A Submission on IFAC ED: International Guidelines on Environmental Management Accounting (EMA)

Submission of the Sustainability Special Interest Group, being a special interest group attached to the Institute of Chartered Accountants of New Zealand.

The views expressed in this document are the consensus views of the Sustainability Special Interest Group. They are not necessarily the views of the Institute of Chartered Accountants of New Zealand.

March 2005
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Executive Summary

This submission is prepared by members of the Sustainability Special Interest Group (SSIG) in response to the ED: International Guidelines on Environmental Management Accounting (ED:IGEMA), dated November 2004.

Our purpose in making this submission is to ensure the reporting of environmental information develops a robust and comprehensive principles-based framework. The SSIG is of the view that quality reporting must not only be accurate, comprehensive, relevant, cost-effective and timely but also easy for users to obtain and trust. Our focus is to improve the quality of decisions across all aspects of business, now and in the future.

The SSIG would like to thank the International Federation of Accountants (IFAC) for this opportunity to provide a submission on this important topic and would like to acknowledge the challenges in completing this exposure draft.

The SSIG notes the mission of the IFAC is based on the desire to serve public interest and the purpose of ED:IGEMA is to be a guidance document in order to reduce ‘international confusion’ by providing a general framework and a set of definitions for EMA.

It is our view that the mission and role of the IFAC, will become increasingly important, particularly in regard to enhancing public trust in external reports. In addition, the SSIG believes the purpose and development of this exposure draft is both timely and significant in terms of current practice and future developments. We strongly support the IFAC taking a leadership role in this area of reporting.

This submission is presented in three sections:

- Section A provides ‘the context’, in order to provide background information on the SSIG and the extent EMA links into sustainable development reporting.
- Section B outlines the key concepts underlying SDR that impact on EMA.
- Section C responds directly to the ED:IGEMA in light of the earlier sections and makes ‘specific recommendations’ on the exposure draft.

The SSIG would like to make the following key points and recommendations, namely, the SSIG:

1. **Strongly supports the development of International Guidelines on EMA.**

2. **Considers the preparers of the exposure draft have completed an exceptional task considering the current confusion over the terminology and the changing accounting landscape.**

3. **Suggests more clarity over the accounting landscape.** To this end, the SSIG propose the inclusion of a landscape diagram and recommend Figure 1: The Information Triangle – Refer below and Page 19.
4. **Suggests a new definition of Management Accounting (MA)** - Refer page 20.

   MA - tends to refer to accounting activities beyond the strict definition of Financial Accounting (FA), and includes the reporting of monetary, physical and narrative information for internal and/or external stakeholders.

5. **Suggests a new definition of Environmental Management Accounting (EMA)** - Refer page 22.

   EMA - is broadly defined to be the identification, collection, analysis, reporting and verification of three types of information for use by stakeholders, being:

   - physical information on environmental related inputs, processes, outputs and outcomes,
   - monetary information on environmental related inputs, processes, outputs and outcomes, and
   - narrative information on environmental related past, present or future impacts.
6. **Suggests a fifth stage of MA evolution has been reached** – Refer page 23.

   Stage 5: (by 2002) – ‘a focus on effective governance and accountability in regard to inputs, processes, outputs and outcomes’.

7. **Suggests other key international publications for consideration** – Refer page 23.

We thank you for taking the time to read and digest this submission.

Lastly we wish to emphasise the views expressed in this submission are the consensus views of the Sustainability Special Interest Group. They are not necessarily the views of the Institute of Chartered Accountants of New Zealand (the Institute) and in no way purport to be views of the Institute or its membership.

Thank you for the opportunity to make this submission. If there are any questions or queries, please do not hesitate to contact the SSIG, by contacting either of the following:

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Section A: The Context

1. Introduction

New Zealand is a country that not only promotes itself as "clean and green" and "100% pure", but actively adopts principles and practices of ‘sustainable development’. Significant reports/events include:

- ‘Programme of Action’\(^1\) Department of the Prime Minister and Cabinet (2003), which focuses on water quality and allocation, energy, sustainable cities, and child and youth development;
- ‘Creating our future: Sustainable development for New Zealand’\(^2\): The Parliamentary Commissioner for the Environment (2002);
- ‘See Change: Learning and education for sustainability’\(^3\): The Parliamentary Commissioner for the Environment (2004);
- ‘Monitoring Progress Towards a Sustainable New Zealand’\(^4\): Statistics New Zealand (2002);
- Adoption of the Kyoto Protocol;
- The creation of statutory entities, such as the Energy Efficiency and Conservation Authority\(^5\); BRANZ\(^6\) and
- Funding substantial ‘sustainability’ programmes within the Ministry for the Environment and the Foundation for Research Science and Technology.

Consequently, reporting on sustainable development is a significant ‘plank’ in the platform upon which New Zealand can demonstrate it is ‘walking the talk’. This requires a commitment to effective reporting of verifiable economic, social and environmental information.

2. Sustainability Special Interest Group (SSIG)

The SSIG is a New Zealand group comprising members of the Institute of Chartered Accountants of New Zealand and other professionals. Currently over 80 professionals are fully paid members. The SSIG does not formally represent the Institute, but is one of numerous member-created special interest groups providing a vehicle for members and other professionals to pursue their interests.

The purpose of the group is to enhance the understanding of sustainability in business. Key
objectives include:

- To educate, encourage and inspire Institute members to promote sustainability;
- To encourage the Institute to be pro-active in the development of guidance, frameworks and standards for reporting and verification;
- To encourage and inspire the Institute to adopt a sustainability culture and sustainable development reporting for its own operations; and
- To encourage and support members to implement sustainable development reporting in their organisations.

The SSIG came into existence in February 2001 as an informal group of individuals. Early in 2002 the group became a formal special interest group within the recognised structures of the Institute. An overarching objective is for accountants to be the experts in collecting, reporting, and verifying external reports to the public, and for the SSIG, this means that accountants must work towards being the experts in the collection, reporting and verification of ‘all’ sustainability information. An allied aim is for accountants to be ‘knowledge channels’ for a wide range of ‘sustainability’ issues e.g. capital expenditure decision-making, product life-cycle assessments, cleaner production, energy efficiency and climate change.

As a result of a remit from the SSIG to the Institute’s Council, the Board established a Taskforce on Sustainable Development Reporting (SDR). The 2002 Report of the Taskforce, which was chaired by John Spencer, recommended the creation of the Sustainable Development Reporting Committee (SDRC), being a National Committee of the Institute. The Institute accepted this recommendation and established the Committee stating it should work towards improving the “fit of the conceptual framework for the external reporting and auditing of information” in light of the “evolving information and accountability expectations of users”\(^7\).

In August 2004, the SDRC prepared a submission\(^8\) to the FRSB on the Exposure Draft: New Zealand Framework. Much of the historical information prepared for that submission is contained in the latter part of this section.

The SSIG consider it is crucial that all accountants offering services possess competencies enabling them to prepare and verify sustainable development reports in order to engage in sustainability issues in a substantive way. Such issues are important to every one of us, either directly or indirectly. EMA is one of a number of tools that can be developed and used to enhance sustainable development.

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\(^7\) [www.icanz.co.nz/StaticContent/AGS/susdev.cfm#taskforce](www.icanz.co.nz/StaticContent/AGS/susdev.cfm#taskforce) Para 7.3

\(^8\) This submission was prepared by the SDRC which includes Peter Casey (Infrastructure Auckland), Shaun Collins (Fonterra), Lynette Daken (Audit New Zealand), Peter Garty (Telecom), Tony Gray (Mighty River Power), Wendy McGuinness (McGuinness and Associates – Chair) and Greg Schollum (Greater Wellington Regional Council). The SDRC also had considerable assistance from Colin Higgins (Massey University), Jonathon King (Ministry for the Environment) and Michael Fraser (Victoria University)

SSIG Submission on the IFAC- ED: International Guidelines on Environmental Management Accounting (EMA)
3. Sustainable Development

Increasingly, as a result of Agenda 21 (UNCED, 1992), there has been a call for all countries to develop a national sustainable development strategy. Notably, Agenda 21 recognised that key decisions are needed at a national level and that an orderly approach – a ‘strategy’ was critical. At the same time, there has been a drive by some organisations and governments to promote thinking and reporting on sustainable development for entities. For example, the New Zealand Ministry for the Environment developed its first TBL in 2002. Although the meaning of the terms ‘sustainable development’ or ‘sustainable growth’ continues to drive debate, the application of these terms imply that ‘striving for growth at any environmental or social cost’ is no longer acceptable and/or appropriate. Appendix 1 outlines the key events surrounding sustainable development and sustainable development reporting.

