

Non-financial reporting

Non-financial or sustainability reporting: the practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development

Corporate Social Responsibility (CSR): the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, the local community and society at large

Triple bottom line: reporting on financial, environmental and social performance

Over recent years, the level of interest from stakeholders in corporate environmental, social and ethical performance has risen significantly. Non-financial reporting, often referred to as sustainability reporting, enables businesses to be transparent in communicating these non-financial aspects of their management and performance.

While non-financial reporting is currently voluntary, it offers significant benefits to organisations in terms of stakeholder engagement and reputation. This overview provides some clarity on reporting frameworks, principles, and types of assurance, as well as sources of information. For perspectives on how your organisation may benefit from sustainability reporting and guidance on implementation, please talk to your Ernst & Young contact.

Key drivers of non-financial reporting

Demand from stakeholders, including investors, regulators and customers for greater transparency from corporations led the Australian Government to commission *Corporate Sustainability - an Investor Perspective (The Mays Report)* in 2003. The report found that those companies which integrated sustainability activities into their core business had a lower risk profile while enhancing their brand and reputation¹. Figure 1, adapted from the Mays Report, shows the drivers and links between corporate sustainability activities and shareholder value.

Reporting trends in Australia

Organisations from a wide array of industries including energy, mining, manufacturing and financial services are now reporting their sustainability performance in public reports. However, the variation in the scope of reporting is wide, from over-arching "motherhood" statements in annual reports to stand-alone CSR reports offering detailed commentary of a company's key environmental, community, marketplace and workplace issues.

Sustainability reporting within the ASX 200 is increasing and the most common place for this disclosure is the annual report. In 2008, 66% of the ASX 200 were reporting some level of sustainability information. Of these, 56% reported as part of their annual report, while the remainder released a stand-alone CSR report. The Global Reporting Initiative (GRI) reporting framework is the one most commonly used by those creating stand-alone CSR statements.

¹ Australian Government - Department of the Environment and Heritage, *Corporate Sustainability - an Investor Perspective (The Mays Report)*, Canberra, September 2003

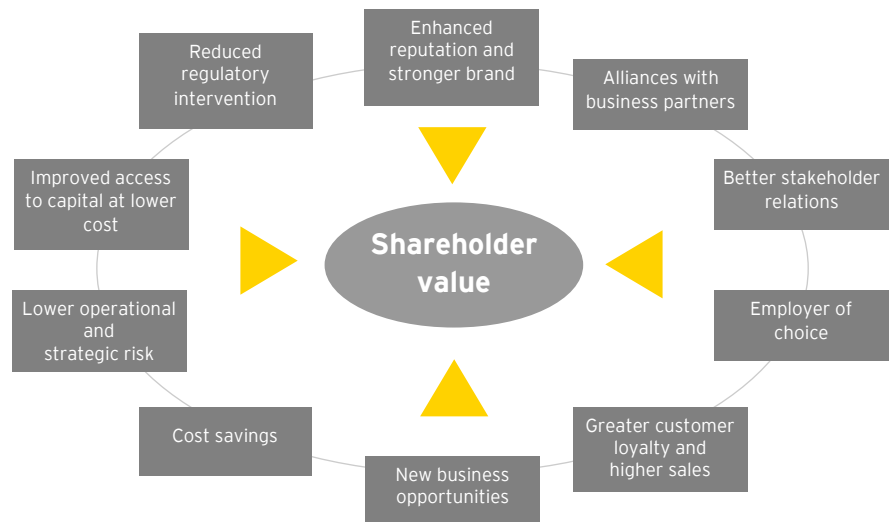


Figure 1: Corporate sustainability - the “added value” drivers

An insight into the non-financial journey of oil and gas company Australian Worldwide Exploration (AWE)

“In recognition that AWE’s ultimate success and therefore responsibility to our shareholders depends on the company’s ability to explore for and produce oil and gas in a reliable and secure way, AWE has recognised the long-term horizons of its operations and the importance of sustainability to its business.

Largely driven by investor pressure to respond to the Carbon Disclosure Project, in 2008 AWE decided that communicating sustainability information to its shareholders and other stakeholders was essential. AWE included for the first time a section in its annual report outlining its activities in the community and performance on health, safety and the environment. Moving forward, AWE will report key social and environmental performance indicators from its operations and joint ventures, and look to improve the processes for capturing and reporting this data to ensure materiality, accuracy, transparency and completeness.”

Garry Marsden
Corporate Development Manager
Australian Worldwide Exploration

Reporting frameworks

Generic non-financial reporting frameworks have been created to assist organisations in reporting sustainability information. These include the GRI and AccountAbility AA1000 Principles Standard 2008 (AA1000APS), along with some industry-specific guidelines commonly developed by industry associations.

GRI is one of the most widely used frameworks, both within Australia and globally. GRI-G3, the latest version, provides guidelines and indicators to support sustainability performance disclosure. It is relevant to all organisations, regardless of size, sector or location, and can be voluntarily, flexibly and incrementally adopted. Sector supplements for selected industries are provided in addition to the core guidelines to capture unique sustainability issues.

The internationally utilised AA1000APS provides a framework for organisations to develop a principles-based approach to non-financial reporting, giving guidance on the identification of opportunities as well as the management of non-financial risks and compliance.

