



## INTOSAI WGEA research project

### Environment and sustainability reporting: Extended outline

This paper presents the structure of the report and summaries of the main content of different chapters. The topics of the case-studies intended to become part of the report are listed in the end of the paper.<sup>1</sup>

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<sup>1</sup> Since the paper is an outline, it does not contain any quotations. A separate literature review was conducted as a preparatory phase for research work.



## ***I BACKGROUND***

Motivation:

XX INCOSAI Johannesburg Accords:

43.8: SAls should encourage developments in environmental accounting as well as sustainable development reporting. Active engagements with international role players such as the World Bank, United Nations Environment Programme and Global Reporting Initiative also need to take place.

46: (INTOSAI recommendations): Encourage the WGEA to promote and actively participate in the development of sustainability reporting frameworks for the public sector and develop guidance for SAls how to audit sustainability reports.

### **1. Reporting: SAI as auditors and the emergence of sustainability reporting**

In most countries, private and public organizations are required by law to conduct an annual report on their financial performance. It contains all the relevant financial information and is presented in a structured manner. Usually financial report or financial statement is audited by external auditor in order to obtain reasonable assurance and, in the public sector, attest financial accountability of an audited entity.

Decision-making is often heavily reliant on financial information, although this information may not provide a complete picture of organisation's true situation. Increasingly organizations are reporting alongside financial issues also about environmental issues, social responsibility or sustainable development. Sustainable development is often good for the business, as it can increase effectiveness, reduce liability costs and bring reputational benefits to companies. Sustainability report is a tool to provide sustainability information to the management process and stakeholders. In other words, good sustainability reporting contributes to better management and governance, but also facilitates further improvements in sustainability matters. Alongside private sector, also public sector entities have started sustainability reporting.

### **2. Sustainability: The concept**

Sustainable development as a concept was launched by the UN in the Brundtland report in 1988: "Sustainable development is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Although the concept is contested, is



serves as a valuable tool in scrutinizing complex issues. Sustainability recognizes the interdependence of economic, social and environmental factors. With reference to future generations it is also forward-looking.

### **3. This report: Scoping and the purpose**

This report focuses on sustainability reporting in the public sector. By public sector is meant organizations at different levels (central government, regional government and local government) as well as various sectors and state owned companies. Points of reference will be, however, brought from the private sector, which has more experiences in this field. The differences of these sectors will be kept in mind.

The project concentrates on the reporting of state organizations and thus does not deal with national sustainability strategies or national environmental accounting. Nor does the project deal with financial sustainability of public finances. There has, however, grown a new wave of interest in sustainability reporting after the financial crises started in 2008. Further, sustainability reporting has been seen as an answer to both global financial crises as well as sustainability crises that the world faces. Financial crisis has brought stronger demands for more transparency and for new and more effective forms of accountability.

For public sector auditors, it is important to know about topical developments in the reporting and assurance field. Especially important this is for auditors dealing with environmental issues. The purpose of the paper is to produce analyzed information about sustainability reporting for the needs of public sector auditors.

## ***II SUBSTANCE***

### **4. Sustainability reporting practices: Introduction to the reporting, its motivations and case-studies**

#### **4.1. Different concepts**

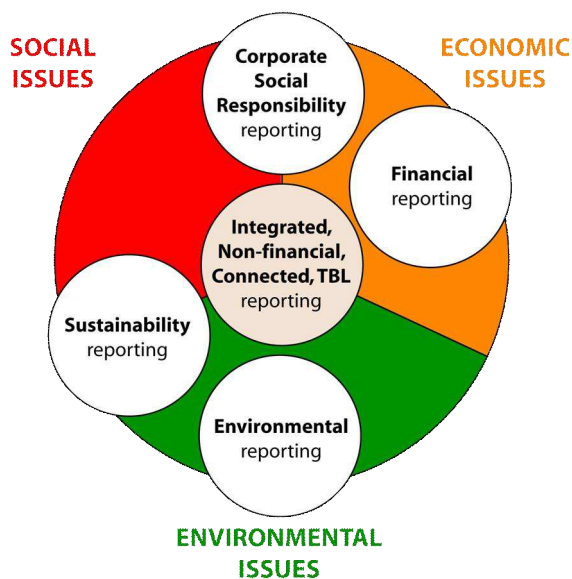
Sustainability report is a document that gathers information dealing with sustainability. It is, however, important to notice that sustainability report is only one part of the broader process of sustainability reporting.

