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INTOSAI WGEA RESEARCH PROJECT

Contact: Vivi Niemenmaa, NAO Finland (vivi.niemenmaa@vtv.fi)

SUSTANABILITY REPORTING – Concepts, frameworks and the role of SAIs

Table of contents

1. Introduction

1.1. Conceptual background

Sustainable development as a concept was launched in the late 1980s. The UN's Brundtland report defined it as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs"[1]. Although the concept is contested, it serves as a valuable tool in scrutinizing complex issues. Theoretically the concept is tied to the stream of ecological modernization which argues that economic growth and ecological concerns can favorably be combined.[2] Sustainability recognizes the interdependence of economic, social and environmental factors. With reference to future generations it is also forward-looking.

On the macroeconomic level, one manifestation of sustainability concerns is the critique targeted at national accounting and the limitations related to the use of GDP as an indicator of economic performance and social progress. For example, traffic jams may increase GDP as a result of the increased use of gasoline, but obviously not the quality of life or the state of the environment.[3] As a consequence, there is increasing interest in developing new welfare indexes, such as the creation of gross happiness indexes, originally invented in Bhutan. At a national level there is also the development of environmental accounting.[4] Environmental accounts have been created to complement national financial accounts, by detailing the full economic costs of natural resources used and environmental effects caused.

Sustainability concerns have been introduced to the debate about organization level annual reporting as well. In most countries, private and public organizations are required by law to produce an annual report on their financial performance. It contains all the relevant financial information and is presented in a structured manner. Usually a financial report or financial statement is audited by an external auditor in order to provide the user of the accounts with reasonable assurance about their completeness and accuracy and, in the public sector, attest the proper financial accountability of the audited entity.

Corporate decision-making is often heavily reliant on financial information, although this information may not tell all essential things about an organization and the environment in which it operates. The success of an organization does not depend only on its financial results, but also on other issues such as its capacity to reduce greenhouse gases. It is not only a moral issue, but increasingly also financial, as a price is put on carbon dioxide emissions, e.g. through various emissions trading systems. Another example is how transparently an organization can act in order to maintain employee and customer satisfaction. These examples are related to the growing

[1] Our Common Future (1987).
[2] E.g. Hajer (2005), Young (2000).
[3] Steglitz (2011).
[4] INTOSAI WGEA (2010).

importance of corporate governance in the private sector and good governance in the public sector. These kinds of issues cannot be reported solely through the use of financial reporting.

To broaden the perspective, alongside financial issues private sector enterprises have also started to report about environmental issues, social responsibility or sustainable development. Sustainability reporting is a systematic tool to gather and present information relevant to the three core elements of sustainability for the management process and stakeholders, such as employees, shareholders, customers, local communities, pressure groups or financial analysts. Sustainable development has the potential to benefit organizations, as it can help to make better decisions and increase effectiveness, reduce liability costs and bring reputational benefits. Whether organizations choose to report or not, information that affects environment and communities has become more easily available with globalization and new communication methods.

Sustainability reporting started with private sector companies. Sustainability reporting is also predominantly a developed country phenomenon. Sustainability, however, always has global links. For instance, the transparency of supply chains and responsible business, such as respect for social and environmental concerns, should also benefit less developed countries.

Increasingly public sector organizations are also interested in analyzing their role in the wider context of sustainability. In some countries, sustainability information has been included in public sector national accounts, sustainable development strategies and impact assessments of policies or laws, for instance. Besides these, sustainability can be reported on an organizational level focusing on the sustainability implications of its actions. For example, state-owned companies have adopted sustainability reporting principles and governments have produced guidance on the issue. In some cases it has been municipalities that have been forerunners in adopting sustainability reporting in the public sector. Some early examples also show how public sector organizations at the state level, such as ministries and agencies, are beginning to report on their sustainability performance.

It has been suggested that Supreme Audit Institutions (SAIs) can make some important contributions to sustainability reporting. Firstly, a SAI could be one of these organizations that want to start to pay attention to their impact on sustainability, for example by making a strategic decision to include sustainability in their office policy. And secondly, a SAI, as an external government audit institution, might have a larger role in assessing sustainability reporting practices and thus extending the role that SAIs currently play in providing financial assurance services. Many sustainability reporting elements, such as the stakeholder perspective and employee participation, have a direct link to good governance and transparency. Furthermore, as sustainable development pays attention to intergenerational aspects and combines environmental, social and economic perspectives, reporting about these issues can improve governance problems identified in many audits[5] and increase the efficiency and effectiveness of public sector finances.

[5] INTOSAI (2012).

1.2. Purpose of the paper

The International Congress of Supreme Audit Institutions (INCOSAI) that was held in 2011 highlighted the importance of sustainability. According to the Johannesburg Accords, SAIs should among other things encourage developments in sustainable development reporting. One of the INTOSAI recommendations was to encourage the Working Group on Environmental Auditing (WGEA) to promote and actively participate in the development of sustainability reporting frameworks for the public sector and develop guidance on how to audit sustainability reports. This research paper is the first step in scrutinizing sustainability reporting from the viewpoint of SAIs, but it does not give any guidance on auditing sustainability reports. This might be a step to be taken later, as this paper probably needs to be updated since the reporting field is in continuous development.

The purpose of this research paper is to produce analyzed information about sustainability reporting for the needs of public sector auditors. A special target group is auditors working with environmental and sustainability issues. The aim is to outline sustainability reporting developments and some reporting frameworks, as well as to introduce questions related to the assurance of sustainability reports. The paper presents several case studies that will illustrate the various aspects of sustainability reporting to the readers.

In this paper, public sector refers broadly to government organizations at different levels (central government, regional government and local government) as well as various sectors and state-owned companies. Many of the references to sustainability reporting come from the private sector simply because to date there is little experience in the public sector on the issue. This paper, however, recognizes and discusses the differences between private and public sector organizations and is written for public sector readers and with public sector practices in mind. Therefore, the literature from public sector reporting has been stressed although it is not as extensive as that dealing with private sector reporting.

The scope of the paper is on the reporting of organizations. It thus does not deal with national sustainability strategies or national accounting practices. It also excludes issues with the financial sustainability of public finances. There has, however, been a new wave of interest in sustainability reporting after the financial crises started in 2008, as there have been calls for wider transparency, better long-term considerations and highlighting systemic risks.[6] Further, sustainability reporting has been seen as a useful tool to potentially migrating both global financial crises as well as sustainability crises that the world faces.[7] The financial crisis has brought stronger demands for more transparency and for new and more effective forms of accountability.

[6] Hopwood et al (2010).
[7] GRI et al (2010).

2. Nature of sustainability information

In this section, the paper describes the specific nature of sustainability information including financial and non-financial elements. It also presents sustainability indicators as concrete tools in measuring sustainability performance.

Sustainability information includes both financial and non-financial information. Financial information has a direct link with the financial accounting system, is expressed in monetary units and can be measured in this sense exactly. Non-financial information means that it is not presented in monetary terms and is not based on an accounting standard. Non-financial information can be both quantitative, such as tons (or units) greenhouse gas, or qualitative, such as governance processes, the reputation of an organization or the organization's impact on the state of biodiversity. What makes non-financial information more difficult to handle compared to financial information is that there often are no generally accepted principles for the collection of this information and there is considerable diversity in the data required. . It is often the case that this information is qualitative and can be difficult to measure and access. These difficulties should not limit the use of non-financial information since this kind of information might be very relevant to information users, whether citizens, investors or society at large.[8]

A Dutch project has defined non-financial information in the public sector as information that comprises all quantitative and qualitative data on the policy pursued, the business operations and results of this policy in the form of output or outcome, without direct link with a financial registration system. As noted above, sustainability information is not solely non-financial information. Sustainability information may include financial information, although sustainability reporting practices show only little use of monetary values in disclosures.[9] Sustainability information, however, always includes some non-financial elements.[10]

For instance, an organization can measure and present information related to energy in financial terms referring to expenditure on energy. In non-financial terms it could be about carbon dioxide emissions where the distinction between energy gained from renewable and non-renewable sources also makes a difference (Figure 1). Some of the environmental factors are quite easily converted into financial terms. Other indicators, for example attention to biodiversity and ecosystem services, might have consequences that are less easy to calculate in monetary terms. The same is often the case with social issues that could range from employee satisfaction to the number of women or ethnic minorities in management positions, which are difficult and often unnecessary to turn into financial figures. It doesn't, however, mean that they would be less important.

