerment (B-BBEE) accreditation level. The final assurance is

the Group's Internal Audit Division, which has verified the disclosures contained in Our People Report and Our Corporate Citizenship Report.

The Board currently rates themselves as non-compliant to the King III requirements of verifying the report, as it identifies this role as being an external role that cannot be performed by the Internal Audit Department. This shows that some assurance was provided, but the board feels it is necessary to use an external verification for the report, rather than to use their Internal Audit Department to provide assurance and verification on the Integrated Report.

To investigate how mature the Internal Audit Department is with regard to integrated reporting, a few questions were answered by the Head of Internal Audit.

4.4.1 Correlation of the Integrated Report

Group Finance and the Company Secretary compile the report after receiving information from departments such as Sustainability department and HR department. This information includes facts and figures on the impacts on the environment and corporate social responsibility.

4.4.2 The Combined Assurance Model

Internal Audit facilitates the Combined Assurance Model. Management, however, is responsible for control and implementing the model and ensuring it is a robust Framework.

Included in the charter it is also mentioned that "Internal Audit will make an assessment of the adequacy of the combined assurance approach adopted by the company. This assessment includes the adequacy of risks covered by the different assurance providers and the reliability of the assurance provided."

Internal Audit will co-ordinate all of the different service providers by following the Three Lines of Defence Model. A part of Internal Audits function in the Combined Assurance Model is educating the role players on their roles in the process. For example, management was trained on their role as the first line of defence. The risk appetite and tolerance levels were then established, awareness of the governance universe was created and the model was articulated. The next stage was for Internal Audit to audit this model and ensure that all service providers of the combined model knew their roles in the process. All of the governance and assurance providers are under one umbrella. This includes all second and

third line defence, according to Combined Assurance Model. The roles of all the service providers were unpacked to determine who fills which assurance role, in order to ensure a complete assurance model. Some functions overlap to provide more robust assurance for the organisation.

4.4.3 The Combined Assurance Models role in the Integrated Reporting Process

The Combined Assurance Model does not specifically include providing assurance on the reported information. Although the Combined Assurance Model covers assurance for most of the organisation, the Integrated Report does not feature as a specific area for which assurance is provided. External auditors do, however, provide reasonable assurance the financial statements are accurate and complete.

4.4.4 Size of the Internal Audit Department

The Internal Audit Department currently consists of 30 staff members. These are ranked at various levels, from entry level without experience to senior internal auditors, managers and the Head of Internal Audit. Due to it being such a big department, a lot of knowledge is shared, and on-the-job training occurs frequently. It was said that the department would not grow considerably in the near future, but more focus would be given to IT and toward growing the IT audit section of the department.

4.4.5 The Internal Audit Charter

The first item on the Internal Audit charter is the independence of the department. The independence of the department plays a vital role for providing fair and reliable opinions. This will be further discussed. The second item on the charter is the organisational structure and where the Internal Audit fits in. The charter states that the Internal Audit Department has “full, free and unrestricted access to management, employees, any of the company’s financial and operational activities, physical locations and to all information or records considered necessary for the proper execution of Internal Audit's work, at the discretion of the Chief Audit Executive, subject to strict accountability for safekeeping and confidentiality thereof”. This shows that Internal Audit should be positioned to have access to all information and sources of the Integrated Report, and would be in a position to verify this information.

The next section of the charter describes the actions to be taken for impairments to independence. This could occur if there is a conflict of interest, scope limitations, restrictions

on access to records, personnel, and properties, or resource limitations, such as funding. This is often a key reason as to why Internal Audit cannot give reasonable assurance or validate information. Without unrestricted access, the required information cannot be verified and nor can controls be assessed.

The fourth section describes the responsibilities of the Internal Audit Department. The charter says that “Internal Audit provides assurance to the company’s stakeholders that the company operates in a responsible manner by evaluating the company’s governance processes including ethics, especially the “tone at the top” and performing an objective assessment of the effectiveness of risk management and the internal control Framework”. Although the charter does not specifically look at the responsibilities of Internal Audit in providing an opinion on the adequacy of controls and information in the Integrated Report it includes assurance around internal controls. The controls around the information present in the report are not, however, specifically addressed. According to the Head of Internal Audit, “Integrated Reporting falls under the ambit of internal controls.”

The only aspect in the charter that refers to the reporting is “reviewing the reliability and integrity of significant financial, managerial and operational information and the means used to identify, measure, classify and report such information”.

4.4.6 Integrated Reporting Control Review

The Internal Audit Department determines high risk areas on an annual basis to develop the Internal Audit plan. Currently the Integrated Report is not seen as a high risk area on its own, but items reported on might be identified as risk areas. From these risk areas, the controls are determined and tested for adequacy.

The process for testing the controls for these high risk areas, according to the Head of Internal Audit, are to firstly determine how information is generated, what the source of the information is, who is responsible for it, and lastly if it is a manual or automated control. The testing of these controls will be performed as part of the annual audit program if they are considered a priority for the Internal Audit Department.

The Internal Audit work has been performed in accordance with the International Professional Practices Framework for Internal Audit and the approved Internal Audit Plan. All of the items noted by the Internal Audit Department have been effectively implemented by management to

the agreed action plans to improve the control Framework and mitigate existing risks. “In the opinion of Internal Audit, except for a few specific control weaknesses noted, in all material respects, controls evaluated were generally adequate, appropriate and effectively implemented to provide reasonable assurance that risks are being managed and that the Group objectives should be met”.

The Internal Audit Department continuously notes improvements to strengthen the organisation control Framework to ensure that all controls are functioning effectively and efficiently. Some instances of isolated fraudulent activities have been noted by Internal Audit, but they were of immaterial nature.

The table 4-1 below shows the comparison of the effectiveness of the control environment at Company X, improving over the last four years.

audit area	2014	2013	2012	2011
Continuous Audits and Forensics	Very Good	Very Good	Adequate	N/A
Corporate Audits	92%	91%	91%	91%
IT Audits	91%	91%	89%	87%
Operational Audits	92%	92%	90%	93%

Table 4 - 1: Comparison of the Effectiveness of the Control Environment

Source: 2014 Integrated Report

4.4.7 Internal Audits Assurance on the Integrated Report

IA receives the draft Integrated Report before it is published in order to review it. Part of the reviewing process is to verify the hard numbers that are reported on. For example, the B-BBEE figures. This is achieved by tracing the numbers reported to various staffing reports and the actual staff. Source data used to generate information is verified to ensure that the information is accurate. A general labour legislation review is performed, which includes B-BBEE statistics. This, however, might not be the most current information presented in the report due to the timing of the review. The review does, however, test the controls to ensure that reports are accurate and complete.

4.4.8 Competency of the Internal Audit Staff

At the end of each financial year the Head of Internal Audit, together with the Audit Committee, create an Internal Audit plan which looks at the entire audit universe. The audits that have been selected for the Internal Audit plan consist mainly of high risk areas or regulatory compliance requirements. The head of the Internal Audit Department will investigate if the Internal Audit Department possesses the required skills and knowledge based on the Internal Audit plan. If the department does not have the required skills, a decision is made to either outsource or co-source skills or to train the existing resources. The Internal Audit Department remains cautious to give a professional opinion without the confidence that the department has the necessary competencies to provide reasonable assurance. Most audits require standard Internal Audit approaches that therefore do not require further training or skills. The Head of Internal Audit stated that internal auditors do not have to be the expert in each area of the organisation, if they are able to understand the risk and are able to assess the reasonableness of the effectiveness of the controls. The Internal Audit Department will therefore not come across as expert, but through research and understanding will be able to audit the area.

