THE ASSOCIATION OF CHARTERED CERTIFIED ACCOUNTANTS

GETTING THE MESSAGE: A SNAPSHOT OF COMPANY REPORTING IN AUSTRALIA

An ACCA issues paper

Part I: Sustainability reporting

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1. INTRODUCTION

Getting the message: a snapshot of company reporting in Australia is the result of a research project whose purpose has been to provide a snapshot of how leading Australian companies are currently approaching both financial and sustainability reporting.

The way in which organisations gather, record and report information about themselves and the environments in which they operate has become a matter of mainstream public debate over the past decade.

High profile company collapses in Australia, the US and Europe have been some of the major catalysts for this new focus on the way organisations carry out their work and report on this to stakeholders.

Another reason for the spotlight on corporate behaviour and reporting practices is a change in public expectations about the role corporations have in society. No longer is it appropriate for organisations to be solely focused on generating profits and issuing financial information to the community.

Indeed, there is now a widespread belief in the community that businesses must have an economic, environmental and social perspective of the ramifications of their actions, both positive and negative, and be able to clearly communicate this to the public.

This is reflected in the calling of the recent Joint Parliamentary Inquiry on Corporations and Financial Services, which reviewed corporations' responsibilities to society and the wider community.

Given the focus on corporate responsibility and reporting, as well as the introduction of International Financial Reporting Standards (IFRS) in Australia, the Association of Chartered Certified Accountants (ACCA) felt it timely to ask leading Australian organisations about their approach to financial and sustainability reporting.

Part 1 of *Getting the message: a snapshot of company reporting in Australia* is a review of sustainability reporting practices currently, while Part 2 looks at financial reporting practices in Australia. Both documents together provide an holistic view of corporate reporting in Australia at the moment.

Data for the research was gathered through in-depth interviews with senior finance executives from 20 leading Australian organisations. A list of organisations that contributed to the research appears in the methodology section of this document.

ACCA would like to take this opportunity to formally acknowledge the organisations that participated in this research project, in particular the preparedness of participants to be candid about their approach to company reporting. Without their assistance, this research report would not have been possible.

Finally, ACCA hopes that this report contributes to the ongoing debate over the manner in which organisations should report information to stakeholders. Given many organisations' complexity and geographic diversity, ascertaining the best way to report to multiple stakeholders, often with conflicting interests, is not an easy task. This document hopes to move the debate forward so that organisations can better communicate critical information in a timely and concise fashion.

2. BACKGROUND

No longer is it appropriate for organisations to report only short-term financial data to stakeholders. There is now an expectation in the community – particularly among Generation X and Y – that organisations, particularly public companies and other businesses that have the potential to change our environment and the world we live in, will publicly report the full impact of their activities.

Evidence of this can be found in the recent report of the Joint Parliamentary Inquiry on Corporations and Financial Services, which acknowledges:

> "evidence that many companies are integrating the consideration of broader community interests into their core business strategies, rather than treating these issues as an add-on or a side show[1]."

Further evidence that companies recognise their responsibility to provide information above and beyond bottom line profit figures can be found in recent research by the Department of Environment and Heritage[2] (DEH), which showed a 20 per cent rise in the number of organisations that consider sustainability reporting a tool for benchmarking company performance.

Consultation is also currently taking place over how the Joint Parliamentary Inquiry's recommendations – including the controversial suggestion that publicly listed companies be required to disclose their 'top five sustainability risks' – will be implemented. It is likely that companies will be required to change their reporting practices as a result of this recommendation.

The benchmarks set out by the Global Reporting Initiative (GRI), an international not-for-profit body that has designed and is developing on an ongoing basis a set of benchmarks against which organisations report sustainability data, will also change the way companies report sustainability information.

The third instalment of the GRI guidelines was released in October. One of the main changes to the new set of guidelines is more standardised methods of measuring and reporting key sustainability data – for example lost time injury rates and greenhouse gas emissions – across industry sectors.

Standardised methods of measuring and reporting sustainability information will ensure that this data can be more easily compared between companies and across industries.

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[1] Joint Parliamentary Inquiry on Corporations and Financial Services (2006), *Corporate responsibility: Managing risk and creating value*

[2] Department of the Environment and Heritage (2005), *The State of Sustainability Reporting in Australia*

It should be noted that the development of sustainability reporting in most Australian organisations is at a nascent stage. According to the DEH's research, only 52 companies in the S&P/ASX 300 report sustainability data. The number of reporters is, however, growing, with the number of companies in the S&P/ASX 300 producing a sustainability report rising from 42 to 52 from 2004 to 2005.

As evidenced in the low rate of sustainability reporting among Australian corporations, scepticism about the value of sustainability data exists. One way to address might be by the adoption of more robust sustainability data assurance systems by Australian organisations. According to KPMG's data, only 34 percent of reports surveyed in its research are assured, up from 28 percent of reports that were assured in the previous survey.

