EY's Excellence in Integrated Reporting Awards 2015

A survey of the integrated reports of South Africa’s top 10 state-owned entities
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Purpose of the survey

The purpose of the survey is to encourage excellence in the quality of integrated reporting to investors and other stakeholders in South Africa’s listed company and state-owned entity (SOE) sector.

Benchmarking

Each year, EY offers entities an opportunity to obtain a detailed analysis of their integrated reports. The integrated reports are reviewed using guidelines from the Excellence in Integrated Reporting survey and a benchmarking report is issued.

The benchmarking reports contain practical suggestions and comments that can be used by the company to improve the quality of future reporting. The recommendations contained in these reports relate not only to the financial information contained in the company’s integrated report, but also to the non-financial information used by analysts in assessing the company’s overall performance. The benchmarking report is prepared either by the survey adjudicators or by members of the EY Professional Practice Group.

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Organisations wishing to obtain benchmark reports can contact Mary-Anne Donachie on (011) 772 3034 or maryanne.donachie@za.ey.com.

For more information on this survey, contact Joanne Henstock, Executive Director in the Ernst & Young Professional Practice Group, on (011) 502 0364 or joanne.henstock@za.ey.com.

Disclaimer

The survey has been independently prepared by the College of Accounting at the University of Cape Town. The views expressed in this survey are accordingly the views of the College of Accounting, and not those of EY.
Foreword

by Joanne Henstock

In this publication, we highlight the results of this year’s survey of integrated reports of the top 10 South African state-owned entities (SOEs).

This annual survey of the quality of integrated reporting by South African entities covers the integrated reports of the top 10 SOEs, by reference to their reported total assets as at their 2014 year end, and also the top 100 Johannesburg Stock Exchange (JSE) listed companies by market capitalisation as at 31 December 2014.

The reports included in the survey have been independently adjudicated by the panel of adjudicators from the University of Cape Town’s College of Accounting.

The International Integrated Reporting Council’s <IR> Framework (<IR> Framework) issued in December 2013, sets out the relevant framework and guidance for integrated reporting by entities in both the private and the public sector. The <IR> Framework appropriately accommodates the key areas of difference that feature in the regulatory and corporate reporting environment of the SOE sector.

These key differences include the ownership and stakeholder profiles of different types of SOEs, and the more expansive regulatory reporting requirements contained in the relevant laws and regulations that establish SOEs, or that otherwise affect their public reporting environment.

Our survey has always acknowledged the different and sometimes unique reporting environment of public sector entities. This year our survey is taking a new direction as we consider that, going forward, there is scope for this survey to add greater value as an independent barometer of integrated reporting quality in the SOE and the public sector context. We believe that by introducing greater focus on the different and/or unique factors that influence reporting within the SOE sector, either directly or indirectly, this survey will encourage SOEs more widely to fully embrace integrated reporting and to give full commitment to commencing the integrated reporting journey, aiming for reporting excellence. This is in line with the IIRC’s efforts targeting implementation of integrated reporting in the public sector environment.

Joanne Henstock
Executive Director | Assurance
Professional Practice Group
We thank Professor Alexandra Watson, Associate Professor Mark Graham and Mr. Goolam Modack (the panel of adjudicators) for their continued support for, and involvement in the survey.

We truly hope that through our annual survey, and by shining a light on the pathway to follow in order to achieve excellence in integrated reporting, many more of South Africa’s SOEs will see the way forward to embrace integrated thinking, embedding it into their governance processes and into their business and operational strategies. The <IR> Framework establishes an excellent platform for achieving these aims, and we are confident in saying that use of the Framework would undoubtedly improve both the quality of the processes supporting integrated reporting and that of the actual integrated reports.

EY’s Excellence in Integrated Reporting Awards, which highlight the 2015 top 10 ranked integrated reports from among the top 100 JSE-listed companies, is available at: http://www.ey.com/za

For more details on how the companies were selected, the mark plan and the adjudicators, please refer to page 13.
As is apparent in today’s reporting environment, particularly for SOEs where influences other than market forces play a key role, the multi-stakeholder reporting focus is clearly more important. Hence it is critical for an SOE to be able to clearly articulate its strategy for long-term value creation and its performance achieved in a particular reporting period, in an open and transparent manner.