4.4.9 Independence of the Internal Audit Department

According to the Head of Internal Audit there are two reasons as to how to establish the independence of the department. The first is the reporting lines of the Internal Audit Department which determines the independence. The Internal Audit Department at Company X reports functionally to the head of governance who reports to Audit Committee and administratively reports to the Chief Executive Officer. The second, is the individual auditor's ability to act independently. Strong ethics will ensure that independence is maintained in the department. Internal Audit reports are backed by facts, making it difficult to act in a manner that is not independent of management and to report accurate and complete information to the Audit Committee. The Head of Internal Audit is of the opinion that at Company X, the Internal Audit Department is independent enough to be the assurance provider for the Integrated Report.

The charter explains the Internal Audits independence as “essential as it facilitates objectivity and the application of impartial and unbiased judgment.” This is accomplished by the Head of Internal Audit access to the Chief Executive Officer and functionally to the Board audit and Compliance Committee. Furthermore the Head of Internal Audit is invited to attend meetings of the Executive Committee or other committees made up of a majority of senior executives.

The Internal Audit Department at Company X falls under the Long Service Share Plan and therefore, even the internal auditors receive shares in company X after a certain amount of years. This incentive, however, does not impair their independence as this is a company policy and the same benefits are given to all employees at all levels of the organisation. Furthermore, the remuneration committee reviews the allocated budget of the Internal Audit Department and specifically the Head of Internal Audit, to ensure it is fair and market related. The Head of Internal Audit approaches this topic as any other review to identify the risks around the Internal Audits departments' remuneration and ensures adequate controls are in place to mitigate impairment of independence.

4.4.10 Internal Audits Defined Role in the Integrated Reporting Process

According to the Head of Internal Audit at Company X, there is most definitely a role for Internal Audit in the Integrated Reporting Process. The IA department is an integral part of governance structure. It is essential for Internal Audit to provide assurance throughout the year on all aspects of the business on an on-going basis, instead of just providing a once-off opinion on the integrity of the Integrated Report. It is important that Internal Audit understands culture and value of the organisation, in order to add value to the report and to ensure that accurate and correct information is reported in a manner that benefits all stakeholders as well as Company X. Internal Audit assesses the report in detail to ensure that it reflects the organisations cultures and values.

The Internal Audit Department is in a position to make changes to the reports, because it could be interpreted incorrectly and therefore be misleading the stakeholder. IA is positioned to make those changes and give recommendation because of the robust relationship with senior management and the Board of Directors. Although the Internal Audit Department does not officially provide assurance on the accuracy and validity of the entire report, Internal Audit gives their opinion on areas in which they have assessed the accuracy of the reporting items. According to the Head of Internal Audit, the Internal Audits role will increase, become more prominent, and will always provide professional judgement in the work environment and provide assurance. Internal Audit will always have a seat at the table in the strategic boardroom and provide consulting services.

It was emphasised that Internal Audit will only ever provide reasonable assurance on the controls for the Integrated Report and the accuracy of the information reported. Management

is ultimately responsible for implementing controls for the information and ensuring that a robust internal control Framework exists and that information reported is accurate and complete. The second line defence then provides monitoring functions around the controls, and Internal Audit assesses the controls independently.

4.4.11 Responsibility and Accountability for Assurance on the Components of the Integrated Report

It was said that there was already some responsibility entrenched in the charter and mandate of Internal Audit to provide assurance on the internal controls. As a good corporate citizen, Company X required an Internal Audit Department that the stakeholders can rely on. The Head of Internal Audit believed that the corporate governance Frameworks will move towards “comply or explain” making the Internal Audit Department compulsory. Internal Audit will only provide reasonable assurance and be accountable for key defects or material misstatements. Disciplinary action or disbarment from the Institute of internal auditors is a high likelihood should the Internal Audit Department give a professional opinion of sound internal controls, in an organisation where there are none. The Head of Internal Audit is of the opinion that the responsibility and accountability of Internal Audit will increase as the profession grows.

4.4.12 The Way Forward for the Internal Audit Department

It was said that the credibility of the Internal Audit Departments should be assessed before the shareholders can make any decisions. An international company performed a full external quality assessment review on the Internal Audit Department in 2007 and 2011. This review was to determine whether or not the department methodology was in line with the IPPF standards. The reviewers inspect working papers and reports and talk to the client and senior management of Company X and to the Internal Audit staff. The assessment is to test the compliance to the IIA standards, and company X has, in both assessments, received a general conformance on all standards and sub standards. The Internal Audit Department was praised for their audit methodology and their progressive and modern approach.

The Internal Audit Department has a seat at the table at the strategy meetings and if new products or services are added. The Internal Audit Department is then included in the process of developing the strategy by providing consulting services. The function is moving toward a consulting role, but will remain a strong assurance provider for all stakeholders in the organisation.

Internal Audit is growing not only an assurance provider, but also as a consultant to senior management and the Board. This includes consulting on the Integrated Report.

4.4.13 **Summary:**

The Internal Audit Department at Company X is at a high maturity level as the department has moved from pure assurance to consulting activities. Although the Internal Audit Department only provides limited value to the Integrated Report, the function as a whole provides reasonable assurance that all controls are functioning effectively within the organisation. These controls include controls for information reported in the Integrated Report. Unfortunately Internal Audit has not taken a progressive step toward identifying specific risks and controls for the Integrated Report, however, certain elements of the report have been verified by Internal Audit. The Head of Internal Audit is of the opinion that Internal Audit can provide the required assurance for the Integrated Report. Although the Integrated Report is not mentioned specifically in the charter of the department, the charter addresses independence and reporting structures, making Internal Audit ideal for providing the necessary assurance for the Board of Directors.

4.5 Combined Motors Holding Group

The Combined Motor Holdings Group commenced trading operations in 1976 following the merger of various retail motor dealerships in South Africa. In 1987 the holding company, Combined Motor Holdings Limited, was listed on the Johannesburg Stock Exchange. It is focused on motor retail, has outlets in all the major centres of South Africa, has in excess of 2900 employees and at June 2014, had a market value of in excess of R1.2 billion (CMH, 2014:14).

Combined Motor Holdings Limited is an investment holding company that represents a large number of leading car dealerships across South Africa. Combined Motor Holding, also known as CMH, owns multiple car dealerships, provides financial services to vehicle owners, engages in car rental services and sells maintenance leasing and insurance. By dealing in various aspects of the motor vehicle industry, it allows CMH to collaborate the different divisions of the company to offer a more holistic service to its customers.

4.5.1 Correlation of the Integrated Report

The company secretary, who is also the Head of Internal Audit, correlates the Integrated Report with the finance director. The information is received from various departments in the organisation. Most of the emphasis is placed on the financial statements which are audited by PWC, and on the comments from the directors. The financial director sets the structure for the Integrated Report and decides what information is relevant for the stakeholder.