[8] NIVRA (2008).
[9] Guthrie & Farneti (2008).
[10] NIVRA (2008).

	energy	waste	water	procurements
financial	expenditure on transportation / heating	disposal costs	water bills	price of purchases
non-financial	CO_2 tons (per person)	waste in tons / number of collections / recycled waste	water consumption (cubic meters)	share of eco-labeled and fair-trade products

Figure 1: Examples of financial and non-financial environmental information

Unlike private sector companies, the main purpose of the public sector is not to create profit, but rather to produce public services and improve the wellbeing of the nation. Therefore, developing non-financial information and reporting about that seems an especially natural area for public sector organizations. One example of non-financial information is performance indicators that are used as a tool to measure success compared to strategic goals, such as the satisfaction rate of customers or the duration and quality of certain processes. As many public sector organizations are managed with performance-based governance principles, the measurement of such non-financial data might already be a familiar practice.

Many organizations already hold data on sustainability issues and can, for example, easily identify the amount of office paper that they use annually or their annual waste disposal costs. In addition, many agencies collect customer or employee satisfaction data or classify industrial accidents. Sustainability reporting means that this data is presented in a systematic way so that it can be compared and progress concerning the selected target measured.

As a consequence, for sustainability to be measurable and reportable it needs to be turned into some chosen performance indicators. For sustainability reporting to be meaningful, it needs to be connected to the strategy of an organization. Therefore, the indicators need to be relevant for the organization. There is a risk that the indicators chosen will not be the best possible ones with reference to sustainability. For example, the amount of recycled waste could be less important compared to the question of how much the organization was able to reduce the creation of waste in the first place. In addition, it is important to remember that sustainability information is not only about minimizing (e.g. emissions) and preventing negative issues (e.g. accidents having environmental or social implications). It is also about enhancing positive impacts, such as innovation of more sustainable products or production methods, or innovating new services.

3. Development of sustainability reporting

Next, the paper introduces the development of sustainability reporting since 1980's. It describes the evolvement of reporting from environmental reports to reports covering also social issues, as well as the different reporting frameworks and their initiators.

Sustainability reporting can be put into a continuum of developments since the 1980s (Figure 2)[11]. In the late 1980s the first voluntary environmental reports were published. Companies with environmentally sensitive operations, especially large polluters, started to develop sustainability reporting. This was done partly as a response to pressure from non-governmental organizations which criticized the power of multinational companies. This indicates the importance of sustainability reporting as a tool in stakeholder communication and business reputation. At the same time, the development of voluntary codes of environmental conduct and eco-auditing led to the development of environmental management systems (EMS) and the creation of standards, such as ISO14 000 standard series. ISO 14 001 standard, which provides requirements for environmental management system, was first launched in 1996.

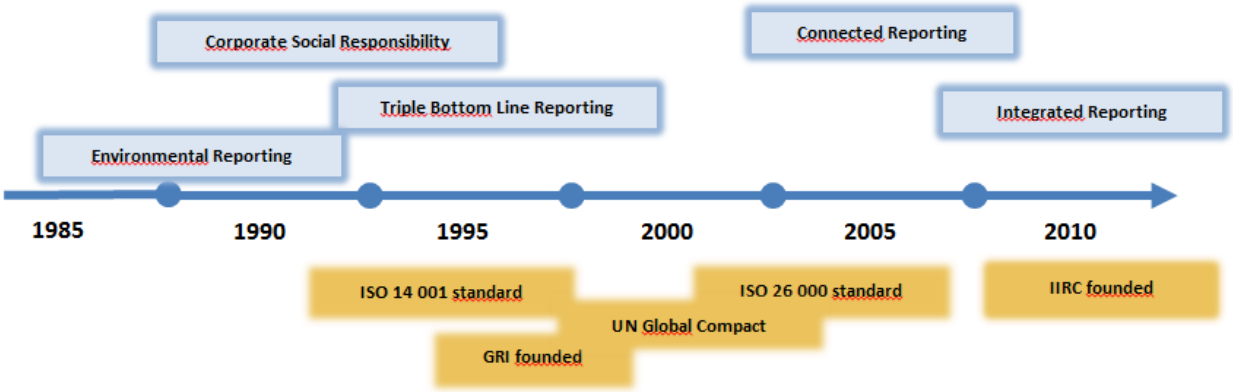

Figure 2. Developments in sustainability reporting.

Since the mid 1990s, sustainability reporting has developed in various directions. Companies with socially sensitive operations started to develop corporate social responsibility (CSR) reporting, which had some roots in earlier decades, and even centuries with reference to philanthropy. The European Commission, for instance, currently defines CSR simply as "the responsibility of enterprises for their impacts on society"[12]. One of the drivers of CSR reporting was concerns about labor conditions in supply chains that were becoming more complex at the same time as human rights and the use of child labor for instance had become a concern for consumers.

Sustainability reporting developments have taken different forms, one of them being triple bottom line (TBL) reporting, where the three dimensions are social, economic and environmental, or people, planet and profit.[13] At the same time, global organizations supporting sustainability reporting were founded. One of them is the Global Reporting Initiative (GRI), which has developed a sustainability reporting framework.[14] In addition, there are country-specific initiatives, such as

[11] Ball (2004), Kolk (2011).
[12] European Commission (2011).
[13] Elkington (1997).
[14] www.globalreporting.org

Connected Reporting developed in the UK[15], which aims to provide a new approach to corporate reporting and improve annual reports and accounts.

Social emphasizes of sustainability are well present in the UN's Global Compact, which was launched at the turn of the millennium.[16] It encourages businesses worldwide to adopt sustainable and socially responsible policies and to report on their implementation. It concentrates on the areas of human rights, labor, environment and anti-corruption. The OECD also has Guidelines for Multinational Enterprises that are recommendations by governments providing voluntary principles for responsible business conduct.[17] One example of changing concerns is that the 2000 update of the Guidelines added recommendations on the elimination of child labor and forced labor and new chapters on combating corruption and consumer protection, whereas the 2011 update contained a new chapter on human rights.[18] Also the attention paid to climate change issues is now more pronounced.

Another indication of the development was that ISO 26 000 guidance for social responsibility was launched in 2004. It is a voluntary guidance and not used as a certification standard in a similar way as the ISO 14 000 standards are used. According to the ISO 26 000, the objective of social responsibility is to contribute to sustainable development. Social responsibility has the organization as its focus and concerns its responsibilities to society and the environment. The core subjects of social responsibility according to the standard are issues related to organizational governance, human rights, labor practices, environment, fair operating practices, consumer issues, and community involvement and development. The Standard, however, notes that as society's concerns change, its expectations of organizations also change, and therefore the elements of social responsibility are liable to change.[19]

The first reports labeled as "sustainability reports" were mostly single issue reports that focused on environmental performance. The reason for this was in part the high priority given to environmental concerns and partly the difficulty in grasping the multidimensional concept of sustainability. Since the turn of the millennium, the amount of more holistic sustainability reports has increased while the share of environmental reports has decreased.[20] Even so, in many cases sustainability reporting practices are focusing largely on environmental issues and eco-efficiency.[21] In addition, there are reporting practices that choose a specific issue for reporting. Recently, the growing concern about climate change has made carbon reporting more popular. One example is the Carbon Disclosure Project, which has encouraged companies and cities around the world to measure and disclose their greenhouse gas emissions, climate change risks and water strategies.[22]

So far, sustainability reporting has been realized in a number of ways. There are stand-alone reports which can be published annually or biannually. Alternatively, sustainability reporting can happen

[15] www.accountingforsustainability.org
[16] www.unglobalcompact.org/AboutTheGC/
[17] www.oecd.org/dataoecd/56/36/1922428.pdf
[18] OECD (2011).
[19] ISO 26 000 (2004).
[20] Kolk (2011).
[21] ACCA (2010), Ball (2004).
[22] www.cdproject.net

via a suite of reports and published also in on-line formats. Although currently it is most common for organizations to publish environmental and social information in separate reports, there are also approaches that combine them with the annual financial report.[23] This is reflected in the most recent and forceful development in the reporting field, the initiative of the International Integrated Reporting Council (IIRC) which is promoting the development and use of an integrated reporting framework.[24]

On the one hand, various developments indicate that there is a demand for sustainability reporting. This need has been expressed through many stakeholders who are developing sustainability reporting frameworks. On the other hand, the variety of concepts, frameworks and actors has caused some confusion about concepts and even competition between developers of reporting frameworks. **In this project, sustainability reporting is used as an overall concept referring to attempts to report on environmental and sustainability issues either in a separate report or integrated to the annual financial report.**

4. Reporting motivations

GRI defines sustainability reporting as a practice of measuring, disclosing and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development[25]. This reflects that as most of sustainability reporting is done on a voluntary basis, there are some important internal and external drivers for reporting. This chapter deals with those motivations both in the private and public sector organizations.