The ability to apply the holistic integrated reporting model effectively is an essential discipline for the leadership of corporate boards and corporate executive teams in the SOE sector. Use of the <IR> Framework is most effective when integrated thinking is embedded throughout the entity’s operations and activities.

Evidently the challenges presented by integrated thinking and integrated reporting are very real for corporate entities - as we see a number of South African SOEs grapple with the tough reality of maintaining high levels of responsibility, accountability and transparency in their integrated reports.

We warmly congratulate those SOEs already well-advanced in this journey for their commendable efforts. They serve as a beacon for other SOEs, not only in South Africa but also in the wider African continent. We hope the results highlighted in this survey will galvanise many more SOEs to undertake their integrated reporting journey with the dedication it truly deserves.

At the time of the launch of our 2015 EY African Attractiveness Survey, we noted that Africa’s future will not take care of itself. The SOE sector is a key role-player in delivering the future that we want to see for Africa. Achieving long-term sustainable growth across our continent will require harnessing the value creation capabilities of both the SOE sector and the private sector. Integrated reporting and integrated thinking offers the pathway for SOEs to become a true catalyst for value creation.

EY supports SOEs in this journey, both through our commitment of support for this annual survey, and our ongoing work to help shape the governance, accountability and reporting environment of this sector.

It is critical for an SOE to be able to clearly articulate its strategy for long-term value creation and its performance achieved in a particular reporting period, in an open and transparent manner.
Directors and managers need to appreciate that business is at the junction of, and consequently impacts on the economy, society and the environment. The organisation’s ability to create long term value requires recognition of this critical aspect.

When we adopt this attitude, we know that we can no longer develop strategy solely with reference to how we harness, accumulate, deploy and distribute financial capital. We also have to develop the entity’s business strategy with reference to its use of other types of capital that affect the business and that the business also affects, i.e. arising from the resources used and the ongoing relationships the business has with its stakeholders.

Applying this thinking to any particular business context, how does any business go about discerning which other, non-financial capitals are relevant in the particular business value creation context?

The first critical thing is to understand the entity’s business model – that is, how the entity generates value over the short, medium and long term. In most cases, the business model for financial value creation is very well understood – it needs to be for financial survival. Very often the question of how the business generates and measures value beyond the question of financial value is not well addressed. Even worse, this question may sometimes not even have yet been considered.

Therefore, for corporate boards and management of any business entity the first step on this journey to embrace sustainable capitalism is to fully understand their entity’s business model, and how it generates value over the short, medium and long term – and not only in the context of measuring financial value and return on investment from the financial capital employed (typically the focus of the company’s traditional financial statements), but also in context of measuring return on the entity’s investment in natural, human, social, intellectual and manufactured capitals. In this sense the word “success” in conducting a business implies the efficient and effective deployment of all the types of capital relevant to the business including all those relevant to the long term viability of the business. We identify and measure return on capital/return on investment (the outputs and related outcomes) across the range of capitals deployed in the business (the inputs), not just the return on financial capital.

It is only when the entity has developed the full, holistic picture of its own value creation story through the application of its business model that it will be ready to move forward on this journey. Simply put, this is the foundation, the basis, for what is termed “integrated thinking”.

Comments from IIRC Chairman, Judge Professor Mervyn King

Governance, integrated thinking and integrated reporting

Mervyn King is the Chairman of the International Integrated Reporting Council (IIRC)

Judge Professor Mervyn King, you often refer to the need for business enterprises to make the change from financial capitalism to inclusive capitalism. As simply as possible, what is meant by the phrase ‘inclusive capital’?

Very briefly, this is about making capitalism more inclusive. That is, by making sure companies are managed and governed for the long term and driven by the conscious realisation that, to be sustainable in the long run, businesses need to be governed and managed in a manner that actively makes their approach to resource accumulation, deployment and re-distribution that we know as capitalism, more responsive to the needs of all. In this way businesses will be able to become the engine for achieving shared prosperity of all.

Only in this way, driven by this wider view, can the corporate world deliver sustainable capitalism. A model of capitalism that can survive, regenerate and thrive into the future. There is growing understanding that inclusive capitalism is the way forward.

