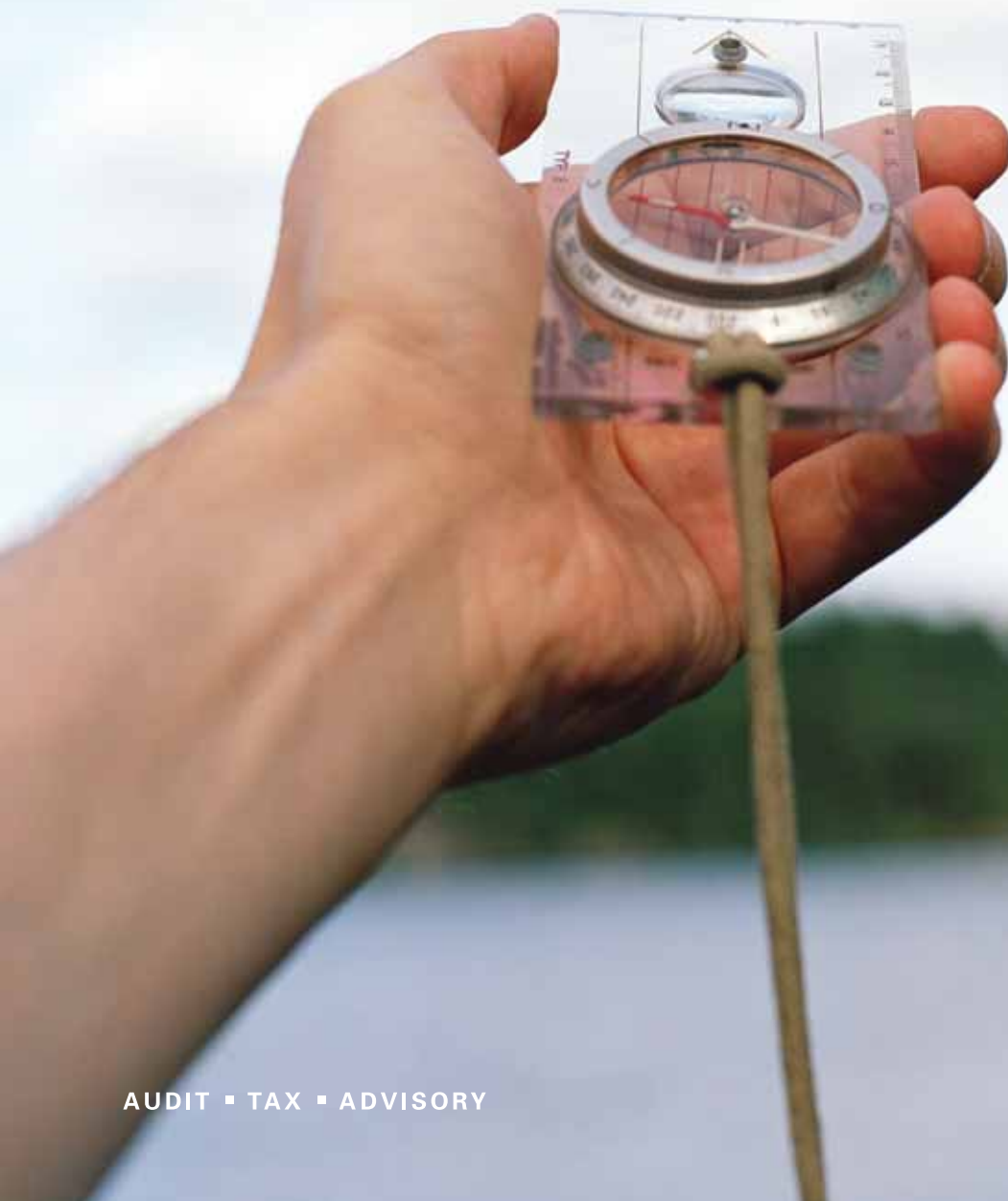


Sustainability Reporting

A guide

AUSTRALIA





Contents



Foreword	2
Executive summary	3
Introduction	6
What is sustainability reporting?	8
Why report?	10
Report objectives	13
Planning the report.	16
Preparing the report	23
Report assurance	26
Communicating the report	28
Continuous improvement.	29
Further information.	31



Foreword

Group of 100 (G100) and KPMG are pleased to be associated with this publication, *Sustainability Reporting: A guide*. It supersedes a 2003 G100 publication concerned with Triple Bottom Line Reporting.

Concerns about climate change, the pending introduction of an emissions trading scheme and significant changes in demographics and society in general have combined to make sustainability a mainstream issue in Australia.

Never before have the capital markets been so interested in how companies are approaching the challenges and opportunities associated with the environment, societal change and governance.

There's no doubt that in this new reporting environment there will be winners and losers.

The winners will be those companies that tailor their communications with stakeholders to provide real insight into how their environmental, social and governance practices are integrated with their core business strategy.

Internal management reporting creates focus and direction to guide a company's approach to sustainability. External reporting sharpens the focus on performance and helps companies appreciate how sustainability initiatives can create value and enhance their investment credibility. Reporting that is validated by independent assurance reinforces this process.

This guide is primarily concerned with the practical considerations of compiling effective sustainability reports through examining some of the more challenging and contentious reporting issues. It is not designed to provide a detailed reporting blueprint or template. This reflects the different approaches taken by companies in order to tailor their reporting to reflect their circumstances, business priorities and the stakeholder expectations they are seeking to meet.

We trust that you will find this guide a useful starting point in reviewing and enhancing your sustainability reporting practices.

Finally, we would like to thank members of the working group for their valuable contributions and active involvement in developing this guide.

A handwritten signature in black ink, appearing to read 'A Reeves'.

Tony Reeves
National President
Group of 100

A handwritten signature in black ink, appearing to read 'Geoff Wilson'.

Geoff Wilson
Chief Executive Officer
KPMG in Australia

Executive summary



Sustainability reporting has become mainstream, driven by the potential business value generated through enhanced stakeholder reporting and communication. This publication provides a guide for directors and senior executives on this important and rapidly developing issue.

There is no single, universally accepted definition of sustainability reporting.

The Global Reporting Initiative Sustainability Reporting Guidelines (GRI guidelines) defines sustainability reporting as "... the practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development."

Stakeholders are increasingly interested in understanding the approach and performance of companies in managing the sustainability (environmental, social and economic) aspects of their activities, including the potential for value creation. For example, there is growing recognition amongst investment analysts that numerous business drivers upstream of a company's profit and loss statement – including environmental, social and governance (ESG) factors – contribute to long term financial performance and investment returns. Changing legislative requirements and regulatory regimes, for example in relation to greenhouse gas emission reporting, are influencing the trend towards sustainability reporting.

Why report?

The value of a company is impacted by the quality of its relationships with a range of internal and external stakeholders. The ability of a company to communicate effectively with its key stakeholders can be critical to its long term success, viability and growth. Advantages associated with an effective sustainability response (and associated reporting) may include aligning with and capitalising on stakeholder values, pre-empting stakeholder action, sustaining the value chain and capturing operational efficiencies.

From a stakeholder perspective, the publication of sustainability reports (be they, for example, web-based reports, data tables and/or hard copy publications) provide an avenue to benchmark and assess performance with respect to laws, norms, codes, performance standards and voluntary initiatives. Reporting also demonstrates how the company influences and is influenced by expectations about sustainable development. Stakeholders can compare performance within a company and between different companies over time.

From a regulatory perspective, there are currently no legislated requirements in Australia for companies to prepare and publish sustainability reports. However, companies may be required to disclose sustainability related information within the scope of specific regulatory requirements.

Planning the report

A company's sustainability report should clearly align with the overall business strategy and be directed to the target audience's needs and expectations. Associated with this, companies must determine where, on the spectrum of such reporting (from basic, through strategic, to leadership), they are seeking to position themselves.

Sustainability reporting is relatively complex and can take many forms. In order to deliver against the agreed reporting objectives, companies need to appropriately assign roles and responsibilities and understand the applicability of various standards, guidelines and regulations. The GRI guidelines provide an important, widely adopted framework for such reporting, applicable to companies across all industry sectors. This framework is discussed in detail within this guide.

In establishing their sustainability reporting response, many companies face two challenges: developing an approach that provides the data and information relevant to targeted stakeholders; and being able to identify and understand those sustainability related issues that are most critical to the ongoing success and viability of the company.

The adoption of a 'materiality assessment process' may provide a valuable tool to consistently and transparently assess the extent to which particular issues, risks and opportunities and areas of performance should be covered within the sustainability report. Issues deemed as material can be associated with direct short term financial performance, the business' ability to deliver on its strategies and policies, peer best practice, stakeholder behaviours and concerns and societal norms, particularly where these are linked to potential future regulation.

Preparing the report

The value of a company's sustainability reporting is dependent upon its commitment to provide a balanced and representative view of economic, social and environmental performance – it is thus important that areas of underperformance or negative stakeholder feedback are appropriately considered within the report preparation process. Accordingly, the usefulness and credibility of a sustainability report is dependent upon the quality and objectivity of data and information presented therein. Quality is of fundamental importance if a company is to demonstrate to its stakeholders its commitment to and competence in managing its environmental, social and economic impacts and reporting on performance in an unbiased way.

Aligning sustainability reporting with financial reporting and other forms of corporate disclosure is an important and evolving area. For example, increasing interest by investment analysts and capital markets in ESG related information demonstrates the growing need to apply the rigour of financial data collection, aggregation and analysis to some dimensions of sustainability performance.

Given this situation, CFOs and other finance professionals should have a detailed understanding of their companies' approaches to sustainability reporting, have confidence in the quality of disclosed information and be able to articulately discuss how their companies are managing relevant ESG/sustainability issues.

Assurance

More companies are recognising that independent assurance enhances the transparency and credibility of their sustainability reporting. It delivers value to the reporting company, users of published sustainability reports and broader stakeholder groups and individuals.