From a strategic perspective, the approach assumes that some method of ‘professional judgement’ will be necessary to determine what or when environmental and social costs are such that economic activity must be either managed/blocked by legislation or managed by informed stakeholders through investment or consumption.

This implies that in order to manage the environmental and social effects of economic activity, we must find mechanisms for recognising, measuring, disclosing and reporting these effects in a verifiable manner.

Following the same model of financial reporting, there is a strong argument that such mechanisms/services should be offered to the market by independent professionals who are aware of the distinctions between the role of information provider (ensuring transparency), the role of information verifier (providing assurance) and the role of information analyst (providing advice on the information to users).

The SSIG considers the independent professionals should be accountants, as they have the expertise in all three roles. Therefore, in the same way that many entities are no longer in the business of solely focussing on economic issues, accountants are no longer in the business of purely bookkeeping. The original purpose of accounting has not changed, being the desire to provide owners with verifiable information on the performance of an entity, but the service provided to meet that purpose is significantly broader and more complex. Accounting may have originated as ‘bookkeeping’, but over time, the landscape has changed. Key changes in the landscape include:

- the distance between the owner and operator,
- entities are larger and more complex,
- funding and debt mechanisms more diverse,
- world resources are finite,
- population growth is on the increase,
- pollution, clean up, compensation and waste management costs can be significant, and
- stakeholders are now recognised as extending beyond owners and employees.

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9 Towards a Triple Bottom Line: A report on our environmental, economic and social performance. www.mfe.govt.nz/publications/about/tblr-mar03/full-report.pdf. This is believed to be the first TBL report by a government department anywhere in the world.
Taken together, the ‘owner’ is no longer the only party interested in performance, ‘performance’ is no longer primarily financial but includes integrated economic, social and environmental information, and ‘information’ is no longer primarily monetary but includes physical and narrative information. These are the key concepts underlying the development of SDR.

4. Sustainable Development Reporting

In order to be effective SDR will require two key developments; namely;

- Significant levels of research in order to provide stakeholders with consistent, cost-effective, measurable, verifiable, relevant and accurate reports. This is well documented in a recent Association of Chartered Certified Accountants (ACCA)\textsuperscript{10} publication, titled ‘Towards Transparency: progress on global sustainability reporting\textsuperscript{11} (2004)’.

- The development of SDR guidance and standards by international accounting bodies. We consider the EMA exposure draft is a significant plank in the platform for developing guidance on sustainable development reporting. Importantly, we recognise that the name SDR may change, but the end outcome is necessary for the long term future of entities, countries and the earth.

It is the view of the SSIG that these developments are not a question of ‘if’, but ‘when’.

5. A New Zealand Perspective

The SSIG feels a New Zealand perspective may assist readers in understanding the issues outlined in Section C.

Since 1997, the Institute of Chartered Accountants of New Zealand has been promoting sustainable development reporting via the Institute’s Awards. The results of the 2004 awards are summarised in a recent Accountants Journal, refer Appendix 2.

The working definition of SDR\textsuperscript{12} adopted by the Institute’s Taskforce remains current;

\begin{quote}
External reporting of the economic, social and environmental performance and impacts of an entity - 2002 Report of the Taskforce on SDR\textsuperscript{13}.
\end{quote}

Notably, the definition focuses on the needs of users and therefore places an onus on preparers to engage with stakeholders to identify their information needs.

What is clear is that SDR information is already part of annual reports, although it is unclear how the specifics will evolve.

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\textsuperscript{10} \url{www.accaglobal.com/sustainability/reading/}
\textsuperscript{11} \url{www.accaglobal.com/pdfs/environment/towards_trans_2004}
\textsuperscript{12} A triple bottom line report is a type of sustainable development report that addresses economic, environmental and social issues separately. As reporting becomes more sophisticated, there is a tendency to integrate these three components.
\textsuperscript{13} Report of the Taskforce on Sustainable Development Reporting 2002, \url{www.icanz.co.nz/StaticContent/AGS/susdev.cfm#taskforce} Para 2.1
Significant New Zealand developments include:

- Local government in New Zealand is required by the Local Government Act 2002 to include sustainability issues in its reporting and community consultation. Notably, a recent article by Frame et al.\textsuperscript{14} (2003), stated:

  ‘The Act places a heavy emphasis on the need for local authorities to identify ‘community outcomes’ in order ‘to provide opportunities to discuss their desired outcomes in terms of the present and future social, economic, environmental and cultural wellbeing of the community’. The latter point is important in that it places an additional emphasis on local authorities to report on the expected effects of future actions’.

- The Institute of Chartered Accountants of New Zealand is leading an international project. The IASB agreed to proceed with a Management Discussion and Analysis Project (MD&A), now called the Management Commentary. The IASB has an active research project examining the possibility of introducing a Financial Reporting Standard for management commentary. The first task for the working group is to produce a discussion paper for the IASB outlining how an IAS for management commentary could be developed.\textsuperscript{15}

- A recent New Zealand study (2003) confirms:

  ‘while the number of companies undertaking TBL [including SDR] reporting is increasing, the standard of reporting generally remains poor’.\textsuperscript{16}

- A recent Australian paper (2004) reviewing the New Zealand Taskforce on Sustainable Development Reporting stated:

  ‘As a case study, we have analysed the Sustainable Development Report (2002) prepared by the Institute of Chartered Accountants of New Zealand (ICANZ). We have identified that stakeholder engagement with Maori, as an important stakeholder group was ignored and that the accounting profession maintains but a fragile monopoly over the audit of reporting entities (Velayutham and Perara 1996). Rather than being influenced by the Ministry of Environment’s ‘bold step’ towards triple bottom line reporting (refer to Elkington, 1998) and engagement with Maori stakeholders in developing a Treaty-based audit framework (TAF), the accounting profession has continued to be influenced by the status quo of corporate stakeholders’.\textsuperscript{17}

- The New Zealand audit guidance statement AGS-1010 The Consideration of Environmental Matters in the Audit of a Financial Report (2001), supports the need for a wider context by stating:

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\textsuperscript{14} Reinforcing a clean green brand: An overview of sustainable development reporting in New Zealand Frame, B., McGuinness, W., and Gordon R., Accountability Quarterly, September 2003 (AQ21), pages 25-26

\textsuperscript{15} Management commentary Chartered Accountants Journal, July 2004

\textsuperscript{16} The Triple-Bottom-Line: How New Zealand Companies Measure Up Chapman R.; Milne M.J. 2003

Environmental matters are becoming significant to an increasing number of entities and may, in certain circumstances, have a material impact on financial reports of those entities. These issues are of growing interest to the users of financial reports. The recognition, measurement and disclosure of these matters is the responsibility of management.

Environmental matters can be complex and may therefore require additional consideration by auditors.

- In addition, superannuation funds are considering a range of issues, relevant to sustainability. For example, the Cullen Fund - (The New Zealand Superfund)\(^ {18}\).

- Watercare Annual Report (2003). Appendix 2 [Figure 4] showcases ‘Sustainability Accounting Analysis’, being a monetary external report using MA to report the gap between the ‘cost base necessary to meet statutory and legal requirements’ and the ‘cost base required to deliver sustainable performance’. This report is benchmarked against a previous year.

- New Zealand guidance on SDR includes a publication from the New Zealand Business Council for Sustainable Development (NZBCSD) (2001) and a publication from the Ministry for the Environment (MfE)/ Sustainable Business Network (SBN) (2003). Refer Appendix 3.

- An increase in Socially Responsible Investment Funds. A list of Socially Responsible Investment Funds (with links) for New Zealand investors is attached in Appendix 5.

- National Business Review (2004). Appendix 6 contains an article on TBL that highlights the level of interest and reinforces the need for clarity and content issues to be addressed in order for all stakeholders to be clear on the purpose of SDR and current reporting practices.

- Nuplex Judgement (2003)\(^ {19}\). For the first time in New Zealand (and perhaps elsewhere) the Environment Court ordered a company as part of a conviction to include specific details regarding a prosecution in its annual report. This raises the issues of the importance and value of Annual Reports as providers of social and environmental information. Refer Appendix 7.

\(^{18}\) [www.nzsuperfund.co.nz/files/SIPSP.pdf#page=12](pages 4 and 24)


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SSIG Submission on the IFAC- ED: International Guidelines on Environmental Management Accounting (EMA)
6. An International Perspective

As a result of the aftermath of the Enron collapse, (notably Enron had produced a SDR), many stakeholders rightfully raised questions about the quality and purpose of financial and SDR reports.

There are a number of organisations developing guidance relating to sustainable development reporting (refer Appendix 3 for a recent list), many of those listed are mentioned in the ED:IGEMA.