4.5.2 The Combined Assurance Model

A Combined Assurance Model exists at CMH holding. This model includes internal and external assurance providers, and is facilitated by the Head of Internal Audit.

The audit committee, through the Combined Assurance Model, ensures that this model is applied, to promote co-ordination between the various assurance providers. According to the audit committee, “the combined assurance provided by internal and external assurance providers and management is sufficient to address significant risk areas within the Group and to ensure that suitable controls exist to mitigate and reduce these risks” (CMH, 2014:24).

According to the Integrated Report “the Internal Audit plan has been considered and approved, and areas of overlap between internal and external audit identified so as to optimise the Combined Assurance Model” (CMH, 2014:24).

4.5.3 The Combined Assurance Models Role in the Integrated Reporting Process

The combined assurance at CMH only provides assurance for compliance with King III, IFRS, Companies Act and JSE Listings requirements. Although King III mentions the need for assurance on the Integrated Report, this is not included in the Combined Assurance Model.

The directors have decided to not apply section 9.3 of the King III report, which states that “Sustainability reporting and disclosure should independently assured” (IoD, 2009:110) and gave the explanation that independent assurance would not yield any benefit. Therefore, no specific mention of the Integrated Reporting or anyone providing assurance on it, is included in the Combined Assurance Model. The external auditors will continue to provide independent and objective assurance on the financial statements of CMH.

4.5.4 Size of the Internal Audit Department

The Internal Audit Department at CMH currently consists of five people. These are namely the Chief Audit Executive (also known as Head of Internal Audit), one Internal Audit manager and three Internal Audit clerks. The Head of Internal Audit at CMH has a dual role as she is also the company secretary. The Board of Directors, through the Audit and Risk Committee, have appointed one person for both roles, as they believe both functions can be performed by the same person. This, however, impairs the independence of the Head of Internal Audit, which will be discussed later in the case study.

4.5.5 The Internal Audit Charter

The Internal Audit Charter at CMH does not specifically make reference to the Integrated Report, as this is not a function of the department according to the Head of Internal Audit.

The charter, however, makes reference to providing reasonable assurance for the control Framework, risk management and compliance to legislation. The Internal Audit Department, through the annual Internal Audit plan, conducts audits on all high risk areas of the organisation. These high risk areas are approved by the Audit Committee on an annual basis and both include operational and compliance risks. Some of the items on the Internal Audit annual plan indirectly feed into the Integrated Report, for example financial controls. These audits are not specifically designed to verify the accuracy and completeness of the report as they are not a risk identified by Internal Audit.

4.5.6 Integrated Reporting Control Review

As mentioned previously, the Internal Audit annual audit plan does not include assurance on the Integrated Report and therefore does not include control testing specifically for the Integrated Report. Audits such as human resources, payroll reviews and financial disciplinary reviews play a role in the accuracy of information reported in the Integrated Report. This, however, is not assurance that the information reported is accurate and complete. The Board of Directors stated in the Integrated Report that “Systems for the measurement and monitoring of various sustainability issues have been implemented. Sustainability reporting is not independently assured as the Board does not believe this will add value” (CMH, 2014:17). With little need for assurance due to the Board of Directors belief that the assurance will add no value, the Internal Audit Department receives no direction from the Audit Committee to perform such an assurance function. By relying on direction from the Audit Committee, this function will not be implemented until it becomes mandatory.

The Internal Audit Department primarily tests the compliance of relevant legislation with policies and procedures. In addition, Internal Audit provides assurance that the Group’s financial and internal controls are both adequate and appropriate, and that no areas of material application breakdown are detected.

An example of information reported in the Integrated Report, which should be independently verified, is the energy consumption. The company secretary takes the data from the reports presented to the organisation by an external party, to add to the Integrated Report. This information, however, has not been independently verified to ensure that the third party service provider who monitors the consumption is providing CMH with accurate data.

4.5.7 Internal Audits Assurance on the Integrated Report

The Internal Audit Department currently provides no verification or assurance functions on the Integrated Report. According to the Head of Internal Audit it was said that this will not change unless the assurance requirements change and it becomes mandatory for the Internal Audit Department to perform this task.

4.5.8 Competency of the Internal Audit Staff

In the Integrated Report, the board stated that they are satisfied with the level of expertise, resources and experience of the Group’s Internal Audit Department. This statement was made after an evaluation was performed for the suitability of the expertise, experience of the Head

of Internal Audit, and the adequacy of resources and expertise of the finance department and its senior management.

4.5.9 Independence of the Internal Audit Department

In the current Internal Audit Department the independence is impaired because the Head of Internal Audit is also the company secretary. Although the company secretary is part of the organisations operations, there are very few operations that the company secretary performs that would have to be independently assessed. In the case of the Integrated Report, however, the Internal Audit Department would not be independent as the report is partially compiled by the company secretary. In order for Internal Audit to verify or provide assurance, the roles would have to be changed and the company secretary and Head of Internal Audit would have to be segregated.

The Head of Internal Audit compiles about half of the non-financial information in the Integrated Report and would therefore not need further verification as she also performs the role of Head of Internal Audit. This, however, is not independent assurance and would not give the stakeholders peace of mind that the information has been verified.

Most of the corporate governance data is created by the company secretary, who is also the Head of Internal Audit. According to the Head of Internal Audit the information does not need additional verification. If independent assurance was required, Internal Audit could not function because the Head of Internal Audit is not independent. Currently no areas in the Integrated Report require assurance from the Internal Audit Department and therefore the roles of Head of Internal Audit and company secretary will not be segregated.

The Audit Committee, states that the committee “has satisfied itself that the Group’s Internal Audit Department is independent and has the necessary resources, budget, standing and authority within the Group to enable it to discharge its functions and the Internal Audit Department is independent of management” (CMH, 2014:24).

4.5.10 Internal Audits Defined Role in the Integrated Reporting Process

According to the Head of Internal Audit, the Internal Audit Department will not have a standard role in the Integrated Reporting Process as the Integrated Report covers too many different areas. This means that any meaningful assurance would require specialist assurance and/or a large amount of time.

The current Internal Audit Department does not possess the required skills or resources to provide assurance on the various items reported on. An example given by the Head of Internal Audit is that an operational audit clerk could not be expected to provide assurance on environmental issues or impact on social corporate matters as this is impractical. In addition, the data is usually prepared once a year under tight time constraints. It would not be practical in our circumstances for the internal auditors to get the data with sufficient time to audit it, before it is due to be sent off for publishing.

The Head of Internal Audit stated that due to the lack of knowledge, skills and the time constraints the role of providing assurance on the Integrated Report is not a role that Internal Audit will fill.