With this background in mind, ACCA feels the time is right to review the challenges and opportunities Australian corporations face in issuing meaningful sustainability reports.

3. KEY FINDINGS

- Australian organisations are still at an early stage of development in terms of their sustainability and sustainability reporting practices, although there has been much more of a focus on this area among corporates over the past three years.
- A small number of larger Australian organisations have embraced sustainability reporting, but the bulk of corporate entities in Australia are yet to adopt sustainability reporting in any meaningful way.
- Despite this, most acknowledge the need to explore how they might implement sustainability reporting practices in their organisation in the next five years – and see the value of doing so.
- Public companies, utilities and energy and mining companies are the entities that are most likely to produce sustainability data. But private companies are also now increasingly starting to collect and report sustainability data.
- Organisations that are more advanced in their sustainability reporting practices will generally be moving toward incorporating sustainability information in their annual report, rather than produce a separate sustainability and annual report. This reflects a growing understanding among corporates that sustainability data should be considered a key business tool, not just a marketing strategy.
- Companies' commitment to corporate social responsibility is a key issue for Generations X and Y.
- The CEO is usually the person charged with driving sustainability reporting in the organisation.
- The incidence and quality of assurance of sustainability information needs to increase.
- The introduction of standardised assurance standards for sustainability reporting (in the same way as there are auditing standards for financial data) needs to be considered.

- Organisations recognise the value of producing sustainability data in terms of:
  - attracting talented staff,
  - communicating intangible value to stakeholders, and
  - winning new business.

4. METHODOLOGY

The purpose of this research is to provide a snapshot of current company reporting practices in Australia.

Data for the research was gathered through in-depth interviews with senior finance executives from the following companies:

ANZ
BHP Billiton
BT Financial Group
Canon Australia
Coates Hire
Commonwealth Bank of Australia
Deakin University
HSBC Australia
IAG
ING
National Australia Bank
Optus
Ord Minnett
Simms Group
Telstra Corporation
Westpac Banking Group

During the interviews, respondents were asked to provide verbal responses to a series of 25 closed- and open-ended questions to explore their financial and sustainability reporting practices, as well as their opinions of recent regulatory changes such as the introduction of IFRS.

A list of the research questions appears in Appendix A.

Data was analysed using a qualitative content analysis methodology. Interview data was analysed for common themes and trends which, once identified, have been explored in the body of this report.

5. REPORT

Uptake of sustainability reporting

Broadly, Australian companies are still at an early stage of development in their sustainability reporting. Data collected for this research suggests that ASX 100 companies are more advanced in their external reporting of sustainability data than companies outside the ASX 100 and organisations without a stock exchange listing.

Consultants report, however, a growing incidence of sustainability reporting by private companies.

Only half the respondents to this research produce sustainability data such as environmental, economic and social information (these three terms collectively are referred to as 'sustainability' information).

Of the organisations that reported producing sustainability data, only one said it had publicly released this data for more than five years. One third of all respondents said they started producing sustainability data in the last three years.

Only one organisation interviewed for this research said it had no intention of producing sustainability data.

A number of respondents commented that they recognised there were growing public expectations on them to report sustainability data, and were preparing to do so. One respondent commented that the business produced "lots of data for internal reporting – but not a lot goes external because we are not a public company."

Content of sustainability reports

Some non-financial indicators about which organisations typically collect data include:

- Market share measures
- Customer information
- Human resources measures
- Culture measures
- Management KPIs
- Social, environmental and long-term economic indicators
- Community information

One respondent noted that "the hottest topic in this area is green house emissions and becoming carbon neutral. There's also a big push for corporates to define their carbon footprint."

Why report?

Organisations are reporting sustainability information largely for business reasons. Ultimately, implementing policies to reduce emissions through, for example, maintaining a fleet of vehicles with low fuel consumption rates, saves an organisation money.

Among private and smaller companies, a major impetus to start sustainability reporting is a move by some of the major Australian companies to require their suppliers to put in place sustainability policies. This is driving companies to start reporting sustainability information so as not to lose business to companies that do produce this data.

One respondent commented that “there is movement up and down the supply chain. More of a focus on occupational health and safety issues is causing companies who would not necessarily report [sustainability information] externally to produce this information, otherwise they are not being credited as suppliers.”

Another said “increasingly we are being asked to talk about energy reduction programs up and down the supply chain.”

Objection handling

Key reasons given as to why the reporting of sustainability data had not been given more credence by Australian corporates were:

- Concerns over assurance processes for sustainability reports – assurance systems need to be more standardised and widely accepted.
- Lack of consistency between companies in the same industry sector in terms of sustainability reporting.
- Criticisms of annual reports that include sustainability information and an assurance statement, without acknowledging that the sustainability data is unverified.
- A marketing, rather than risk-based approach to reporting.

