Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) High-level Policy Dialogue on Sustainability Reporting

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Statement

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ISAR HIGH LEVEL POLICY DIALOGUE ON SUSTAINABILITY REPORTING – UNTCAD 14, NAIROBI, KENYA (*BY DAVID OBWAYA GICHANA, DEPUTY AUDITOR GENERAL)*

While the scale and scope of the global goals is unprecedented, the fundamental ways that business can contribute remain unchanged. Companies need to first do business responsibly and then pursue opportunities to solve societal challenges through business innovation and collaboration – both important contributions to the SDGs. Companies must not make our world's problems worse before they try to make them better.

In the Constitution of Kenya Article 42 economic and social rights are spelt out for all the people including health, housing, water, social security, education, and right to clean and healthy environment for the present and future generations. This mirrors well the three pillars of sustainable development and assures intergenerational equity. Further, Article 25 guarantees fundamental rights and freedoms that cannot be limited. In assuring access to these rights government and companies will be moving from decisions to action in achieving sustainable development goals.

Global challenges – ranging from climate, water and food crises, to poverty, conflict and inequality – are in need of solutions that the private sector can deliver, representing a large and growing market for business innovation. Companies all over the globe can address a range of SDG-related issues, including gender equality, climate, water, peace, good governance, poverty and education. Evidence available shows that business can take many steps to minimize risks in these areas and then go beyond to provide solutions that are good for both society and the bottom-line.

According to PWC's "The Value Reporting Revolution; Moving Beyond the Earnings Game", there is need to create social and environmental value in order to create economic value to society in the long term. This agrees well with the "Tripple Bottom Line"consideration of economic viability, social and environmental responsibility as the hallmark of long term value creation in business.

International sustainability initiatives are many and varied in form and content. IASB through its International Financial Reporting Standards addresses a number of social and environmental accounting issues in several pronouncements. UNCTAD and its ISAR group have pioneered the issue of environmental accounting and reporting at a global level of intergovernmental discussions. ISAR in 1993, and in 1999–2000 produced two key papers that placed environmental accounting on the international agenda of corporate reporting: ISAR also developed a *Manual for the Preparers and Users of Eco-efficiency Indicators* in 2004. UNEP through its Finance Initiative undertakes business and industry activities that improve companies' ability to apply resource efficiency and environmental innovation along value chains and to measure and disclose performance through corporate sustainability reporting. On 15 April 2014, the European Parliament and the Council of the European Union adopted a Directive on disclosure of non-

financial and diversity information that will only apply to companies with more than 500 employees. Companies will be required to disclose information on policies, risks and outcomes in regard to environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity in their board of directors. In the United States, the Sustainability Accounting Standards Board (SASB) is in charge of developing sustainability accounting standards for listed companies

In France, the legislation (Trade Code, art. L.225-102-1) has required listed companies to disclose ESG information as part of their management report since 2001 while in South Africa, the King III Code of Corporate Governance and Report (2009) recommended integrated reporting to all entities, public, private and non-profit. The Johannesburg Stock Exchange was the first, among the emerging markets, to launch a Socially Responsible Investment index in 2004. In addition, an Integrated Reporting Committee49 was created in South Africa in 2010 to develop guidelines on good practice. Further, in 2010 the Securities and Exchange Commission issued an interpretative guidance regarding disclosure related to climate change.

Some countries have established sustainability reporting requirements for SOEs and public agencies. For instance, in 2007 the Swedish Government requested SOEs to present in addition to an annual review a sustainability report in accordance with the GRI guidelines, a corporate governance report and a statement on internal control in accordance with the Swedish Code for Corporate Governance.

"We live in the age of transparency where companies that do not own up to their responsibilities will find themselves in "the worst of all worlds" where they will be made responsible and still not be considered responsible. Companies find motivation for sustainability reporting from increased transparency to stakeholders, improving their competitive advantage, stakeholder pressure, company culture and brand reputation.