4.5.11 Responsibility and Accountability for Assurance on the Components of the Integrated Report

The opinion of the Head of Internal Audit is that a large portion of the data reported in the Integrated Report is meaningless to 99.9% of group's stakeholders. In certain regulated industries the Integrated Report is beneficial to the stakeholder, however, according to the Head of Internal Audit for CMH, the stakeholders do not benefit from additional non-financial information. Therefore if the information is prepared with input from the Finance Director and the CEO and the Board approves the data, then it is sufficient to publish the report. The board of directors take ownership of the information and if they do not require independent assurance from Internal Audit, then the Head of Internal Audit does not need to provide an opinion on the on the Integrated Report and he will then not be held accountable for misstatements on the Integrated Report.

In addition to the board of directors reading the report before publishing, the external auditors read the data and bring to management's attention any discrepancies or inaccuracies that they note. The Head of Internal Audit stated that this would be reported to the audit committee if it was considered significant.

4.5.12 The Way Forward for the Internal Audit Department

CMH will not include any type of involvement in the Integrated Report unless this becomes mandatory. The Internal Audit Department will continue to provide an assurance and

consulting function by performing risk-based audits and assessing the internal control Framework to ensure the organisation achieves its objectives.

The Head of Internal Audit does not see the value of providing assurance on the Integrated Report. It is not a high risk area for the organisation and there are only limited resources in the Internal Audit Department.

4.5.13 Summary

According to the Head of Internal Audit there is currently only indirect assurance provided on the Integrated Report. This due to the opinion of the Head of Internal Audit, that the information is not necessary for the stakeholders to make a decision and therefore there is little value in providing assurance on the report. Further to the lack of provision of value, is the lack of independence of the Internal Audit. By simultaneously being the company secretary and Head of Internal Audit, the independence is impaired. According to the Head of Internal Audit, unless the assurance becomes mandatory for Internal Audit, only then will the Internal Audit Department becomes involved in the Integrated Reporting Process.

4.6 Chapter Summary

Through in-depth interviews with the Heads of Internal Audit, the detail of the involvement of the Internal Audit Department, in the Integrated Reporting Process, was documented. The answers to the questions will be compared and discussed to identify similarities and differences. This will be done in order to identify whether or not a role for Internal Audit exists in the Integrated Reporting Process, and if it does exist, what that role is.

In chapter five the information from the literature review and the case studies will be compared and analysed. All four companies are compared to determine differences and commonalities.

CHAPTER FIVE: DATA ANALYSIS

The analysis is approached in two stages. Firstly a comparison of the four different organisations was made. Each of the individual items in the case study were compared and trends, differences and similarities identified.

The analysis then compares the case studies to the literature review in chapter two. This section of the analysis identifies similarities and differences between the current practice of the Internal Audit Departments at the various organisations and the literature review.

5.2 Comparison of the Four Organisations

This section compares each area of the in-depth interview for all four organisations. The comparison provides an insight into the similarities and differences between the departments and what assurance they currently provide.

The opinion of the Heads of Internal Audit, regarding the future of the Internal Audit Department in the Integrated Reporting Process, provides information on the skills and competencies that will be required and where the department will be focussing its resources.

The table below shows a short answer to the questions by the Heads of Internal Audit at the four organisations that were selected for the case study. The answers are analysed in more detail below.

Table 5 - 1: Comparison of the Four Internal Audit Departments

Question	SPAR Group	Grindrod	Company X	CMH Group
Who correlates the information provided for the Integrated Report?	Financial Director and Company Secretary	Company Secretary	Company Secretary	Financial Director and Company Secretary
Does a Combined Assurance Model exist at Company X and if so who facilitates this model?	Yes	Yes	Yes	Yes

Question	SPAR Group	Grindrod	Company X	CMH Group
Does this model provide assurance on the Integrated Reporting items? (Assurance providers)	External auditors for financials and B-BEE verifier	External auditors for financials and risk assessment by Internal Audit	External auditors for financials, B-BEE verifier and verification by Internal Audit	External auditors for financials only
How big is your Internal Audit Department and how do you see the department growing? (number of auditors)	3	8 - 12	30	5
Does your Internal Audit charter include providing assurance on the inputs for Integrated Reporting?	No	No	No	No
Are there specific controls around the information of the Integrated Report that are reviewed by the Internal Audit Department?	No	No	No	No
On what items in the Integrated Report does Internal Audit provide assurance?	None	Risk assessment of non-financial inputs	Partial verification of non-financial information	The Head of Internal Audit is also the company secretary and she reviews the report
Does your company invest in the competencies of your audit staff to be able to audit sustainability and other reported items?	No	On-the-job training	On-the-job training	No
Is Internal Audit independent enough to provide assurance for the Integrated Report?	No - cross audits are performed	Yes	Yes	No - head of IA is also Company Secretary
In your opinion, can a standard role be defined for the Internal Audit Department for Integrated Reporting?	No	Yes	Yes	No
In your opinion, should Internal Audit be responsible and accountable for assurance on the components of the Integrated Report?	N/a - IA plays no role in the IR	Yes	Yes	N/a - IA plays no role in the IR

Question	SPAR Group	Grindrod	Company X	CMH Group
What is the way forward for Internal Audit with regard to Integrated Reporting?	Provide assurance on high risk items once resources are available	Conduct risk assessments on all items of the Integrated Report and provide assurance on these items	Continue with limited verification but move into further assurance when Audit Committee requires it	Provide assurance only if mandatory and requested by the Audit Committee

5.2.1 Correlation of the Integrated Report

In all four of the selected companies, the company secretary is involved in the compilation of the Integrated Report. At Grindrod the company secretary is solely in charge of the Integrated Report, however, assistance is given by various departments within the organization. At Company X, SPAR and CMH the financial director is directly involved with the creation of the Integrated Report, and often in charge of the process. The reason for questioning who correlates the report, was to determine if Internal Audit is involved in the process to identify if the Internal Audit Department is independent and to see if Internal Audit would be able to conduct an audit on the Integrated Report and verify the information. At CMH holding the Company Secretary is also the Head of Internal Audit. This should be prohibited because it impairs the independence of the Internal Audit Department. At SPAR, Company X and Grindrod the Internal Audit Departments are completely separate, allowing for potential independent and objective assurance. At CMH the roles would have to be segregated in order for the Head of Internal Audit to perform an independent review.

5.2.2 The Combined Assurance Model

A Combined Assurance Model exists at all four of the organisations as it recommended by King III. In the four organisations the Combined Assurance Model is facilitated and coordinated by the Internal Audit Department as requested by the audit committee. Internal Audit is positioned in a way to be able to oversee the Combined Assurance Model as part of the Internal Audit Department. By facilitating the Combined Assurance Model, Internal Audits position makes it possible to monitor the overall assurance of the organisation and to identify gaps in the Combined Assurance Model. At the Audit Committee meeting, Internal Audit can give the board of directors' feedback on the assurance provided by both internal and external assurance providers. The Combined Assurance Model at all four organisations include both internal and external assurance providers. Internal Audit ensures that the roles of the assurance providers do not overlap more than what is required.

5.2.3 The Combined Assurance Models Role in the Integrated Reporting Process

Currently only the external auditors, one of the external assurance providers, provide assurance on the Integrated Report by providing their opinion on the financial statements of the organisation. Their function, amongst others, is to ensure that the financial statements have been audited in compliance with the international auditing standards, to assess the reasonableness of the financial statements and to provide assurance that no material misstatement has been reported.

