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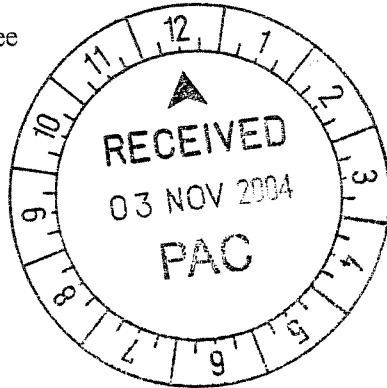
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Committee Manager
Public Accounts Committee
Parliament House
Macquarie Street
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Our ref PAC Sustainability Reporting NSW
29.10.2004-MAL
Contact Rob A Hogarth (03 9288 5852)

29 October 2004



Dear Sir/Madam

Sustainability Reporting in the New South Wales Public Sector

Following the Public Accounts Committee call for submission to an Inquiry into Sustainability Reporting in the New South Wales Public Sector, KPMG Sustainability Advisory Services presents the following submission.

In this submission we do not seek to provide comments on all of the Terms of Reference of the Inquire into Sustainability Reporting in the NSW Public Sector, but rather to draw the committee's attention to selected recent developments in the field of sustainability reporting.

One of the most significant of these was the publication of the recent report "*The State of Sustainability Reporting in Australia 2004*". This landmark report was an initiative of the Commonwealth Department of Environment and Heritage, and was prepared by the Centre for Australian Ethical Research, KPMG Sustainability Advisory Services, and Deni Greene Consulting.

The report presents the results of a project to identify the number of Australia's largest companies that have undertaken a sustainability report or are planning to launch their first sustainability report in 2004, and it also includes summaries of recent trends in reporting guidelines and related developments locally and internationally, and a discussion on the verification of sustainability reports.

Appropriate processes for auditing or verifying sustainability reports - ref. 2 (d)

We note that the committee's Terms of Reference include consideration of "appropriate processes for auditing or verifying sustainability reports". We have included an excerpt from this survey on the verification of sustainability reports in an addendum to this submission. KPMG supports the harmonisation of standards for providing assurance (verification) on sustainability reports, and KPMG has adopted the International Standard on Assurance Engagements 3000 (ISAE 3000) for verification of sustainability reports within all KPMG offices internationally.



We would also like to take this opportunity to draw to the committee's attention the following additional recent developments:

- The Global Reporting Initiative Sustainability Reporting Guidelines (GRI), currently the most widely applied guideline on sustainability reporting internationally, will be supplemented with a "Public Sector Supplement", specifically for sustainability reporting within the public sector. This supplement is currently under development. More information on this supplement can be obtained from the GRI.
- In Australia at Federal Government level, three recent sustainability reports that have been produced are those of the Department of Family and Community Services (FACS), the Department of Defence, and the Department of Environment and Heritage.
- The Commonwealth Department of Environment and Heritage has also released a "Guide to Triple Bottom Line reporting in Australia", for reporting on Environmental Indicators in Sustainability Reports, for use by both public and private organisations, which is based on the GRI.
- To promote the field of sustainability reporting, the Association of Certified Chartered Accountants (ACCA) in Australia holds an annual "Sustainability Reporting Awards" for organisations producing sustainability reports in Australia and New Zealand.

Addendum – Overview of verification of sustainability reports

External independent verification of sustainability reports is receiving heightened attention as part of the expanded public discussion on corporate governance, transparency and accountability. The term verification is used here to describe external assurance, audits and reviews of sustainability reports.

GRI encourages the independent assurance of sustainability reports – one approach that a reporting organisation may select to enhance the credibility of its sustainability report. To address stakeholders' concerns about the credibility of reports on economic, environmental, and social performance, GRI recommends that reports include a statement of:

- The reporting organisation's policies and internal practices to enhance the credibility and quality of its sustainability report; and
- The reporting organisation's policy and current practice with regard to providing independent assurance about the full report.

The GRI 2002 Guidelines provide guidance to reporting organisations on assurance provision (i.e. external verification) and related processes that enhance report quality and credibility.¹

In the 2002 GRI Guidelines, guidance is given on considerations that organisations should clarify with their assurance provider before the assurance process. These considerations include the subject matter of the assurance, the assurance criteria and evidence, the controls, and the usefulness of reported information. Guidance is also provided on the selection of assurance providers and on the content of the assurance statement.