In the private sector, external reasons deal mostly with stakeholder communication and providing transparency on risks, opportunities and performance, as well as establishing trust with stakeholders. The management of reputation is also an important motivation. Thus it is no surprise that the majority of the reporters are large companies and firms operating in polluting sectors. Traditionally active reporters have come from sectors such as chemicals and pharmaceuticals, computers and electronics, automobiles, utilities, and oil and gas.[26] One indication of investment perspective is the creation of socially responsible investment tools, such as Dow Jones Sustainability Index that tracks the stock performance of companies in terms of economic, environmental and social criteria.

Internal reasons for adopting sustainability reporting usually deal with improving organizations' performance. Reporting processes can help increase the quality of information, both by generating additional information that was not previously available and by improving the quality of existing data. Sustainability reporting helps to gather and organize this information and improve management systems and the quality of management information. Paying attention to sustainability can also help to create new innovations and safeguard sustainable growth in the long run. Therefore,

[23] Eggles & Krzus (2010).
[24] www.theiirc.org
[25] GRI (2011).
[26] Kolk (2011).

the process of producing a sustainability reporting can be a very valuable exercise and, for internal stakeholders, it can be more informative than the report itself.

Sustainability reporting can also improve organizations' ability to understand and manage sustainability related risks and help organizations better anticipate changing societal expectations. The effective management of natural resources, for instance, affects current performance and the failure to plan for the future may risk future prospects. Further, reporting can act as a tool for leadership, increase employee satisfaction and make organizations attractive to employees. Sustainability reporting can also improve the internal awareness of sustainability issues in the organization. This all helps organizations to reach better decisions and can enhance long-term financial prospects. Sustainability reporting can be a tool to attain cost savings, as it encourages an organization to use natural resources more efficiently, improve process efficiency and utilize recoverable resources.[27] For example, paying attention to energy consumption and possible measures to reduce it in an organization can help to reduce energy bills and thus spending (Case 1). Indirect savings can occur, for instance, if the need to pay associated environmental taxes is reduced or through reduced insurance costs.[28]

CASE 1: Brazilian audit on the rational use of natural resources

The Brazilian Court of Audit (TCU) carried out an audit on the actions of the Federal Public Administration in order to promote the rational and sustainable use of natural resources, especially electricity, water and paper. The audit evaluated the public organizations' support to the rules of public purchases regarding sustainability criteria.

The audit found out that the central government had not given clear direction to lead the managers to adopt actions to promote the sustainable use of natural resources. One of the consequences is the large heterogeneity in the promotion of measures of efficiency and sustainability in the federal public institutions and bodies. The adoption of actions with this purpose is mainly a consequence of some managers' individual efforts rather than a government policy. Furthermore, it was noticed that these programs are not well structured and are carried out in an ineffective way and available financial resources were not utilized in promoting energy efficiency in public buildings.

In addition, the low level of institutionalization in the management of sustainability was noticed, and awareness-raising campaigns were not widely used. It was also verified that 73% of the researched public bodies do not perform sustainable public tenders. Finally, it was noticed that there is a great potential for the sustainable use of natural resources in the federal sphere that has not been used.

The audit found that Public Administrations could potentially make an annual economic saving of 20% in electric power, which was equivalent to R$ 240 million (US$ 150 million) in 2009, and of 22% in water, which would represent R$ 67.5 million (US$ 42 million) per year. Thus, with electric power and water alone there could be an annual economic saving of over R$ 300 million (US$ 190 million) per year.

Although the above-mentioned reporting motivations are gathered from the private sector, they are also relevant to public sector organizations. In particular, accountability and good governance play a critical role in the public sector, and sustainability reporting can help to support these goals. As

[27] ISO 14 000 (2009).
[28] Defra (2006).

public agencies are responsible for properly managing public resources, sustainability reporting can be one tool in increasing the transparency of the management of public funds and assets.

When it comes to the public sector's own sustainability performance, it is clear that public agencies are important players and are increasingly required to report on a range of environmental sustainability indicators (Case 2). They have a significant impact on economic activity and are responsible for the stewardship and use of substantial amounts of natural resources. In many countries local authorities play an important role for example in service delivery and land-use planning. As such, some public sector organizations are large entities and significant employers. Therefore, these operations can potentially have a large impact upon sustainability issues. The public sector might want to take into consideration sustainability issues in their procurement processes, for example, and thus influence directly through public purchases.

CASE 2: Public Sector Environmental Management in Australia: Better Practice Guide

Over recent years there has been an increasing focus on improving the environmental performance of public sector entities, including growing expectations from governments and the community for more sustainable approaches to the delivery of goods and services. These requirements are, however, fragmented and currently based around individual areas, such as energy efficiency or waste. The Australian National Audit Office has developed a better practice guide to help Australian public service entities to meet and improve their environmental performance and reporting.[29]

The guide, which was published in April 2012, has been developed within the context of the Australian public sector's environmental management framework, which includes the legislative, regulatory and policy requirements that currently apply to the office-based operations. The guide focuses on six key operational areas, comprising: energy; Information and Communications Technology (ICT); waste; water; travel; and property management. The guide provides practical implementation advice, case studies and checklists, in addition to suggested performance indicators. To assist entities to comply with a broad range of policy and reporting requirements, the guide also includes a reporting calendar (see below). Information presented in the guide complements existing guidance material for meeting annual ecological sustainable development reporting requirements and for establishing an environmental management system. The guide aims to assist public sector entities to build their reporting capacity and better places entities to meet the proposed introduction of sustainability reporting requirements.

[29] The guide is available on ANAO's website: http://www.anao.gov.au/Publications/Better-Practice-Guides/2011-2012/Public-Sector-Environmental-Management

Due	Requirement	Format	Summary of requirements	Reporting items and units	Reporting period	Applies to
October	**Data Centre Optimisation Targets policy**	Questionnaire completed in OSCAR	Energy consumption and utilisation of data centres	Power Usage Effectiveness (PUE) and server utilisation (% of usage)[3]	Financial year	FMA Act agencies
	Green Vehicle Guide Target	Questionnaire completed in OSCAR	Vehicle fleet information and Green Vehicle Guide scores	For each of three categories; Pool, Commercial and Executive vehicles Total vehicles (number); vehicles with GVG score above 10.5 (number)	Financial year	All FMA Act agencies and some CAC Act entities[4]
	Green Lease Schedule	Questionnaire completed in OSCAR	Leasing arrangements	Total office leases signed in the previous financial year or held during the previous financial year that are >2000 m^2 and for a lease term of 2 years or more and: • have a Green Lease Schedule (GLS) that stipulates a rating of 4.5 stars NABERS Energy (tenancy or tenancy and base building); • have an exemption from DCCEE to some GLS obligations.	Financial year	FMA Act agencies and some CAC Act entities[4]
	Environment *Protection and Biodiversity Conservation Act 1999* Section 516A	Entity's Annual Report	Section 516A provisions (a) (b) Agency activities and outcomes in relation to ecologically sustainable development (c) (d) and (e) Environmental effects of agency operations, measures and mechanisms to reduce these impacts	Qualitative description of activities and outcomes towards ecologically sustainable development Qualitative information and quantifiable figures, where possible, such as units of intensity and aggregate for energy, water, waste and transport.	Financial year	All entities

An extract of reporting calendar.