At Company X the Internal Audit Department verifies some information and at Grindrod the Internal Audit Department assesses the risks of the information reported. At both Company X and the SPAR Group Ltd the B-BBEE was verified by an external and independent service provider. None of the organisations have specifically stipulated the assurance required on the Integrated Report in the Combined Assurance Model.

5.2.4 Size of the Internal Audit Department

The size of the Internal Audit Departments at the four organisations varies. Company X has by far the largest Internal Audit Department with almost 30 staff members. The second largest is Grindrod with 12 staff members during busy periods and eight during the slow periods of the year. The third largest Internal Audit Department is the department at CMH with five staff members, however, the Head of Internal Audit is also the Company Secretary. The organisation with the smallest Internal Audit Department is the SPAR Group Ltd. The size of the Internal Audit Department determines the scope of the internal audit plan as there are limited resources. With more resources available it is easier to review more high-risk areas and it is possible to include the Integrated Report in the annual audit plan.

5.2.5 The Internal Audit Charter

By including the Integrated Report in the charter, the department makes assurance of the Integrated Report a part of the mission of the department, however, none of the organisations Internal Audit Departments have included assurance for the Integrated Report in their internal audit charter. This is due to the fact that internal audit has not been identified as the official assurance provider and unless it becomes part of the normal function of the Internal Audit Department, it will more-than-likely not be included in the internal audit charter. All the organisations have included the general internal control Framework which encompasses all

the internal controls of the organisation and therefore indirectly includes controls on information reported in the Integrated Report. This, however, is not enough to provide the stakeholder with independent objective assurance.

5.2.6 Integrated Reporting Control Review

Due to the Integrated Reporting Process is still being relatively new for most organisations, the control Frameworks have not included specific controls around the report to ensure the information reported is correct. Although all four organisations have implemented a control Framework that incorporates many areas that feed information into the Integrated Report, there is still a need for specific controls to ensure the information provided to the company secretary or financial director is correct. The required controls that should be in place would monitor the information included in the report and verify the accuracy and completeness.

There are two types of controls that can be implemented. These are preventative and detective controls. These controls, if functioning adequately, provide assurance that the information included in the Integrated Report is accurate and complete. Preventative controls are controls that are “proactive controls that help to ensure departmental objectives are being met” (VanderBilt University, 2014). An example of this type of control is segregation of duties between different functions and people. The second type is detective controls. “These are designed to find errors or irregularities after they have occurred” (VanderBilt University, 2014). Examples of detective controls are monitoring and verification of reports. The adequacy of these controls should be reviewed by an independent department. The audit steps will include that the controls prevent inaccurate information to be included in the Integrated Report by verifying the information in the report.

5.2.7 Internal Audits Assurance on the Integrated Report

Company X and Grindrod have both identified that there is a risk for reporting inaccurate information. They have therefore included control testing for the existing controls around the Integrated Report in their annual audit plan. No specific controls for the Integrated Report exist, therefore. Both organisations have identified the controls that indirectly mitigate the risk of reporting inaccurate information. The indirect control are not adequate, however, it is the first step for both of the Internal Audit Departments to provide some assurance around the Integrated Report. Grindrod has approached the assurance on the Integrated Report from a risk perspective and Company X from a verification approach. Although both Heads of Internal Audit admitted that they do not yet provide the necessary assurance on the information

reported, they are in the process of providing limited assurance. At CMH and SPAR no specific controls have been implemented. This lack of control is due to no risks being identified for reporting inaccurate information and therefore little attention has been given to the controls around the Integrated Report. Both of the smaller Internal Audit Departments, SPAR and CMH, do not have the capacity to perform reviews that are not high risk areas for the organisation.

5.2.8 Competency of the Internal Audit Staff

The Heads of Internal Audit were asked if they provide the resources for their staff to receive the necessary training and skills in order to perform audits for the information reported in the Integrated Report. Company X provides training on a regular basis but not for sustainability and other non-financial reporting as these are similar to normal reviews according to the Head of Internal Audit. The Internal Auditors at Company X are capable of performing audits on most of the information reported and currently perform these to provide limited assurance on those items.

The Head of Internal Audit at Grindrod believed that information reported can be verified by performing standard audits, however on-the-job training is required to get a better understanding of the areas. The Internal Audit Department can perform the majority of the audits without additional training but would up-skill if it is necessary. At SPAR, training is always promoted but only when it is needed. The SPAR Group currently does not perform reviews around the items reported in the Integrated Report as there was no need for training on sustainability and other non-financial items. At CMH training for sustainability and assurance on the Integrated Report is not supported as this is not a role Internal Audit plays at CMH. According to the Head of Internal Audit, the internal auditors do not possess the required skills and knowledge to perform the audits.

5.2.9 Independence of the Internal Audit Department

According to Internal Audit Standards, the department should be completely independent from operations. This can be achieved by reporting directly to the audit committee and having unrestricted access to senior management as well as not performing operations that could impair the independence of the Internal Audit activity (IIA, Independence and Objectivity).

All four organisations have direct access to the Audit Committee and report bi-annually on the performance and independence of the department. Both of the Internal Audit activities at

SPAR Group and at CMH, have reported that their independence is impaired. At SPAR the Internal Audit Department uses operational staff to perform audits and at CMH the Head of Internal Audit performs duties outside of the role Internal Audit Department.

At Company X and Grindrod the Internal Audit Department is in compliance with the King III requirements as it operates without any influence. Both organisations have a direct reporting line to the Audit Committee through the Head of Internal Audit and operate within the International Internal Audit Practices.

5.2.10 Internal Audits Defined Role in the Integrated Reporting Process

The roles of the two larger Internal Audit Department's differ to the roles in the smaller Internal Audit Departments. At Company X and Grindrod the Internal Audit Department's role has already moved towards providing limited assurance on some items on the Integrated Report and will only continue to extend the current assurance to include more reported items. The Internal Audit Departments at CMH and SPAR have no defined role in the Integrated Reporting Process.

At company X, the Internal Audit Department verifies information on the report before it is issued and the Internal Audit plan includes many areas which feed into the Integrated Report. At Grindrod, the sustainability matrix has been developed to identify high risk areas around the Integrated Report and internal audit is responsible for coordinating the risk management of the defined risks. Both organisations have used their Internal Audit Department to provide limited assurance on the Integrated Report.

At SPAR and CMH, the Head of Internal Audit stated that internal audit does not have a defined role in the Integrated Reporting Process and will not have one in the near future unless it becomes mandatory. At CMH, the Head of Internal Audit believes the reason for not providing assurance is because the staff members lack the knowledge and skills to audit the Integrated Reporting Process. At SPAR, the constraint is that there are not enough resources to provide assurance over the Integrated Report, but normal assurance over the internal controls will be provided.

By performing work around the Integrated Report, both Company X and Grindrod are able to start defining a role for their Internal Audit Department. On the other hand, for SPAR and

CMH the role of internal audit cannot be defined as both the Internal Audit Departments lack competencies and resources. Therefore, the Head of Internal Audit currently does not provide verification or assurance for the Integrated Report.