Over recent years, concerns have arisen over the quality and scope of sustainability assurance and specific assurance reports. When selecting an assurance provider, a company should understand the nature of the assurance service offered, the provider's experience in providing such services, the rigour of the proposed assurance processes and alignment with recognised assurance standards. Professional services firms are required to conduct assurance engagements in a manner consistent with the applicable international and domestic auditing standards (e.g. ISAE3000, the International Standard on Assurance Engagements applicable to non-financial assurance (and its Australian equivalent ASAE3000)).



Reporting formats

Although the content of a company's sustainability report may be largely determined by objective factors — including the application of materiality tests and a consideration of relevant reporting standards, guidelines and regulations — reporting formats offer greater flexibility than financial statements. An effective format will deliver known reporting objectives, align with the company's overall communication style and position and engage with the target audience in a manner that promotes dialogue and the dissemination of relevant information.

In this context, several emerging trends in sustainability reporting are noted. They include shorter, more concise reports (often supported by more detailed online resources), extending reports beyond a narrow emphasis on compliance and risk management, and including value chain and sphere of influence issues. Many companies are adopting combinations of hard copy sustainability reports, interactive online reports and downloadable PDFs. Separate reporting elements are being directed at different stakeholder groups rather than adopting a one-size-fits-all approach.

Our guide concludes with a brief discussion of measures for the continuous improvement of sustainability reporting and obtaining meaningful stakeholder feedback.



Introduction

In 2003 the Group of 100 published *'Sustainability: A Guide to Triple Bottom Line Reporting.'* Since that time, sustainability reporting has significantly evolved. This guide seeks to provide boards and senior management teams with an up to date reference guide on the subject.

Stakeholders want a better understanding of how companies perform in managing the sustainable development – environmental, social and economic – ramifications of their activities, including the potential for value creation and business risk mitigation. This trend is being driven by a range of factors ultimately linked to:

- the potential for sustainability related issues to materially affect a company's investment value, risk profile and potential liabilities
- the need for the business community to appropriately respond to issues relating to sustainable development.

As a result, boards of directors and senior management teams are becoming increasingly focused on sustainability performance and related issues. They are doing this within the context of developing their company's business strategies, operational activities and public disclosures. Thus, for example, many companies are increasingly seeking to 'green' their brands, products and/or services in response to a growing public awareness of climate change and other sustainability related issues.

Sustainability reporting offers companies a framework to help develop meaningful and credible reporting that meets the needs of various stakeholder groups and enhances business value, for example by providing performance data and information to underpin brand and product differentiation activities.

Many companies are well advanced in developing their sustainability reporting response and engaging with stakeholder groups on a range of pertinent issues. However, for others it represents a new and challenging area for which an appropriate response is yet to be developed.

In preparing this guide we accept that sustainability reporting in its current form is continuing to evolve. However, the practice of sustainability reporting has reached a point where the direction of such reporting is increasingly apparent and the 'business case' for such reporting by many companies is clear.

Purpose

This guide does not seek to prescribe how companies should approach sustainability reporting. Rather it is designed to assist companies develop an appropriate response (i.e. one aligned with their strategic direction) that addresses the needs and expectations of key stakeholder groups, including customers, regulators, investors, market analysts and employees.

Regardless of where responsibility for sustainability reporting resides within a company, its success depends on a clear understanding of: the business value of reporting; the options for reporting; and the specific issues associated with the development and execution of sustainability reporting.

Experience highlights the role of a 'sustainability reporting champion' in guiding the process, promoting cross-functional collaboration, and ensuring alignment with business priorities, stakeholder expectations and adopted reporting guidelines and standards.

Alignment of business strategy and sustainability reporting

Sustainability reporting creates a window into the performance of a company across economic, social and environmental dimensions. It is essential that such reporting develops within the context of a company's overall business strategy and the consideration of sustainability related risks and opportunities within this strategic framework. Failure to adopt this approach may result in issues of misalignment, damaged stakeholder relations and increased risk of a report that is regarded as 'greenwash'.

The term 'greenwash' describes circumstances where report readers or consumers are misled about a company's environmental practices, or the environmental benefits of a particular product or service. The practice of 'greenwashing' rightly attracts public opprobrium. To avoid being accused of such behaviour companies need to ensure an appropriate alignment between their sustainability strategy, rigour in assessing performance and resultant reporting and communication.

Companies need to be very clear about the rationale underpinning their sustainability reporting response – it may be difficult to subsequently turn back without inflicting damage on the company's reputation and its relationship with key stakeholder groups.

The Australian business perspective

Sustainability reporting is now entering the business mainstream. For example, three of Australia's four largest banks publish annual sustainability reports while many companies within the energy, natural resources and utilities sectors publish equivalent reports. In addition, increased sustainability reporting can be observed in other industries.

Observation suggests that climate change related issues are accelerating the adoption of sustainability reporting in Australia. This is being driven by overt stakeholder pressure on companies to reduce/offset their greenhouse gas emissions and the materiality of risks associated with water scarcity and the pending Australian Emissions Trading Scheme. From a legislative perspective, there is currently no requirement for Australian companies to prepare sustainability reports. However, disclosure of specific aspects of sustainability continue to be the subject of specific regulatory requirement. For example, the National Greenhouse and Energy Reporting System (NGERS) will compel many companies to publicly disclose (via a federal government web-based portal) greenhouse gas emissions and energy production/consumption related information.

From the perspective of the capital markets, there is a high level of interest in corporate disclosure of ESG related information. This recognises that the investment value, profitability and risk profile of some companies (and industry sectors) is influenced by how they seek to mitigate and exploit key sustainability related risks and opportunities. The ASX Corporate Governance Council's revised *Corporate Governance Principles and Recommendations* (released in August 2007) explicitly include sustainability risks within their description of potential material business risks and the council refers to ESG aspects that position sustainability strategically as a driver of long term economic performance.

International perspective

From an international perspective, advances in sustainability reporting tend to be led by European companies and by non governmental organisations, the latter being responsible for a range of voluntary guidelines, principles and codes of conduct that companies may embrace in shaping their sustainability disclosures. Some developments include:

- development of Sustainability Reporting Guidelines by the Global Reporting Initiative — a European based non governmental company — has significantly influenced the landscape of sustainability reporting and advanced the notion of report comparability
- global initiatives such as the Equator Principles (project financing) and the International Council on Mining and Minerals (ICMM) Sustainable Development Principles have proven valuable frameworks in addressing industry specific sustainability issues and in promoting common approaches
- the United Nations' Global Compact which provides a reporting framework for businesses based on ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption.



What is sustainability reporting?

Sustainability reporting is a broad term used to describe a company's reporting on its economic, environmental and social performance.

Issues of terminology

There is no single, universally accepted definition of sustainability reporting.

It is a broad term generally used to describe a company's reporting on its economic, environmental and social performance. It can be synonymous with: triple bottom line reporting, corporate responsibility reporting, ESG reporting and sustainable development reporting but increasingly these terms are becoming more specific in meaning and therefore subsets of sustainability reporting.

Sustainability reporting is becoming more prevalent, driven by: a growing recognition that sustainability related issues can materially affect a company's performance, demands from various stakeholder groups for increased levels of transparency and disclosure and the need for companies (and the business community more generally) to appropriately respond to issues of sustainable development.

An important distinction is made between sustainability reporting and corporate philanthropy, the latter being defined as the act of donating money, goods, time or effort to support a charitable cause.

Some useful definitions

"Sustainability reporting is... the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development."

GRI Sustainability Reporting Guidelines

"Corporate Sustainability is a business approach that creates long term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.

Corporate sustainability leaders achieve long term shareholder value by gearing their strategies and management to harness the market's potential for sustainability products and services while at the same time successfully reducing and avoiding sustainability costs and risks."

Dow Jones Sustainability Index

This guide uses the term sustainability reporting. However, different companies may employ different terminology depending upon their corporate history, geographic location, the specific form and format of their reporting and the needs and expectations of the intended target audience.

Sustainable development, the context for sustainability reporting

The trend towards sustainability reporting has been driven by two principal factors. First, an increasing recognition of the potential for sustainability related issues to materially affect a company's long term economic performance. Secondly, the need for the business community (and individual companies) to appropriately respond to issues of sustainable development.

Sustainable development is commonly defined as "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs."¹

1

"Our Common Future," Brundtland Commission Report (formerly the World Commission on Environment and Development), 1987

Companies operate in a world where issues of sustainable development are increasingly on the agenda: in government, in the business community and in the broader community. For example, Australian companies are increasingly focused on the management of issues arising from anthropogenic climatic change, resource scarcity and the implications of establishing a larger presence in emerging markets. Indeed, a company's demonstrated knowledge of, and adherence to international standards, norms and societal expectations is critical for conducting business in regions of potential conflict, the prevalence of corrupt behaviour or abuses of human rights, including forced and child labour practices.

The importance of stakeholder engagement

Sustainability reporting provides a means of communication and engagement between a company and its stakeholders. Stakeholders typically include shareholders and investors, employees, customers, suppliers, communities and government. Other groups that may be important for a company's ongoing viability can include business/joint venture partners, regulatory bodies and local authorities, trade unions, media organisations, non governmental organisations, industry bodies, the academic community, opinion leaders and business/social commentators.

Given the disparate nature (and interests) of their stakeholders, companies need to make a strategic positioning decision as to the key stakeholder audience. For example, an ESG style report focused on investors and analysts may be quite different to a Corporate Social Responsibility (CSR) style report for use by the general community.

An investor perspective: the rise of ESG

In recent years there has been growing recognition that numerous business drivers upstream of a company's profit and loss statements contribute to financial performance and investment returns. Some of these business drivers are relatively easy to measure, such as greenhouse gas emissions and employee turnover, whilst others are more intangible and abstract and provide significant measurement challenges. For example, human and intellectual capital, licences to operate, management skills, reputation enhancement and transparency to stakeholders.