Mervyn King is the Chairman of the International Integrated Reporting Council (IIRC)
Some companies are currently applying some of this thinking in a more unstructured or even “ad hoc” manner and oftentimes this explanation will resonate quite well and the comment is made - “Aaah, we’ve been doing this all along!” However it’s really only by applying the structured thinking and approach offered by the IIRC’s Integrated Reporting <IR> Framework that an entity will be fully applying a comprehensive methodology that will lead it to think about the business, the business model it’s using and the results achieved (in terms of both outputs and outcomes) in this holistic manner.

**What new board-level thinking and behaviours does integrated thinking and integrated reporting engender?**

The critical aspect is “have corporate boards in South Africa and elsewhere in the world changed their thinking”? It’s the move to adopt integrated thinking which is critical.

First boards need to see, understand and adopt the concept of sustainable capitalism.

Directors need to be plugged in, and have a duty to develop this level of understanding and integrated thinking, in their oversight of management’s development and execution of the business strategy.

Three shifts are happening internationally that directors ought to be aware of:

Firstly, the shift to inclusive capital already explained. Secondly, is the shift from short-term capitalism to sustainable capital, also explained above. And thirdly, resulting from the first two shifts, is the shift from reporting in silos – as occurs with both financial and sustainability reporting, to integrated reporting.

Having acquired this level of understanding about the business they govern, directors need to direct management of the company to embrace this philosophy to develop the business strategy and what that means for running and overseeing the business activities and operations in executing that strategy. This needs to be done pervasively. It’s not akin to putting a coat of icing on the cake, or a cherry on top of the existing reporting infrastructure management has developed for the company’s reporting – the financial report and sustainability report. If a board has really understood both the financial and the non-financial aspects of the business and has properly embedded all those critical sustainability issues into the business strategy, one can see that has happened in the quality of the integrated report.

The <IR> Framework provides the broad methodology and thinking to enable this approach. The board and management of each individual company can, and should aim to use the Framework to develop its own particular value creation story harnessing this broad methodology and applying integrated thinking.

**It’s evident that some great work has been done by the IIRC in the last 2-3 years. What are the key challenges for the next 1-2 years?**

The development of the <IR> Framework – that happened over the last 4 and more years - and its publication in December 2013 was the IIRC’s product creation/development phase. In the next 24 months we are in the “break through” phase, or the adoption and evidential phase for integrated thinking and integrated reporting. With the help of the independent research house Black Sun, the IIRC has been collecting information from companies, gathering evidence of the benefits being derived from integrated reporting. The IIRC prefers to have independent research reports about the benefits of IR, gathered from talking to companies around the world, including those who were part of the IIRC’s pilot program – 105 of the world’s iconic companies – which are now leaders in integrated reporting and integrated thinking. We’ve started the IIRC Business Network, where companies from different industry sectors, for example like mining and insurance, are sharing discussions on the integrated reporting process and how they have benefitted from them. South African companies are also participating in this research.

**Is the IIRC seeing significant attention to integrated thinking and integrated reporting and related key governance issues elsewhere in Africa?**

The answer is yes. As countries in Africa continue to develop their national corporate governance codes, and particularly in embracing transparency, they are recommending integrated reporting as part of codes and also as part of listing requirements in some cases, for example in Botswana. While very many countries in Africa are becoming receptive to integrated thinking and integrated reporting and are beginning to think about it along the correct lines both in the private and public sector settings, others like Zambia and Kenya have become absolutely sold on moving to adopt integrated reporting.
The adjudication process ranks the integrated reports of the SOEs included in the survey into one of four categories: “Excellent”, “Good,” “Average” or “Progress to be made.” An integrated report is viewed as either “Excellent” or “Good” if there is evidence in the adjudication process that the SOE’s report has achieved a progressively a higher level of adherence to the spirit of integrated reporting.