One of the more prominent is the Global Reporting Initiative (GRI) which is a major international initiative supported by the United Nations. Appendix 4 contains examples of GRI indicators. Notably there are now 200 GRI organisational stakeholders as at 24 February 2005, an increase from 76 this time last year. Due to the IASB Framework being published by the IASC Board in 1989 and the New Zealand Statement of Concepts (NZSC) in 1993, the SSIG consider that the Global Reporting Initiatives (GRI), published in 2002, is more likely to reflect more up-to-date policy and practice.

The ED:IGEMA records most International Developments in the area, however section C, subsection 5 highlights some developments not mentioned in the exposure draft.

7. What does this mean for the future?

The SSIG believes it is very important to promote the inclusion of sustainable development reporting in international reporting and assurance standards and guidance in order to prevent further confusion in the market place and to ensure a consistent and comprehensive approach is adopted.

We believe such key concepts are, and will continue to be, of increasing importance to stakeholders both nationally and globally.
Section B: Key Concepts Underlying SDR that impact on EMA

This section outlines key concepts underlying SDR and are provided here as a backdrop to the specific issues raised in ED:IGEMA and Section C.

1. External Reporting

The ED:IGEMA draws the distinction between Management Accounting (MA) as internal and Financial Accounting (FA) as external; but in our view this distinction is not appropriate or realistic. FA is an external output of the accounting function in the entity. The SSIG considers the confusion may be due to the term ‘management’ implying it is being prepared for management, when in reality; it is being prepared for internal and external stakeholders by management.

The New Zealand Conceptual Framework for accounting considers financial reports are made up from a number of statements, including non-financial statements, hence the use of the term ‘financial’ can cause confusion.

‘Financial’- ‘Financial reports consist of:

(i) Financial statements,
(ii) Non-financial statements and
(iii) Supplementary information, which is additional to the information in financial and non-financial statements.

Similarly, we believe the outcomes of EMA are likely in many cases to become inextricably linked to externally focused environmental reports and SDR’s. Thus EMA should be seen as a very important phase, but not the final phase, of reporting on environmental issues. Thus any suggestion of EMA reporting and the management of applicable issues being an ‘end result’ could unnecessarily and unintentionally hamper the potential of EMA.

2. Specialist Guidance and Reporting Standards

The SSIG advocates a distinction between generic disclosure standards and specific standards, and suggest the ED:IGEMA uses this distinction in order to create specific guidance on environmental accounting (EA).

The current NZ Conceptual Framework is made up of four documents, which in effect form the platform upon which the generic disclosure standards and the specific standards have been developed. This is best summarised by Table 1, which states the four framework documents in column one, and the resulting generic standards and specific guidelines in columns 2 and 3 respectively.

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22  EX FWD / FRS 2.3 – General Purpose Financial Reports

SSIG Submission on the IFAC- ED: International Guidelines on Environmental Management Accounting (EMA)
### Table 1: Promulgations governing the current New Zealand Framework

<table>
<thead>
<tr>
<th>Framework Documents (Column 1)</th>
<th>Generic Disclosure Standards (Column 2)</th>
<th>Specific Standards (Column 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Explanatory Forward’ to general Purpose Financial Reporting (Ex-Fwd)</td>
<td>Presentation of Financial Reports (FRS-2)</td>
<td>Statements of Standard Accounting Practice</td>
</tr>
<tr>
<td>Framework for Differential reporting (Diff-Rep)</td>
<td>Materiality (SSAP-6)</td>
<td>Exposure Drafts of Financial reporting Standards</td>
</tr>
<tr>
<td>Role of Accounting Standards Review Board – (ASRB Release 6)</td>
<td>Information to be disclosed in Financial Statements (FRS-9)</td>
<td>Technical practice Aids</td>
</tr>
</tbody>
</table>

Source: Hamilton, Tozer and Armstrong\(^{23}\) (page 176)

### 3. Stakeholders

The SSIG supports both the definition and use of the term ‘Stakeholder’ in the ED: IGEMA, as this is also a concept underlying SDR, namely;

**Increasing Pressure from Stakeholders Interested in Environmental Issues**

Many internal and external stakeholders are showing a great and increasing interest in the environmental performance of individual organizations (particularly private sector companies). Examples of **internal stakeholders** include employees that might be affected by pollution within the work environment. **External stakeholders** include communities affected by local pollution, environmental activist groups, government agencies, shareholders, investors, customers, suppliers and others with an interest in environmental issues. (ED:IGEMA Page 18) [bold added].

### 4. Independence and Assurance

The SSIG supports ED:IGEMA (below) and considers it important guidance is provided not only on verifying EMA information, but putting in place measures to ensure those preparing reports are independent of those verifying reports or analysing reports for other stakeholders. As the task of preparation and verification are different, the SSIG would support a separate exposure draft on assurance of EMA.

**EMA Links to Financial Accounting and Reporting**

There is a growing trend to include increasing amounts of environment-related financial information (as well as non-financial information) in corporate financial reports to external stakeholders. Accountants within organizations play a key role in providing the information, and external auditors play a key role in **verifying the accuracy** of the information reported, as well as **verifying the information systems and practices** from which the reported information is derived. (ED:IGEMA Page 55) [bold added].

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\(^{23}\) Hamilton, Tozer and Armstrong, Accounting: A Professional Foundation, Thomson, Page 176

SSIG Submission on the IFAC- ED: International Guidelines on Environmental Management Accounting (EMA)
While this may include reporting and auditing in some companies, environmental management accounting typically involves life-cycle costing, full-cost accounting, benefits assessment, and strategic planning for environmental management. (ED:IGEMA Page 15).

5. Accountability and Governance

Governance and accountably are key drivers in SDR and we suggest EMA. In New Zealand, Governance Statements are in the public domain and are usually contained in external reports of an entity.

A New Zealand Example:
Notably, a requirement of Sections 40 & 274 of the Local Government Act 2002, introduced during the 2003 year, is that each local authority must prepare and make publicly available a local governance statement prior to 31 December 2003 – an example can be found at the Auckland Regional Council24.

An International Example:
BP intends to disclose on its website at www.bp.com significant ways (if any) in which its corporate governance practices differ from those mandated for US companies under NYSE listing standards.25 BP Corporate Governance Statement, which is contained in their annual report, is publicly available.26 The Corporate Governance statement is audited – see the auditor’s statement.27

The ED:IGEMA only mentions ‘governance’ once (see below) whereas, in our view, ‘governance and accountability’ are core concepts underlying quality reports.

Management accounting is the application of the principles of accounting and financial management to create, protect, preserve and increase value and then to deliver that value to the stakeholders of profit and not-for-profit enterprises, both public and private. Management accounting is an integral part of management. It requires the identification, generation, presentation and use of information relevant to:

- formulating business strategy;
- planning and controlling activities;
- decision making;
- efficient resource usage;
- performing improvement and value enhancement;
- safeguarding tangible and intangible assets;
- corporate governance and internal control. ED:IGEMA Page 15 [bold added]

24 www.arc.govt.nz/arc/about-arc/arc-local-governance-statement/
25 www.corporatewindow.com/annuals/bp03/miscover.html
26 www.corporatewindow.com/annuals/bp03/page102.html
27 We review whether the corporate governance statement contained in BP Annual Report and Accounts 2003 reflects the company’s compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board’s statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group’s corporate governance procedures or its risk and control procedures. www.corporatewindow.com/annuals/bp03/page39.html

SSIG Submission on the IFAC- ED: International Guidelines on Environmental Management Accounting (EMA)
6. Economic, Social and Environmental Information

The SSIG is concerned that the promotion of EMA in isolation may fail to produce integrated internal and external reports (e.g. like that promoted in the excerpt below). Today’s internal and external stakeholders may want to understand how past and future decisions by an entity shape the economic, environmental and social landscape in which it operates. This may mean all types of information are reported together. For example, a report (or section of an external report) on a contaminated site may include the financial provisions (FA), the health effects on the employees and wider community (SA), the physical size and range of contaminants (EMA-physical), the cost of transforming the site into a city park (EMA-Monetary) and the history of the site (Economic history - Narrative). Clearly, any definitions must consider that reports contain integrated information. Refer Section C, sub-section 1, page 18.

The UN System of Integrated Environmental and Economic Accounts

The United Nations Statistic Division first issued guidelines on Integrated Environmental and Economic Accounting (SEEA) in 1993. The most recent version of the UN SEEA guidelines outlines the types of physical and monetary information useful for environmental accounting at the national level. The main goal of UN SEEA is to allow assessment of interactions between the natural world and the economy, and to provide information to support the design of integrated social, economic and environmental government policies. (ED:IGEMA Page 56) [bold added].