The term ESG is used in the investment community to describe value drivers such as access to capital, innovation, access to new markets, licence to operate, strengthened reputation, talent attraction and retention and the ability to work in partnership with key stakeholders. Previously confined to the domain of specialist investment analysts, ESG performance considerations are now being applied/used by the mainstream investment community. As a result, investment analysts are increasingly interested in obtaining:

- reliable and comparable data on strategic ESG performance which can be built into their investment models
- analysis of the causal links between ESG performance and financial outcomes, or, more broadly, the costs and benefits of ESG performance
- analysis of the investment signals, if any, from ESG performance.

Parallel to the development of ESG performance analysis there has been a trend for companies to prepare more focused and concise sustainability reports addressing those sustainability risks and opportunities which are material to the company.

'Good Workplace Health and Safety = Good Investment Reports'

Goldman Sachs JBWere, October 2007 (Research Report)

Goldman Sachs JBWere has published a range of reports exploring the question of whether there is a correlation between ESG factors and share price performance, and therefore whether investors can improve their investment risks and/or return by considering ESG issues. For example, a recent study, released in October 2007, examined the potential link between workplace health and safety (WHS) factors and investment return. The study suggests that investors could have profited using WHS measures as a signal for investment since November 2004. Further to this, the study found the WHS signal to be asymmetrical and hence likely to have been useful in helping investors screen out underperforming stocks.



Why report?

The value of a company is influenced by the quality of its relationship with a range of internal and external stakeholders, be they customers, employees, investors, regulators, suppliers or other specific groups. The ability of a company to communicate its activities and performance effectively with its key stakeholders can be critical to its long term success, viability and growth.

Stakeholders are increasingly interested in understanding the approach and performance of companies in managing the sustainability impacts of their activities, including the potential for value creation and business risk mitigation. This has elevated the importance of sustainability reporting. Indeed, a recent study by the Economist Intelligence Unit confirms that boards of directors and senior executives are increasingly focused on managing sustainability/corporate responsibility related issues².

The World Business Council for Sustainable Development (WBCSD)³ and the United Nations' Environment Program (UNEP)⁴ have produced publications specifically focused on the 'business case' for sustainability reporting. These publications provide a useful context for companies interested in obtaining a better understanding of the potential benefits that may be derived from an appropriate sustainability reporting response. The potential internal and external benefits associated with sustainability reporting are as follows.

- **Demonstrating transparency** — sustainability reporting demonstrates a company's commitment to managing its environmental, social and economic impacts and, in doing so, establishing a sound basis for stakeholder dialogue and demonstrating transparency.
- **Creating financial value** — sustainability reporting often involves the collection, collation and analysis of data on resource and materials usage, and the assessment of business processes. This process can help a company to better identify opportunities for cost savings and revenue generation through more efficient use of resources and materials.
- **Enhancing reputation** — corporate reputation is a function of the way in which a company is perceived by its stakeholders on one or more of the environmental, social and economic dimensions. Sustainability reporting can play an important role in managing stakeholder perceptions, and in doing so, help to protect and enhance corporate reputation.
- **Achieving continuous improvement** — internal management reporting of sustainability information focuses management attention on its approach to sustainability. External reporting causes focus not only on the integrity of the data, but also on continuous improvement across areas of reported performance. Furthermore, the establishment of publicly disclosed performance goals and quantified targets may drive internal change.

² Economist Intelligence Unit, *Global Business Barometer*, Nov - Dec 2007.

³ *Buried Treasure: Uncovering the business case for corporate sustainability*, SustainAbility and the United Nations Environment Program (UNEP), 2001.

⁴ *Sustainable Development Reporting: Striking the Balance*, World Business Council for Sustainable Development (WBCSD), December 2002.

- **Improving regulatory compliance** — sustainability reporting may assist the company prepare itself to manage emerging areas of compliance (e.g. greenhouse gas emission data) through the establishment of appropriate reporting systems and processes. Reporting may help a company to influence future regulatory responses (e.g. minimising regulations across areas where voluntary disclosure frameworks are seen to be adequate).
- **Strengthening risk awareness and management** — sustainability reporting assists a company to demonstrate its commitment to effectively managing risk associated with its sustainability performance factors and to communicate its risk performance.
- **Encouraging innovation** — sustainability reporting may stimulate leading edge thinking and performance, thereby enabling a company to enhance its competitiveness. For example, the development of innovative products and services may be enhanced through a better understanding of particular stakeholder concerns, needs and expectations.
- **Enhancing management systems and decision making** — sustainability reporting may facilitate more rigorous and robust management systems and decision-making processes to better manage environmental, economic and social risks, opportunities and impacts.
- **Raising awareness, motivating and aligning staff, and attracting talent** — existing and prospective employees have expectations about corporate environmental, social and economic behaviour, and consider such factors in deciding whether to join or remain with an organisation. Publication of sustainability related information can play a role in positioning a company as an 'employer of choice'. This status can enhance employee loyalty, reduce staff turnover and increase a company's ability to attract and retain high quality employees.
- **Attracting long term capital and favourable financing conditions** — a growing number of investors include sustainability/ESG considerations within their decision making processes. Responding to investor expectations through the publication of sustainability related information provides a mechanism to ensure a company is aligning its communication with this stakeholder group. There are important potential flow on implications for how the company is assessed and rated by investment analysts and other members of the investment community.
- **Maintaining licence to operate** — companies are increasingly recognising the link between ongoing business success and their ongoing 'licence to operate', especially in the resources sector where the concept of a social licence to operate has been central for some years. Communities and stakeholders are likely to be more supportive of companies that communicate openly and honestly about their management and performance in relation to environmental, social and economic factors.
- **Establishing competitive positioning and market differentiation** — in response to growing awareness of the importance of sustainability and sustainable development issues (e.g. climate change, human rights and workforce diversity) sustainability related performance attributes are increasingly being used by companies to differentiate their brand, products and/or services.

Trends in sustainability reporting in Australia and overseas

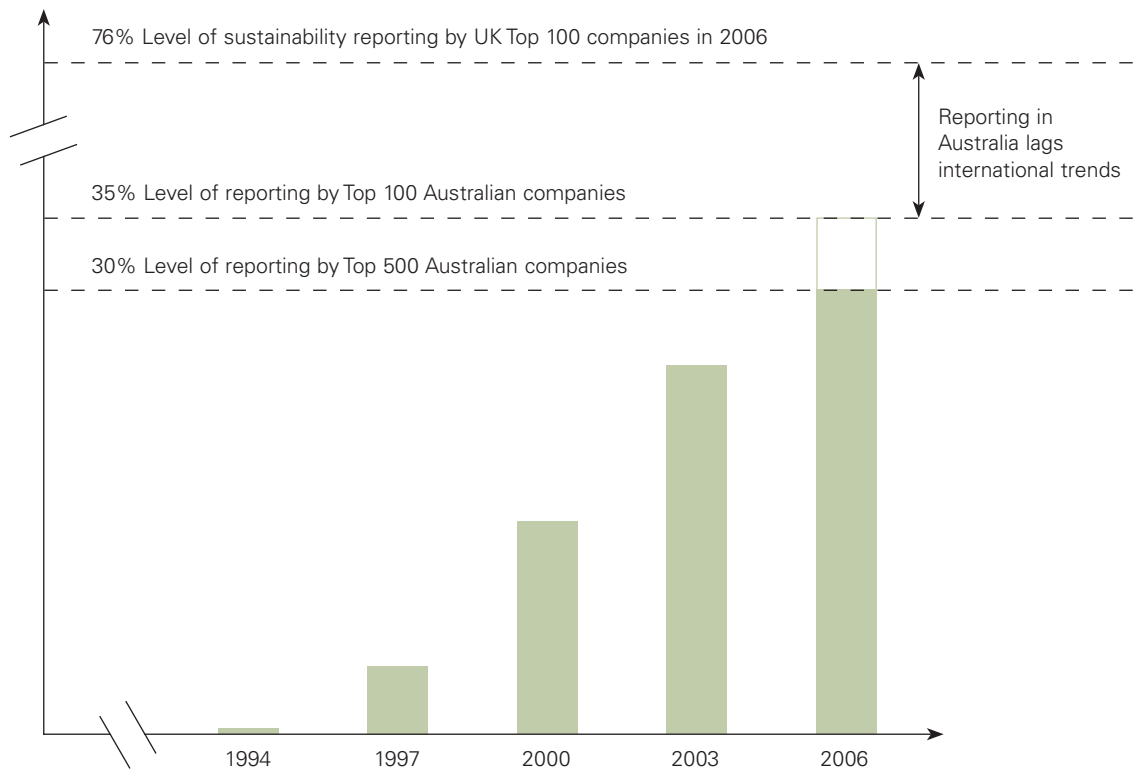
The extent of sustainability reporting among Australia’s top 500 companies has increased for the past 16 years⁵. However (as shown in Figure 1) this prevalence of reporting remains significantly below that observed in a number of other developed countries, including the United Kingdom, Japan and Germany. The lag in Australian reporting levels can be attributed to a number of factors including differences in regulatory disclosure and reporting requirements. For example, in Japan specific legislation mandates the disclosure of particular sustainability related information.

However, there is anecdotal evidence that the level of sustainability reporting by Australian companies will increase, driven by:

- a general increase in stakeholder awareness (and their expectations of companies) in relation to climate change, water scarcity and other sustainability related matters
- increased interest by the capital markets and the investment community in sustainability/ESG related performance
- recognition of the value of sustainability performance as a differentiator in the ‘war for talent’
- increasing regulatory pressures on companies to disclose sustainability related information (e.g. greenhouse gas emissions)
- a desire by companies to enhance existing reporting frameworks to better engage and communicate with key stakeholders.

Further information in relation to historical trends in Australian corporate sustainability reporting is outlined in *Sustainability Reporting in Australia* (KPMG).