### Excellent
- Eskom Holdings SOC Ltd
- Industrial Development Corporation of South Africa Ltd
- Transnet SOC Ltd

### Good
- Airports Company South Africa SOC Ltd
- Development Bank of Southern Africa

### Average
- Central Energy Fund SOC Ltd

### Progress to be made
- Land and Agricultural Development Bank of South Africa (Land Bank)
- South African Post Office SOC Ltd
- South African Airways SOC Ltd
- Trans-Caledon Tunnel Authority

*Not ranked within categories, listed in alphabetical order*

**At a glance**
- Judging slightly stricter this year as all organisations had access to the IIRC’s <IR> Framework issued in December 2013.
- The number of “Excellent” reports of SOEs has remained the same (3 entities for both 2015 and 2014)
- 2 SOEs moved up from “Average” to “Good”
Implementing integrated thinking and integrated reporting

Integrated thinking and integrated planning starts at Shareholder level through our application of the long-term planning framework, a 30-year planning horizon which involves all spheres of government – local, provincial and national government. This ethos filters into the business through our strategic planning priorities and is further embedded through our monitoring and reporting methodologies, which have become more integrated and cohesive in recent years. They are also increasingly reflective of our maturing ability to measure both tangible aspects (such as financial inputs and outcomes) and intangible aspects (such as developmental outcomes) of the business. This said, as leadership, we need to consider the interdependencies and trade-offs in our decision-making given that, as an SOC, we need to balance commercial and developmental outcomes.

In addition, each year, Transnet and the Department of Public Enterprises agree on an outcomes-based framework for the Shareholder’s Compact (the mandate which sets out key performance measures and indicators to be attained as agreed between Transnet and the Minister of Public Enterprises) as required by the Public Finance Management Act, with the objective of enhancing Transnet’s tracking of performance on Government’s strategic objectives. The long-term planning horizon, Transnet’s seven-year plan and the Shareholder’s Compact form the backdrop for how we report.

If there is a ‘critical ingredient’ it is the ability to interpret the concept of ‘value’ for, and on behalf of, the company in terms of environmental and broader economic value creation. Value is essentially ‘negotiated’ in relation to the company’s strategic imperatives, business activities and risk thresholds; as well as various stakeholder expectations and the limited resources on which the company and its stakeholders rely for profit and wellbeing. At a high level, it is the understanding and clear interpretation of the company’s goals and objectives – as well as the anticipated outcomes for stakeholders – that drives the development of an integrated report that will meet the needs of key stakeholders.

Transnet is one of South Africa’s largest state-owned companies (SOCs). Could you explain Transnet’s approach to integrated reporting in the context of the SOC environment?

In our case we have a single shareholder (hereafter ‘Shareholder’), which is representative of government. As an SOC our mandate encompasses a wide range of developmental objectives – which relate to social environmental and broader economic value creation. Our Shareholder, therefore, requires us to inculcate economic, social and environmental sustainability criteria into all material decision-making; and to measure and report on our performance in a visibly integrated way. This means we need to adopt an integrated approach, not only for our reporting but also in relation to the business as a whole.

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1 Seconded to Eskom since 1 August 2015
In Transnet’s case, we have a clear commercial mandate. But, this mandate also drives certain socio-economic objectives and creates value beyond financial returns. Regardless of the strategic direction we adopt, as an SOC, our overriding objective is to fulfil both our commercial and socio-economic goals. Said differently, if our starting point in all instances, is that of ‘how to create sustainable value’ for our broader stakeholder base, we are compelled to look beyond the financial aspects of this value creation, to how value can be created in terms of non-financial aspects of the business as well.

What benefits do you see coming out of integrated reporting in Transnet’s case?

As an SOC we have a diverse range of stakeholders that we need to engage with. We use the integrated report as one of our primary communication tools across the spectrum: government at all levels, pensioners, investors (local and international), and our customers. The feedback we’re getting is that our stakeholders find the integrated report very useful in addressing specific areas of interest regarding their relationship with Transnet.

Similarly, the response from users of our report is that they appreciate the balanced view that Transnet adopts in its reporting. We understand the importance of giving our stakeholders an open, transparent and objective view of our approach and the issues confronting the company. The way we see it, it doesn’t help either Transnet or our stakeholders to give a one-sided or biased view of issues.

An important component in this is to maintain strategic visibility and context throughout our report – demonstrating where the company is coming from, where it finds itself in the present and where it needs to get to in the short, medium and long term. In the strategic context of our business model, we can talk about our risks and limitations and the impacts of both positive and negative performance in a way that acknowledges the complexities of our long-term strategic continuum – it’s not just about good or weak performance in a single reporting year. In also clearly communicating the various interdependencies of performance and value creation in our integrated report, we are able to pin-point areas where we have direct control over performance improvements and where, conversely, we are heavily reliant on external factors – such as the availability of critical skills or security of energy supply – to reach strategic objectives.