The public sector, however, also has roles beyond this, as it can require private sector companies or public agencies to report on their sustainability performance. Of particular interest for the public sector are motivations related to moral and ethical reasons. In the private sector, this is about lowering the reputational risk and attaining positive publicity. But public sector organizations are also expected to act transparently so that they can be trusted. This is linked to the public sector's responsibilities for safeguarding the common good or public interest. In some countries, the public sector has also been seen as a role model in sustainability reporting (Case 3). One often-mentioned motivation is to enhance internal participation as well as external public participation, thus possibly leading to better staff satisfaction and citizen trust.

CASE 3: Swedish state-owned companies and sustainability reporting

In Sweden, there are 58 totally or partly state-owned companies, of which, three are listed companies. In 2007, the Swedish government decided, as part of an active ownership policy, that state-owned companies should present a sustainability report, in addition to an annual review, in accordance with Global Reporting Initiative (GRI) guidelines.

The objective is to create greater transparency with regard to how state-owned companies handle issues relating to social and environmental responsibility, while a further purpose is to accelerate changes in the companies' sustainability activities. The idea is that state-

owned companies should act as a role model when it comes to the environmental and social responsibility of organizations.

A sustainability report can be a separate document or integrated to the annual report. In 2010, 92 % of the state-owned companies published a sustainability report. The share of sustainability reports from the 100 largest listed companies was, however, only 30 %. Sustainability reports need to be quality-controlled by an independent auditor. Private auditing companies perform this task, although without any official "quality-label". In 2010, 94 % of sustainability reports were quality-checked.

According to a study published in 2010, the introduction of the new ownership policy affected the companies to a varying degree. The companies that lacked previous experience of sustainability reporting have gone through a more extensive process of change than those that were already submitting sustainability reports. The results show that the policy improved procedures for reporting on sustainability issues but did not bring far-reaching changes in sustainability activities in practice. The Swedish case indicates that reporting on sustainability issues seems in the first instance to strengthen and improve the reporting processes, whereas the next step, i.e. changes in practice, is a greater one.[30]

5. Reporting Frameworks

As sustainability reporting has become more common, various reporting frameworks have been developed. The next section of this paper presents in more detail two of the most widely used reporting frameworks: the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC). Special attention will be paid to the GRI Public Sector Supplement, as this is one of the few guidance frameworks created for public sector organizations. Also an example of a country-specific reporting framework will be presented.

5.1. Global Reporting Framework

Founded in 1997, one of the main developers of sustainability reporting has been the Global Reporting Initiative (GRI), which is currently the most widely adopted sustainability reporting framework. Its mission is to make sustainability reporting standard practice by providing guidance and support to organizations. GRI's reporting frameworks are developed with private sector business in mind. GRI, however, emphasizes that public sector organizations can also use the same reporting principles. The GRI reporting framework provides flexibility to the reporters so that they can connect reporting to their strategic targets and sustainability impacts.

[30] Borglund et al (2010).

GRI published the third version of Guidelines (G3) in 2006. In 2001, the Guidelines were updated to G 3.1 expanding guidance on local community aspects, human rights and gender.[31] The guidelines cover both aspects of how to report and what should be reported.

The first part of the Guidance deals with report content ensuring the quality of reported information and setting the report boundary. Principles of materiality, stakeholder inclusiveness, sustainability context and completeness provide help with defining report content. The quality of reported information can be ensured with the principles of balance, comparability, accuracy, timeliness, reliability and clarity.

Second part of the report deals with standard disclosures that should be included in sustainability reports. This is divided to three type of disclosure:

- Disclosure on strategy and profile setting the overall context for understanding organizational performance;
- Management approach covering how an organization provides context for understanding performance in a specific area;
- Performance indicators dealing with comparable information on the economic, environmental and social performance of the organization.

Performance indicators are classified as core and additional indicators. Core indicators are identified to be of interest to most stakeholders and assumed to be material, whereas additional indicators represent emerging practice or address topics that may be material to some organizations but not generally for a majority.

Economic performance indicators illustrate the flow of capital amongst different stakeholders and the major economic impacts of the organization throughout society. Environmental indicators reflect the inputs, outputs and modes of impact an organization has on the environment. Social indicators are divided into four subgroups. First, labor practices and decent work indicators deal with fair globalization, which aims to achieve both economic growth and equity through a combination of social and economic goals. Second, society performance indicators focus on the impacts organizations have on the communities in which they operate, and how the organization's interactions with other social institutions are managed and mediated. Third, human rights performance indicators deal with the impacts and activities an organization has on the civil, political, economic, social and cultural human rights of its stakeholders. And finally, product responsibility indicators address the effects of products and services management on customers and users. A detailed list of GRI indicators is provided in the annex.

[31] https://www.globalreporting.org/resourcelibrary/G3.1-Sustainability-Reporting-Guidelines.pdf

5.2. GRI Public Sector Supplement

In 2005, GRI published a pilot version of the sector supplement for public agencies based on the previous G2 guidelines.[32] It provides guidance on key aspects of sustainability performance relevant to government agencies.

The supplement identified three different types of information that public agencies can report. The broadest of them deals with macro-level information on the state of the environment or society, which could be information that the state might report as part of annual reporting. The second type of information deals with external public policies and implementation measures of the agency that relate to sustainable development and their performance. In other words, it deals with the agency's public policies for sustainable development, e.g. the process by which sustainable development policies were prioritized, how related implementation measures were developed, and how progress is being monitored and measured.

The third type of information is reporting on organizational performance, which can be reported through the use of performance indicators. This type of information illustrates the organization's internal policies and their role as a consumer and employer.

Compared to the general GRI guidelines, the Public Sector Supplement asks organizations to describe their relationship to other governments or public authorities and identify who is served by the public sector (e.g. geographic jurisdiction or specific user group). In the public sector, stakeholders mean not only business partners, local authorities and NGOs, but also other public agencies, the general public and various interest groups. When it comes to the governance structure of the organization, in the public sector it also includes relevant political and elected groups and appointed managers. In the stakeholder engagement public agencies should describe policies and systems to promote access to information by stakeholders.

In the Public Sector Supplement there are no new additions for environmental performance indicators compared to the general GRI Guidelines. When it comes to economic performance indicators, there are some commentaries and additions. Firstly, there are financial inflows and outflows from the organization, as public agencies collect public funds and redistribute these to deliver public goods and services. The indicators aim to identify how funds are used and in order to see where an agency's direct and indirect impacts are likely to be greatest. Part of the public sector's financial resources are transferred to other parties. The second area is procurement practices and the manner in which the agency has incorporated environmental and social aspects into its decisions. Most public agencies have formal procurement policies that govern a significant portion of their expenditures. Therefore it is interesting how these policies address sustainability issues.

With reference to social indicators, the Public Sector Supplement has some commentaries and one new indicator. When it comes to "product information and labeling", for instance, public sector agencies should identify the service quality standards applied as well as give a description of the

[32] GRI (2005).

quality assurance systems and procedures. The new social indicator deals with administrative efficiency. It describes the results of assessments of the efficiency and effectiveness of services provided by the public agency, including the actions taken to achieve improvements in service delivery. That is an important point but could as well be included in to the economic indicators.

5.3. The Public Sector Supplement in practice

In an assessment made by GRI in 2009, only 57 public sector agencies had published a GRI report.[33] According to the assessment, public sector reports varied considerably and were mostly descriptive with little quantitative performance data. This makes it difficult to compare performance over time and between public agencies. Less than half of the public sector reporters had used the Public Sector Supplement.

A literature review carried out by GRI on the Public Sector Supplements showed that some of the GRI indicators and the wording of the guidelines were considered not applicable to the public sector. It was, for instance, unclear whether the term 'public agency' includes government-owned enterprises. The supplement was criticized for being too generic and not paying attention to the many organizational forms in the public sector, and not including enough sector-specific variables. Thus, the use of the supplement was fragmented and those that used the supplement chose to report only some of the indicators.[34]

The weaker role of the public sector in sustainability reporting theory and practice is natural, since sustainability reporting has been developed for the private sector's needs. Sustainability has become at least for some businesses an important part of competitiveness. As the public sector does not act in such a competitive environment, its needs are different. It could rather be that the public sector is more multifaceted as it can, besides its own sustainability work, also demand sustainability reporting from the private sector via procurements or legislation. For example, private sector operators often provide some public services, and this is where the public sector can actively demand certain sustainability principles to be fulfilled. Therefore, the frameworks developed for private companies do not necessarily catch easily all the public sector-specific features.

