



Research Project

Environment and Sustainability Reporting

Field of Research:

There are numerous attempts to define what sustainability and sustainable development mean. Many of these return to the definition by the UN report, known as the Brundtland report. The concept is, however, often contested. Nevertheless, there are enough common elements that most agree on as a central to sustainability approach: sustainability concept should recognize the interdependence of economic, social and environmental factors. As INCOSAI put it: "Sustainable development requires the world to take concerted action in the following three areas: conservation of natural resources and the environment, economic growth and equity and social progress." With reference to future generations it also is forward-looking.

Also sustainability reporting is multifaceted. Usually it refers to a voluntary, sometimes even mandatory, reporting practice made by organizations, such as a company or a state agency. The emphasis has largely been on reporting only on one aspect of the sustainability – environmental reporting, in part because of the high priority being given to addressing climate change and depletion of natural resources. It also has been easier to reach a degree of political consensus on environmental sustainability than on social sustainability. Recently, concern on climate change has made carbon reporting as a specific field of environmental reporting more popular. The starting point of this project is, however, that environmental issues are only one aspect of sustainability.

There are many international organizations that deal with sustainability reporting (e.g. Global Reporting Initiative, International Integrated Reporting Committee, World Business Council for Sustainability Reporting, International Federation of Accountants). There is also a widespread interest in creating a common standard for sustainability reporting. A considerable number of guidelines and frameworks for reporting have been developed but most of these are targeted at the private sector.

At the same time as more organizations are producing sustainability reports, there is also more pressure for verification that these reports' content is reliable and accurate. Assurance reviews can provide stakeholders with confirmation that the organization's commitment to sustainability is effective, truthful and transparent. They can also help organisations assess the strengths and weaknesses of their reporting and encourage improved reporting. There are different standards and guidelines concerning sustainability report assurance (e.g. AA1000 by AccountAbility and ISAE 3000 by IFAC). The largest private accounting companies provide the majority of the sustainability statements. If SAIs are not active in this field, there is a risk that sustainability reporting guidance, accounting and assurance is left exclusively to the private companies. One important question is thus to what extent SAIs should be able to provide assurance of sustainability reporting and reports.



Sustainability reporting involves a number of professions such as economists, biologists and sociologists. Effective reporting demands well-functioning organizational management accounting. So, there are areas where accountants also can make a strong and unique contribution. In financial accounting, standards and guidelines for reporting are not made for the purpose of sustainability reporting. Sustainability measurement and reporting thus challenge the traditional rigorous standards of accounting. These challenges could also be looked on as opportunities to develop the strengths of the profession into new areas. Although there are clearly opportunities for accountants' skill to contribute to sustainability practices, as a developing field it is likely to require new opportunities for professional training. Future training should especially focus on linking financial and non-financial indicators and improving accountants' understanding of the interconnection between social, environmental and economic issues. But is there someone who supplies this kind of training?

INTOSAI WGEA has published two guidance materials related to sustainable development. *Sustainable Development: The Role of Supreme Audit Institutions* from 2004 examines among other things how the concept of sustainable development has been applied to national strategies and individual policies, and the role played by SAIs in auditing how well this is done. *The World Summit on Sustainable Development: An Audit Guide for Supreme Audit Institution* from 2007 addresses approaches to auditing the implementation of World Summit commitments. In addition, in 2010 guidance on Environmental Accounting was released: *Environmental Accounting: Current Status and Options for SAIs*. Environmental accounting provides a way to link environmental data with economic data and provides a more coherent framework than traditional environmental statistics.

Especially after the financial crisis, there has been growing interest in public financial sustainability. Reporting and auditing related to financial sustainability have been developed internationally in fiscal policy cooperation e.g. within INTOSAI Task Force for Financial Crisis and INTOSAI Public Debt Working Groups. The perspective of public financial sustainability, however, is not dealt with in this project. This is because public financial sustainability refers to the sustainability of the national economy and the focus of this project is on reporting of organizations other than states. Financial or economic sustainability in association with social and environmental aspects, however, is also an issue for single organizations.

Project Objective and Outcome:

The main goal of the project is to produce analyzed information about sustainability reporting for the needs of public sector auditors.

First, a glance to the state of sustainability reporting worldwide will be given. This also includes benefits, possibilities and obstacles related to sustainability reporting. The task will be carried out paying attention to special features of the public sector. For whom are reports made? Who audits them?

Second, different ways to realize reporting will be discussed, and also analyzed critically. The project also sums up information on guidelines and standards provided by different organizations. The future trends of sustainability reporting will also be highlighted.



Third, the project discusses issues for public audit offices in providing assurance about sustainability reporting. This includes to whom reports are made and who audits them. If as a result of the project a larger role for SAIs is suggested, the question is whether the existing mandates and skills of SAIs are sufficient.