Looking at how the relationship with government impacts Transnet’s reporting – do you also see government as a stakeholder when you report?

Government plays a dual role, as a shareholder and a stakeholder. As a shareholder, government plays a big role in defining the inputs to our report, and certain national imperatives and legislation drive some of the deliverables we have as an SOC. By virtue of that, there is an expectation that we align with, and deliver on, government’s imperatives.

We understand the importance of giving our stakeholders an open, transparent and objective view of our approach and the issues confronting the company

Recognising the importance of the socio-economic impacts of Transnet’s business, how influential is that?

As an SOC the greater expectation is that we should be aligned with government policy and have a clear role in addressing socio-economic issues that affect – and are affected by – our business. We have a “bi-focal” view of our business in terms of both commercial objectives and socio-economic objectives. I use the term “socio-economic objectives” rather than “socio-economic impacts” as the former denotes a more intentional drive to realise specific planned socio-economic goals. Of course there are still unanticipated impacts from the commercial activities of our business, but the more skilled we become in monitoring and measuring these often intangible impacts, the more strategic we can become in our mitigation of risks and our harnessing of opportunities.

While this is generally true for SOCs, the same view needs to be adopted in the private sector. Every entity, as a responsible corporate citizen, should be mindful of the role it plays in society and how its activities impact on society. I would challenge any view that says SOCs have a greater socio-economic mandate than organisations in the private sector.
What do you see as among the most challenging areas for preparing an integrated report?

In our experience, the difficulty is not so much in the actual information required to put together the integrated report, but rather the availability of the appropriate skills and competencies to distil Transnet's reporting philosophy and to work methodically to unpack relevant information. Those tasked with preparing the integrated report need to think in an integrated way and be able to connect often disparate information to tell our ‘value creation story’ in a coherent and balanced way. It means they need to have sufficient institutional knowledge of the Company to interpret the interdependencies across our various operations.

An associated challenge is typically how much information to include. With this in mind, everyone involved in developing the report needs to have a common understanding of the Company's vision, its business imperatives and stakeholder expectations; and, therein be sufficiently adept at sifting through information to identify the material issues that are relevant to the Company and our stakeholders. Additionally, these skills and competencies need to be available within our various operating divisions and not simply at our centralised corporate reporting department where the integrated report is ultimately collated.

How important do you believe it is to establish the basis for stakeholder confidence in the integrated report through assurance processes?

An integrated report that lacks credibility should not be published, as it could ultimately do more harm than good - practically and in terms of reputation. Each year's report builds on the one that precedes it and sets the tone for the one that follows. As a permanent record of the Company’s annual performance for any specific year, a report that is dubious to any extent casts doubts on the reports that come before and after. It is, therefore, important to have a process in place to establish the credibility of the report - that is, to the extent that it is assured.

There isn't a process I can think of that is material in an organisation's business that shouldn't have an associated internal or external assurance component. Further, it would be inconceivable for an organisation of Transnet's size to have critical processes that do not ultimately culminate in approvals and assurances at board level. As the integrated report addresses material issues that are of specific oversight interest to the board, it is important for the board to obtain assurance for these performance aspects. The closer and more visibly performance is aligned with strategy in the report - be it commercial activities, developmental impacts or governance related practices - the more critical it becomes to obtain assurance for such performance aspects. So, if a matter is material enough to be reported on in the integrated report, by all means it should be assured through an assurance process of some sort.

What do you see as the future of integrated reporting?

I think, like everything in the world, integrated reporting is not static and will evolve into a more accessible and user-friendly format that connects the ‘material dots’ for specific stakeholders whilst also being comparable across companies and sectors. Many of the changes we have seen in integrated reporting to date have, in my view, been driven by the particular reporting environment in which those reports are used. So, going forward, the user environment is certainly going to play a major part in driving the evolution of integrated reporting into its next permutation.