Sustainability reporting has mainly evolved in the private sector. Historically, sustainability reporting can be put to a continuum where the roots are in the employee reporting and social reporting which was developed in 1960's and 1970's. Environmental reporting started to evolve in 1980's and 1990's. At the same time,

development of new environmental management systems (EMS) encouraged site level reporting. In 1990's also the concept of corporate social reporting (CSR) developed in the business community, as well as triple bottom line (TBL) reporting. This has been followed by sustainability reporting, which in turn has developed to various directions (figure 1).

The first reports labeled as sustainability reports were mostly single issue reports that focused on environmental performance. Other sustainability reports tried to combine environmental and social issues. Social issues were particularly emphasizes in corporate social responsibility reports.

Recent trend has been towards such integrated reporting that combines annual financial reports and other sustainability information, which is usually not easy to grasp in monetary terms. Even so, in many cases sustainability reporting practices are still focusing largely on environmental issues and eco-efficiency. The concept of sustainability reporting is used in this report as an overarching concept that covers reporting dealing with non-financial environmental and sustainability issues.



*Figure 1. A sketch of different reporting frameworks and their relation to sustainability aspects.*

As the amount of different concepts indicates, also the sustainability reports vary considerably. Not only content differ, but also the report format. Some organizations produce stand-alone reports, or web-based solutions. Sustainability information can also be integrated into the annual report with financial statement.

Sustainability reporting is mostly done on a voluntary basis. There are, however, a growing number of countries that have started to demand sustainability reporting from private enterprises or state-owned companies.



#### 4.2. Motivations for reporting

As most of sustainability reporting is done on a voluntary basis, there are important internal and external motivations that encourage organizations to report on sustainability performance.

Internal reasons adopting sustainability reporting usually deal with the quality of information. This can mean both generating additional information that was not previously available and improving the quality of existing data. Sustainability reporting helps to gather and organize this information, helps to create new innovations and improve the management systems and quality of management information. It can also improve the organizations to understand and manage sustainability related risks. Further, it can act as a tool for leadership, increase employee satisfaction and improve the internal awareness of sustainability issues in the organization. This all helps ending up in better decisions and can in the long run enhance long-term financial prospects. Sustainability reporting can also be a tool to attain financial savings, as it encourages an organisation to use natural resources more efficiently. On the one hand, there is a risk that sustainability reporting adds the "reporting burden", but on the other hand, sustainability reporting can as well provide coherence to existing reporting requirements.

Although these motivations are gathered from the private sector, they are relevant also, or even more relevant, to public sector organizations. Of particular interest for public sector are the motivations related to moral and ethical reasons. In private sector this is about lowering the reputational risk and attaining positive publicity. In public sector organizations are expected to act transparently in order they can be trusted. This is linked to the purposes that public sector has in safeguarding the common good or public interest. In some countries, the public sector has also been seen as a role model in sustainability reporting.

#### 4.3. Public sector in focus

Sustainability reporting has started from the private sector. According to the Global Reporting Initiative, since 2001 there have been only 69 sustainability reports by 57 different public agencies that follow the GRI Guidelines. The number includes state owned-companies. These are usually the first organisations in the public sector that put sustainability reporting into operation. Altogether, it is likely that the public sector will follow private sector in the reporting activities.

There are reasons to be cautious about implementing private sector procedures to the public sector. Some authors critique the application of the form of corporate social reporting in the private sector to reporting in the public sector and argue that sustainability reporting should be advanced in a different way. Others see that it might be helpful to have common minimum expectations in both sectors.

#### 4.4. Guidelines for sustainability reporting

There are several organizations that promote sustainable reporting. Respectively, a number of reporting guidelines have been developed to assist the sustainability reporting process. The most common is the GRI Guidelines provided by Global Reporting Initiative. There are also other approaches, such as Connected Reporting, which has been developed in the UK by Accounting for Sustainability.



These two organizations have established International Integrated Reporting Committee (IIRC), which aims to develop a framework for reporting financial, environmental, social and governance (ESG) information in an integrated format. IIRC can also be seen as way to tackle the confusions that several organizations acting in the field have caused. Some countries as South Africa have created their own subcommittees that aim to ensure that local guidance is in line with international guidance issued by IIRC.

GRI has also released a pilot version of Public Sector Supplement to its reporting framework. In the Public Sector Supplement GRI has identified some overarching issues for the sector. These are public policies and implementation measures, expenditures, procurement and administrative efficiency.

According to GRI there are also standards and guidelines developed specifically by some country. In a recent analysis of 30 countries a total of 142 country standards or laws were found. Two third of these standards can be classified as mandatory.

What is typical for different approaches is the level of flexibility that guidelines provide. This is important because organizations and their strategic targets and sustainability impacts vary. The situation makes, however, it difficult to find out whether right things have been reported or to compare different reports. It is also a considerable challenge for the possible assurance of the reports.