5.2.11 Responsibility and Accountability for Assurance on the Components of the Integrated Report

An Internal Audit Department can only be held accountable if they provide an opinion on the Integrated Report by conducting assurance work. Due to both CMH and SPAR not currently providing any assurance on the Integrated Report they cannot be held accountable. The heads of Internal Audit both believe that the Internal Audit Department should not be responsible or accountable for any information in the report as neither of their departments are part of the process.

At both Grindrod and Company X the Internal Audit Department provides limited assurance on some of the items included in the Integrated Report and could therefore be held accountable. Both Internal Audit Departments are still in the beginning stages of providing assurance and have therefore not provided a specific opinion on the integrity of the information reported. Both Heads of Internal Audit agree that when the time comes for internal audit to provide any type of assurance, the department should be held responsible and liable for the assurance they provide.

5.2.12 The Way Forward for the Internal Audit Department

The way forward for the Internal Audit Department is dependant either on the vision of the Head of Internal Audit or on the regulations that drive internal audit. Currently there are no new regulations or guidelines for Internal Audit to provide assurance on the Integrated Report, so only if the Head of Internal Audit includes assurance in the internal audit plan will this be performed.

Two of the four organisations, namely, Grindrod and Company X, have provided some assurance on the Integrated Report. SPAR and CMH have not. Currently, the Head of Internal Audit, at all of the four organisations, influences the way forward for the respective Internal Audit Departments.

Grindrod is continuing with its process and expanding the risk matrix to include all areas of the Integrated Report and is providing assurance on the items based on the risk factor.

Company X is also continuing with the current process by verifying the detail of the entire report and by conducting more in-depth testing to increase the assurance provided. The Internal Audit Department at the SPAR Group will focus on the implementation of SAP and once more resources are available and the Integrated Report becomes a high risk area or it becomes mandatory will the Head of Internal Audit ensure that assurance is provided. CMH will only provide assurance on the Integrated Report if it is mandatory for Internal Audit to perform this function. At this point the duties of the Head of Internal Audit will have to be segregated between Company Secretary and Internal Audit duties.

5.3 Comparison to the Literature Review

This section of the analysis is comparing the case studies to the available literature. The Heads of Internal Audit were asked the same questions to identify how closely their Internal Audit Department provide activities in line with the available literature. Although the literature doesn't specifically state what the required functions of the Internal Audit Departments are with regard to Integrated Reporting, it does give some guidance on the requirements for assurance and who the assurance provider is. By comparing the available literature to the results of the case study it is possible to determine how closely the Internal Audit Departments are to the guideline.

5.3.1 The Integrated Report

All four organisations that have been selected for this case study are listed on the JSE and therefore have to apply the King III report or explain why they do not. One of the requirements is to create an Integrated Report that shows the value creation of the organisation over time. The Integrated Report should be created in line with the Integrated Reporting Framework to ensure that the required information is included and that the reports are created in a similar way.

The Integrated Report has been created mostly by the company secretary with help from the Financial Director at the four organisations and all of them are based on the Integrated Reporting Framework. The directors choose information based on the relevance to the stakeholder and the reliability of the information available. The information reported needs to add value to the stakeholder, therefore only material information should be reported. Secondly, only information that is reliable and can be confirmed is added to the Integrated Reported. Due to this, the reports look different at the four organisations but the core content is included in all of the Integrated Reports.

The content elements are seen throughout the Integrated Reports of the organisations. The organisations have however struggled to portray the way forward and the outlook of the organisations as this is soft data that is often not supported by hard facts. The outlook is not just a financial forecast but also an outlook for other non-financial information. It is evident on all four Integrated Reports that the directors place emphasis on the governance of the organisation by applying the majority of King III to the organisation. As the risk departments at the four organisations differ in size and resources the information on the risks and opportunities differ, however all four organisations include it.

The various categories in the Integrated Reporting Framework are guidelines for the information, if applicable, what should be included. The Financial Capital is included in all four Integrated Reports as this is part of the financial reporting requirements. The Manufacturing Capital refers to the production of goods or delivery of service. This is mostly included in the financial information as it forms part of the turnover of the organisation. The intellectual property has only been reported as part of the intangible assets on the financial statements of the organisations as this forms part of their balance sheet. Human Capital in South African context often means reporting on Broad-Based Black Economic Empowerment, however all four organisations have not stopped there and have reported additional statistics and information on the “People” of the organisation.

All four organisations have also included the skills and experience of their Directors and leaders, and SPAR and Grindrod have gone further to report on the skills and competencies of other Senior Managements. The Social Capital was included in the Integrated Reports of all four organisations as the charities that the organisation supports and the work that was done. The last Capital to be included is the Natural Capital. This refers to the natural resources that the organisation uses for past present and future profits. This Capital is not reported to the required standard at any of the organisations. Although some information is reported the natural resources that are used to generate income and grow the organisations have not been included.

Overall, the Integrated Reports include the required Content Elements and the Capitals that are necessary to create value as these Capitals are transformed into outputs. With the reported information it is possible for the stakeholder to make informed decisions.

5.3.2 Assurance on the Integrated Report

In the Integrated Reporting Process, assurance is the process of providing a conclusion that enhances the degree of confidence that the intended user can place on the organisation. In order for this to happen, the IIRC requires an external practitioner who is independent of the organisation and who is competent to perform this task (International Integrated Reporting Counsel, 2014: 6). The Heads of Internal Audit at Grindrod, Company X, SPAR and CMH were asked if their Internal Audit Department is independent and capable to provide the assurance for the Integrated Report.

The Head of Internal Audit at Grindrod and Company X stated that their Internal Audit Department is both capable and independent to provide assurance. This is due to the reporting structure of the Internal Audit Department as well as the independence of each individual auditor. If either of the departments lacks the capability the assurance service, they will acquire knowledge and skills before performing any further assurance, however, they have both stated they currently possess the necessary skills.

SPAR and CMH both don't provide any assurance on the information reported in the Integrated Report due to a lack of independence and competence. The lack of independence comes from not segregating duties and using operational staff to perform reviews. Both Heads of Internal Audit stated that providing assurance on the integrated report will not form part of the Integrated Reporting Process and therefore there is no need to gain the necessary skills and experience to provide

After it was determined if the departments perform an assurance function or if they will in the near future, the question arose as to what type of assurance they provided. Only the Head of Internal Audit at Grindrod and Company X could answer this as they are currently performing some assurance and both plan on extending this assurance. Both Heads of Internal Audit stated that they were moving toward providing reasonable assurance but currently only provide limited assurance on some items of the Integrated Report. For Grindrod and Company X the function of providing assurance on the Integrated Report can and should be performed by the Internal Audit Department. For SPAR and CMH, the role of internal audit will not include assurance on the Integrated Report.

An opinion on the internal controls of the organisation should be provided alongside a statement that the information reported has been verified and is accurate and complete. In

many organisations the board of directors, through the Audit Committee, will engage the Chief Audit Executive to provide such a written assessment on their behalf. (Asia Centre of Excellence for IA, 2013). Currently none of the four Internal Audit Departments provide an opinion on the Integrated Report. For Company X and Grindrod the reason for not providing an opinion is the limited assurance they provide and for CMH and SPAR the reason is that they don't provide any assurance. The Head of Internal Audit at both Grindrod and Company X stated that they will provide an opinion similar to that of External Audit, however only when reasonable assurance is provided. The Head of Internal Audit at CMH, who is also the Company Secretary, provides an opinion, however, only as the Company Secretary and not as internal audit. At SPAR the Head of Internal Audit does not provide an opinion on the assurance on the Integrated Report and will not unless it becomes mandatory.