Furthermore, it is important to notice that there are debates that criticize the application of private sector reporting to the public sector. Public sector organizations have been viewed as fundamentally different from private sector companies and public sector reporting should be advanced in a different way from current thinking in the private sector. While the private sector is driven by financial return, the public sector is driven by well-being and services and the promotion of the common good. The public sector is more linked to a geographical area, i.e. a country or region or municipality, while the private sector is more interested in a specific supply chain. Governments

[33] GRI (2009), Guthrie & Farneti (2008).
[34] GRI (2010).

also bear a certain responsibility for the private sector organizations operating in their area and influencing the state of the environment and society. [35]

At the time of writing this report, the next version of the GRI guidelines (G4) was under development. Priorities in the development of G4 were the improvement of user-friendliness, technical quality, alignment with other international disclosure standards, identifying the material content to be included in sustainability reports, and offering guidance on how to link the sustainability reporting process to the preparation of integrated reporting promoted by the IIRC. At the same time GRI was also exploring how to do sector-related work, for instance for public sector needs in the future. There are no other global initiatives dedicated especially to public sector reporting. Despite the lack of proper frameworks, alongside the development of reporting practices in the private sector, it is likely that sustainability reporting will become more common in the public sector.

While the GRI Reporting Guidelines are at the moment the most widely spread reporting framework, a new global initiative on integrated reporting takes a step further suggesting that sustainability issues should not be dealt separately from annual financial issues, but instead in an integrated report. The focus of this initiative is on reporting of large companies and the needs of their investors. Nonetheless, it is also interesting from the public sector perspective, as it might indicate some future directions at least when it comes to the reporting of public sector-owned companies.

5.4. A move towards integrated reporting

The International Integrated Reporting Committee (IIRC) is a joint initiative by organizations supporting sustainability reporting, including GRI. It aims to develop a framework for reporting financial, environmental, social and governance information in an integrated format. The founding of the IIRC in 2010 can also be seen as a way to tackle the confusion that several organizations acting in the field have caused. Some countries such as South Africa have created their own subcommittees that aim to ensure that local guidance is in line with international guidance issued by the IIRC (Case 4).

CASE 4: Integrated reporting in South Africa's listed companies

In South Africa, a committee led by Professor Mervyn E. King has developed South Africa's corporate governance. In 1994, the first King Code developed an inclusive approach to governance, taking into account the stakeholders' interests in the decision-making process. In 2002 the code was rewritten and sustainability reporting was emphasized. The third King Code, which was introduced in 2009, requires that companies listed on the Johannesburg Stock Exchange issue an integrated report, or to explain why they are not doing so. This means that statutory financial information and sustainability information need to be presented in the integrated report and prepared annually.

[35] ACCA (2010), Ball (2004), Ball & Grubnic (2010), Fawcett (2011).

King Code III defines integrated reporting as a holistic and integrated representation of the company's performance in terms of both finance and sustainability. An integrated report should have sufficient information to record how the company has both positively and negatively impacted on the community in which it operated during the year under review, often categorized as environmental, social and governance (ESG) issues. Further, it should report how the company believes that in the coming year it can improve the positive impacts and eradicate or ameliorate the negative aspects.

King Code III recommends that the sustainability reporting and disclosure should be independently assured. The discussion paper released by the Integrated Reporting Committee of South Africa points out that developing the ideal integrated report will be a journey for many organizations and so will the extent and level of assurance. With time material environmental, social, financial, economic, and governance issues could be covered with reasonable assurance.

Much of the motivation for integrated reporting comes from the shortfalls of current financial reporting in the private sector. According to the IIRC, traditional reporting was created for the industrial world and it focuses relatively narrowly on historical financial performance and is compliance driven. As reports focus on financial and manufacturing capital they fail to take into account other forms of capital including natural capital as well as intellectual, human and social capital. These issues might be presented in corporate responsibility reports or environmental reports but are practices separate from a company's accounts and often not integrated into business strategy decisions.

The core objective of the integrated reporting framework is to guide organizations on communicating in a clear and consistent way about a broader range of information that investors and stakeholders need, which in turn help them to make decisions. Integrated reporting calls for rethinking what information is needed to provide a clear, concise picture of performance, impacts and interdependencies. Thus, the IIRC does not call for more reporting, but better reporting in a single report. Other communication can be added to the core communication, e.g. in an on-line format.

The goal of the IIRC is to create a new global standard for integrated reporting that could help business by unifying the requirements that at the moment differ from country to country. In 2011 the IIRC published a discussion paper that considers the rationale behind the move towards integrated reporting and offers a proposal for the development of the new reporting framework.[36] The discussion paper points out benefits of integrated reporting, one of them being more effective investment decisions and better long-term investment returns and more effective capital allocation. The paper also lists reasons why governments might want to develop integrated reporting. These include increasing transparency and gaining better information for policy-makers. As integrated reporting supports better internal decision making and long-term behavior, it can augment economic and market stability.

Integrated reporting was attracting much attention at the time of writing this report. In 2011 the IIRC launched a two-year pilot program, to test the principles and practicalities of integrated

[36] IIRC (2011).

reporting. Many large organizations that are currently reporting according to the GRI framework anticipate that in the years ahead they foresee a decrease in the relevance of sustainability reports while at the same time an increase in the relevance of an integrated report.[37] The IIRC also anticipates that integrated reporting will ultimately become the primary report for all organizations. The focus of integrated reporting is on large companies and the needs of their investors. The IIRC, however, considers that if integrated reporting becomes more popular, it is likely to spread to medium-sized and even small companies and the public sector.

But it is good to remember that not only the private and public sectors are different, but also the private sector is heterogeneous. Small and medium-sized enterprises might interpret possible mandatory sustainability reporting frameworks as top-down pressure on them. Research on global reporting standards suggests there has been some harmonization in sustainability reporting across companies from different countries, thus reducing the role of domestic institutions. Harmonization is, however, stronger for some issues than for others. More harmonization has taken place in community and employment issues, whereas rights issues and economic impact are reflecting more domestic features than global standards.[38]

Taking into consideration the relatively rapid evolution in the sustainability reporting field, it is advisable that SAIs keep an eye on developments in the reporting field. Moreover, as the IIRC is pushing for harmonization of reporting requirements, it might be wise that governments as well as SAIs are aware of the topical developments especially if reporting requirements are added to legislation. In addition, integrated reporting addresses interesting questions related to the assurance of reports.

5.5. Country-specific initiatives

Frameworks for sustainability reporting can be developed within a particular country. One example of this is UK, where the Accounting for Sustainability Project developed the Connected Reporting Framework for sustainability reporting, which encouraged both the private and public sector to produce a sustainability report.[39] The framework suggests that reported information should explain the connection between delivery of the business's strategy and its financial and non-financial performance. A number of private and public sector organizations now follow the Connected Reporting approach in their sustainability reporting. The UK's Government has also published reporting guidelines, and made it mandatory for central Government organizations in England to produce a sustainability report and the governments in Scotland and Wales and wider public sector standard setters are also following this lead (Case 5).

CASE 5: Sustainability reporting in the UK public sector

[37] GRI (2012).
[38] Fortanier (2011).
[39] www.accountingforsustainability.org

The Government has published guidelines on sustainability reporting for Central Government Organizations[40], and from the 2011-12 financial year onwards, it will be mandatory for UK and English organizations to include a sustainability report within their Annual Report. The guidelines for reporting were developed in consultation with a number of stakeholders, including the Accounting for Sustainability Project and the National Audit Office. They follow many of the principles outlined in the Connected Reporting Framework, such as requiring organizations to report financial measures alongside each sustainability key performance indicator.

The guidelines were first published in 2010, and the Government encouraged organizations to produce a dry run sustainability report for 2010-11, although it was not mandatory. The Government used the findings from the dry run to modify and improve the guidelines, and published revised guidelines in 2011, ahead of the introduction of mandatory reporting for 2011-12.