Organisations that were more advanced in their adoption of sustainability reporting practices said they were working toward incorporating sustainability data in their annual report. All respondents except one published sustainability data separate to the annual report.

In the future, however, it is anticipated that sustainability and financial data will increasingly be merged and it is hoped that sustainability data will be considered to be equally as valuable as financial data to make key business decisions.

This should happen as organisations introduce organisation-wide risk management systems and then merge these systems with sustainability reporting systems. This is because much sustainability data – for example information about long-term economic trends – is valuable in identifying and planning for business risks, and it makes sense for organisations to view risk management and sustainability planning as the same process.

One consultant acknowledged that “it is tricky getting people onside who are not believers – if they are senior people, you get a lot of tension.”

Ownership of sustainability information and reporting

Half the organisations interviewed for this research that produced sustainability data said that it was jointly produced by the finance function and the marketing function.

One respondent noted that “many companies are still trying to find the right owner [for sustainability data].”

When asked who had overall responsibility for driving sustainability reporting in the organisation, the most common response was the CEO, with half of all those who produced sustainability information naming the CEO as the champion of sustainability reporting in the organisation.

One respondent said sustainability data was “produced by the Culture and Reputation department. The sustainability business sits within this department. But we have come from having pockets of sustainability data.”

Another said “we have a stand-alone CSR department. But indirectly, finance produces most of the information.”

Another respondent said sustainability information was produced by “accounts departments from each region, incorporating information from operational areas and HR.”

It is interesting to note the incidence of dedicated Culture and Reputation and CSR departments within organisations. These functions are very new parts of the corporate structure.

A number of respondents noted that the lead-time for the production of a first sustainability report is usually three years. This allows the organisation to identify the information that needs to be collected to produce the sustainability report, modify existing data collection systems and introduce new ones to collect additional sustainability data for the report, and devise and improve data verification processes.

Benchmarking data and external assurance

One third of the organisations that reported producing sustainability data said this information was verified by an independent third party.

The Global Reporting Initiative was the most common reporting framework used by reporters, with half of the organisations surveyed reporting using this framework.

When questioned as to whether they would use the new iteration of the GRI in next year's reports, most said that they would use the former system for this report, and move to the new system next year.

Perceived value of sustainability reporting

When asked about the perceived value of their sustainability report to their organisation, the following responses were given:

- Helps attract ethical investment funds
- Helps in attracting talented staff from Generations Y and X
- Helps win business - won business against other companies that have not had the same focus on sustainability
- It's an opportunity to tell the whole story about the business
- Helps build relationships with stakeholders
- Helps improve governance structures
- Commits the organisation to higher standards of corporate behaviour
- Increases transparency and evidence of good corporate citizenship

6. CONCLUSION

This research demonstrates that Australian organisations are undergoing change in their approach to sustainability reporting.

Although there has been resistance in the past to sustainability reporting from corporates, many businesses now recognise that the production of credible, measurable sustainability data can be a key business tool to help guide a company's strategic direction, and to also communicate a commitment to good corporate citizenship.

Organisations are, however, at a very early stage in the development of robust systems to allow the collection and dissemination of data about their long-term economic, social and environmental impacts in the community.

Nevertheless, Australian organisations are moving in the right direction in their sustainability reporting practices and, giving the developing nature of the field, it should be acknowledged that it will take time for them to fully integrate sustainability reporting into their operations.

ACCA believes the following steps need to occur for the continued strong development of sustainability reporting practices in Australia:

- The introduction of formal assurance standards for sustainability information, in the same way as there are formal auditing standards for financial reporting.
- More widespread uptake of sustainability reporting among Australian organisations of every size.
- More integration of sustainability data in annual reports, rather than the production of separate sustainability and annual reports.
- The adoption of a more holistic sustainability philosophy in organisations and an understanding of the organisation's entire ecological footprint, rather than a focus on reporting piecemeal data such as reduction in the consumption of paper.

We hope this document will be the stimulus for the next phase of debate over the development of corporate reporting practices in Australia and look forward to engaging with the Australian corporate community about the findings in this report.

APPENDIX A

Research questions

1. Does your organisation produce any form of non financial reporting? If yes, what sort of non financial data does your organisation produce?
2. Does your organisation publish sustainability data?
3. If you don't produce sustainability data, are there any plans for your organisation to produce a sustainability report? If yes, when? If no, why not?
4. What sort of sustainability data does your organisation produce? When did you start producing sustainability data?
5. Who champions sustainability reporting in your organisation?
6. Which departments are responsible for producing sustainability data?
7. Do you use an external assurance process to verify the data in the report?
8. What is the value of your sustainability report to your organisation?