7. Future Information

The SSIG suggests with the advent and use of provisions, contingent liabilities and narrative notes, accountants have indeed made progress towards reporting on future impacts. The New Zealand Local Government Act 2002 goes even further, by requiring the reporting on the expected effects of future actions - refer Section A, page 10: A New Zealand Perspective (see first ‘significant development’).

This exposure draft is a further opportunity to emphasise and support such an approach, and the SSIG considers the profession has made more progress than the excerpt below implies.

Many types of environment-related cost information not found in the accounting records

Accounting records typically do not contain any information on future environment-related costs that may be quite significant, because accounting systems typically look towards the past rather than the future. (ED:IGEMA Page 22) [bold added].

8. Verifiable Information

The SSIG supports the ED:IGEMA in drawing a distinction between verifying facts and verifying systems (see para below) and wishes to ensure the IFAC is aware of the way verification reports are developing. For example, verifying specific facts but not verifying systems or narrative. In addition, the ED:IGEMA does not directly mention the importance of accurate benchmarking of environmental information, either for industry comparisons or comparisons over time.
**EMA Links to Financial Accounting and Reporting**

There is a growing trend to include increasing amounts of environment-related financial information (as well as non-financial information) in corporate financial reports to external stakeholders. Accountants within organizations play a key role in providing the information, and external auditors play a key role in verifying the accuracy of the information reported, as well as verifying the information systems and practices from which the reported information is derived. (ED:IGEMA Page 55) [bold added].

9. **Accessibility and Affordability**

As information is an asset, it must be managed and if appropriate, made publicly available. This requires consideration of (a) transparency (public good) versus privacy (private good) and (b) the benefits versus costs of collecting and reporting information. EMA requires the application of ‘professional judgement’ when reporting information to internal stakeholders, in particular what to report to external stakeholders, and when. The ED:IGEMA may be a good place to lay some ground rules.

Ideally, EMA information on significant entities would be easily and freely accessible on national databases (e.g. web site).

10. **Mandatory Reporting**

ED:IGEMA, Table 1 states: ‘There are no external reporting requirements specifically associated with MA or EMA’, however that is debatable, particularly if it is considered Management Accounting includes reports prepared by Management as against reports prepared for management.

The SSIG considers MA and EMA often feed into published external reports. Examples of proposed Mandatory or legislated Mandatory External Reports are included in Chapter 5 of the Guideline, however other examples include:

- United Kingdom\(^{28}\) - refer OFR above,
- France\(^{29}\)
- Denmark\(^{30}\)
- Australia\(^{31}\)
- Other ‘Relevant Initiatives’\(^{32}\)

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28 www.icfconsulting.com/Publications/Perspectives-2004/uk-ofr.asp
29 www.socialfunds.com/news/article.cgi?sfArticleId=798
32 europa.eu.int/comm/employment_social/soc-dial/csr/abc13.htm#_Toc85625642
Section C: Specific Recommendations

The SSIG agrees there is considerable confusion over terminology and the landscape; hence we support all moves to provide clarity. We therefore consider this Exposure Draft and any resulting guidance as an excellent opportunity to provide a comprehensive platform for further developments in this area. Our specific recommendations are discussed below.

1. The Landscape

Although developed in Chapter 1, we suggest the total accounting landscape could be better communicated with the addition of a new Figure or Table positioned before the ED:IGEMA Table 1.

Chapter 1 of ED:IGEMA is useful, as it highlights the interrelationships, but we have a number of concerns; namely:

- There is no mention of social reporting (SA). Although this is understandable considering this is guidance on EMA, the links with SA ideally should be more prominent. Notably, social accounting can also be considered in terms of monetary, physical, and narrative reporting.

- Chapter 1 does not clearly explain that external reports are generally generated from internal information, consequently external financial reports can not be easily isolated but are dependent on internal information, including FA, MA and SA information.

- Accounting systems may be best discussed in terms of ‘types of systems’ that must be inter-linked rather than ‘types of users’. We suggest that there are four types of accounting systems in operation at any time, namely:

  1. Designed to produce financial statements, via the chart of accounts etc, being for the creation of external reports
  2. Designed to produce monetary non-financial information for both internal and external reports. These can have an economic, social and environmental focus.
  3. Designed to produce physical information for both internal and external reports. These can have an economic, social and environmental focus.
  4. Designed to produce narrative information for internal and external reports. These can have an economic, social and environmental focus.

- Acknowledge cultural information is part of the accounting landscape. The ED:IGEMA barely mentions social and does not mention cultural impacts.

There has been discussion in New Zealand about the addition of a fourth bottom line, being the addition of ‘cultural’ (i.e. the Quadruple Line Report) in contrast to the TBL (‘economic, social and environmental’). Although discussed and included in some New Zealand legislation, many consider ‘cultural’ in included under ‘social’.
The SSIG suggest Figure 1 below as a way of defining the landscape.

**Figure 1: The Information Triangle**

- **Internal Reporting** – being the identification, collection and reporting of all information.
- **Mandatory External Reporting** – what an entity must legally report.
- **The GAP** – Voluntary External Reporting – being the GAP between what must be legally reported against what is actually reported.

Financial and Management Accounting Information

- Economic Info. Incl. FA
- Social Info. Incl. SA
- Environmental Info. Incl. EFA, EMA, NRA

The SSIG considers the increasing size and nature of the gap must be identified and researched. Secondly, the IFAC should consider ways of providing relevant cost-effective guidance for preparers and verifiers of voluntary external information. We see this exposure draft as one mechanism for developing such guidance.

### 2. Definition of MA

The SSIG notes the distinction made between FA and MA in the ED: IGEMA.

*The main point is to distinguish between management accounting (MA), the focus of which is internal decision making, and financial accounting (FA), which aims to provide information to external stakeholders.* [Executive Summary Para 1] [bold added]

*The two broad categories of accounting that typically take place within an organization are management accounting (MA) and financial accounting (FA). In general, FA tends to refer to accounting activities (e.g., bookkeeping) and reports directed to external stakeholders, while MA focuses on providing information to organization management for internal decision making.* (Chapter 1, Para 3) [bold added]
This distinction appears to be in conflict with further statements in the ED:IGEMA (see below) that clearly acknowledge that the purpose for MA, in certain situations, is focused on meeting the needs of external stakeholders.

**Uses and Benefits of EMA**

EMA is particularly valuable for internal management initiatives with a specific environmental focus, such as cleaner production, supply chain environmental management, “green” product design, environmentally preferable purchasing and environmental management systems. In addition, EMA-type information is increasingly being used for external reporting purposes as well. (ED:IGEMA page 22) [bold added]

However organisations use some of the information gathered under EMA for environmental regulatory reporting, statistical reporting or voluntary corporate environmental and sustainability reporting. (ED:IGEMA, Table 1, page 13) [bold added]

The SSIG, believes the key distinction between MA and FA should be based on the ‘nature of the information’ rather than ‘who receives the information’. Consequently, the SSIG suggests:

**FA:** tends to refer to accounting activities (e.g., bookkeeping) and reports directed to external stakeholders. (ED:IGEMA Chapter 1, Para 3).

Is amended to:

**FA:** tends to refer to accounting activities (e.g., bookkeeping) and reports directed to external stakeholders that focus on the preparation of financial statements for external stakeholders and the provision of monetary information for internal stakeholders.

However, the SSIG strongly disagrees with the definition of MA and considers it must be changed to reflect current practice. The ED: IGEMA states;

**MA:** focuses on providing information to organization management for internal decision making. (ED:IGEMA, Chapter 1, Para 3).

Is amended to:

**MA** tends to refer to accounting activities beyond the strict definition of FA (above), and includes the reporting of monetary, physical and narrative information for internal and/or external stakeholders.

The SSIG would consider the ‘Sustainability Accounting Analysis’ (discussed in Section A: New Zealand Developments) prepared by Watercare Annual Report (2003)\(^\text{33}\) (refer Appendix 2 [Figure 4]) is a monetary external report using FA and MA information to report the gap between the ‘cost base necessary to meet statutory and legal requirements’ and the ‘cost base required to deliver sustainable performance’. As an example, it indicates the challenge of trying to apply the definitions of MA and EMA as defined in the ED:IGEMA.

\(^\text{33}\) [www.watercarecare.co.nz](http://www.watercarecare.co.nz)
3. Definition of EMA

The SSIG does not agree with the UN definition of EMA in totality. The SSIG agrees EMA includes both physical and monetary information, but considers information can also be and/or should be:

(a) **reported and verified.** For example where water quality is not only tested internally but is also tested by an external independent party for management to have additional assurance.