The outcome of the project is a report which includes above mentioned issues and introduces case studies of best practices. The purpose of the report is to give readers in SAIs an idea what sustainability reporting is, to provide an outline of the usefulness of the topic from the point of view of SAI and to introduce audits or audit related work in the sustainability reporting field.

Project Scope:

The main focus of the project is on sustainability reporting and report assurance by the **public sector**, which covers **state, federal/regional, and local authorities**. Points of reference will be brought from the private sector, which has more experiences in this field. It is important, however, to bear in mind the differences between private and public sector and to critically analyze whether for example the private sector guidelines are applicable to public sector entities that have particular responsibilities e.g. related to the well-being of citizens.

There are several partly overlapping concepts in the reporting field. Besides sustainability reporting there are integrated reporting, social responsibility reporting or non-financial reporting. The term "**sustainability**" might be the best overarching conceptual tool. Given the focus of the WGEA it was decided to keep the word "environment" in the project title and discuss the conceptual links later in the project. If the project deals with sustainability, focus cannot be solely on environmental management systems (EMS, certified e.g. by ISO 14001). There is also ISO 26 000 guidance from 2010 that deals with social responsibility. This might be useful in the project.

Environmental accounting at the national level will **not be discussed** in this project, but a cross reference to recent updated WGEA guidance will be provided. **National sustainability strategies** are also **excluded**, as well as the issue of public financial sustainability at the national level.

Sustainability reporting might also relate to reporting that countries do to the United Nations or other organizations, such as European Union. This project, however, deals with the **reporting of organizations**.

Planned Methodology:

The project will consist of the following elements and methodological approaches:

- 1) *Literature review*. Here, the state of the reporting, organizations active in the field and their actions will be studied. The purpose of this part is to provide a structured overview of reporting activities and their usefulness to the organizations concerned and SAIs. Although the report does not need to synthesize all the actors or guidelines in the reporting field, the project team should be aware of the current situation in the reporting field. The implementation of this task has already started as suitable



material such as research reports have been collected onto the project website.

Literature review questions are presented in appendix 1.

- 2) *Contacts*. There are several organizations that are active in the reporting field. These include e.g. UN-based GRI (Global Reporting Initiative), accounting organizations individually and collectively including the IIRC, e.g. private companies such as KPMG or accounting associations such as ACCA (the Association of Chartered Certified Accountants). There are also some research centers (e.g. Centre for Social and Environmental Accounting) and researchers, which can be valuable sources of information. Whenever needed, contacts will be taken to potential organizations in order to gain their opinions to the current issues, developments in sustainability reporting and possible roles for SAIs.
- 3) *Empirical part and case studies*. The state of the sustainability reporting in various countries and the activities of SAIs will be charted by project partners and contacting regional WGEA leaders. The purpose is to gather qualitative information about best practices and interesting case studies. The purpose of case studies is to provide concrete examples of reporting practices, assurance of reporting or audits that SAIs have carried out about reporting. Further analysis is made of those reports (mainly in private sector) that have won some awards in sustainability reporting competitions in order to find best practices. When doing this the difference between private and public sector is borne in mind.

To ensure the effective project realization a web-based collaborative forum was launched on the extranet of NAO Finland in December 2010. Forum enables project partners to share documents and discuss on-line. The above mentioned actions will be taken in 2011 and the report will be finalized in 2012.

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Appendix 1.

Literature review questions (not a report content!):

1) **Reporting**

- 1.1. Clarifying concepts
 - Sustainable development reporting
 - Integrated reporting
 - Social responsibility reporting
- 1.2. Why reporting?
 - Why it is important to report?
 - Benefits
 - Mandatory or not?
- 1.3. Organizations that are interested in developing sustainability reporting
 - Actors (organizations, associations, countries, EU)
- 1.4. Reporting guidelines and standards
 - Who does?
 - What kind of?
 - Analysis of these
- 1.5. Reporting experiences
 - Public and private sectors
 - Best practices
 - Quality awards
- 1.6. Prerequisites and obstacles for reporting
 - Measurement: Indicators and indexes
 - Accounting management system
 - Information gathering
 - Possibilities to assess impacts
 - Legal and institutional situation
 - Self-assessment methods
 - Possible risks
 - Stakeholder feedback
- 1.7. Reporting ways and formats
 - Different ways to report
 - Is there a good reporting format?
 - Is it possible to report sustainability in monetary terms?
- 1.8. Training on sustainability reporting
 - Is it available? By whom?
- 1.9. Future trends of reporting

2) **Report assurance**

- 2.1. Organizations
 - Actors
 - Assurance of those who assure
- 2.2. Guidelines and standards
 - Who does?
 - What kind of?
 - Analysis of these
- 2.3. Way of doing assurance
- 2.4. Assurance qualifications and training
- 2.5. Future trends