The reporting guidelines outline the minimum reporting requirements, which all central Government organizations are required to follow, as well as providing examples of best practice and ways in which organizations may choose to report beyond what is mandatory. The requirements are for organizations to report an overview of sustainability performance and future plans. They must report sustainability data, as well as related expenditure, for their:

- **Greenhouse gas emissions (and associated energy use);**
- **Waste minimisation and management; and**
- **Use of finite resources.**

Organizations are also required to provide commentary on how they are making their procurement more sustainable, and, where it is relevant, progress against their biodiversity strategy.

There is no requirement for central Government bodies to have their sustainability reports for 2011-12 independently assured. The guidance encourages organizations to implement their own internal assurance arrangements, addressing the recording and reporting of data; data quality assurance; the competence of relevant staff; and the internal control and validation of data. The Government is considering options for requiring future assurance at a later date.

One problem in sustainability policies in general, including sustainability reporting practices, has been that they easily become very large in scope as more and more information is pumped into reports. This can lead to a reporting burden for reporting organizations and disclosure overload for report users.[41] One reason for this is that the full application of sustainability at the organizational level would require a thorough analysis of its impacts on ecosystems and communities. In ambitious practices the amount of information included in the report can become significant. One alternative could be to focus on some important issues, where preferably the ecological, social and economic aspects meet. Another possibility is to make a conscious decision to concentrate for instance on the ecological dimension of sustainability. A key challenge is defining the scope and parameters that

[40] http://www.hm-treasury.gov.uk/frem_sustainability.htm#Public_Sector_Annual_Reports_Sustainability_Reporting_guidance_for_2011-12

[41] CIPFA (2010).

the sustainability report will cover and striking a balance between depth and comprehension of how information is presented.

6. Assurance of sustainability reports

For sustainability reports to be credible, the reliability of the reports is important. This is where auditing and providing assurance to reports becomes important. This paper deals next with assurance of sustainability reports, presents the most common assurance standards and discusses the early experiences as well as challenges related to assurance.

The relevance and reliability of sustainability information is closely linked to the credibility of sustainability reports. Assurance can also be seen a central element in holding important economic entities accountable to their stakeholders.[42]Assurance on the reliability of sustainability information can be provided by an external auditor. In contrast to financial reports, where measurement, control systems and standards are sophisticated and assurance processes are well established, the assurance of sustainability reports is still developing and mostly voluntary. A particular challenge is that the conventional accounting profession is often not able to deal with all sustainability information and the interdependence of social, environmental and economic issues, nor do accounting methods support this kind of approach.[43]

In some industry sector, the assurance of sustainability reports started to increase in the mid to late 1990s. Nowadays, leading sustainability reporters have their reports assured. The majority of statements restrict themselves to assurance on specific information of data sets, as fewer cover the full corporate report. Formal assurance of sustainability reports is viewed as a general trend as reporting practices become more mature. For example, GRI encourages external report assurance and has identified key qualities for external assurance, such as using independent auditors that are competent in the subject matter and assurance practices. In practice, both audit assignments and assurance statements vary a lot, as do sustainability reports.[44]

6.1. Assurance standards

There is, so far, no generally accepted standard for assurance on sustainability reports. Some countries have created their own standards (Case 6). Internationally, many accountants use ISAE 3000[45] (standard on assurance engagements other than audits or reviews of historical financial information) when undertaking assurance assignments on social responsibility or sustainability reports. ISAE 3000, published in 2005, has been written for professional accountants in public practice. It has two levels of assurance, limited and reasonable. So far, the ISAE 3000 standard is more commonly in use.

[42] O'Dwyer & Owen (2005).
[43] ACCA (2010).
[44] Deegan et al (2009), CIPFA (2010), CPA Australia (2004), Kolk (2004), Owen (2010).
[45] Created by International Auditing and Assurance Standards Board (IAASB).

Another standard, the AA1000 assurance standard[46] published in 2003, provides a more specific framework for sustainability assurance and it is also used by non-accountants. AA1000 provides findings and conclusions on the current status of an organization's sustainability performance and provides recommendations to encourage continuous improvement. It is not a certification standard which leads to pass or fail, but rather is designed to be used by organizations in different stages.

AA1000 assurance has also two levels. In the "type 1 assurance" the assurance provider evaluates the nature and extent of the organization's adherence to the three principles of participation of stakeholders, materiality, and responsiveness. This provides limited assurance related to the way an organization manages sustainability performance, and how it communicates this in a sustainability report. "Type 2 assurance" also evaluates the reliability of specified sustainability performance information. This information is selected based on the materiality determination and needs to be meaningful to the intended users of the assurance statement.

The comparison shows that ISAE 3000 provides rigorous procedural guidance for undertaking an assurance engagement, In AA1000 the emphasis lies on the relevance of the reported information for stakeholders. AA1000 goes further that ISAE 3000 in requiring that stakeholders are involved in determining the subject matter as well as suitable criteria for the report and the assurance engagement.[47]

There are also other possibilities to provide assurance. In the GRI system users can self-declare the extent to which the guidelines have been used in their sustainability report as reporting organizations are asked to indicate how they have used the guidelines and indicators. For this purpose GRI has created an application-level check. Level C is intended for entry-level reporting organizations, level B for intermediate reporters and level A for advanced reporters. Different levels have different requirements for the number of key performance indicators that need to be reported, for instance. In addition a "+" can be added if the report has been externally assured.

Furthermore, stakeholder panels can be used where key stakeholders are involved in a dialogue and assurance assesses processes aiming at making sure reporting covers areas considered important and material to users of the report. While such assurance does not deal with verification of the data, it assists with ensuring key aspects or areas are not left out of the report.[48] This can be a particular strength taking into consideration the flexibility of sustainability reporting frameworks. Flexibility might increase the temptation for reporters to cherry-pick performance indicators[49] and leave some essential information out of the report in order to make it look better (so called "greenwashing"). A more challenging task is to verify whether organizations really implement things they report.

CASE 6: Dutch assurance standard relating to sustainability reports

The Netherlands accountant organization has published a standard 3410N for assurance engagements relating to sustainability reports. It applies to assurance engagements aiming to reasonable assurance (an audit engagement), and those whose objective is to obtain limited assurance (a review engagement), as well as hybrids of these two types. The

[46] Created by AccountAbility.
[47] AccountAbility & KPMG (2005).
[48] CIPFA (2010).
[49] Guthrie & Farneti (2008).

standard is used in the assurance of private sector reports, but so far not in government organizations.

The standard points out that the knowledge, experience and skills required for the examination of a sustainability report often require multidisciplinary teamwork. As the choices of the reporting organization concerning the content of a sustainability report are more important than those in traditional reporting, the auditor needs to pay special attention to the consistency of these choices made by the reporting organization. It can make financial sense to omit certain topics from the audit. The engagement is subject to more professional and financial limitations, which requires their clear explanation in the assurance report. As relatively more information is qualitative, more emphasis will be needed for interviews, the assessment of the integrity of the company officers responsible for the information, and the assessment of compliance with codes of conduct.[50]

6.2. Experiences on assurance and future prospects

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 on their sustainability reports, while 40 % utilized formal assurance statements by an independent professional assurance provider. It is likely that the verification of sustainability data will become more common, although there are also companies that have stopped the verification they had done earlier.[51]

Among sectors financial services and oil and gas predominate. A study on the biggest global companies shows that the highest number of verified sustainability reports come besides traditional environmentally sensitive manufacturing industries also from the banking and insurance sector.[52] Other studies have found out that assurance statements vary a lot form their content and types of assurance, the majority restricting themselves to assurance on specific information or data sets, and fewer cover the full corporate sustainability report.[53] Assurance providers are usually major accounting companies, the remainder being largely specialist consultants in the area of environment and sustainability. Some research suggest a shift away from large accouting firms to consultants specialized in sustainbility matters.[54] Assurance statements vary, which limits the scope to compare them.[55]

An IIRC discussion paper on integrated reporting also deals with assurance. It states that if an integrated report is an organization's primary report, investors and other stakeholders will want that report to be subject to independent assurance. Moreover, the discussion paper notes that some information in an integrated report may be more difficult to assure than information disclosed under traditional financial reporting frameworks. According to the IIRC this will require the development of new techniques, standards and reporting mechanisms to support the assurance of integrated reports.