Figure 1 – Levels of sustainability reporting in Australia⁶



⁵ "Sustainability Reporting in Australia", KPMG, 2007.
⁶ ibid

Report objectives



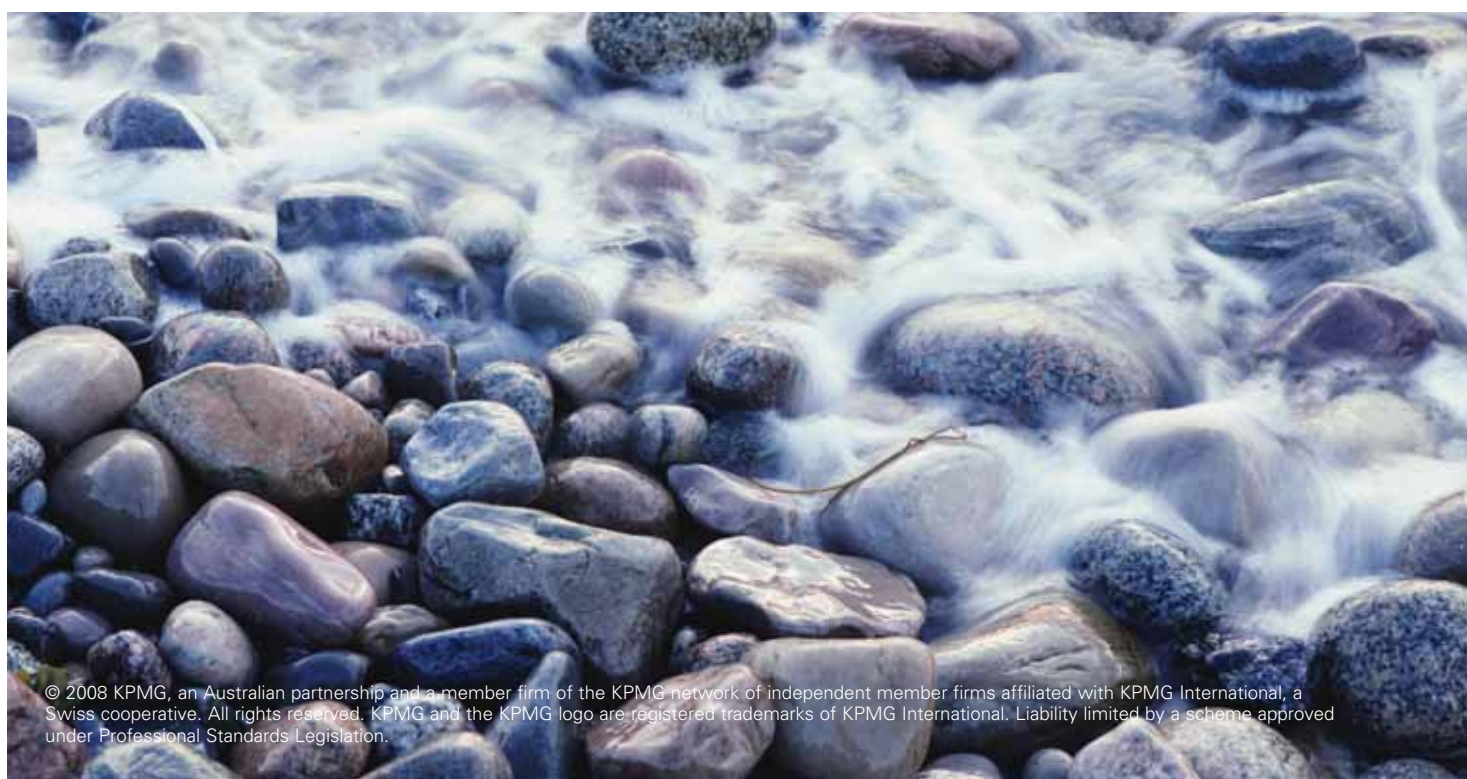
A company's sustainability reporting should clearly align with its overall business strategy and reflect a clear understanding of the needs and expectations of the target audience.

Stakeholders are increasingly interested in understanding the approach and performance of companies in managing the sustainability aspects of their activities, including the potential for value creation in emerging areas such as carbon markets. For example, stakeholders may seek to use data and information in reports to:

- benchmark and assess sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives
- understand how the company influences and is influenced by expectations about sustainable development
- compare performance within a company and between different companies over time.

As discussed above, in establishing the objectives of a sustainability report, a company must determine the specific needs and expectations of its stakeholders with regards to the disclosure of sustainability related information. Furthermore, a company needs to ensure that the developed report aligns with its overall business strategy and history of sustainability reporting. For example, it may be inappropriate (or impractical) for the company to seek to adopt a leadership position with regards to sustainability reporting in its first year of disclosure.

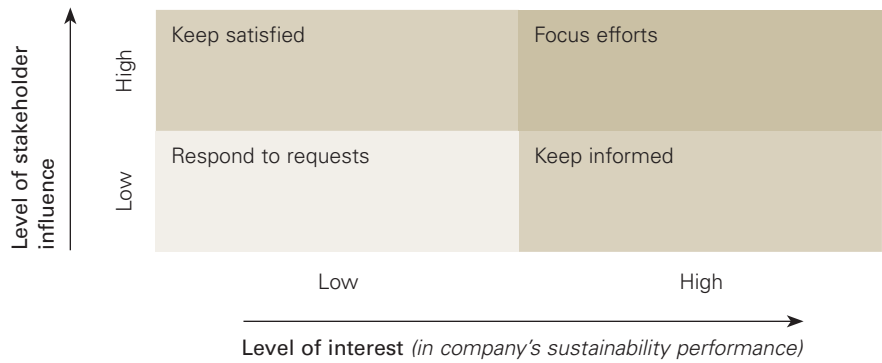
A sustainability report should provide a balanced, objective and reasonable representation of the sustainability performance of a reporting company — including both positive and negative contributions.



Target audience

Companies use a range of tools to analyse and classify stakeholder groups. From a sustainability reporting perspective, the following framework (Figure 2) provides a useful tool to assist with this process.

Figure 2 – Understanding the target audience of a company’s sustainability reporting



Positioning a company’s sustainability reporting response

Sustainability reporting is often referred to as a journey. It is important that companies understand the direction they are headed, that signposts are marked along the way and a potential outline of various destinations. As illustrated in Figure 3, there is a significant difference between a sustainability report primarily developed as a tool to promote short term reputational gains and one that seeks to provide genuine value to key stakeholder groups and ‘value enhancement’ to the reporting company — realising potential benefits associated with a well constructed approach to sustainability reporting.

Figure 3 – Positioning a company’s sustainability reporting response

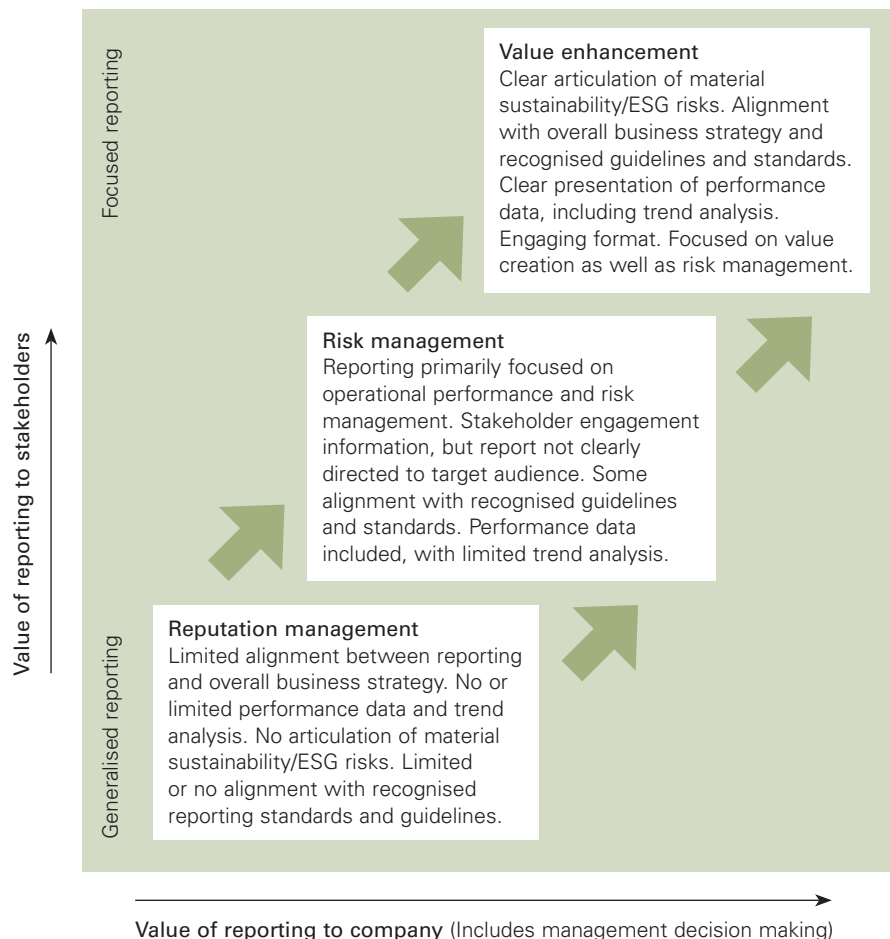
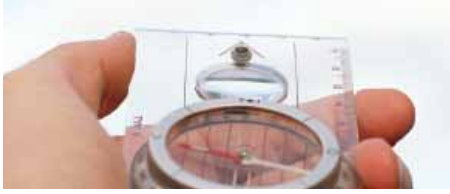


Figure 4 provides insight into the potential information needs and expectations of various internal and external stakeholders, which can be used by companies to inform the reporting process.