5.3.3 Combined Assurance

The Integrated Reporting Framework and King III place emphases on a Combined Assurance Model, "which coordinates assurance activities between various assurance providers, as a leading and recommended practice." (Sarens, Decaux and Lenz, 2012, p. 3) This approach "coordinates risk management for all aspects of the company's operations – financial and non-financial" (Asia Centre of Excellence for IA, 2013, p. 3). The Combined Assurance Model includes internal and external assurance providers. All four organisations have implemented a Combined Assurance Model but none of the models specifically state that assurance will be provided on the Integrated Report.

Even though the Combined Assurance Model does not state that it will provide assurance on the Integrated Report, included in the model is External Audit. At all four organisations the external auditors provide assurance on the financial information included in the Integrated Report.

For a Combined Assurance Model in Integrated Reporting to function properly, direction needs to be given by the Audit Committee. The instructions to include the Integrated Report in the Combined Assurance Model have to come from the Audit Committee. The Internal Audit Departments, at all four organisations, has been assigned to facilitate this model but a decision to include the Integrated Report has to be made by the directors of the organisation. At none of the organisations used in the case study has the Audit Committee communicated to internal audit that they should ensure that the Combined Assurance Model includes the Integrated Report.

5.3.4 **Internal Audits Approach to the Six Capitals**

All the Capitals included in the Integrated Report should be reviewed to provide assurance that the information reported is accurate and complete. The Internal Audit Department at Company X currently provides limited assurance on the Human Capital, their external auditors provide reasonable assurance on the Financial Capital and an external assurance provider, who provides assurance on the B-BBEE status of the organisation. At Grindrod the Internal Audit Department provides limited assurance on the Natural capital and their external auditors provide reasonable assurance on the Financial Capital. At SPAR the external auditors provide reasonable assurance on the Financial Capital and an external assurance provider provides reasonable assurance on the B-BBEE status. At CMH only the external auditors provide reasonable assurance on the Financial Capital

5.3.5 **Institute of Internal Auditors Views on the Role of Internal**

Internal Auditing is, by definition “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes” (Institute of Internal Auditors, 2013).

According to the Institute of internal auditors, the Internal Audit Department may provide assurance on an Integrated Report, however, the Audit Committee would be in a better position as the oversight body of the Internal Audit Department, to determine whether or not the department is independently suitable to provide assurance on such a report. The Audit Committee at the four JSE-listed organisations have not required the Internal Audit Departments to provide assurance on the Integrated Report.

The Internal Audit Department at Company X has been asked to verify some information, however, this has not satisfied the Board of Directors that the necessary assurance has been provided (Institute of Internal Auditors, 2013). The Head of Internal Audit at Grindrod believes that they are in line with the requirements of the Institute of Internal Auditors and have therefore started developing a risk matrix to audit the information to provide assurance. Both of these Internal Audit departments possess the necessary independence and believe they have the competent enough to provide assurance, however both require the Audit Committee to guide them in this process.

The Heads of Internal Audit at SPAR and CMH disagree with the Institute of Internal Auditors and have stated that assurance on the Integrated Report is not the role of Internal Audit. This is partly due to lack of independence but mostly due to lack of guidance of a regulatory framework making it mandatory for the Internal Audit Department to perform this function.

Although Internal Audit could as a part of the Combined Assurance Model perform an assurance function for the Integrated Report, Senior Management remains accountable for integrity of information reported. The Institute of internal auditors is not of the opinion that the assurance function needs to be performed by an external assurance provider (Institute of Internal Auditors, 2013).

5.3.6 The Way Forward for Internal Audit

Until a standard is developed for the assurance provider of the Integrated Report, Internal Audit Departments should develop their own process that focuses on providing limited assurance on the Integrated Report. In order for the Internal Audit Department to be able to provide such assurance before the strategy is implemented, evidence must be given that the department has the necessary competencies, skills and that the department remains independent (Accountancy SA, 2014).

At Company X and Grindrod the way forward is to extend the current assurance to include all items of the Integrated Report and to move from limited assurance to reasonable assurance. Company X will increase their assurance by performing more in-depth reviews on the information and perform verification audits to ensure the correctness of the information included in the Integrated Report. Grindrod will extend their assurance by creating additional risk matrixes for the remaining items included in the Integrated Report and will audit these to ensure the accuracy and validity of the information. SPAR and CMH will continue with their normal internal audit practices and only provide assurance if it becomes mandatory for the department to do so.

The way forward will be determined by the Audit Committee as they direct the Internal Audit Department. It is, however, internal audits responsibility to make the Audit Committee aware of any emerging risks. If the Head of Internal Audit identifies the misstatements of

information in the Integrated Report as a high risk then this should be brought to the Audit Committee and should be addressed.

5.4 Summary

The comparison of the Internal Audit Departments revealed that all four organisations have comprehensive Integrated Reports, however, two of the Heads of Internal Audit believe that Internal Audit should not play a role in the Integrated Reporting Process and the other two already provide limited assurance.

The two Heads of Internal Audit that were of the opinion that the Internal Audit Department should not provide assurance, are both not entirely independent and would have difficulty convincing the stakeholder that they are the preferred assurance provider. It was further noted that these two Internal Audit Departments were smaller in size and did not have the capacity for assurance on the Integrated Report.

The two Internal Audit Departments that already provide some assurance, were proactive by identifying areas where they can provide value to the organisation by providing assurance. Both of these departments had more resources at their disposal.

Although the literature review leaned toward the possibility of Internal Audit in providing the assurance on the Integrated Report, it is not mandatory for Internal Audit to provide assurance on the Integrated Report. The role of Internal Audit in the Integrated Reporting Process is dependent on the establishment of a regulatory framework to determine an assurance provider. Until then the Internal Audit Profession will only grow if the Head of Internal Audit is progressive.

CHAPTER SIX: RESULTS

6.1 Introduction

The progress of Integrated Reporting brings forth an opportunity for Internal Audit to provide assurance. Providing assurance on the Integrated Report gives all stakeholders of the organisation transparency into the organisation and allows for accurate decision making.

With many factors to consider, it is vital to identify an ideal assurance provider with the necessary competence and the required independence to give stakeholders peace of mind that the information reported in the Integrated Report is accurate, valid and complete.

Information from different areas of the organisation that is compiled into one report, makes it crucial to ensure that the information has been verified. More reliance is placed on information other than financial information to make decisions. Therefore a similar practice has to be implemented for reasonable assurance for non-financial information.

This creates opportunities for many ideas and opinions on who is best suited for the role of assurance provider.

6.2 Background

Four Internal Audit Departments in the Durban area were interviewed. In-depth interviews with the Head of Internal Audit were undertaken to identify the role of Internal Audit in the Integrated Reporting Process. The results of the case studies were compared to a literature review that was conducted on available and relevant information. The case studies were compared to one another and to the literature review to identify similarities and differences.