The GRI has progressed with the development of a Core Assurance Advisory Group (CAAG), which is expected to be operational in 2004 and which will provide ongoing advice on the role and content of assurance to the GRI.

AA1000

In March 2003 the UK based Institute of Social and Ethical Accountability (AccountAbility) published the AA1000 Assurance Standard for assurance on sustainability reports. AccountAbility used a phased multi-stakeholder process to develop the AA1000 standard.

The AA1000 draws from and builds on financial, environmental and quality-related assurance. It focuses on the materiality of subject matter to stakeholders, as well as its accuracy. The standard also provides guidance on the content of the assurance statements and on the selection of the assurance provider.

Guidance notes will follow the publication of the standard on operational interpretations and clarifications, which will include reference to appropriate existing professional standardsⁱⁱ.

Australian Auditing Standards

Australian auditing standards can be applied to the audit and review of sustainability reports. AUS102.44 states that “Australian Auditing and Assurance Standards, while developed primarily in the context of financial report audits, are to be applied, adapted as necessary, to all audits of financial and non-financial information, to all other assurance engagements, and to all audit related services”ⁱⁱⁱ.

The Audit Procedures listed and described in AUS 502 are also of relevance in designing audit programs. These are *inspection, observation, inquiry and confirmation, computation, and analytical procedures*. Inspection consists of examining records and documents as evidence, while analytical procedures involve the investigation and analysis of fluctuations and relationships to determine whether there are inconsistencies.

Other Australian auditing standards that can be of assistance in auditing of sustainability reports are AUS 108: Assurance engagements, AUS 402: Risk assessments and internal controls, AUS 512: Analytical procedures, and AUS 514: Audit sampling and other selective testing procedures.



ISAE 3000

A significant international development in auditing during 2003 was the publication of the International Standard on Assurance Engagements ISAE 3000. This standard was issued by the International Federation of Accountants (IFAC) International Auditing and Assurance Standards Board (IAASB)^{iv} and approved for publication in December 2003. IFAC is the body responsible for issuing international accounting and auditing standards. ISAE 3000 is titled Assurance Engagements other than Audits or Reviews of Historical Financial Information, and is applicable to assurance engagements on sustainability reports.

The ISAE 3000 standard has already received acceptance in Australia, and can for example be applied to the audit of greenhouse gas emissions under the NSW Greenhouse Gas Abatement Scheme^v.

The IAASB work on non-financial assurance and on assurance on sustainability reporting is ongoing.

Standards Australia

Standards Australia has published the Standard DR03422: General Guidelines on the Verification, Validation and Assurance of Environmental and Sustainability Reports.

The joint Standards Australia and Standards New Zealand Committee QR-011 Environmental Management Systems carried out work on this Standard. A marked difference between this Standard and the AA1000, AUS and ISAE 3000 standards is the definition and use of the terms verification and validation. DR03422 has been issued as an Interim Standard for a period of two years, after which it will be reviewed.

Thank you for this opportunity to submit and assist the Public Accounts Committee in their inquiry into Sustainability Reporting in the New South Wales Public Sector.

Yours sincerely

Rob Hogarth
Partner

ⁱ Global Reporting Initiative Guidelines 2002 Annex 4 "Credibility and Assurance"
<http://www.globalreporting.org/guidelines/2002.asp>



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- ⁱⁱ AA1000 Assurance Standard (2003) <http://www.accountability.org.uk/aa1000/default.asp>
- ⁱⁱⁱ Auditing & Assurance Standards Board of the Australian Accounting Research Foundation (2002) Auditing and Assurance Standard AUS 102. Foreword to Australian Auditing and Assurance Standards and Guidance Statements, Issued by Australian Accounting Research Foundation on behalf of CPA Australia and The Institute of Chartered Accountants in Australia, January.
- ^{iv} International Auditing and Assurance Standards Board www.iaasb.org
- ^v Part 1(c) of the generic Audit Scope for audits conducted under the NSW Greenhouse Gas Abatement Scheme states "The scheme administrator is seeking a positive assurance audit to be conducted in accordance with an appropriate standard (AUS 108: Assurance engagements, ISAE 3000 etc)."