[50] NIVRA (2007).
[51] IFC & World Resource Institute (2009), IIRC (2011), Kolk (2011).
[52] Kolk & Perego (2010).
[53] Deegan et al (2006).
[54] IFC & World Resource Institute (2009), IIRC (2011), Kolk (2011).
[55] Kolk & Perego (2010).

If integrated reporting were to become more common, it would mean that organizations' annual financial reports would increasingly contain sustainability information and some of this is non-financial in nature. This is when auditors need to address to what extent the assurance of a financial report in its integrated version covers the whole of the report, i.e. also the sustainability information.

While some see no specific issues that separate the public and private sectors when it comes to the assurance of sustainability reports,[56] others point out some differences. SAIs' objective in financial auditing compared to the private sector is wider and the user of a financial statement audit report looks at more extensive accountabilities than in the private sector. In the public sector, what matters more is information on policy, business operations and policy effects, which are often presented in the form of key figures and performance indicators.[57]

If public sector organizations produce more sustainability reports, the question is whether these ought to be verified and by whom. Some ask whether public sector sustainability reports should be given any assurance at all. Assurance can be conducted on the reporting process and the quality of information, but it has also been claimed that the larger public is the one who judges whether the policy effects were successful or not.[58]

Whatever SAIs' opinion about assurance of sustainability reports, SAIs can audit sustainability reporting from a compliance and performance perspective, without directly providing assurance on reports. Some existing audit work on sustainability also offers perspectives on reporting practices. (Case 7).

CASE 7: Audit work on sustainability in local authorities' activities

The SAI of New Zealand, whose mandate also covers local authorities, has done some work on the sustainability performance of local authorities based on statutory requirements for local authority plans and reports. Every three years, local authorities in New Zealand are required to prepare, in consultation with their communities, long term plans extending out at least ten years on their intended activities, including costs and how they will fund them. These plans provide a long term focus for decision-making. The plans must take into account environmental, economic, social, and cultural interests of their communities, as well as the reasonably foreseeable needs of future generations. Local authorities then report annually on progress in implementing their plans, including how their activities affect economic, social, environmental and cultural interests in their districts. This can be seen as a form of sustainability reporting.

The SAI of New Zealand is required to audit these long-term plans and annual reports. This gives scope for the SAI to consider the extent to which local authorities are considering sustainability in their planning, reporting and activities, and to provide assurance to Parliament on this. The SAI of New Zealand reports on the results of the audit of long term plans every three years, and audits disclosures in annual reports of the effect of local authority activities on environmental, social, economic and cultural interests of communities each year.

[56] Holdsworth (2007).
[57] NIVRA (2008).
[58] XX

The SAI's report on the 2009 long term plans contained a detailed analysis of how a sample of local authorities had addressed sustainability in their plans. The SAI noted that there was considerable "sustainability" language in the 2009 plans, indicating that local authorities were comfortable with the concept, but that there was room to improve:

- **discussion on any trade-offs made in activities that affect social, environmental, cultural and economic interests;**
- **being explicit about how the local authority's activities are maintaining and enhancing the environment**
- **using performance management frameworks to measure the effect of activities on social, economic, environmental and cultural interests; and**
- **describing any efforts to improve corporate sustainability.**

The SAI also undertakes related work as part of annual audits and performance audits of local authorities, including reporting to Parliament each year on steps local authorities are taking to manage and reduce their greenhouse gas emissions and undertaking performance audits on sustainability topics such as planning for future drinking water demand and managing the effects of land use on freshwater quality.

7. Keys to successful reporting

This final section before discussions sums up the previous chapters by presenting some of the basic elements for good sustainability reporting.

According to research and practical experiences, there are some prerequisites for successful reporting, which can act as obstacles for reporting if they are absent.[59] In order to be meaningful, sustainability reporting essentially needs to be embedded within the strategic objectives of an organization. It should be used as a practical tool for improving transparency to stakeholders and improving performance. Leadership and executive commitment are often stressed, but alongside the facilitation of bottom-up approaches. Understandable reporting language is also stressed, as well as assurance, the need for appropriate key indicators, and using both qualitative and quantitative data. Moreover, sustainability reporting requires some information gathering and data collection systems. In some cases insufficient data or its quality might be a major challenge. Despite the broad nature of the sustainability concept, many advise to keep reporting practices simple.

Many of the issues mentioned above are present in the criteria of sustainability awards schemes that are promoting voluntary reporting activities. The motivation of setting up award schemes is to promote sustainability reporting and improve the quality of reporting. As for companies, awards provide an opportunity to present their activities and get positive publicity.

There are several awards schemes for sustainability reports, which are judged by different stakeholders and expert groups. Case 8 presents some of the country-specific and regional awards.

CASE 8: Sustainability awards in Finland, New Zealand and North America

[59] Ball (2004), Holdsworth (2007), Hopwood et al (2010), Fawcett (2011).

In Finland, the annual sustainability reporting award has been running since 1996. In 2001 the focus shifted from environmental reporting to social responsibility. Award concentrates on the quality of reporting, but does not judge the responsibility of the business.

The annual awarding procedure gives an insight into the trends in sustainability reporting. For example, recent results in Finland show that integrated reporting combining annual reporting and sustainability reporting has become more common as has the assurance of reports. Materiality that is focusing on what is deemed important to the organization, as well as dialogue with stakeholders has improved. Climate issues have been among the most reported issues, and energy efficiency is more common than material efficiency. One area that still needs development is responsible management practices.[60]

In New Zealand, the Institute of Chartered Accountants issues annually an award for the best sustainability report. The criteria cover first, report content such as relevance and materiality, stakeholder responsiveness and sustainability context (50 %), second, report quality (35 %) and third, company's sustainability commitment and credibility (15 %).

For example, in 2009 the award was given to Watercare Services, a council organization owned by the Auckland City Council. The jury appreciated the integration of sustainability questions into strategic management, continuous improvement, existence and benchmarking or performance indicators, targets for future and also improved presentation of information including graphics.[61]

The North American Awards for Sustainability Reporting is awarded by CERES-ACCA. Award criteria include completeness, which covers areas of materiality, stakeholder inclusion, strategy and organizational context (40 %); credibility covering areas of management process, stakeholder inclusion, governance, performance data, and assurance (35 %) and communication (25 %).

In 2009 the CERES-ACCA award was given to SAP, a software manufacturer, in the sub-group "Commendation for Innovative Use of Web and Social Media". The SAP report included an interactive materiality matrix, which invited readers to submit their own materiality analysis for the company and view how the aggregate community feedback compares with the SAP's own assessment. Jury thus appreciated involving interest groups in assessing the company's report.[62]

Interestingly, a study on corporate reporting indicates that sustainability reporting not only increases transparency but also changes corporate behaviour. Disclosure on environmental, social and governance information seems to force companies to manage these matters effectively. The study suggests that if regulators want companies to perform better on sustainability issues tehn mandatory reporting could be an useful means to achieve this objective.[63]

[60] http://www.ymparisto.fi/default.asp?contentid=19869
[61] http://www.nzica.com/sitecore/shell/Controls/Rich%20Text%20Editor/~/media/NZICA/Docs/About%20us/Awards%20and%20scholarships/2010%20Leadership%20Awards/ARA09_judges_comments.ashx
[62] http://www.ceres.org/awards/reporting-awards
[63] Iannou & Serafeim (2012).

8. Discussion: Sustainability reporting and supreme audit community

This paper has introduced sustainability reporting developments and practices for the needs of public sector auditors. Reporting frameworks and practices are continuously developing and therefore this paper can only provide an overview of the evolving issue. As sustainability reporting in the public sector is an emerging area, the topic most likely needs to be updated later.

Further development of sustainability reporting seems inevitable. Just to name two examples, a UN high-level panel on sustainability recommended in 2012 that mandatory sustainability reporting should be considered for large corporations.[64] As another example, the Federation of European Accountants views that sustainability reporting will in the future be as established as financial reporting is now.