Figure 4 – Stakeholders and their information needs (an insight)

Board and senior management team	A well constructed sustainability report is a valuable information source for developing a commonly shared understanding of the dimensions of sustainability performance that may be material to the company, the needs and expectations of various stakeholder groups and dimensions of performance. Such information is important within the strategic decision making processes.
Investors	Investors and their advisers are concerned with the risk inherent in, and return provided by, their investment. Sustainability related information (including ESG analysis) is increasingly used as an input within investment decision making processes (e.g. buy, hold or sell, or feedback/influencing activities relating to a company's direction). Investors are normally the ultimate financial risk takers in a company. Providing investors with information that addresses their needs may also prove useful and relevant to other stakeholders.
Employees	Employees and their representative groups (e.g. unions) may be interested in information about a company's sustainability performance in order to judge if the company is a stable employer and a respected corporate citizen. They may also be interested in aggregated information about levels of remuneration, retirement benefits and the nature and extent of their employment opportunities. Many employees increasingly choose to work for companies that are contributing to society and are environmentally responsible as well as being economically successful.
Governments and regulators	Government and regulator interest in the performance of companies is broad because they require information to regulate the activities of companies and determine policies regarding competition, taxation, the environment, consumers and social affairs. Sustainability reports may enhance the credibility of a company when responding to tenders or contract opportunities, applying for tenders or trying to influence policy. Such reports may also be used as a source of data when compiling national or regional sustainability related statistics.
Customers	Customers, especially those who have a long term involvement with, or are dependent on, a company, have a vested interest in its continuing prosperity. With this in mind, customers may want to know about the values and attitudes that underpin its activities and the societal risks linked to its activities, products and services. Many customers also want to know that the products they are buying are environmentally and socially friendly. Responding to such expectations may help a company position itself as a 'supplier of choice'.
Lenders	Sustainability information can help lenders to determine risk factors associated with the company's business practices. In recent years banks and other lenders have come under scrutiny with regards to the sustainable development impact of particular projects or other business activities in which they have invested (i.e. the 'indirect impact' of lending activities). This pressure has elevated the importance of sustainability related issues within lending assessment processes.
Suppliers	Sustainability reports can help suppliers better understand risks and opportunities that may affect their businesses, for example, by increasing their risk exposure by associating them with questionable business practices. A report can also inform suppliers of the demands they may face from the company as part of its supply chain. For example, relating to customer carbon neutral positioning and ethical behaviour.
Non government organisations (NGOs)	Non government organisations often use sustainability reports as a basis for understanding companies' values, principles, attitudes, performance and goals. For example, in relation to environmental performance and protection, equal opportunities, customer related issues and human rights.
The public	Companies affect and interact with the public in many ways. For example by providing employment opportunities, sourcing inputs from local suppliers and supporting community projects. The public is also potentially interested in issues such as environmental performance (e.g. noise, pollution). Sustainability reports may assist the public to better understand a company's performance and act as an information source on recent trends, developments and company activities.

Source: Adapted from 'Sustainable Development Reporting – Striking the Balance, WBCSD, 2002'



Planning the report

The process of planning the preparation of the report needs to be carefully managed to deliver against the agreed objectives, particularly given the:

- number of individuals (and roles) likely to be involved within the sustainability reporting process
- range of standards, guidelines and regulations that may influence the form and content of the sustainability report
- value gained from aligning the sustainability reporting process with other, established compliance and reporting cycles (including annual financial reporting)
- potential complexity of collating, aggregating and analysing data and information across the dimensions of sustainability performance
- continued evolution of sustainability reporting.

Roles and responsibilities

The management and reporting of sustainability issues increasingly requires the involvement of many individuals and functions within a company, particularly given the increasing recognition of the materiality of many sustainability/ESG related risks and opportunities. It is therefore important that the implications of sustainability issues for corporate governance are analysed in order to assign roles and responsibilities in a manner suited to the company's size, industry sector and geographic spread.



The following provides an insight into how roles and responsibilities for sustainability reporting might be allocated. In small companies some of these roles may be combined and carried out by one individual.

Chairman and the board of directors — the board should be aware of all public reporting, including sustainability reporting. A statement or 'message' from the chairman can provide the report with additional profile and credibility.

Chief executive officer — support and commitment from the CEO is critical to achieving the objectives of sustainability reporting. A statement within the report from the CEO enhances the credibility of the report and is expected when reporting in accordance with the GRI guidelines. The CEO should review the report to assess any risks associated with statements made, or information within, the report.

Chief financial officer — a key role of the CFO is to ensure accuracy of financial and economic data, oversee the financial efficiency of the reporting process and review the report to assess any risks associated with statements or information in the report. In addition, the CFO may be given the role of assuring the accuracy and integrity of the non financial data contained in the report.

Corporate affairs, public relations, investor relations — provide guidance in relation to presentation to maximise the impact of the report.

Sustainability practitioner — for those companies with a person responsible for executing sustainability policies, it is likely that such a person will coordinate the reporting project and play a lead role in the process of identifying and engaging with stakeholders.

Business unit and functional support heads — ensure that any information in relation to specific business units and functional support areas (e.g. human resources) accurately reflects activity and performance.

Legal — reviews report to provide assurance that there are no adverse legal implications associated with publication of the report.

Sales and marketing — utilising the sustainability report and the company's approach to business to drive competitive advantage.

Reporting guidelines, standards and regulatory requirements

Sustainability reporting continues to evolve. It is therefore important that companies understand the landscape of reporting guidelines, standards, regulations and other disclosure frameworks that may affect the form and content of their sustainability reporting.

There are currently no legislative requirements in Australia for companies to prepare and publish sustainability reports. However, companies may be required to disclose sustainability related information within the scope of specific regulatory requirements covering their business operations (e.g. reporting under the National Pollutant Inventory and Energy Efficiency Opportunities (EEO) legislation).

Most companies would already have in place a range of processes associated with compliance based reporting. The challenge of sustainability reporting is that stakeholder needs and expectations may extend into areas that are either not captured by compliance based reporting, or are captured by disparate processes and systems not readily aligned and integrated. Further, regulatory requirements associated with disclosure of sustainability related information continue to evolve and existing compliance based or sustainability reporting processes may not be adequate to deliver the required information. The NGERs — which requires companies that meet particular greenhouse gas emission or energy production or consumption thresholds to report on an annual basis commencing from 1 July 2008 — represents such a challenge for many companies.

It is beyond the scope of this guide to provide detailed information across the range of international and Australian sustainability related guidelines, standards, regulation and other disclosure frameworks that may affect a company within a particular industry sector. Rather, information presented in this guide is designed to provide an insight into the range of disclosure frameworks that exist and specific information on the GRI guidelines — the most widely adopted international framework for sustainability reporting.

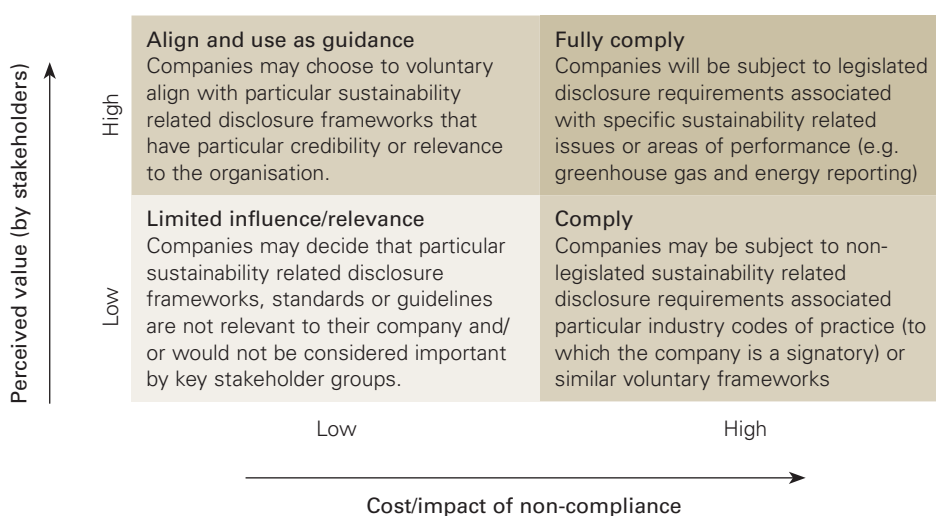
Figure 5 – Reporting guidelines, standards and regulatory requirements (an insight)

	Comment	Examples
Regulatory reporting requirements	Sustainability reporting across the economic, environmental and social dimensions of a company/s operations will almost certainly include performance areas already subject to regulatory reporting (e.g. OH&S, hazardous wastes, human rights and financial reporting requirements). It is therefore important that companies seek to appropriately leverage existing/emerging compliance based reporting processes with the development of their sustainability reporting approach.	<ul style="list-style-type: none"> • NGRS • National Pollutant Inventory • Company financial reporting and disclosure requirements
Investment/market driven disclosures	Capital markets and the investment community are increasingly focused on the potential correlation between specific ESG factors and share price performance. This trend is driving demand for companies to respond to a range of information requests and questionnaires seeking information concerning their sustainability/ESG performance.	<ul style="list-style-type: none"> • Carbon Disclosure Project questionnaire • Dow Jones Sustainability Index (DJSI) questionnaire
International reporting standards and guidelines	The challenges of sustainability reporting are not unique to Australian companies. Indeed the rapid development of such reporting over the past 15 years has primarily been facilitated through the development of internationally applicable sustainability reporting standards and guidelines. This is particularly important given the international scope of many corporate operations.	<ul style="list-style-type: none"> • GRI guidelines • Global Compact • AA1000 Series — principle based standards published by AccountAbility (e.g. AA1000 Assurance Standard, AA1000 Stakeholder Engagement Standard)
Industry specific frameworks/disclosure requirements	Particular industry sectors or companies within a sector may voluntarily adopt specific sustainability related frameworks that include disclosure requirements or expectations.	<ul style="list-style-type: none"> • Equator Principles (Project Finance) • Enduring Value (Mining/Minerals) • Principles for Responsible Investment

Alignment of reporting guidelines, standards and regulatory requirements

Companies need to determine the extent to which particular sustainability related guidelines, standards and regulatory requirements are complied with or used as a guide for reporting. Failure to do so will diminish the benefits derived through sustainability reporting, potentially reduce the credibility of published information and result in inappropriate internal resource allocation. The following framework (Figure 6) may assist companies to consider the relative importance of particular standards and guidelines within the development of their reporting response.