(b) **reported externally.** The UN definition appears to ignore the reality that some EMA information is reported to the public and that informed stakeholders do make decisions on EMA information. Hence, comprehensive definitions will be key to improving the quality of communication and therefore outcomes.

(c) **include all** material information from **significant entities currently in existence.** There are two ways information can be collected and this could be best considered under the terms vertical flows and horizontal flows.

**Vertical flows** considers all the physical information in regard to the production of products and services and considers everything from the source of raw materials (e.g. methods of mining / use of child labour / use of sustainable timbers) to the use of the end product (e.g. disposable wrapping paper, responsible disposal of batteries, use of guns etc).

**Horizontal flows** consider all the physical information in regard to the effect of the entities operations on the wider landscape. This is often considered to include the ecological footprint and is best examined in terms of the outcomes resulting from the operation of the business. (e.g. air emissions, site stormwater discharges, soil erosion, soil quality depletion, jobs generated from the business being located in a community of high unemployment, reclamation work, staff cleaning beaches/lakes or planting trees).

Notably, the ED:IGEMA calls these horizontal flows – ‘external costs’ and considers they are ‘typically’ not included in EMA by stating:

*It should be noted that EMA typically does not include ‘external’ costs, the environmental-related costs to individuals, business partners, society or the planet for which an organisation is not responsible for. …[and] Thus external costs are not discussed further in this document.* (ED:IGEMA, page 17).

The SSIG disagrees and considers that most entities are reporting on some form of horizontal flow (ie your external costs). A discussion paper by BT-UK\(^3\) identifies a continuum (see Appendix 9) and we consider ‘true compliers’ are rare. We consider the proposed approach by the IFAC may be too narrow for current and future practice.

Please note the term ‘existing’ is recommended rather than ‘operating’, because an entity may argue that is does not operate, but it cannot argue that it does not exist and there can be situations where an entity is no longer in operation, but owns assets or has potential obligations that may require Directors/Owners/Management to
identify, collect, analyse, report and obtain assurance e.g. mine tailings, refuse dump leachate, ‘brown site’ soil contamination.

(d) Monetary information also includes environmental assets (e.g. quality water in a lake / air / earth, stormwater retention ponds, storage tank bunds), debts (e.g. provisions for future clean-up site costs / make good / future costs of promised stakeholder engagement ), disclosures (e.g. provisions for potential court penalties) and disclaimers (not responsible for soil contamination / poor water quality ). There may also be confusion over the terms costs, earnings and savings, and hence a second option is suggested; ‘monetary information on the environmental-related inputs, processes, outputs and outcomes of existing entities’.

(e) Includes ‘narrative’ information (e.g. environmental statements in SDR).

As the real test of a useable definition is its ability to describe tangible or intangible effects and impacts in such a way to cover all eventualities and yet sufficiently descriptive to ensure adequate boundaries are in place, we suggest the UN definition can be improved by taking on board the issues raised in (a) – (e) above.

The following definition is a suggested way forward:

**EMA is broadly defined to be the identification, collection, analysis, (a) reporting and verification of and use of three types of information for internal decision-making use by (b) stakeholders, being:**

- **physical information on (c) the environmental related inputs, processes, outputs and outcomes** the use, flows, and fates of energy, water, and materials including wastes) and
- **monetary information on environment-related costs, earnings, (d) assets, debt, disclosures, disclaimers and savings. (option1) OR monetary information on environment-related (d) inputs, processes, outputs and outcomes costs, earnings, and savings. (option2) and**
- **(e) narrative information on environment-related past, present or future impacts.**

The proposed definition by the SSIG (above) takes in to consideration points (a) – (e), and therefore includes environmental accounting for:

- Risk management (e.g. AS/NZS Risk Management34),
- Future outcomes, being current decisions on anticipated future outcomes (e.g. the New Zealand Local Government Act 2002),
- Socially Responsible Investment Funds (e.g. Appendix 5),
- Penalties (e.g. Nuplex Judgement– Appendix 7),
- Provisions for clean up costs, (e.g. contaminated sites),
- Traceability and tracking of products for product safety,
- Branding products as clean, green and safe. For example, that the quality assurance standards have been met. (e.g. organic food standards/pasture etc).

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The future - A fifth stage and beyond

The SSIG considers the ED:IGEMA could provide additional insights into the nature and future of reporting. When considering the four stages developed in your Chapter 1, page 17, the SSIG considers we have already passed a fifth stage and the ED:IGEMA should be considering the possible nature of the sixth stage.

The SSIG propose a fifth stage was reached as a result of large corporate collapses, like Enron in the early 2000’s and propose the focus of this fifth stage is as follows:

Stage 5: (by 2002) – a focus on effective governance and accountability in regard to inputs, processes, outputs and outcomes’.

Key international publications for consideration

The following developments are not mentioned in the ED:IGEMA, but have a bearing on the current practice and future developments of EMA;

1. Australia
   Superannuation funds in Australia are now required to consider a range of issues pertaining to ‘sustainability’. Also of note is the Australian Securities & Investments Commission Product Disclosure Statements\(^{35}\) (PDS) (December 2003), which outline disclosure guidelines about labour standards or environmental, social and ethical considerations.

2. UK
   There is an increase in legislation to improve the quality of reporting for sustainability issues.

   For example,
   (a) The regulation under the UK’s 1995 Pensions Act (July 2000) requires trustees to declare in their Statement of Investment Principles: the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments; and the policy (if any) directing the exercise of the rights (including voting rights) attaching to investments\(^{36}\).

   (b) The United Kingdom presently has a paper before Parliament on Operating and Financial Reviews (OFRs), which will be mandatory for listed companies formed under the Companies Act 1985 with financial periods commencing on or after 1 April 2005)\(^{37}\). OFRs will be optional for other entities. Some have already started reporting using this framework. The guidance document\(^{38}\) contains the following:

   Question: Does the OFR have to include information about the environment, company employees, social and community issues?

\(^{35}\) www.eia.org.au Refer Section 1013DA and see especially page 14
\(^{36}\) mjra-jsi.com/whatissri.asp?section=5&level_2=28&level_3=0
\(^{37}\) www.dti.gov.uk/cld/financialreview.htm
\(^{38}\) www.dti.gov.uk/cld/OFR_Guidance.pdf
Answer: To the extent necessary for directors to comply with the general requirements of paragraphs 1 and 2 of the OFR Schedule, yes it does. The OFR Schedule specifies what information directors need to consider for inclusion. Directors will need to make judgements about what data and analysis to include, and the level of detail to which it is appropriate to go.

The OFR proposals involve a principles-based standard, which in particular makes clear that the OFR must reflect the directors’ view of the business. The objective is to assist investors to assess the strategies adopted and the potential for those strategies to succeed. The information will be useful to both shareholders and other users of accounts.

They also provide a basic framework for directors to apply in order to meet the requirements of the Regulations. It is for directors to consider how best to use this framework to structure the OFR, given the particular circumstances of the entity.

3. Finance Directors in the UK (and NZ) need to be environmental risk managers in addition to their strategic and compliance roles, and must communicate both the risks and opportunities of the environmental and social impacts of their firms to investors and analysts.  

4. International Financial Reporting Interpretations Committee’s draft interpretations D2 and D4. The adoption of international accounting standards may result in a move towards sustainable development reporting;

   - Draft Interpretation D2 suggests for example, accountants will have to consider how they are going to account for the decommissioning of mining operations in the Coromandel (a Peninsula in New Zealand) and for the restoration of the land it has affected. (This also ties in with the New Zealand Resource Management Act (1991) requirement for entities such as mines to restore land at the end of its useful life as a mine.)

   - Draft Interpretation D4 will require entities to ensure money is held in trust, to pay for decommissioning, ‘such as rectifying pollution of water or restoring mined land’ (pg 5). When trusts are set up in this way, ‘voluntarily or required by regulation or law’, they will need to be ‘separately administered by independent trustees’.

5. IASB Update - Management Commentary February 2005

An excerpt from the latest IASB Update:

‘The [IASB] Board received a presentation on management commentary, a topic on its research agenda. The project is being developed by staff from standard-setters in New Zealand (lead), Canada, Germany and the United Kingdom. The Board noted the draft discussion paper being developed by the project team, which included proposals for a

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39 Chartered Institute of Management Accountants; CIMA Insider, September 2004, pp 8-13

SSIG Submission on the IFAC- ED: International Guidelines on Environmental Management Accounting (EMA)
management commentary standard. The Board commended the project team on their output, and decided to publish the discussion paper for public comment when complete. The discussion paper would not include the Board’s preliminary views, though it would include specific questions for comment.¹⁴₀
Appendix 1: Key Events Surrounding Sustainable Development and Sustainable Development Reporting
Source: SDRC Submission to FRSB ED: NZ Framework 6 August 2004

1970s Growing awareness about global environmental issues led to the establishment of United Nations Environment Programme.