Many companies consider integrated reporting to be an over-complication of their reporting. Also, with some companies still publishing traditional annual reports, they are not yet ready to give the same attention to both tangible and intangible reporting elements. In Transnet's case, where we have a wide range of stakeholders, the integrated report enables us to manage the varied and diverse needs for information. But, I would think that where companies have a limited range of stakeholders with a narrower range of needs, this may well be over the top and perhaps there is need for a “light” version of the integrated report, so that entities with this stakeholder profile can develop a more modest integrated report that still ticks all the ‘standard disclosure’ boxes.

Everyone involved in developing the report needs to have a common understanding of the Company’s vision, its business imperatives and stakeholder expectations; and, therein be sufficiently adept at sifting through information to identify the material issues that are relevant to the Company and our stakeholders.
10 Practical suggestions to help improve your integrated report

by Professor Alex Watson

College of Accounting, University of Cape Town

The <IR> Framework does not prescribe the layout and structure of the integrated report. This would not be appropriate as each business should “tell the story” of how it uses its stock of capitals to create value. The 10 suggestions that follow are potential practical ways to improve the value creation story within your integrated report.

1. Introductory section

The first 20 or so pages of an excellent integrated report should convey the key information that the reader needs to understand the organisation’s value creation story - its philosophy, its business model, the context within which it operates, its strategy, the material issues (financial and non-financial) that affect it, key performance indicators and the risks that the organisation faces. This key information can then be cross-referenced to more detail in other areas of the integrated report, other reports or online content.

2. Capitals

Much of the content within the integrated report can be presented logically, and with an emphasis on value creation by structuring the report around the six capitals. The disclosures should reflect the impact of the organisation on the capitals, the reliance of the business model on the different capitals as well as the trade-offs between capitals.

3. Stakeholders

The organisation’s stakeholders, together with their legitimate needs and concerns, should be introduced early-on in the report with their material issues cross-referenced to strategy and risk disclosures.

4. Strategy

The organisation's strategy should be explained in as much detail as possible, taking into consideration commercial sensitivities. Disclosure of the long-term strategy together with short-term focus areas can be particularly effective. Appropriate linkage to the needs of stakeholders and reference to reliance on the various capitals should be considered.

5. Key performance indicators

Financial and non-financial key target performance indicators (KPI’s) that measure success in achieving strategic priorities should be disclosed. Future targets, performance against previous targets and an indication as to whether or not performance has improved or deteriorated should be presented.

Much of the content within the integrated report can be presented logically, and with an emphasis on value creation by structuring the report around the six capitals.
Much of the content within the integrated report can be presented logically, and with an emphasis on value creation by structuring the report around the six capitals.

6. Risk
Risk disclosures should be entity specific, linked to strategy and focussed on those areas that are material to the business. Some indication of the potential impact of the various risks and their probability should be considered. A ‘heat map’ is an obvious way to present this information.

7. Governance
Consideration should be given to placing much of the detailed corporate governance information elsewhere, with only a crisp summary of the key governance issues that speak specifically to value creation being included in the report. A high level summary of what each board committee has focussed on during the year, together with plans for the year ahead would be useful. Statutory corporate governance disclosures can be placed in an addendum to the integrated report if necessary.

8. Financial statements
Condensed or summarised financial information should ideally be positioned within the financial capital or financial performance section of the report, which could then expand and elaborate on the key issues and make appropriate links to non-financial information. If it is felt that users of the integrated report would still appreciate more traditional financial statements (full or summarised), then these could perhaps be included as an addendum to the integrated report.

9. Remuneration
The ideal integrated report should make a clear link between the organisation’s strategy, key performance indicators and the metrics used to determine the variable component of executive directors’ remuneration. Furthermore, consideration should be given to showing how the achievement of the various performance targets translates into the amount of remuneration awarded to executive directors.

10. Sustainability disclosures
An integrated report should not include a separate and distinct sustainability section. Sustainability issues should be woven into the report from the start and included in the organisation’s strategies and key performance indicators. Detailed data on environmental, social and governance can be made available on the organisation’s website with appropriate cross-references from the integrated report.

Sustainability issues should be woven into the report from the start and included in the organisation’s strategies and key performance indicators.
The mark plan and adjudication process

Interview with adjudicator Goolam Modack

Deputy Head: College of Accounting, University of Cape Town

How were State-Owned Entities (SOEs) chosen for the survey?

The top 10 SOEs included in the 2015 survey were selected from the list of ‘Major public entities’ as defined by National Treasury, based on size of total assets as at the 2014 year end date. In the case of SOEs, all have March year-ends, and therefore the reports selected were the March 2014 reports.