Companies should, within their sustainability report, provide comment on those guidelines and standards that have influenced the development and content of the report (and the companies overall management of sustainability performance).

Figure 6 – Sustainability report alignment with relevant guidelines and standards

GRI guidelines

The GRI guidelines are often used by sustainability reporters as the 'foundation framework' for aligning and developing sustainability reports. Whilst the GRI guidelines seek to provide clear guidance, it should be recognised that some of the concepts discussed continue to evolve and an investment of resources and time is required for a company to develop a good understanding of how best to interpret and apply this reporting framework.

Whilst these guidelines are widely used, in Australia and internationally, it should be recognised that they are voluntary and that some aspects may not be relevant to a particular company, or a company may choose not to report against particular aspects of the GRI guidelines. Indeed, the latest version of these guidelines, released in 2006, emphasises the importance of dealing with those topics and performance areas that reflect the company's significant economic, environmental and social impacts, or that would substantially influence the assessments and decisions of its stakeholders.

The following information provides insight into these guidelines and highlights some key areas to be considered when developing a sustainability report.

Background

The GRI reporting framework, which was designed through a process of multi stakeholder consultation, is relevant to companies of any size, across all industry sectors and geographic locations. The framework contains general and sector specific content that has been agreed by a wide range of stakeholders internationally to be generally applicable for reporting a company's sustainability performance.

The guidelines consist of principles defining the content of reports and for ensuring the quality of reported information, reporting protocols, standard disclosures and sector specific supplements. The guidelines also provide guidance on specific technical topics relating to sustainability reporting and are accessible at www.globalreporting.org

Reporting principles and reporting guidelines

The GRI guidelines provide specific 'Reporting principles' (Figure 7) and reporting guidance' to assist companies through decision making processes associated with the preparation of a sustainability report. For example, Reporting Principles described within the guidelines seek to assist companies to determine the topics and Indicators on which the company should report and ensure the quality and appropriate presentation of reported information.

Associated with these principles, the guidelines provide specific tests that can be used to help achieve the appropriate quality of the reported information.



Figure 7 – GRI guidelines ‘Reporting Principles’

Reporting Principles ⁷	
Defining content	<ul style="list-style-type: none"> • Materiality — the information in a report should cover topics and indicators that reflect the company’s significant economic, environmental and social impacts or that would substantively influence the assessments and decisions of stakeholders. • Stakeholder inclusiveness — the reporting company should identify its stakeholders and explain in the report how it has responded to their reasonable explanations and interests. • Sustainability content — the report should present the company’s performance in the wider context of sustainability. • Completeness — coverage of the material topics and indicators and definition of the report boundary should be sufficient to reflect significant economic, environmental and social impacts and enable stakeholders to assess the reporting company’s performance in the reporting period.
Defining quality	<ul style="list-style-type: none"> • Balance — the report should reflect positive and negative aspects of the company’s performance to enable a reasoned assessment of overall performance. • Comparability — issues and information should be selected, compiled and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyse changes in the company’s performance over time and could support analysis relative to other companies. • Accuracy — the reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting company’s performance. • Timeliness — reporting occurs on a regular schedule and information is available in time for stakeholder to make informed decisions. • Clarity — information should be made available in a manner that is understandable and accessible to stakeholders using the report. • Reliability — information and processes used in the preparation of a report should be gathered, recorded, compiled, analysed and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.
Boundary setting	<p>The Sustainability Report Boundary should include the entities over which the reporting company exercises control or significant influence both in and through its relationships with various entities upstream (e.g. supply chain) and downstream (e.g. distribution and customers).</p>

7 “Sustainability Reporting Guidelines”, Global Reporting Initiative (GRI), 2006

GRI guidelines – Standard Disclosures

Whilst the format and structure of sustainability reports may differ, a report aligned with the GRI guidelines would be expected to contain the following levels of disclosure.

In planning the development of a sustainability report, companies should gain familiarity with these disclosures as there may be an expectation among the company's stakeholders that the resultant report would cover these areas.

Strategy and profile — providing stakeholders with the context for a company's sustainability reporting and associated sustainability performance. As outlined in the guidelines, this section would be expected to include the following matters.

- **Strategy and analysis** — a high level strategic overview of the company's relationship to sustainability, providing context for subsequently presented data and performance information. Typically this would include a statement from the CEO and/or chairman and a description of key impacts, risks and opportunities.
- **Organisational profile** — an overview of the company's business activities, including brands, products and/or services, the scale of the reporting company (e.g. number of employees) and geographic locations.
- **Report parameters** — information concerning the reporting period, process for determining report scope and boundaries (including whether a 'materiality assessment process' has been applied), any limitations in scope/boundaries of the report, a table referencing standard disclosures contained within the report to the GRI and an insight into the company's policy and practice concerning external assurance for the report.
- **Governance, commitments and engagement** — information on the company's governance structures and associated processes, commitment to external initiatives (e.g. Global Compact, industry specific initiatives) and an overview of stakeholder engagement processes.

Management approach and performance — companies adopting the GRI guidelines are expected to report across a range of performance indicators unless they are deemed not material to the company (see 'The issue of materiality' below). Indicators are organised by economic, environmental and social categories, with the social indicators being further categorised by labour, human rights, society and product responsibility. Against each category, companies are expected to disclose information concerning both their management approach and the corresponding set of core and additional performance indicators. These terms are defined as:

- **Management approach** — information on how a company goes about managing particular issues and key aspects of its sustainability performance, including management systems and key policies and processes.
- **Core performance indicators** — a suite of indicators developed by the GRI through a multi stakeholder process; identified as being generally applicable indicators and assumed to be material for most companies.
- **Additional performance indicators** — these represent areas of emerging practice or topics that may be material for some companies but not material for others.

Associated with these areas of disclosure, the guidelines provide information for reporting companies across areas such as reporting on trends, use of protocols, presentation of data, data aggregation and metrics.

In their current state of evolution, sustainability reports do not follow a standard report structure, though there has been a strong tendency amongst companies to provide an index of their report against the GRI guidelines.

Some reports provide a rating indicating the degree to which they have reported against the GRI guidelines (this is known as the ‘GRI Application Level’). This provides an insight into the breadth of disclosures made by a company and may be validated by an independent assurance provider. It should be recognised that extensive reporting against the GRI guidelines does not correlate with above industry average sustainability performance; rather it is a reflection of the scope of corporate disclosure across the dimensions of sustainability.

The issue of materiality

The Materiality Report⁸ indicates that many companies face two challenges in preparing a sustainability report: developing an approach that provides the data and information that some stakeholders may expect and being able to identify and understanding those sustainability related aspects and issues that are most critical to its success.

As previously noted, the GRI guidelines recognise the importance of materiality but limits the concept to stakeholders and not the organisation. That is, ensuring that sustainability reports “cover topics and indicators that reflect the organisation’s significant economic, environmental and social impacts or that would substantively influence the assessments and decisions of stakeholders.” In practice it may be difficult to determine if stakeholder decisions are influenced by the information included in sustainability reports.

Sustainability related issues deemed material to a company may be associated with: direct short term financial performance, the business’ ability to deliver its strategy and policies, best practice norms exhibited by peers, stakeholder behaviour and concerns, societal norms, particularly where linked to possible future regulation. An effective materiality assessment framework would typically consider a range of internal and external factors (see Figure 8 below) and involve a process developed around the following steps:

- identifying issues from the management of the company and a wide range of stakeholders and sources
- using a consistent set of filters to determine the level of significance for each issue
- embedding the materiality assessment framework in internal decision making processes across the organisation.

Figure 8 – Assessing the materiality of particular sustainability related issues⁹

<p>The materiality assessment framework is used to identify and assess the relative importance of particular sustainability related risks and opportunities. It is likely to include consideration of the following external and internal factors.</p>	
<p>External factors (examples):</p> <ul style="list-style-type: none"> • Main sustainability interests/topics and indicators raised by stakeholders. • The main topics and future challenges for the sector reported by peers and competitors. • Relevant laws, regulations, international agreements, or voluntary agreements with strategic significance to the company and its stakeholders. • Reasonably estimable sustainability impacts, risks, or opportunities (e.g. global warming, HIV-AIDS, poverty) identified through sound investigation by people with recognised expertise, or by expert bodies with recognised credentials in the field. 	<p>Internal factors (examples):</p> <ul style="list-style-type: none"> • Key company, policies, strategies, operational management systems, goals, and targets. • The interests/expectations of stakeholders specifically invested in the success of the company (e.g. employees, shareholders, and suppliers). • Significant risks to the organisation. • Critical factors for enabling organisational success. • The core competencies of the company and the manner in which they can or could contribute to sustainable development.

⁸ “The Materiality Report”, AccountAbility, November 2006
⁹ Adapted from the GRI Materiality Tests and the Materiality Report (published by AccountAbility)

Preparing the report



Managing stakeholder expectations, demands and viewpoints

Understanding and dealing with the expectations, demands and viewpoints of disparate stakeholder groups within the sustainability reporting process is a challenge for many companies. In seeking to resolve such issues the following should be taken into consideration.

- The adoption of a 'materiality assessment process' may provide a valuable tool to consistently and transparently assess the extent to which particular issues, risks, opportunities and areas of performance should be covered within the sustainability report.
- Sustainability reports, as defined by the GRI guidelines, aim to provide stakeholders with a balanced and representative view of the economic, social and environmental performance of a company. It is thus important that areas of underperformance or negative stakeholder feedback are appropriately considered within the report preparation process.
- Independent assurance is now a widely accepted norm within the process of sustainability report preparation. Activities performed within the scope of this work commonly test the robustness of stakeholder engagement processes and consider management assertions made in relation to the completeness, materiality and responsiveness of the report.