Sustainability reporting has been so far globally a large private company phenomenon in developed countries. One future tendency is, however, that sustainability reporting will spread to non-OECD and especially emerging economies. As it has been so far developed countries that have been most influential in the debate on international reporting standards, the shift to other countries might also implicate some substantial changes in reporting practices. Other future trends foreseen are a stronger role for the state in its regulatory role to ensure a minimum level of disclosure, and the gradual integration resulting in a combination of corporate governance, financial and sustainability reporting into one integrated reporting format.

Sustainability reporting has many positive implications, as better reporting helps to increase the quality of decision-making. In other words, good sustainability reporting contributes to better management and governance. At the same time reporting facilitates further improvements in sustainability matters. It has large potential in raising environmental and social concerns to the core processes of organizations. Considering good governance, i.e. the transparency of institutions and processes, sustainability reporting has much to offer for both the private and public sectors. Sustainability reporting can thus help to increase the effectiveness of public sector governance. Since, for example, environmental concerns and efficiency often go hand in hand, it has large prospects regarding cost-savings and increased efficiency.

Experiences from the private sector on sustainability reporting and assurance, and emerging examples from public sector reporting, are interesting for public sector auditors. Sustainability reporting and integrated reporting have spread in recent years in the private sector, and it seems possible that similar development will take place in the public sector as well. The role of assurance is likely to be increasingly important if integrated reporting becomes more common. This is when SAIs will face the question about their role regarding auditing and giving assurance to the reports.

At the same time there are organizations pushing for mandatory reporting requirements. Research suggests that global standards and guidelines not only increase the level of sustainability reporting

[64] UN (2012).

but also encourage the harmonization of reporting between different countries, therefore reducing the role of domestic institutions.[65] It is useful if SAIs are aware of the developments in the reporting field, when national legislation is begin created or revised. On the one hand, it is important that any new requirements are consistent with national policy requirements and legislation. On the other hand, there would be many benefits if national frameworks and requirements were at least to a certain extent coherent with international developments. This would help to avoid overlapping arrangements and efficiency losses that could lead to frustrating practices. One important role of SAIs could therefore be influencing the process and assessing the suitability of the proposed reporting frameworks. Altogether it is important that any new reporting or assurance requirements address the specific nature of public sector organizations compared to private ones. This is where INTOSAI could have a role as international standards are created.

What is also important is that reporting frameworks or requirements will not be too complicated and reporting can be integrated into organizations' normal management systems. Therefore, it might be advisable for SAIs that even while supporting reporting, considering that new requirements will not overload public sector organizations. In the best case, sustainability reporting could provide coherence to existing reporting practices and add value to society as a whole.

Measuring sustainability is not an easy task, and neither is the verification of sustainability information. It seems obvious that traditional financial auditing is not capable of dealing with sustainability information or providing assurance on sustainability reports. Assurance practice on sustainability reporting might require setting up teams of experts with different backgrounds. Particularly important here are knowledge of the methods used in performance auditing and environmental auditing. Besides auditing guidelines and subject matter, it might be good if auditors are knowledgeable also about its stakeholder engagement processes.[66] It should, however, be emphasized that any auditors' difficulties in dealing with sustainability information should not be a reason to prevent sustainability reporting.

As a consequence, SAIs will likely need to build up capacity related to sustainability and addressing sustainability issues in audit work. INTOSAI could have a role in providing some training and best practices if new professional expectations for assurance work are emerging. If sustainability reporting were to increase in the public sector and SAIs decided to audit sustainability reports, the issue of providing guidance in this work would also become topical for INTOSAI WGEA.

Some SAIs might also consider developing their own sustainability reporting. Here, international standards and frameworks, some of them presented in this paper, can give some tips and models for practical work. One of the strengths of sustainability reporting is linked to the building of transparency and trust, and at the same time accountability, which are important both for individual SAIs as well as public sector organizations as a whole.

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[66] Adams & Evans (2004).

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Appendix. GRI performance indicators according to G 3.1. Guidance

Indicators marked with black are core indicators, and those marked with blue, additional.

ECONOMIC PERFORMANCE INDICATORS

Aspect: Economic Performance
- Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.
- Financial implications and other risks and opportunities for the organization's activities due to climate change.
- Coverage of the organization's defined benefit plan obligations.
- Significant financial assistance received from government.

Aspect: Market Presence
- Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.
- Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.
- Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.

Aspect: Indirect Economic Impacts
- Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, inkind,or pro bono engagement.
- Understanding and describing significant indirect economic impacts, including the extent of impacts.

ENVIRONMENTAL PERFORMANCE INDICATORS

Aspect: Materials
- Materials used by weight or volume.
- Percentage of materials used that are recycled input materials.

Aspect: Energy
- Direct energy consumption by primary energy source.
- Indirect energy consumption by primary source.
- Energy saved due to conservation and efficiency improvements.
- Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.
- Initiatives to reduce indirect energy consumption and reductions achieved.

Aspect: Water
- Total water withdrawal by source.
- Water sources significantly affected by withdrawal of water.
- Percentage and total volume of water recycled and reused.

Aspect: Biodiversity
- Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.

- Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
- Habitats protected or restored.
- Strategies, current actions, and future plans for managing impacts on biodiversity.
- Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.

Aspect: Emissions, Effluents, and Waste
- Total direct and indirect greenhouse gas emissions by weight.
- Other relevant indirect greenhouse gas emissions by weight.
- Initiatives to reduce greenhouse gas emissions and reductions achieved.
- Emissions of ozone-depleting substances by weight.
- NO, SO, and other significant air emissions by type and weight.
- Total water discharge by quality and destination.
- Total weight of waste by type and disposal method.
- Total number and volume of significant spills.
- Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.
- Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.

Aspect: Products and Services
- Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.
- Percentage of products sold and their packaging materials that are reclaimed by category.

Aspect: Compliance
- Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.

Aspect: Transport
- Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.

Aspect: Overall
- Total environmental protection expenditures and investments by type.

SOCIAL PERFORMANCE INDICATORS

Labor Practices and Decent Work Performance Indicators

Aspect: Employment

- Total workforce by employment type, employment contract, and region, broken down by gender.
- Total number and rate of new employee hires and employee turnover by age group, gender, and region.
- Benefits provided to full-time employees that are not provided to temporary or parttime employees, by significant locations of operation.
- Return to work and retention rates after parental leave, by gender.

Aspect: Labor/Management Relations
- Percentage of employees covered by collective bargaining agreements.
- Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.

Aspect: Occupational Health and Safety
- Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs.
- Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.
- Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.
- Health and safety topics covered in formal agreements with trade unions.

Aspect: Training and Education
- Average hours of training per year per employee by gender, and by employee category.

- Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
- Percentage of employees receiving regular performance and career development reviews, by gender.

Aspect: Diversity and Equal Opportunity
- Composition of governance bodies and breakdown of employees per employeencategory according to gender, age group, minority group membership, and other indicators of diversity.

Aspect: Equal remuneration for women and men
- Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.

Human rights performance indicators

Aspect: Investment and Procurement Practices
- Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.
- Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken.
- Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.

Aspect: Non-discrimination
- Total number of incidents of discrimination and corrective actions taken.

Aspect: Freedom of Association and Collective Bargaining
- Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.

Aspect: Child Labor
- Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.

Aspect: Forced and Compulsory Labor
- Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.

Aspect: Security Practices
- Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.

Aspect: Indigenous Rights
- Total number of incidents of violations involving rights of indigenous people and actions taken.

Aspect: Assessment
- Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.

Aspect: Remediation
- Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.

Society performance indicators

Aspect: Local Communities
- Percentage of operations with implemented local community engagement, impact assessments, and development programs.
- Operations with significant potential or actual negative impacts on local communities.
- Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.

Aspect: Corruption
- Percentage and total number of business units analyzed for risks related to corruption.
- Percentage of employees trained in organization's anti-corruption policies and procedure.
- Actions taken in response to incidents of corruption.

Aspect: Public Policy

- Public policy positions and participation in public policy development and lobbying.
- Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.

Aspect: Anti-Competitive Behaviour
- Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.

Aspect: Compliance
- Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.

Product Responsibility Performance Indicators

Aspect: Customer Health and Safety
- Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.
- Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.

Aspect: Product and Service Labeling
- Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.
- Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.
- Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.

Aspect: Marketing Communications
- Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.
- Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.

Aspect: Customer Privacy
- Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.

Aspect: Compliance
- Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.