



## Informing decision making

Sustainable reporting is a major opportunity for the accounting profession, says **Peter Casey**.

**T**HERE IS MUCH TALK ABOUT sustainability. So, how can you as an individual have confidence that organisations that talk about being sustainable, actually are?

An organisation's annual report is a logical place to start. The challenge is to make sure that the quality of the non-financial information is as robust, relevant and detailed as the financials – and that it answers questions, builds confidence and provides evidence that the organisation is acting and behaving sustainably.

The purpose of sustainable development reporting is to provide a balanced and reasonable representation of the reporting organisation's sustainability issues, risks, opportunities, goals and performance, as well as reporting financial information. This requires reporting of both positive and negative contributions.

Having judged the Sustainable Development Reporting section of the NZICA Annual

Report Awards for the past six years, the past five as panel convenor, I thought it would be helpful to provide a view as to how things are going.

### **EVERYTHING IS INTER-RELATED**

My personal interest in non-financial reporting was triggered in my first career as a professional forester where I gained a great appreciation of systems, particularly ecological systems. I had studied ecology and worked in both New Zealand plantation and indigenous forests.

I developed expertise in the monitoring, measuring and reporting of sustainability and renewal of large-scale plantation forests from a biological, economic and financial perspective. The integration of these perspectives and measures provided useful and relevant information for reporting on asset stewardship and for both short-term operational and long-term strategic decision-making.

A key observation was how everything is inter-related and the overall resource and all the inputs that support it, particularly from an ecological perspective, are finite. Under-

standing the potential consequences of today's decisions on long-term outcomes was of great value when reporting on large-scale plantation forests.

The accounting profession (which I joined 20 years ago) provides rigour and discipline in the focused area of financial reporting. Migrating from this discipline to the reporting of non-financial information and importantly the integration of financial and non-financial information is a huge opportunity.

We accountants can play a key role in improving the resilience and success of organisations in the face of ongoing change by providing relevant information to improve an organisation's decision making, ensure information passes appropriate quality hurdles and meets the needs of an increasingly sophisticated audience from financial stakeholders to employees.

The reporting of non-financial information in a manner that aligns with the required qualitative characteristics<sup>1</sup> of financial statements is a complex challenge covering:

- understandability
- relevance
- reliability

- completeness
- comparability
- constraints on relevant and reliable information
- true and fair view presentation.

**HOW ARE THINGS GOING?**

NZICA made the following conclusion in the 2002 report *Taskforce on Sustainable Development Reporting*: "We consider the nature of the information contained within sustainable development reporting fits within the current conceptual framework for external reporting and auditing by entities.

the entities' performance over time and how these may relate to other organisations' performance

- clear definition of who are key stakeholders, and what their information needs are
  - assurance of the veracity of non-financial information.
- 2007 – the panel said:
- reports were not strong on benchmarking against similar organisations in the sector
  - there was generally a lack of sophistication in articulating long-

important to organisational success.

Financial reporting is the benchmark that GRI uses. This vision is a great opportunity for the accounting profession to apply its strong competencies across the non-financial information area, integrating it with financial information.

Any organisation which claims to be acting sustainability should be judged on the quality of both its financial and non-financial reporting in annual reports.

Although there has been a steady and ongoing improvement of the quality of reporting, there is still a long way to go before

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The role of the Institute is to provide a context for good practice to develop and operate, within the framework provided by the Statement of Concepts, FRS2 and AS-100<sup>2</sup>.

So how are things going in terms of this reporting based on entries to the NZICA Annual Report Awards?

Comments from the judging panel (below) over the past four years highlight the challenges of sustainable development reporting and reveal a steady and encouraging improvement.

2005 – "Reports that provided messages based on what the organisation had presumed was needed, rather than specifically finding out what stakeholders wanted, ran the real risk of being seen to be reporting in a way that has been consistently identified as a problem by the judges since 2003. That is, reporters should focus on core business issues rather than isolated acts of good corporate citizenship".<sup>3</sup>

2006 – the judges said room for improvement included the need for more focus on:

- providing clear definition as to the reporting boundary of the entity
- the value of good comparative analysis of key identified measures of

term economic benefits/costs of the organisation

- stakeholder engagement and disclosure of stakeholder engagement is generally weak
- poor identification of issues of importance to stakeholders vs. just identifying impacts of the organisation
- lack of comment on working with other organisations (especially for local government), therefore empowering other people to help achieve outcomes
- little reporting on staff satisfaction.

2008 – "In the panel's view, there has been a marked improvement in reporting which is most encouraging. The use of the internet to complement or replace printed reports is increasing although very variable among the judged sustainability reports. The judges thought it was most helpful to outline specifically, in the formal annual report, where the internet further enhances the usefulness of the annual report."

**THE VISION AND OPPORTUNITY**

The Global Reporting Initiative's (GRI)<sup>4</sup> vision is that disclosure on economic, environmental, and social performance is as commonplace and comparable as financial reporting, and

a majority of New Zealand organisations can claim to be at the "leading edge" internationally.

The people with the disciplines and skills to ensure that the quality and standards of this combined reporting continues to improve year-on-year are those in the accounting profession.

- 1 As per the NZ Framework (ie the superseded Statement of Concepts for General Purpose Financial Reporting).
- 2 ICANZ Report of the Taskforce on Sustainable Development Reporting 2002.
- 3 "True, fair and looking further" *Chartered Accountants Journal*, B Gilkison, August 2003, p6.
- 4 The judging panel since 2005 has used criteria based on the third edition (G3) of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. They can be found at <http://www.globalreporting.org>

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