How was the mark plan developed?

The mark plan was developed by the three adjudicators from the UCT College of Accounting in conjunction with EY’s Professional Practice Group. The UCT team comprises Professor Alexandra Watson, Mark Graham and myself. All had been involved for many years in EY’s Excellence in Corporate Reporting survey, which evolved into EY’s Excellence in Integrated Reporting survey in 2011. The mark plan used for the survey of SOE integrated reports is the same one used for the survey of listed company integrated reports.

What was included in the mark plan?

The simple mark plan is based on the Guiding Principles and Content Elements that appeared in the IIRC’s International Integrated Reporting <IR> Framework (<IR> Framework) issued in December 2013. A mark out of ten is awarded for each of the seven Guiding Principles (i.e. strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness and lastly consistency and comparability). Similarly, a mark out of ten is awarded for each of the eight Content Elements (i.e. organisational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook and finally basis of presentation and preparation). Marks are also awarded for the extent to which the integrated report incorporates the <IR> Framework’s Fundamental Concepts, dealing with how value is created and the six ‘capitals’.

Could you explain what you were expecting to see with respect to the six capitals?

We believe that an explanation of how an organisation creates value with respect to the six capitals is a suitable way for most organisations to present much of the content that needs to be presented within the integrated report. This approach is even more suitable for an organisation in the public sector, where service delivery rather than profit could be the goal. A report structured around capitals can give a clear picture of the resources used in delivering value in accordance with the business model.

2 This is as per the list of public institutions listed in the PFMA Schedule 1,2,3,3A, 3B, 3C and 3D as at 23 May 2014
So whilst we do not always expect organisations to explicitly structure their report around the six capitals, or indeed use this specific terminology, we certainly would have looked for disclosures relating to the stock and flow of the capitals (i.e. financial, manufactured, etc.). We are specifically looking for the integration between different capitals, and in particular, the trade-offs between the different types of capitals in delivering value. We also expect to see information about negative impacts on the capitals that arise from the business models, where such impacts arise or are foreseeably expected to arise.

**In South Africa, the target audience of the integrated report may vary. How did you handle this when marking?**

Yes, you are quite correct. While King III recommends that an integrated report be aimed at all stakeholders, the <IR> Framework states that the primary purpose of an integrated report is to explain to providers of financial capital (i.e. the body of shareholders in the case of a company) how an organisation creates value over time. However, the <IR> Framework also acknowledges the organisation’s stakeholders as being among those who benefit from the report, stating that “the report benefits all stakeholders interested in an organisation’s ability to create value over time”. The mark plan is therefore appropriately not prescriptive about this, however we do expect the company’s view to be explicitly stated.

Despite the fact that SOEs do not have shares that are traded, many of them do need to raise finance in the capital markets, and therefore we believe the focus on financial capital is still appropriate.

**Did you notice any specific differences between the integrated reports of SOEs and those of JSE-listed companies?**

Overall, there is more transparency about challenges, cost structures and achievement of non-financial performance targets in the SOE. Some of this is required in terms of the Public Finance Management Act, but is nevertheless useful in getting a sense of overall performance. It is probably fair to say that overall, and likely due to the more expansive public sector reporting environment, the SOE sector typically provides more balanced reporting than the listed company sector, with better SOE reports providing appropriate emphasis on the financial and other challenges facing the organisation. To some extent this is understandable given the need to justify rates increases, increased funding and the lack of competitors.
The mark plan and adjudication process

The distinctly different reporting environment of the SOE sector, including in relation to the need for compliance with the reporting requirements of the PFMA, is the reason why the SOE organisations are not included in the survey’s ranking of Top 10 integrated reports. We do however think that many listed companies would do well to look at the integrated reports of the SOEs that we have ranked as excellent, to get a sense of more balanced reporting and ideas for reporting on non-financial performance.

Did the markers attempt to achieve consensus on the scores?

No, not really. It’s really the ranking that matters. Where an adjudicator’s ranking differed widely from the others, this was reviewed to ensure that information had not been overlooked. Often, scores varied widely, partly because disclosures that we all agreed were useful were scored in different parts of the mark plan. Despite this there was a high degree of consensus in the adjudicators’ overall perceptions and recommended rankings.