Principles of non-financial reporting

A sustainability report should address all material (i.e. relevant and significant) issues affecting stakeholders. Both GRI-G3 and AA1000APS provide a selection of principles to be considered when reporting on sustainability. These include:

Inclusivity - AA1000APS states that “inclusivity is much more than a stakeholder engagement process”. It outlines it as the commitment to be accountable to those stakeholders that the organisation impacts and those stakeholders who have an impact on it. It also enables their participation in identifying issues and finding solutions. In the words of AccountAbility: “It is about collaborating at all levels, including governance, to achieve better outcomes.”²

² AccountAbility AA1000 AccountAbility Principles Standard (AA1000APS 2008), 2008, 2 Jul. 2009 <http://www.accountability21.net/aa1000aps>

Materiality - An issue is considered "material" if it will influence the decisions, actions and performance of an organisation or its stakeholders. GRI-G3 defines materiality as "the topics or indicators reflecting an organisation's economic, environmental and social impacts that would influence the assessments and decisions of stakeholders."³ AA1000APS defines materiality as "the analysis of information which takes into consideration sustainability drivers, and accounts for the needs, concerns and expectations of the organisation and its stakeholders."

Responsiveness - Defined in AA1000APS as "how an organisation demonstrates its response and accountability to its stakeholders." A responsive organisation addresses its material issues and responds to its stakeholders in a comprehensive and balanced manner.

Stakeholder inclusiveness - Similar to responsiveness, the GRI-G3 states that "the reporting organisation should identify its stakeholders and explain in its report how it has responded to their reasonable expectations and interests."

Completeness - According to GRI-G3, "completeness is the coverage of the material topics, the GRI-G3 indicators and the definition of the report boundary which sufficiently reflects economic, environmental and social impacts, enabling stakeholder assessment." While completeness is no longer an explicit AA1000 principle in the revised 2008 edition, it remains a key concept to the extent to which materiality, inclusivity and responsiveness have been achieved.

Sustainability context - GRI-G3 requires that the non-financial report presents the organisation's wider context of sustainability. Performance should be discussed within this, as well as the organisation's business strategy. The relationship between sustainability and organisational strategy should be clear, as should the context within which performance is reported.

Assurance

Of the ASX 200 companies reporting sustainability information in stand-alone reports, 45% received some type of external assurance in 2008. As with financial reporting (where it is a statutory requirement), independent assurance over a non-financial report enhances its credibility. AA1000AS 2008 explains that "reporting organisations and their stakeholders increasingly accept that robust, independent external assurance is a key way of increasing the credibility and effectiveness of their reporting, and ultimately their performance."

In line with accounting standards for financial reporting, ISAE 3000 and AA1000AS 2008 outline two types of assurance approaches that can be undertaken by assurance providers for non-financial reports. The differences relates to the way the opinion or conclusion is expressed:

- ▶ Reasonable (or High) - The assurance provider's opinion is generally expressed in a positive form, indicating that the information subject to the audit is materially correct and a high level of assurance has been expressed.
- ▶ Limited (or Moderate) - The assurance provider's conclusion is generally expressed in a negative form, indicating that the information subject to the review has not been found to be materially incorrect and that "nothing has come to their attention" based on the limited scope of procedures. Therefore a moderate level of assurance has been expressed.

Assurance providers

For assurance providers, the most widely used sustainability reporting assurance standards are:

The International Standard on Assurance Engagements (ISAE 3000) which sets out guidance for the provision of assurance over engagements other than audits or reviews of historical information⁴

AA1000 Assurance Standard (AA1000AS 2008) which provides guidance for evaluating the adherence of a reporting organisation to the principles of inclusivity, materiality and responsiveness, as well as the reliability of associated performance information⁵

³ *Global Reporting Initiative Sustainability Reporting Guidelines*, 2007, 2 Jul. 2009
<http://www.globalreporting.org/Home>

⁴ *International Standard on Assurance Engagements*, 2005, 2 Jul. 2009
http://www.accountability21.net/uploadedFiles/Issues/ISAE_3000.pdf

⁵ *AccountAbility AA1000 Assurance Standard (AA1000AS 2008)*, 2008, 2 Jul. 2009
<http://www.accountability21.net/aa1000as>

Adelaide

Ernst & Young Building
121 King William Street
Adelaide SA 5000
Tel: +61 8 8417 1600
Fax: +61 8 8417 1775

Brisbane

1 Eagle Street
Brisbane QLD 4000
Tel: +61 7 3011 3333
Fax: +61 7 3011 3100

Canberra

Ernst & Young House
51 Allara Street
Canberra ACT 2600
Tel: +61 2 6267 3888
Fax: +61 2 6246 1500

Gold Coast

12-14 Marine Parade
Southport QLD 4215
Tel: +61 7 5571 3000
Fax: +61 7 5571 3033

Melbourne

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000
Tel: +61 3 9288 8000
Fax: +61 3 8650 7777

Perth

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Tel: +61 8 9429 2222
Fax: +61 8 9429 2436

Sydney

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959

Useful websites

AccountAbility: www.accountability21.net

Corporate Register: www.corporateregister.com

Global Reporting Initiative: www.globalreporting.org

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young's Climate Change & Sustainability Services

Sustainability isn't simply good business behaviour, it's good business too. For your organisation to achieve its potential, you need to make sure your activities and performance are sustainable in the long term. That's why we have built a substantial global team of sustainability professionals, with skills spanning engineering, environmental science, accounting, law, economics, corporate governance and commerce, to address your sustainability issues – whether they relate to the community, environment, marketplace or workplace, and wherever you are in the world. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

For more information,
please visit www.ey.com/au

© 2009 Ernst & Young Australia.

SCORE NO. AU00000465

This communication provides general information which is current as at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk.

Liability limited by a scheme approved under Professional Standards Legislation.