6.3 Contribution to the Body of Knowledge

The case studies of the thesis can be used by Internal Audit Departments to compare their departments' maturity to other Internal Audit Departments in the Durban area. The case studies also identify what type of service the leading Internal Audit Departments provides.

The conclusion of the thesis can help the International Integrated Reporting Council to decide on the best assurance provider. It can also assist the Institute of Internal Auditors to grow the profession by promoting additional services within the Internal Audit Department.

6.4 Results

The results of the study as per the objectives that were identified in chapter one.

The first objective of the thesis was to determine whether or not a role for Internal Audit exists in the Integrated Reporting Process. Even though the literature supported the idea that the Internal Audit Department could be an assurance provider for the Integrated Report, in practice this was applied at two of the organisations.

Two of the organisations in the case study, namely Company X and Grindrod, have become proactive and have include the Integrated Report in their annual plan. They both, however, are still not at the stage where the board of directors can say with confidence that the information reported is accurate and complete.

At the SPAR and CMH the Internal Audit Departments have not adopted Integrated Reporting into their Internal Audit Department. They have taken the reactive approach and are waiting for the Integrated Reporting Framework to stipulate who should provide assurance on which items. This shows that unless the Head of Internal Audit is proactive and believes that by adding assurance to the Integrated Report, it will benefit the stakeholder, they will not implement the assurance processes. They will then wait for the assurance function to become mandatory.

The second objective was to identify what the current role of Internal Audit was in the Integrated Reporting Process. Due to only two of the organisations performing some assurance and verification work around the Integrated Report, and the other two only performing standard internal control assurance, it was only possible to identify the role at Company X and Grindrod.

The role of Internal Audit at Company X and Grindrod differ. Company X, although performing extensive assurance around the internal controls of the organisation, only verified some information before the Integrated Report was published. Grindrod, on the other hand, took the approach of identifying the high importance areas within the sustainability reporting. They identified items that are more important to the stakeholder and verified these items before compiling the Integrated Report was compiled. Both Internal Audit Departments,

however, have only provided limited assurance on some aspects of the Integrated Report and not on the report as a whole.

In order to define a role certain requirements must be met in order for Internal Audit to be an assurance provider. The Internal Audit Department needs to be independent in order to provide independent and objective assurance in line with requirements of the Integrated Reporting Council. The department also needs the necessary resources to perform the audits. These resources include skilled and experienced internal auditors, who are independent and objective and possess the necessary competencies.

The third objective was to identify whether or not a Combined Assurance Model was in place to provide assurance over the Integrated Report. All four organisations have a Combined Assurance Model and all four organisations rely on the external auditors to provide assurance on the financial statements. Very little further assurance, however, is provided by either an internal or external assurance provider, other than Internal Audit at Company X and Grindrod.

The final objective was to determine what the future role of Internal Audit will be in the Integrated Reporting Process. The literature suggests that Internal Audit Departments should provide more assurance as the department matures. At the four organisations, however, only two companies, namely Grindrod and Company X, are proactive and are conducting assurance services for the Integrated Report. The other two organisations, namely SPAR and CMH, have decided to focus their limited resources on high risk areas as per the Internal Audit Plan and will only provide assurance for the Integrated Report if it becomes mandatory.

6.5 Limitations

Due to the limited available literature, it was difficult to thoroughly identify all aspects on the role of Internal Audit in the Integrating Reporting Process. The topic of the identification of an assurance provider for the Integrated Report has not yet reached a level where books and articles are published. The International Integrated Reporting Council is still in the progress of developing an assurance framework for the Integrated Report, which should provide guidelines for the selected assurance provider. Discussion groups are in the process of gathering information for the decision of the best suited assurance provider. Until the assurance provider has been selected, there will be no guidance in the literature.

6.6 Areas for Further Research

Further studies can be conducted when the International Integrated Reporting Council releases the assurance framework, which stipulates what type of assurance is required and who the assurance provider, should be. The study can be furthered in two ways, firstly, the process of implementing the framework at various organisations, and secondly the effectiveness of the assurance provided by the selected assurance provider. The first way would be based on a case study to document the process at each Internal Audit Department as they implement the framework. The second way should be performed on a quantitative basis to identify the responses of the various stakeholders opinion on the assurance of the Integrated Report.

6.7 Concluding Remarks

The research has revealed that the Internal Audit Profession, in theory, possesses the skills, knowledge and independence to provide assurance on the Integrated Report. The case study results, however, revealed that even if the Internal Audit Department can provide assurance on the Integrated Report, only two Heads of Internal Audit, were proactive and moved towards providing assurance. The other two Internal Audit Departments decided to wait for the guideline or framework, before performing assurance on the Integrated Report. Creating an Assurance Framework for the Integrated Reporting Process is a difficult and lengthy task that requires the input from multiple experts. The Internal Audit's role in the Integrated Reporting Process cannot yet be established and the progression of the Internal Audit Profession relies on each Internal Auditor to be proactive and add more value to the organisation.

APPENDICES

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INTERVIEW AGENDA

- 1** Introduction to the thesis
- 2** Request permission to use a recording device. (Both verbal and in writing)
- 3** Background of the researcher and interest in the topic
- 4** Background to the topic
- 5** Where the case study fits into the thesis
- 6** The significance of the thesis and the purpose therefore
- 7** Interview Questions:
 - Is the Internal Audit Department independent enough to provide assurance on the Integrated Report?
 - In your opinion, should Internal Audit be responsible and accountable for assurance on the components of the Integrated Report?
 - In your opinion, can a standard role be defined for the Internal Audit Department for Integrated Reporting?
 - Does your company invest in the competencies of your audit staff to be able to audit sustainability and other reported items?
 - What is the way forward for Internal Audit with regard to Integrated Reporting?
 - Does this model provide assurance on the Integrated Reporting items?
 - Does a Combined Assurance Model exist at CMH and if so who facilitates this model?
 - On what items in the Integrated Report does Internal Audit provide assurance?
 - Who correlates the information provided for the Integrated Report?
 - Are there specific controls around the information of the Integrated Report that are reviewed by the Internal Audit Department?
 - Does your Internal Audit charter include providing assurance on the inputs for Integrated Reporting?
 - How big is your Internal Audit Department and how do you see the department growing?
- 8** Research and thesis
- 9** Appreciation for assistance
- 10** Closing of interview

ETHICAL CLEARANCE



12 November 2014

Mr Rudolf Eckart Kruger (214581177)
Graduate School of Business & Leadership
Westville Campus

Dear Mr Kruger,

Protocol reference number: HSS/1134/014M
Project title: Internal Audit's role in the Integrated Reporting process in Durban

Full Approval – Expedited Application

In response to your application received on 10 September 2014, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol have been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully



.....
Dr Shenuka Singh (Chair)

/ms

Cc Supervisor: Dhanesh Rampersad
Cc Academic Leader Research: Dr E Munapo
Cc School Administrator: Ms Zarina Bullyraj / Ms Gina Mshengu

Humanities & Social Sciences Research Ethics Committee

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