1980s Work about the connection between the environment and development leads to establishment of United Nations World Commission on Environment & Development.

1987 World Commission on Environment and Development releases the report Towards a Common Future (i.e. the ‘Brundtland’ Report) coined the term “sustainable development”. Sustainable Development is defined as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs”.


1993 United Nations Commission on Sustainable Development (CSD) established. The CSD is set up to monitor progress of Agenda 21.


1990s/2002
Key New Zealand legislation incorporates sustainable management or development principles:
- Resource management Act 1991;
- Forest Amendment Act 1993;
- Fisheries Act 1996;
- Energy Efficiency and Conservation Act 2000; and

1997 The Global Reporting Initiative (GRI) is established by the Coalition of Responsible Economic Development and the United Nations Environment Programme to “enhance the quality, rigour and utility of sustainability reporting”.

1999 First exposure draft of GRI’s Sustainability Reporting Guidelines, with input from 21 companies from diverse countries & sectors.

2000 The New Zealand Government accepts the Brundtland definition of sustainable development.

2001 New Zealand Government agrees to principles of sustainable development and to sustainable development underpinning the Government’s economic, social and environmental policies. The Organisation for Economic Co-operation and Development (OECD) meets with a range of Environment & Economic Ministers to produce policies to enhance sustainable development.

2002 Second revision process of the GRI guidelines undertaken

2002 Parliamentary Commissioner for the Environment’s report “Creating our Future – Sustainable Development in New Zealand”.

SSIG Submission on the IFAC- ED: International Guidelines on Environmental Management Accounting (EMA)
Annual reporting – a sustainable development perspective

Wendy McGuinness and Peter Hays report on the results of the Institute’s Annual Report Awards for sustainable development

Table 1: 2004 Annual Report Awards – sustainability categories

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
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</table>
www.LandcareResearch.nz/publications/anualreport_0203 |
| Commendations | Youth Hostels Association of New Zealand Incorporated (2003)  
www.yha.org.nz  
www.watercare.co.nz |
| Sustainability Report by a Listed Company (or Subsidiary) | Sanford Limited (2003)  
www.sanford.co.nz |
| Sustainability Report by a Local Authority | Waitakere City Council (2002-03)  
www.waitakere.govt.nz |

Please note: The judges also provided a fourth category in 2004 – “small and medium-sized enterprises with a maximum of 250 employees”. However, no reports were entered for this category. The judges consider small and medium-sized enterprises a key category and have requested the Institute’s staff to promote this category in 2005.

Criteria

In the past, the criteria for judging the Annual Report Awards has been based on the Association of Chartered Certified Accountants (ACCA) sustainability reporting awards criteria. However, in 2003, the ACCA’s criteria was changed markedly. As a result, the judges decided not to incorporate all the detailed changes but retain the ACCA’s three key “report characteristics”.

In addition, the judges continue to be guided by the need to apply the New Zealand reporting context (as currently outlined in the New Zealand statement of concepts) and the international sustainability context (as discussed in the Global Reporting Initiative, 2002 Guidelines). The actual award criteria used by judges in 2004 is summarised in Table 2.

The judges and the Institute plan to discuss how the criteria should be developed in the future, particularly in context of the adoption of the IASB Framework. Importantly, some of the judges are currently working on how to improve the “Exposure Draft New Zealand Framework” and the adoption of the IASB Framework with the addition of specific paragraphs for the New Zealand context. The judges hope that such a framework will provide a clear basis for New Zealand to develop its own criteria and guidelines, based on
New Zealand’s unique economic, social and environmental characteristics.

With the potential move away from ACCA’s award criteria, Institute staff and judges are considering adopting a more formal approach by providing a detailed list of criteria in advance of judging, a report of “report of the report” (like the ACCA UK currently provides on its website) and a detailed letter to each entrant. We are interested in your feedback on this approach.

The 2004 entries

This year, even though there were some very good examples of sustainable development reporting, very few provided a comprehensive and well-balanced report that met all the criteria. Therefore, only one report received a winner award. A number of reports provided innovative or highly informative reports on specific impacts and proposed solutions to negative impacts, and the more accomplished examples of these received a commendation award.

This was in line with the judges comments in 2003, which noted that reporters should “focus on core business issues rather than isolated acts of good corporate citizenship.” Interestingly, John Craig picked up this point in his article “Ethics, sustainability and The Natural Step.” He suggested that this comment meant “something more is required” and he is correct. To produce a winning report, entrants must produce a comprehensive, concise and relevant report for stakeholders. Consequently, reporters that achieve this high standard of reporting naturally deserve to be applauded by their peers.

It must be recognised that while the Institute provides only guidance on sustainable development reporting, entrants and verifiers will continue to find the process challenging. The Institute’s staff and the Sustainable Development Reporting Committee are planning to provide voluntary guidance in 2005-06, and the judges look forward to the additional framework being provided to entrants.

In addition, the judges want to clarify that entities “reporting on isolated acts of corporate citizenship” do not provide a useful form of communication to stakeholders. It is our hope that consideration of such issues may lead reporters to consider producing sustainable development reports, but such an isolated approach is insufficient to meet the needs of a successful sustainable development report.

Highlights of good reporting practice from the 2004 entries

Examples of good reporting practice by entries include:

Clarifying the level of assurance

This is not just about the accuracy of the information provided but ensuring that all relevant information is provided (completeness). For example, Landcare Research continues to place a strong emphasis on assurance by designating a separate section in their report on “verification and accountability” (see Figure 1). To provide assurance to users, their report includes an “in accordance” declaration with the Global Reporting Initiative’s report from the PSA delegate and a verification statement from Tonkin & Taylor.

Other methods of providing external assurance include obtaining accreditation for environmental management systems, such as ISO 14001 (see Sanford Limited and Landcare Research), and adopting assurance standards, such as AA1000 (see Watercare Services Limited), where...
Reporting in a coordinated and relevant manner:
The Youth Hostels Association of New Zealand Incorporated clearly states its mission on the cover (see Figure 2), and uses it to clearly evaluate its results and state how such results can be improved in the future (eg establish criteria for the selection of future suppliers). Notably, on the contents page, it states:

"The process of "Triple Bottom Line" reporting is a journey that we embarked upon as an Association in 2001. It is a way of sharing information that identifies strengths as well as challenges, results as well as responsibilities. Systems that contribute to this process are continually being developed, implemented and reviewed to monitor our progress and the standard of our reporting quality."

Sanford Limited also included a large section on how it plans to manage its environmental footprint, for example, the use of devices such as a sea lion excluder device (SLED) (see Figure 3).

Quantifying results in a measurable and comparable manner:
Watercare Services Limited provided a very innovative sustainability accounting analysis in its report (see Figure 4) that records the additional expenditure between what is legally necessary and what it has spent to deliver additional standards of sustainable performance. Notably, this 2003 figure can now be benchmarked against the 2002 figure. The report states:

"Sustainability accounting is a means of quantifying the cost of undertaking environmental and social initiatives that minimise a company's environmental and social impact, and that enhance environmental and social outcomes. In short, sustainability accounting puts price on a company's environmental initiatives... Sustainability accounting allows organisations to quantify the scale of trade-offs that they face."

A more traditional example of reporting sustainable development results is Sanford Limited, which reported "a $270,000 saving due to electricity eco-efficiency".

Reporting on and promoting stakeholder engagement:
Landcare Research promotes dialogue directly to relevant staff members whose names and contact details are provided in the report. Another example is Watercare Services Ltd with its comment/feedback form and commitment to social policy by maintaining a process of Māori/stakeholder consultation.

Defining the boundaries of the reporting entity:
Waitakere City Council described and reported on two separate boundaries, being what the entity can influence as distinct from what it can control, and summarising these conclusions in separate sections of its annual report:
Sustainable Development Report (p10-13):
"The Council uses sustainability reporting to measure and describe what the Council and the community are achieving together."
Corporate Sustainability Report (p14-24):
"The purpose of Corporate Sustainability reporting is to measure and improve how the Council 'walks the talk'. This involves looking at how the Council goes about its business (as opposed to what it does), and measuring the impacts and progress towards sustainability for the Council as an entity/organisation."
There is no doubt that organisations that focus on corporate governance, accountability, ethics, stakeholders needs, transparency and benchmarking tend to produce excellent sustainable development reports. Consequently, these characteristics, when combined with vision and commitment, create the necessary culture for organisations to begin their own journey to reporting on sustainable development.