It is important that the target audience is clearly understood and that decisions over inclusion or exclusion of information are made accordingly.

Further information across these areas is provided elsewhere within the Guide.

Quality of data and information

The usefulness and credibility of a sustainability report depends on the quality of data and information it includes. Quality is of fundamental importance if a company is to demonstrate to its stakeholders its commitment to managing the environmental, social and economic impacts. In so doing, it establishes a sound basis for stakeholder dialogue.

The importance of report quality is recognised by the GRI guidelines and underpins the associated 'Reporting Principle for Defining Quality', key elements of which relate to report balance, comparability, accuracy, timeliness, clarity and reliability.

Further information on these principles is contained earlier within this guide.

Figure 9 – Insight into potential issues impacting the quality of data and information

The following provide examples of potential areas of weakness within a company's data collation and report preparation processes that may impact the quality and credibility of resultant sustainability disclosures:

- lack of clarity as to boundaries of reporting
- poor definition of performance indicators
- dependency upon multiple spreadsheets (e.g. increased risk of transposition errors)
- poor documentation of reporting processes (difficult to maintain and drive consistency)
- inconsistent use of data conversion factors (e.g. relating to greenhouse gas emissions)
- limited business planning in relation to the required development of reporting system
- lack of coverage by internal audit across the reporting of non financial performance data
- lack of clarity of roles and responsibilities for reporting particular indicators.

Relationship with financial reporting

Aligning sustainability reporting with financial reporting and other forms of corporate disclosure is an important and evolving area. Alignment is being influenced by:

- increasing interest by investment analysts and the capital market in ESG related information, driven by recognition that numerous business drivers, upstream of a company's profit and loss statement contribute to financial performance and investment returns
- the need to recognise accounting and taxation sustainability related issues, for example, carbon credits
- the inclusion of sustainability risks in the description of potential Material Business Risks (MBR) adopted within the revised *ASX Principles of Good Corporate Governance*
- a trend by some companies to publish integrated annual/sustainability reports
- a growing need to apply the rigour of financial data collection, aggregation and analysis to some dimensions of sustainability performance (e.g. regulation driven disclosure of greenhouse gas emissions).

The CFO and other finance professionals should ensure that they have an appropriate understanding of the company's approach to sustainability reporting, have confidence in the quality of disclosed information and be able to clearly articulate to investment analysts and other stakeholders how the company is managing strategically important and material ESG/sustainability related areas of performance. Indeed, a recent study by the Economist Intelligence Unit confirms that boards of directors and senior executives are increasingly focused on the management of sustainability/corporate responsibility related issues¹⁰.

Senior executive involvement within the planning and development of a company's sustainability report is likely to have a range of benefits, including:

- providing confidence to the board of directors (and external stakeholders) that material sustainability risks and opportunities are being effectively managed, in a manner aligned with the company's overall strategy
- embedding sustainability related issues within strategic decision making processes
- aligning reporting cycles and annual processes
- elevating the importance of sustainability related performance within the company
- ensuring that corporate governance structures, roles and responsibilities appropriately consider sustainability related issues and dimensions of performance
- driving opportunities for cost savings through a better understanding of the usage of energy, raw materials and other inputs to production
- increasing the credibility and rigour of assurance processes associated with sustainability related information
- broadening the focus of strategic risk roles and mitigation plans.

Adopting an easy to understand format

Sustainability reporting is about communicating information across the economic, environmental and social dimensions of performance. Whilst the context of a company's report may be largely determined — through application of a materiality assessment process and due consideration of relevant standards, guidelines and regulations (including the GRI) — there is significant scope for a company to develop a reporting format that delivers against established sustainability reporting objectives, aligns with the company's overall communication style and brand/product/service positioning and engages with the target audience(s) in a manner that promotes dialogue and the dissemination of information. Figure 10 provides examples of format options for sustainability reporting.

10 Economist Intelligence Unit, *Global Business Barometer*, Nov - Dec 2007

As companies progress in their journey of sustainability reporting, they may consider changing the structure of the report from year to year – balancing between a financial reporting and marketing/communications aligned approach. For example, a reporting approach modelled on a company's financial reporting is likely to favour continuity and predictability of disclosure, whilst a 'marketing or communications' based approach would lean towards report renewal and restructuring.

Companies should seek to establish an appropriate balance, enabling stakeholders to understand trend information whilst also maintaining a sense of currency and alignment with the company's market positioning.

Balancing these demands may suggest a number of potential formats which could be explored. Some of the issues to consider when exploring potential reporting formats include:

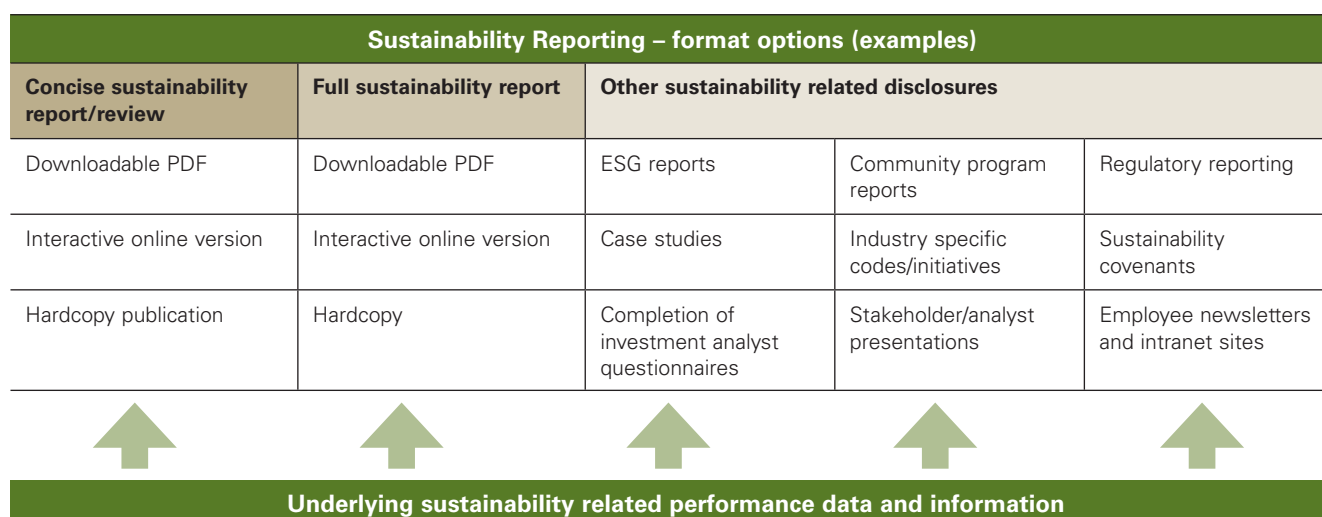
- the variable interests and areas of focus of particular stakeholder groups
- the fact that different people like to read or absorb information in different formats, 'some people are more visual, whilst others are numbers focused'
- the challenge of achieving effective communication where people are often 'pushed for time'
- the technical nature of some performance indicators (e.g. lost time injury frequency rates (LTIFR) and greenhouse gas emission equivalents (CO₂e)).

The chosen format should also take account of observed trends amongst leading reports towards:

- concise, shorter sustainability reports, often supported by more comprehensive reports accessible online to stakeholders seeking additional, more detailed information
- increased use of targeted and engaging styles of communication (e.g. supplementing formal sustainability reports with focused, key issue presentations and online content designed for various stakeholder groups)
- greater consideration of opportunities for value creation, including commentary on sustainability related product and market developments (going beyond a focus on compliance and risk management)
- an expansion of reporting towards an inclusion of value chain and sphere of influence related issues.

Indeed, a company may decide that the most effective strategy to meet the needs of particular stakeholder groups involves the dissemination and publication of sustainability related information in a number of formats.

Figure 10 – Example of format options for sustainability reporting





Report assurance

An increasing number of companies recognise that independent assurance provides confidence to both internal and external stakeholders about the credibility, reliability and relevance of reported data and performance information. Indeed, sustainability report assurance can deliver significant value to the reporting company, users of the published report and broader stakeholder groups and individuals. It can:

- provide confidence to stakeholders, the board of directors and the senior management team as to the accuracy and credibility of publicly disclosed performance data and associated information
- become a tool for mitigating risks associated with the potential disclosure of inaccurate/misleading information
- add independent credibility to disclosed performance data and information
- give feedback to the reporting organisation.

Over recent years significant variability has emerged in the nature, scope and quality of sustainability report assurance statements. A number of independent investigative studies have been undertaken into the quality and appropriateness of sustainability report assurance statements.^{11,12} These studies are critical of some sustainability report assurance statements, particularly in relation to the: standards and reporting criteria used within the scope of work; the nature, timing and extent of assurance procedures employed and their adequacy to support the stated assurance opinion; and the wording and structuring of some assurance statements.

It is therefore important that, where a company decides to obtain independent assurance, it understands the nature of the assurance service offered, the organisation's experience in providing such services, the rigour of proposed assurance processes and alignment with recognised and generally accepted auditing and assurance standards.

An assurance engagement will usually result in: a written assurance statement (e.g. typically published in the company's sustainability report) and a detailed management report that includes findings and recommendations, strengths, weaknesses, improvement opportunities and an insight into anticipated future trends/issues requiring attention.

The written statement should outline the terms of engagement, scope of work (including review approach, management responsibilities, performance data covered and inherent limitations), assurance standards, issues of independence and the resultant assurance opinion. Assurance providers are often asked to include comment on identified improvement opportunities; where this occurs it is important that it is clearly separate from the assurance opinion.

11 "An investigation of TBL report assurance statements: Australian Evidence". Deegan C, Cooper B and Shelly M. Australian Accounting Review Vol 16 No. 2. 2006.