Is there an overriding objective to the ranking?

Yes, absolutely. The overriding objective in ranking the integrated report is to identify the extent to which the report complies with the spirit of integrated reporting as defined by King III, that being “a holistic and integrated representation of the company’s performance in terms of both its finance and sustainability”, and by the <IR> Framework, that being “a concise communication about how an organisation’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”.

We need to make it absolutely clear that our ranking is based on the disclosures in the integrated report and not the performance of the organisation. History has shown us that many organisations maintain high quality reporting even in the SOE environment.

Any last comments on the marking process?

Finally, we would be the first to acknowledge that others might produce a different mark plan that would doubtlessly yield different results. We do, however, believe that this process clearly differentiates between those organisations that exhibit a high level of integrated reporting, and those that do not. We therefore hope that this process has resulted in a ranking that recognises those that are doing well, but also encourages improvement by those ranked otherwise in the survey results.

We do however think that many listed companies would do well to look at the integrated reports of the SOEs that we have ranked as excellent, to get a sense of more balanced reporting and ideas for reporting on non-financial performance.
While we do not adjust our adjudication for this, we acknowledge that integrated reporting is still in its early stages. In particular, we are hoping to see improved understanding of the trade-offs between capitals and more balanced reporting on outcomes.

We also note that the reports issued by the SOEs during the period specified for the purpose of our adjudication process may not represent the particular SOEs' current conditions at the time we complete our adjudication.

Accordingly, in relation to this year's ranking of SOE integrated reports, in the event of challenges arising after the date of the report, i.e. after March 2014 in this instance, ordinarily those challenges and issues do not feature in the integrated reports we ranked this year, or our adjudication of those reports.

We need to make it absolutely clear that our ranking is based on the disclosures in the integrated report and not the performance of the organisation. History has shown us that many organisations maintain high quality reporting even when facing significant challenges and that applies equally in the SOE environment.

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**The mark plan at a glance**

**Based on the <IR> Framework**

**Consideration is given to the Framework’s Fundamental Concepts:**

1. Various capitals that the organisation uses and affects
2. How value is created

**Based on the seven Guiding Principles:**

1. Strategic focus and future orientation
2. Connectivity of information
3. Stakeholder relationships
4. Materiality
5. Conciseness
6. Reliability and completeness
7. Consistency and comparability

**And on the eight Content Elements:**

1. Organisational overview and external environment
2. Governance
3. Business model
4. Risks and opportunities
5. Strategy and resource allocation
6. Performance
7. Outlook
8. Basis of presentation
About the adjudicators

Mark Graham
Mark is an Associate Professor and head of the College of Accounting at the UCT, where he specializes in financial reporting and financial analysis. He also teaches on the MBA, EMBA and Executive programs at UCT’s Graduate School of Business. He consults to the accounting profession and regularly presents courses on various aspects of accounting, both public and in-house. He has been involved with EY’s Excellence in Corporate Reporting Awards since its inception in 1997 and is the current chair of the adjudication panel for the annual EY Excellence in Integrated Reporting Awards.

Alexandra Watson
Alex is the Richard Sonnenberg Professor of Accounting at the College of Accounting at the UCT. She is a member of the South African Integrated Reporting Committee Working Group, a board member of the Global Reporting Initiative, member of the Financial Reporting Investigations Panel and the past-Chairman of the Accounting Practices Committee, the technical accounting committee of SAICA. She is an independent director and chair of the audit committee of an asset management company listed on the JSE and has been a member of the adjudicating panel of the EY Excellence in Integrated Reporting Awards, and previous EY reporting awards since they were introduced in 1997.

Goolam Modack
Goolam is a Senior Lecturer and Deputy Head of the College of Accounting at the UCT. He teaches financial reporting at an undergraduate and postgraduate level and has co-authored financial reporting textbooks. He is an independent director of subsidiaries of a JSE-listed financial services group. Goolam has been a member of the adjudicating panel of the EY Excellence in Integrated Reporting Awards, and previous EY reporting awards since 2005.
By providing a more complete picture of strategy, business model, governance and performance – and how they link together – an integrated report can help stakeholders to make better informed decisions about where to allocate their capital.
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