Sustainability reporting accrues many benefits to participating companies including improved access to capital, improved long term risk management and monitoring, increased cost saving within the organization, increased employee and consumer loyalty, improved productivity and efficiency, enhanced brand reputation and waste reduction within the company all of which contribute to achievement of SDGs.

Although sustainability reporting largely targets listed and large private companies due to substantive expected impacts, according to International Organization of Supreme Audit Institutions, public sector entities need to prepare sustainability reports due to their responsibility for management of natural resources and key public services such as education, water, health and environment, social security among others.

Corporate reporting plays a critical role in attaining the SDGs as the company, sector and industry contribution counts in the aggregate national, regional and international achievement of

SDGs. Monitoring of specific SDG attainment and its indicator measurement is less complex and fairly achievable at company level. Measuring and reporting on health and safety of employees, number and gender of staff indicate the bit by bit success along the road to SDG alignment to Company objectives.

Auditing through the sustainable development "lens" will enhance and enrich sustainability reports but also contribute towards Agenda 2030. However, this entails government, regulators and development partners investing in accountability and assurance services through capacity building and leveraging on information technology tools and techniques. The integrity systems and pillars of integrity have all to be enhanced for accelerated delivery of sustainability accounting and reporting. CPAs have to add value by providing services in the development of sustainable business strategies, sustainability accounting and reporting and assurance.

In aligning the sustainability reporting framework with SDG monitoring requirements challenges of agreement on indicators, harmonization of information gathering and reporting frameworks coupled with information proprietary consistencies, shareholder and stakeholder value creation interest overlaps, frequency and timeliness of reporting have to be ironed out from the onset.

What are the key challenges in sustainability reporting for users and preparers?

Challenges for Preparers of Sustainability Reports

- **Identification of ESG Dimensions that create value for shareholders and stakeholders** - over the long term
- **Need for Reliability and Assurance on Sustainability Reports** – New challenging assurance service for financial auditors
- **Lack of Resources – Technological, financial and human resources** to collect data and reporting the information (infrastructure to support sustainability eg SMEs in Developing Countries have no capacity, resources and knowledge to comply with CSR
- **Scope of Sustainability Reporting Requirements** – listed and large private companies, however, INTOSAI stresses coverage of Public sector entities including SOEs due to responsibility for management of natural resources and key public services such as education, water with huge impacts of sustainability.
- **Compliance on Corporate Transparency and Quality Reporting** - in financial reporting due to lack of sustainability institutional home, wide range of indicators, frameworks and guidelines issued by multiple organizations (GRI, CSDSB, INTOSAI etc)

- **Standardization and Harmonization of Sustainability Reports -**with financial reporting for comparability
- **Materiality Application to similar indicators -** across the sectors/industries

Challenges for Users of Sustainability Reports

- **Absence of standards** for both investors and companies
- **Voluminous information** in the sustainability Reports
- **Risk of misunderstanding and relevance** of the Reports –
- **Timeliness of the Reports** for users
- **Voluntary reporting by companies leads** - to choice of different reporting periods, choice of different reporting indicators and choice of different reporting formats
- **Reliability and credibility of the Reports**
- **Philosophical anchorage of the sustainability Reports –** Accountability and its effects on sustainable Development or Traditional Financial and Cost Management Accounting

Conclusion

Mandatory sustainability reporting is not only desirable but is inevitable; the challenge is the data to be collected and the format of presentation. Without it the crucial task of transforming sustainability reporting into actual improvements in sustainability performance, transparency and accountability remains a mirage.

Developing a concise guidance on Key Material Sustainability Issues for each sector that should be disclosed by all companies as a minimum will encourage the uptake of sustainability reporting in Africa. I believe in the convergence of financial and sustainability reporting through the emergence of sector specific reporting frameworks. “Do unto others what you would like them to do unto you” is a criteria that supports company investment efforts in sustainability reporting and therefore make contributions towards SDGs attainment.