12 "An investigation of TBL report assurance statements: UK and European Evidence", Deegan C, Cooper B and Shelly M. Managerial Auditing Journal. Vol 21 No. 4 2006



Audit and accounting firms are required to conduct assurance engagements in a manner consistent with ISAE3000, the International Standard on Assurance Engagement applicable to non financial assurance (and its Australian equivalent ASAE3000). AA1000 Assurance Standard (AA1000AS) – part of the AA1000 Series of principle based standards published by AccountAbility – is also widely used, often in conjunction with ISAE3000. It provides a framework for considering sustainability reports against the principles of materiality, completeness and responsiveness. The following publications provide further information on sustainability reporting standards and associated assurance activities.

- 'Better assurance starts with better understanding' (KPMG, 2006).
- 'Assurance standards briefing: AA1000 Assurance Standards (AA1000AS) and AA1000 Stakeholder Engagement Standard (AA1000SES) (published by KPMG and AccountAbility, April 2005).

Management reports from independent assurance providers

Within the scope of their work, sustainability report assurance providers typically provide a 'management letter', a summary of which is often published in the sustainability report.

In recent years there has been a trend for management letters to include an insight into observed strengths and weaknesses. This can provide useful information to readers of a sustainability report.

Assurance related management reports, prepared by the assurance provider for the senior management team, usually provide specific information relating to the observed strengths, weaknesses and improvement opportunities identified within the scope of assurance activities.



Communicating the report

The typical intended audience of sustainability reports include: customers, employees, suppliers, media, policymakers, NGOs, asset managers, investment analysts, rating agencies, government representatives, relevant industry bodies and associations and the general community. To maximise the effectiveness of such engagement, it is important that the communication strategy is considered early in the report development process.

This approach will deliver benefits, which may include:

- aligning sustainability reporting activities with the company's broader stakeholder engagement and communication strategy and building on existing engagement mechanisms (e.g. investor relations meetings, distribution of the annual report)
- leveraging lessons already learned with regards to methods of engagement that work
- providing input to decide what method of engagement is best suited to reaching target audiences (e.g. mail outs, annual general meetings, websites, press releases, press briefings, emailing and advertising)
- confirming that the proposed reporting style and format will provide an effective communication mechanism to reach and meet the expectations and needs of the target audience.

As a company's sustainability reporting response matures, there may be value to be gained from involving stakeholders in the design and implementation of report communication and distribution activities, testing potential options for distribution prior to their implementation.

Sustainability reports typically include contact points for stakeholders who wish to provide feedback on the published report. It may therefore be appropriate for companies to establish appropriate governance structures for the management of the stakeholder engagement process, for example, roles and responsibilities in relation to stakeholder feedback/focus groups.

Internal stakeholders (including employees and the board/senior management team) represent an important audience for the sustainability report. Indeed, sustainability reports can provide a powerful mechanism to raise employee awareness about sustainability/sustainable development related issues and positively impact on corporate culture, creating shared common goals, promoting innovation and encouraging creativity.

It is also important to recognise that information and data in sustainability reports are often drawn upon as input to presentations made by the investor relations department and speeches delivered by the CEO and CFO.

Continuous improvement



Periodically and following the release of its sustainability report, companies should seek feedback on current sustainability reporting activities (including strengths and weaknesses) and emerging trends that may affect the direction and content of future reporting activities. Such feedback may, for example:

- identify material issues not currently covered within the published report
- produce insight into stakeholder perceptions of the company's performance against industry peers and/or recognised sustainability leaders
- clarify the planned direction, content and format of future sustainability reports
- provide broader insights of value in shaping the company's overall sustainability response (e.g. identify product development opportunities, potential partnering arrangements and strategies to improve employee motivation, job satisfaction and creativity).

The evolving nature of sustainability reporting highlights the need for continuous improvement. Changes in sustainability reporting trends, regulatory requirements and stakeholder needs and expectations may rapidly affect the currency and applicability of historical reporting practices.

Collecting stakeholder feedback

It is important that companies obtain feedback from a range of internal and external sources, representative of the target audience for the sustainability report. Stakeholder feedback mechanisms may include:

- use of reply cards distributed with sustainability reports (that can be sent back with comments and questions)
- email/web-based feedback and comment processes
- tracking of website visitations and report downloads to better understand how stakeholders access and use online materials
- local workshops, meetings and forums to gain direct feedback from key stakeholder groups
- seeking formal feedback on the published report from rating agencies or advisory firms (e.g. to provide independent benchmarking and confirm areas of report strength/weakness).

Sustainability report awards and ratings

Companies are increasingly being assessed or judged on their sustainability performance and the credibility of their published sustainability reports through a range of awards and indices. For example, as shown in Figure 11, this may include assessment of companies for potential inclusion within sustainability indices (such as the Dow Jones Sustainability Index or UK based FTSE4Good) or other more focused sustainability/ESG related indices (e.g. carbon specific) and being entered for various sustainability reporting awards (e.g. ACCA Sustainability Awards, GRI Reporting Awards).

Companies may also receive external recognition for their performance in particular dimensions of sustainability related performance. For example, this recognition may relate to customer service or satisfaction awards, equal opportunity, employer of choice related awards, product related awards and community involvement related awards.

Index scores and awards provide a useful mechanism for companies to assess their performance and may assist stakeholders to develop a better understanding of company performance. However, it should be recognised that there is significant variability in the rigour and credibility of such recognition frameworks and companies need to appropriately consider such issues.

Some companies may seek to develop or position their sustainability response and associated reporting to maximise their potential to receive particular ratings or awards due to strategic decisions associated with market positioning and perceived brand value. However it is important to consider that an award winning report does not in itself mean an above average sustainability performance.

Figure 11 – Example sustainability and sustainability reporting related awards and indices

Sustainability awards (examples)	Sustainability indices (examples)
<p>The following provide examples of sustainability and sustainability reporting related awards.</p> <ul style="list-style-type: none"> • The <i>ACCA Australia and New Zealand Awards for Sustainability Reporting</i> (the ACCA is involved in reporting awards in 20 countries). • <i>Banksia Awards</i>. • Industry awards (e.g. ESSA). • Government awards (local, state and federal) — examples include The Victorian Premier's <i>Business Sustainability Awards</i>. • <i>Australian Sustainability Awards</i> (presented by Ethical Investor). 	<p>The following provide examples of sustainability and sustainability reporting related indices.</p> <ul style="list-style-type: none"> • FTSE4good — a global index that measures company performance in environmental sustainability, stakeholder relations and support for human rights. • Dow Jones Sustainability Index (DJSI) — the first global index to track the financial performance of the leading sustainability driven companies worldwide. • ESG (Environmental, Social and Governance) screening — integrated into investor decisions. • Carbon indices such as the Barclays Capital Global Carbon Index and The JPMorgan Environmental Index — Carbon Beta.

Using feedback to improve the reporting process

The outcomes from stakeholder feedback, benchmarking and assurance activities should be summarised and analysed to provide an input into the next reporting cycle and the establishment of new strategic goals. As part of this process, those responsible for developing the sustainability report should critically review the current reporting process.

- What was done well?
- What could be done differently next time?
- What improvements are needed to better gather and analyse data and information?
- How well does the published report deliver against the reporting objectives?
- What kind of information do stakeholders lack?

The answers to such questions can then be incorporated into the strategy to guide the company's future sustainability agenda and associated approach to reporting.

Further information



The following references are provided to assist companies navigate an appropriate reporting path, aligned with their overall business strategy.

Sources of further information		
Global Reporting Initiative	The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines represent the most widely adopted framework for sustainability reporting.	globalreporting.org
World Business Council for Sustainable Development	The World Business Council for Sustainable Development (WBCSD) is a global association of some 200 companies. The Council provides a platform for companies to explore sustainable development, share knowledge, experiences and best practices. The Council has issued a range of publications on issues linked to sustainability reporting.	wbcasd.org
Corporate Register	Corporate Register has emerged as the world's largest online directory of company issued CSR, sustainability, and environment reports, providing a valuable resource to assist companies within the development of their own sustainability reporting response.	corporateregister.com
KPMG	KPMG is one of the world's leading professional services firms and provides both advisory and assurance services relating to sustainability reporting. The firm publishes a range of reports and surveys to assist companies better understand and respond to developments in sustainability reporting and related areas.	kpmg.com.au
SustainAbility	Established in 1987, SustainAbility is widely recognised as a leading consultancy on issues associated with corporate responsibility and sustainable development. SustainAbility continues to publish a range of valuable reports and thought leadership articles on issues relevant to sustainability reporting.	sustainability.com
AccountAbility	AccountAbility is a international professional institute focused on issues of sustainable development, accountability and public disclosure. It is responsible for the development and publication of the AA1000 Assurance Standard (AA1000AS) and the related AA1000 Stakeholder Engagement Standard (AA1000SES).	accountability21.co.uk
Goldman Sachs JBWere	GSJBW has published a number of reports investigating linkages between ESG (environmental, social and governance) factors and investment value/share price performance.	gsjbw.com
Carbon Disclosure Project	The Carbon Disclosure Project is an international investor led initiative promoting the disclosure of corporate information relating to climate change related risks and opportunities.	cdproject.org
Various industry bodies and associations	Many industry bodies and associations have developed codes of conduct, frameworks and guidance material to assist companies better understand, respond to and disclose sustainability related information and promote stakeholder engagement and reporting transparency. It is suggested that companies contact relevant industry bodies and association for further information.	
Federal and state government departments and agencies	Sustainability reporting across the economic, environmental and social dimensions of a company's operations will almost certainly include performance areas subject to regulatory reporting. Companies therefore need to ensure that they have appropriate processes in place to understand regulatory requirements and manage associated disclosure and reporting requirements.	



Members of the working group

This guide has been prepared by a working group comprised of the following individuals. The Group of 100 and KPMG would like to thank members of the working group for their valuable contributions and active involvement in developing this guide.

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