What is becoming obvious is that every standard in the journey is a potential signpost; every innovation a potential step forward and every adventurer a potential champion. As judges, we are continuously impressed by the commitment and vision of New Zealand organisations.

Footnotes
1. A triple bottom line report is a type of sustainable development report that addresses economic, environmental and social issues separately. As reporting becomes more sophisticated, there is a tendency to integrate these three components.
2. Peter Hay (Chair), Ken Tremayne, Rita Evans, Richard Thompson, Peter Casey and Wendy McGuinness.
7. See 3 above.
10. “The decision to report in accordance with the 2002 GRI Guidelines is an option, not a requirement. It is designed for reporters that are ready for a high level of reporting and who seek to distinguish themselves as leaders. Organisations that wish to identify their report as prepared in accordance with the Guidelines must meet five conditions (see p13 of the 2002 Guidelines). Two key conditions are: (1) Respond to each core indicator by either (a) reporting on the indicator or (b) explaining the reason for omission of each indicator; and (2) include a statement signed by the board or CEO attesting that the report is a balanced and reasonable presentation of the organisation’s sustainability performance. The in-accordance conditions help to advance GRI’s commitment to achieving improved report comparability and quality.” See www.globalreporting.org (IFAC link).
13. Ibid. p87-88.
17. Ibid. p14.
## Appendix 3: Recent International Guidelines, Discussion Papers and Reports relating to SDR
Source: SDRC Submission to FRSB ED: NZ Framework 6 August 2004

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Title</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Written Specifically for verifiers of SDR</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Written for a more General Audience</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AICPA (American Institute of Certified Public Accountants)</td>
<td>Quality and Transparency in Business Reporting - A Call for Action in the Public Interest Dec 2003</td>
<td><a href="http://www.aicpa.org">www.aicpa.org</a> - published by the AICPA Special Committee on Enhanced Business Reporting</td>
</tr>
<tr>
<td>Department of Family and Community Service (Australia)</td>
<td><strong>Triple Bottom Line reporting in Australia: A Practitioner’s Guide to Reporting against Environmental indicators.</strong></td>
<td>Website forthcoming</td>
</tr>
</tbody>
</table>

<p>| Overarching Principles for General: | | |</p>
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<tr>
<th>Organisation</th>
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<td>Organisation</td>
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</tbody>
</table>
2. Case Studies                                                        | www.nzbcasd.org.nz                                           |
| SIGMA                                            | The SIGMA Guidelines Sept 2003                                       | www.projctsiga.com                                           |
| VeriSEAAR (Bureau Veritas)                       | Audit Template for conversion of AA1000 – AccountAbility article      | http://www.bureauveritas.com/webapp/servlet/FileServlet?mode=preview&downloadfile=/Measuring+up+to+AA1000.pdf |
| WBCSD                                            | Sustainable Development Reporting: Walking the Talk 2002              | www.wbcsd.ch (under Accountability & Reporting)              |
### Appendix 4: Examples of GRI Indicators
Source: SDRC Submission to FRSB ED: NZ Framework 6 August 2004

<table>
<thead>
<tr>
<th>Environmental</th>
<th>Economic</th>
<th>Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total materials use by type</td>
<td>Net sales</td>
<td>The percentage of employees represented by independent trade unions</td>
</tr>
<tr>
<td>Direct and indirect energy use</td>
<td>Cost of all goods, material and services purchased</td>
<td>Practices in recording and notification of occupational accidents and diseases.</td>
</tr>
<tr>
<td>Description of major impacts on biodiversity</td>
<td>Total payroll and benefits</td>
<td>Standard injury, lost day and absentee rates and work related fatalities</td>
</tr>
<tr>
<td>Air emissions by type</td>
<td>Distributions to providers of capital broken down by interest on debt and borrowings and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed.</td>
<td>Average hours of training per year</td>
</tr>
<tr>
<td>Significant spills of chemicals</td>
<td>Increase/decrease of retained earnings during the period</td>
<td>Equal opportunity programmes or policies and monitoring systems to ensure compliance</td>
</tr>
<tr>
<td>Significant environmental impacts of principal products and services</td>
<td>Total sum of taxes of all types paid broken down by country</td>
<td>Description of policies, guidelines and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results</td>
</tr>
<tr>
<td>Percentage of weight of products sold that is reclaimable at the end of the products’ useful life and percentage that is actually reclaimed</td>
<td>Donations to community, civil society and other groups broken down in terms of cash and in kind donations per type of group</td>
<td>Description of policies, procedures to evaluate and address human rights performance within the supply chain and contractors, including monitoring systems and results of monitoring.</td>
</tr>
<tr>
<td>Performance of suppliers relative to environmental components of programmes and procedures</td>
<td></td>
<td>Description of policies, guidelines and procedures to address the needs of indigenous people</td>
</tr>
<tr>
<td>Incidents of non-compliance with applicable international declarations etc and national/local regulations associated with environmental issues.</td>
<td></td>
<td>Description of policies for preserving customer health and safety during the use of products and services.</td>
</tr>
</tbody>
</table>
Socially Responsible Investment Funds

Last Updated: 1 November 2004

The following table provides contact details for some of the ethical investment options available for New Zealand investors:

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Information Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMP Henderson Global Ethical Fund</td>
<td><a href="http://www.amp.co.nz">www.amp.co.nz</a></td>
</tr>
<tr>
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<td><a href="http://www.henderson.com">www.henderson.com</a></td>
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Hubbard files: The triple bottom line lie

Coran Lill
http://www.nbr.co.nz/home/column_article.asp?id=10297&cid=4&cname=Business%20Today

Dick Hubbard’s breakfast cereal business purportedly has at its core the triple bottom line concept. Don’t just judge Hubbard Foods by its profits, Mr Hubbard says. Judge it also by the way it treats its staff and the environment. Judge it by what sort of “corporate citizen” it is.

Mr Hubbard has made much mileage out of his apparent commitment to the triple bottom line concept ever since he flew staff to Samoa in 1998.

New Zealanders have been led to believe that it's all sunshine, lollipops and rainbows at his Mangere factory, that Mr Hubbard is some sort of New Zealand version of Willy Wonka.

Not so.

Year after year he has preached about his conversion to corporate social responsibility.

Year after year he has angered other businesspeople, who see Mr Hubbard’s spouting forth about corporate social responsibility as making them look like bad, uncaring people.

One senior businessman told the National Business Review: “Many of us have been quietly fuming for years because when Hubbard goes on and on about his triple bottom line theories and social responsibility, it infers the rest of us in business are somehow evil people with no regard to the environment or people.

"We know in the real world nearly all of us look after our staff and do care about the environment and communities we’re operating in.

"I regard him as a great public relations operator who’s started to believe his own propaganda, and that’s a serious state of affairs for anyone running a real business."

Mr Hubbard is a founding chairman of the Sustainable Business Network and a board member of the New Zealand Council for Sustainable Development.

But an NBR investigation into his business affairs shows his company's commitment to the much-hailed triple bottom line movement is a sham.

* By his own admission, Mr Hubbard has not filed a triple bottom line report on his business in over three years, despite saying the Council for Sustainable Development requires all members to do it every two or three years.

* On Wednesday evening he deceived the public on national television when he said he had filed two triple bottom line reports. Only one has been filed in 2001.

* Hubbard Foods board member David Irving told NBR the triple bottom line concept was effectively on hold while the company focused on making cash profits.

* Mr Hubbard has refused to file another report until all activities in his factory that will contribute positively to the report have been completed something grossly out of kilter with annual reports. He said the new report would not be filed until next year.

* It is understood just two of the 95 staff (or "souls" as Mr Hubbard refers to staff members) who went on the 1998 three-day Samoa trip remain with the company.

* Despite stating in the 2001 report that the company put 1109 tonnes of carbon dioxide into the earth’s atmosphere and that Hubbard Foods would “need to plant and maintain approximately 151ha of native forest to absorb this quantity of carbon,” no trees have been planted. When asked, Mr Hubbard was unsure about what his tree-planting commitment actually was.

* In July 2002, one of Hubbard's board members, John Ashman, resigned and left the company in what Mr Hubbard carefully described as "a parting of the ways." Another board member, Hubbard marketing manager Julia van de Coolwijk, has been relegated to lead a new senior management committee which will not be directly transparent to so-called stakeholders.
* The Hubbard board, which now consists only of Mr Hubbard, his wife and just one independent director
David Irving, chairman of the Icehouse (the International Centre for Entrepreneurship) has not met
formally in months.

* Mr Hubbard continues to pay 10% of his profits to staff, but both hourly rates and profits which Mr
Hubbard is open about are low.

Since 2001, the emphasis at Hubbard Foods has been back to basics. No overseas trips, no tree planting
just money-making. Feel-good triple bottom lining has taken a back seat.

