SAICA
THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS

Media Statement

Why integrated reporting in the public sector is necessary

Johannesburg, 28 June 2021 – Integrated reporting, and the concept of integrated thinking, are not new concepts in a South African context. South Africa started on the journey towards integrated reporting in 2009 with the release of the King Code of Governance for South Africa (King III). King III specifically focused on the principle that strategy, risk, performance, and sustainability are inseparable, and as such, entities need to be providing an integrated report to reflect this. This principle was taken seriously enough that the Johannesburg Stock Exchange (JSE) included the requirements of King III in the JSE Listings Requirements (JSE LR). Entities listed on the JSE therefore had to prepare an integrated report or explain why they have not prepared one. In 2011, these entities were the first to prepare integrated reports on a large scale, writes Morne Grobbelaar, Chairperson of the Public Sector Integrated Reporting Project Group at SAICA and Senior Manager at the Auditor General South Africa.

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia, and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting. Considering this, the IIRC issued the International Framework (<IR> Framework) in 2013.

The <IR> Framework offers guiding principles for the preparation and presentation of an integrated report, as well as providing content elements of information that should be included.

Moving forward to November 2016, a new version of the King Code of Governance for South Africa (King IV) was released. King IV took the integrated reporting concept as outlined in King III away from a "tickbox" exercise that entities undertook to comply with their JSE LRs, to an exercise where the board and management had to apply "integrated thinking" to their integrated reports. Integrated thinking means the board and management have to apply themselves throughout the period to the information contained within the integrated report, and explain to the users of the financial statements how the entity is ensuring that they will not only be profitable, but also sustainable.

Based on the above information, entities are effectively using good corporate governance, ongoing stakeholder relationships, integrated thinking, and the integrated report to enhance their reporting and make an informed assessment about value creation.

The <IR> Framework uses the six capitals, namely financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital as a reflection of the entity’s performance across various aspects of the business. The six capitals look at the entity’s business model, which draws on various capitals as inputs and the conversion of these inputs to outputs.

When doing an integrated report, an entity explains how it creates value over time to its stakeholders based on its impact, whether positive or negative, on the different capitals.

Public Sector Applicability

The question that often gets asked is why would the public sector need to do integrated reporting? As has already been stated, it is a requirement for companies that are listed on the JSE. The public sector is already a highly regulated environment with significant additional disclosure, and hence is already transparent in what they are doing. Government also backs the public sector, so there are no sustainability questions that need to be addressed. Therefore, it does not have to be applicable to the Public Sector, right?

Looking at news reports, it is obvious that the public sector is facing its fair share of challenges. There are allegations of mismanagement, irregular expenditure, and lack of accountability. All of this go hand in hand with many public sector entities that are facing severe financial difficulties. All these issues often overshadow the longer-term priority of reporting on service delivery capabilities and the sustainability thereof.

None of these allegations are aiding the public confidence in the public sector. The problem is that the public at large are generally reliant on the news reports they receive for information on what is happening in the public sector. There are not many other mechanisms available whereby the public, as a stakeholder of the public sector, can get more information on what exactly is going on, and what the plans are to rectify the problems reported.

The current annual reports, while available to the general public, are not necessarily an entirely comprehensive or objective source of information as it is focused mainly on contextualising past performance and is often written to play up the entity’s successes while playing down their weaknesses. IR strives to achieve a more balanced view, looking to the future to see how the entities are going to manage their six capitals to remain sustainable.

The problem is amplified by the fact that the financial statements of many public sector entities does not provide any more detail or clarity in terms of the solutions to these problems. Financial statements, by their very nature, are based on historical information. They reflect what has happened to the entity and whether management believe that the entity will keep going into the foreseeable future, but nothing more.

From an <IR> Framework perspective, the integrated report tells the complete story of the entity. The integrated report not only focuses on the past, but on the future, and what the entity is doing now to achieve its long-term value-creating goals.

So will integrated reporting improve reporting in the public sector?

The point of doing integrated reporting in line with the <IR> Framework is not to find a miracle cure to all the alleged problems highlighted in the public sector. Rather, it is to provide the users of the financials, the stakeholders, with a view of where the entity is going. What is the entity doing about the problems it is encountering, and how is the entity maximising its benefits from the good it is doing?

Integrated Reporting provides an enhanced level of transparency, an open door if you will, into the direction of an entity. An acknowledgement that management of the entity is not just aware of the good and the bad the entity is faced with, but also that management have a plan to fix the bad and build on the good. This alone will not specifically change anything in terms of the audit of the entity's historical financial information, but it will provide greater insight into the way forward for these entities.

SAICA has identified a need to develop guidance and increase awareness on integrated reporting in the public sector. The Public Sector Integrated Reporting Project Group (PSIRPG) was established to assist SAICA with this. The PSIRPG's objectives include raising awareness, researching and the development of guidance for integrated reporting in the public sector.

In conclusion, integrated reporting is not the solution to the problems the public sector face. Rather, integrated reporting is the first step on the road to providing not just the bare minimum required information to the stakeholders within the public sector, but rather an acknowledgement that irrespective of what happened in the past financial year, management are ready for the future and have mechanisms in place to improve operations going forward.

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SAICA Media Contacts
Kulani Chauke
Project Manager: Corporate Communications
SAICA Brand Division
011 479 0698/071 266 0019
kulanic@saica.co.za