## **5. Auditing sustainability reports: Assurance and its challenges**

For sustainability reports to be credible, the relevance and reliability of sustainability information is important. Assurance on the reliability of sustainability information can be provided by an external auditor. However, in contrast to financial reports, where measurement, control systems and standards are very sophisticated and assurance processes are well established, the assurance of sustainability reports is still developing and mostly voluntary. A particular challenge is that conventional accounting profession is often not prepared of dealing with all sustainability information.

The assurance of sustainability reports started to increase in the mid to late 1990s particularly in some industries such as mining. Including formal assurance is seen as a general trend as reporting practices become more mature. For example, GRI encourages external report assurance. In practice the assurance statements vary a lot.

There is, so far, no generally accepted standard for assurance on sustainability reports. Currently ISAE 3000 (by International Auditing and Assurance Standards Board) and AA1000 (by AccountAbility) are the main international standards used for assurance on sustainability reports. In addition, more national standards are evolving. Some form of country-specific sustainability assurance standards are in Australia, China, France, Germany, Japan, the Netherlands, Spain and Sweden.

To date, external assurance of sustainability reports is mainly a large company phenomenon. Around half of the world's 250 biggest companies had some form of third party commentary, while 40 % utilized formal assurance statements by



independent professional assurance provider. The majority of statements restrict themselves to assurance on specific information or data sets, and fewer cover the full corporate sustainability report. From the sectors financial services and oil and gas predominate. Assurance providers are usually major accounting companies, the remainder being largely specialist consultants in the area of environment and sustainability.

There are yet very few (if any) examples of assurance that concerns public sector sustainability reporting. When it comes to assurance of sustainability reports, there seems to be no material specific issues that separate the sectors in relation to assurance. Notwithstanding, SAIs objective in the financial auditing compared to private sector is wider and the user of a financial statement audit report looks at more extensive accountabilities than in the private sector. This might have some important implications to the assurance of public sector sustainability reports. What is common for private and public sector is, especially if the integrated reporting becomes more common and sustainability reports are prepared as part of annual financial reports, that it might be difficult to make a difference which part of the report is assured and which not.

### **III DISCUSSION**

#### **6. What is the role of SAIs?**

As a summary of the research project two issues will be discussed:

##### 6.1. Messages to individual SAIs, e.g:

- if public sector organizations will increasingly produce sustainability reports, the question is whether these ought to be verified and by whom; can assurance be left to the private companies or should SAIs have some role?
- the need to be aware of the developments in own country; if new requirements are introduced, they need to be consistent with national policy requirements and if possible, with international developments in order to avoid overlapping arrangements

##### 6.2. Messages to INTOSAI, e.g:

- it is important to follow developments in the reporting sector and ensure that possible new reporting or assurance requirements address the distinctive needs of the public sector and are consistent with the audit expectations
- if SAIs start to audit sustainability reporting, is there a need for standards specific for public sector?

These messages will be discussed more detailed in the project group in the early 2012.





## CASE STUDIES

Case studies will be put to the relevant context in the final report. The list of case studies is open to new proposals.

<b>SOUTH-AFRICA: Integrated reporting requirements for listed companies</b>	Case study highlights experiences gained in South Africa about mandatory reporting in (big) listed companies. Earlier reporting requirements were specified in 2010, as the third King Code of Governance Principles emphasizes the integrated reporting. This means that statutory financial information and sustainability information need to be presented in the integrated report that should be prepared annually. King Code III also requires that a formal process of assurance with regard to sustainability reporting should be established.
<b>SWEDEN: Mandatory reporting at Swedish state owned companies</b>	Case study describes the Swedish experiences about the mandatory sustainability reporting in state-owned companies. This is based on the decision of government that state-owned companies should present a sustainability report in accordance with GRI guidelines. Sustainability reports are audited by private auditing companies, though without any official "quality-label". A short analysis of the content of these reports will be provided in the case study.
<b>UK: Experiences on sustainability reporting</b>	Case study highlights the developments of sustainability reporting in the public sector from introducing sustainability reporting to recent decisions concerning reporting and assurance.
<b>NEW ZEALAND: Sustainability reporting at the local level</b>	Case study describes the state of sustainable development reporting in local governments in New Zealand and the audit work done by OAG in this area in financial audits of local government.
<b>AWARD-WINNING REPORTS: What are the elements of a "good" sustainability report?</b>	Case study analyzes different sustainability reporting awards and their criteria in order to get a picture what is generally regarded as "good" sustainability reporting.

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