Mr Irving told NBR the need for the company to focus on financial performance has been paramount in
the past few years.

"I think frankly the emphasis on the business has been to improve the performance of the business, so
one of the bottom line legs has got a lot more attention inside the company.

"My interpretation of all this is there is nothing mischievous about the change to the board or the fact of
the triple bottom line. If it has one overarching theme, I think it is an emphasis on performance."

In fact, since July 2002, Hubbard Foods' board has shrunk from six to three as Mr Hubbard experiments
with different styles of governance.

At first “directors' meetings were pillow talk,” Mr Hubbard says, referring to his wife being the only other
director for the first 11 years of the company's life.

A change was needed, he decided, and more directors were appointed. This was done to "protect the
increasing number of stakeholders' livelihoods," the triple bottom line report recorded.

At the beginning of 2001, the year of Hubbard Foods' only triple bottom line report, the experimental
board of directors swelled from two to six, with new appointees including former Heinz New Zealand
chief executive Mr Irving, Ms van de Coolwijk, self-described business consultant Paul Brosnahan and
Hubbard operations manager John Ashman.

Mr Ashman did a "sterling job" as operations manager for nine years, Mr Hubbard said. He was on the
board for just 17 months, from February 2001 to July 2002, before the "parting of the ways." NBR was
unable to contact Mr Ashman for comment by presstime.

Ms van de Coolwijk, Mr Brosnahan and John Ashman have now all left the board, with just Mr Irving
remaining from the 2001 school.

The board has shrunk back to just its sole shareholders, Mr Hubbard, his wife, Diane, and Mr Irving. A
quasi-board made up of senior managers who are "not quite a board" has picked up the slack.

Mr Irving said this was "a move by Dick to simplify the roles and put a greater emphasis on the
management team."

So why hasn't Mr Hubbard been as proactive as he seemed to be with his triple bottom line beliefs and
filed another report? Mr Hubbard told NBR he never agreed to do one annually.

Mr Irving puts it down to the man's nature. "Dick Hubbard is not entirely the sort of ordered man who
says, 'I'll do it once a year or once every two years.'"

What was holding the company back from publishing its second report, Mr Hubbard said, was a new
literacy programme for staff, which is not yet complete, and his human resources person, Annette Lusk,
who helped him on the first and only triple bottom line report, has left Hubbard Foods to work for the
Ministry for the Environment.

Mr Hubbard said some time over the next six months a new board member will be "shoulder-tapped" but
he gave no names.

This article was published in the 17 September 2004 print edition of the NBR. It, and all the other
articles in the related investigative series on Auckland mayoral candidate Dick Hubbard, is being made
available here in digital format as a public service. 29-Sep-2004
Appendix 7: Nuplex Judgement

RMA prosecution_28.03.03

Clear message to industry
28 March 2003

The Environment Court has issued a significant sentence under the Resource Management Act (RMA) as a result of a prosecution carried out by the Auckland Regional Council against a publicly listed chemical manufacturing and disposal company.

Nuplex Industries Ltd pleaded guilty to a charge of discharging a chemical odour to air that caused nausea and headaches with staff of neighbouring sites.

ARC officers confirmed the incident after following up on complaints received from the Southdown area in Penrose on 5 June 2002. Investigation revealed that a chemical called "ethyl acrylate", which has a strong, sharp, acrid, nauseating odour, had discharged from the site as a result of two malfunctions within the plant. Judge McElrea concluded that the malfunctions occurred as a result of the company’s failure to ensure that maintenance was carried out on equipment.

Nuplex was fined $55,000, plus costs of approximately $11,000. The fine is the largest fine issued for a single charge under the RMA. The level of fine was influenced by the fact that this was the company’s fourth environmental conviction having previously received two convictions and total penalty of $75,000 in 1998 for a similar air discharge, and a single conviction and a penalty of $17,000 in 1999 for a discharge to the local stream.

Of real significance this time were the court's orders that the company:

- Include details of the prosecution in its next annual report,
- Include environmental issues on the agenda of all board meetings for the next 24 months, and
- Issue a notice to all staff outlining the incident and resultant prosecution.

This is the first time the Environment Court has ordered a company as part of a conviction to include specific details regarding a prosecution in its annual report.

"We are pleased that the Court saw fit to penalise Nuplex in this manner under these circumstances,” said ARC Environment Committee chairman Brian Smith. “The ARC does not prosecute lightly, our first aim is to work constructively with companies to educate them on their responsibilities. The Council has had a series of high level discussions with the company and hopes to continue working with them to enhance the company’s environmental performance."

The ARC believes that this judgement and sentence should send a strong message, not only to large publicly listed companies but also to all industry, that it is essential to proactively and continually ensure that they are fully compliant with environmental legislation and that they are prepared to respond immediately when incidents occur.

Councillor Smith says, “We want these industries to be successful as they perform an important and often essential part of the socio-economic needs of the Region. However they must also achieve high environmental standards in doing so. They have a responsibility to be leaders of best environmental practice.”

For more information please call

Environmental Management Committee chairman Brian Smith 09 424 7503 or 021 961 557

Compliance Leader Michael LeRoy-Dyson 366 2000 x 7184

Communications Jo Mackay 366 2000 x 8114
Appendix 8: IASB Framework 1989, Clause 9 Users and Their Information Needs

The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. They use financial statements in order to satisfy some of their different needs for information. These needs include the following:

(a) Investors. The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information which enables them to assess the ability of the enterprise to pay dividends.

(b) Employees. Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.

(c) Lenders. Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due.

(d) Suppliers and other trade creditors. Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an enterprise over a shorter period than lenders unless they are dependent upon the continuation of the enterprise as a major customer.

(e) Customers. Customers have an interest in information about the continuance of an enterprise, especially when they have a long-term involvement with, or are dependent on, the enterprise.

(f) Governments and their agencies. Governments and their agencies are interested in the allocation of resources and, therefore, the activities of enterprises. They also require information in order to regulate the activities of enterprises, determine taxation policies and as the basis for national income and similar statistics.

(g) Public. Enterprises affect members of the public in a variety of ways. For example, enterprises may make a substantial contribution to the local economy in many ways including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.
Appendix 9: Just Values – Beyond the Business Case for Sustainable Development
May 2003 – Excerpt

www.btplc.com/Societyandenvironment/Socialandenvironmentreport/Stakeholderdialogue/Onlinedebates/JustValuesdebate.htm

Extending the business case

The following diagram illustrates where the business case for sustainable development has come from and where it might be leading. There’s clearly a continuum here in terms of companies introducing more environmentally and socially responsible practices for different reasons, and driven by different agents of change. That said, it’s never quite as cut and dried as the table makes out, in that any one company can be at different points on the continuum depending on the issue or even the market in which it is operating.

Outlaws
It would be wrong to assume this is no longer an issue in these days of more enlightened business practice. It’s worth remembering that the majority of small and medium-sized companies in the UK are still not in compliance with core environmental regulations, according to the Environment Agency. And even the best of best-behaviour companies often find that compliance in less sophisticated markets (particularly in the developing world) can be outside the local norms.

Compliers
The body of international and local laws or regulated standards that exist in any country represent the minimum required of any company as part of its “licence to operate” in society. In effect, no business case is needed here, as there isn’t a choice. Evidence of commercial benefits flowing from compliance acts as a positive inducement to companies to remain in compliance as standards tighten, though the debate about the macroeconomic effects of tougher regulation (in terms of competitive advantage or disadvantage) rumbles on within the context of an ever increasing regulatory bureaucracy.
Case-makers
In many instances, there is total convergence between improved environmental and social performance and commercial self-interest. On the surface, this is a real “no-brainer”, though it remains a source of astonishment to officials in the DTI running the Government’s “Envirowise” and energy efficiency programmes that so many companies in the UK would indeed appear not to have a brain! But there are always multiple “business cases” under review in a company, competing with each other for both investment capital and management time.

Innovators
Convergence here is only partial: the business case for taking additional measures is harder to make, and the excuses for not doing so easier to deploy. This is the territory that we explore in the final part of this paper. For if it can be demonstrated through such an analysis that the business case only extends so far - and not far enough compared to the scale of urgency of the environmental and social challenges we face – then the obvious solution is to extend the business case, to make it work harder, to give companies scope to do more than prevailing conditions in today’s capital markets allow.

Trailblazers
Proactive investments for sustainable development may not only not create new value for a company, but actually destroy existing value. Companies voluntarily incurring substantial additional costs may as a result find themselves at a short to medium term competitive disadvantage. This is the territory that companies are understandably unwilling to move into, notwithstanding the exhortation of NGOs that this is precisely the territory they should be colonising.