Applying Integrated Reporting principles
in the public sector

By Mark Hoffman, KPMG in South Africa

In brief:

Many public sector bodies are tasked with providing service delivery and governance excellence in a financially, economically, socially and environmentally sustainable manner. Integrated Reporting can help to balance reporting of these often conflicting objectives.

- Integrated Reporting can provide a framework for public sector organizations to focus their reporting on their principle objectives
- Integrated Reporting can help public sector bodies explain their strategies; operational model and governance, and show how their performance can be assessed against these strategies
- Stakeholder engagement can help organizations show how they have balanced the often conflicting needs of different stakeholder groups
- Integrated Reporting offers organizations the opportunity to align their reporting with their risks and opportunities and management accountabilities

Public sector organizations are under constant pressure to develop better reporting. Integrated Reporting principles provide a potential solution that can be readily adapted to their broader goals. A wider range of stakeholders with varied expectations have an interest in the performance of public sector organizations. An Integrated Reporting approach can help to address these factors.

A business approach to public sector reporting

There is a growing social and regulatory drive for public sector organizations to provide performance reporting that can be used to assess the delivery of organizations' strategies. This pressure comes not only from government in its oversight capacity but from all interested key stakeholders.

Integrated Reporting introduces a business approach to reporting in the public sector that fully embraces stakeholder inclusivity and the critical need for financial, economic, environmental, social and governance sustainability.

A public sector organization's value lies in its ability to meet its service delivery and governance objectives in the short, medium and long-term, just as a private sector organization looks for sustainable, profitable growth. Stakeholders seek a change in management or ultimately a new political solution if inappropriate strategies are targeted or poor performance results, just as capital markets choose to divest in listed companies.

In South Africa the positive response by a number of State Owned Entities to Integrated Reporting under the King Code of Governance Principles is encouraging and reflects a good fit for Integrated Reporting in these organizations. The alignment of Integrated Reporting to Performance Information initiatives, as contemplated under the South African National Treasury reporting requirements, points to Integrated Reporting as the direction for future public sector reporting.

Below we explore some of the observations arising from the practical application of Integrated Reporting elements to public sector organizations.

Organizations need to engage with their key stakeholder groups effectively.

Stakeholder engagement and material issues

Relationships and interactions with key stakeholders are at the heart of every public sector organization. Typical major stakeholders include:

Government	Regulators
Direct & Indirect customers	Financiers, banks & rating agencies
Public & communities	Suppliers, business partners & PPPs
Employee & trade unions	NGOs, forums, media & interest groups

Public sector organizations need to engage with their key stakeholder groups effectively, and to understand the needs and concerns, and trends and developments in these groups in order to respond pro-actively in their strategies. Experience shows that stakeholders have varied and often conflicting needs and concerns. Focused and innovative management is required to deal with this challenge. The benefit of an Integrated Report is the opportunity it provides to explain how competing objectives have been balanced.

When confronted with a list of stakeholder needs, it is important to stay focussed. Proportionality is key. The amount of weight attached to each stakeholder's needs will depend on both the organization's priorities (which should be clearly explained in its business model) and the impact that these stakeholders have on the organization itself.

Ultimately, stakeholder engagement can help the organization identify material issues – risks and opportunities – that it should respond to and address.

Example – risks & opportunities

Risk	Opportunity
Inability to meet customer demand through unexpected growth & urbanization trends	New technologies present opportunities to rapidly install capacity
Loss of public confidence through service delivery shortcomings	Increased population densities enhance viability of new projects and technologies

An Integrated Report provides a platform for the organization to contextualize its risks and opportunities against the current trends and constraints that it faces.

Strategy

The description of strategy will need to address and reflect the conflicting needs and expectations of different stakeholders and other constraints that the organization faces.

For example, most organizations need to meet pressing service delivery expectations in the short-term whilst developing and investing in new technologies and infrastructure to meet their medium to long-term objectives in a financially, economically and socially sustainable manner.

Example – balanced strategy for a public sector utility

Many public sector organizations need to show how

Meet pressing short-term electricity demand using sub-optimal technologies in terms of carbon efficiency; Address carbon-efficient technologies through medium to long-term capital projects.

their strategy aligns with national priorities and how they work collaboratively with other organizations to achieve common goals.

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Performance measures

In our Better Corporate Responsibility Reporting article we have highlighted the three different types of performance indicator (risk, performance, reward) that should be addressed by businesses. The same indicators are relevant in the public sector, however 'reward' measures will often be expressed in terms of operational targets rather than financial targets (though some financial measures will remain relevant to the funding stakeholder). In order to provide a clearer perspective on the strategy, performance indicators and associated targets in the short, medium and long-term need to be set out clearly.

Performance targets need to be put in context, showing which parts of strategy execution they relate to and distinguishing between lead (input) and lag (output indicators).

Example – performance targets in context

Pro-active maintenance program	Capital projects capacity expansion program
% on-time maintenance inspections and overhauls (lead indicator)	Capital expenditure spend & project completion on time statistics (lead)
Number of breakdowns > 5 hours down time (lag)	Capacity installed to volume demand projections (lag)

Governance and remuneration

Stakeholders are growing increasingly demanding over the quality of governance, transparency and accountability from public sector organizations. Integrated reporting provides insight into how the organization is governed and, importantly, what informed the decision-making process and how management are held accountable for performance.

Where next?

What was originally seen as a private sector initiative has clear relevance and application to public sector organizations. The principles of Integrated Reporting have been readily adapted to the 'managing for outcomes' approach to demonstrate accountability for service delivery by a number of South African organizations.

We look forward to seeing this approach spread in South Africa and the Rest of the World.

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Contact us

David Matthews
KPMG in the UK
T: + 44 (0) 207 311 8572
E: david.matthews@kpmg.co.uk

Matt Chapman
KPMG in the UK
T: +44 (0) 207 311 3236
E: matthew.chapman@kpmg.co.uk

Wim Bartels
KPMG in the Netherlands
T: + 31 206 56 7783
E: bartels.wim@kpmg.nl

Oliver Beyhs
KPMG in Germany
T: + 49 30 2068 4485
E: obeyhs@kpmg.com

Michael Bray
KPMG in Australia
T: + 61 3 9288 5720
E: mgbray@kpmg.com.au

Nick Ridehalgh
KPMG in Australia
T: +61 2 9455 9312
E: nridehalgh@kpmg.com.au

Etienne Butruille
KPMG in Spain
T: +34 914 565 953
E: ebutruille@kpmg.es

Mark Hoffman
KPMG in South Africa
T: + 27 82 496 3697
E: mark.hoffman@kpmg.co.za

Yoshiko Shibasaka
KPMG in Japan
T: + 81 3 3266 7670
E: yoshiko.shibasaka@jp.kpmg.com

Nina Straume Stene
KPMG in Norway
T: +47 4063 9851
E: nina.straume.stene@kpmg.no

Bill Murphy
KPMG in Canada
T: +1 416 777 8998
E: billmurphy@kpmg.ca

Hans Peter Lindegård Buhrkal
KPMG in Denmark
T: +45 2529 3921
E: hpbuhrkal@kpmg.dk

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