
To	ICAANZ	Date	27 October 2019
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From	Alyson Tong	File reference	
Subject	The Recommendations for SDG Disclosures - Feedback		

Background

This paper is prepared by the Accountants team in Arup Australasia region and it is in response to feedback request from the Institute of Chartered Accountants Australia and New Zealand on *Recommendation for SDG Disclosures*. List of contributors and their roles can be found in Appendix A1.

1 Principles

1.1 Are the disclosure principles selected appropriate to encourage both the integration of SDGs into strategy and transparency in relation to risks, opportunities and impacts?

Yes, they are. However, the recommended disclosures appear to have a larger focus on compliance compared to inciting the shift away from self-interest and towards a stakeholder centric view. There is a potential to better define the core purpose of the disclosures, firstly, to maximise the quality of information provided in financial reporting, and secondly, to ensure the intended long term positive impact is achieved.

An alternative focus on the need to embody and practice what organisations are disclosing is recommended. The disclosures should be framed so that they promote thinking about the reasons behind practicing rather than merely a metric setting exercise which may lead to unintended negative consequences surrounding measured performance.

Additionally, it is recommended that materiality is better defined in the context of the SDGs Disclosures.

1.2 Are the recommended disclosures appropriate and complete?

Overall the recommended disclosures are appropriate and a good starting point in relation to accounting for the SDGs.

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To enhance comparability and relevancy, there needs to be a mechanism to standardise terminology or methodology in form of a set of generally accepted sustainability standards. This mechanism should be flexible, so it is responsive to changes in the environment in which businesses operate. Additionally, any strategy implemented needs to align with the firm's mission statement and core values. By focusing on future orientation and stakeholder inclusivity, organisations can envision the long-term benefits of sustainable operations and can realise the broader societal impact they can have on clients and communities. This highlights the fact that the SDGs apply to organisations in different ways and the principles must be able to cater for these differences.

Disclosures in isolation do not lead to change. A method of evaluation and assessment is required to monitor organisations' journey in this space. The disclosures need to be long-term orientated and should encourage organisations to disclose what they are doing, how they are doing it, and their results. This, in turn, will result in a more effective use of an organisations resources in working towards achieving the SDGs.

1.3 Are you aware of any good examples?

Internally, Arup have a few good examples of how an organisation can disclose and report on their SDG progress in a way that shows strategy and execution in both the short, medium and longer term.

- [1] Internal document for use globally by 15,000 members in Arup which discusses firm's global response to climate change. It outlines frameworks that guide Arup in tackling the SDGs as well as philosophy on business opportunities driven from alignment with the SDGs.
- [2] Arup, like many organisations, has a Diversity & Inclusion Strategy (tailored to each region) that maps the organisations journey towards inclusion. This strategy looks at lessons learnt, achievements and implementation moving forward. It shows the organisation has reflected on what they have done before and learnt what has or hasn't worked, and in turn, developed a strategy for a better impact for the future.
- [3] In terms of the Management disclosures, a good example in the engineering/construction industry is procurement. Arup has a partnership with iDiC (Indigenous Defence & Infrastructure Consortium) which aims to increase the involvement of indigenous owned and controlled businesses in Nation building projects. This partnership helps to guide managements decisions and procurement strategy to ensure indigenous businesses are strongly represented in our supply chain.
- [4] Ovagreen committee in Arup is a global network of environmental volunteers. It coordinates environmental initiatives within offices to ensure continued commitment to environmental sustainability at both a macro and micro level.
- [5] Partnership with suppliers and collaborators who are like minded in signing up to the SDGs or living out the SDGs. For example, in corporate travel and the opportunities where carbon emissions can be reduced through offset schemes, increased reporting and behavioural change.
- [6] When looking at how firms can have a broader societal impact and disclose their efforts, a good example is Arup's Impact Measurement Framework used by the Community

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Engagement teams, globally. The Framework discusses the ‘why’ behind impact measurement, outlines principles used to guide the development of the framework and the ‘Theory of Change’ framework used to underpin all community engagement projects. It then demonstrates how the framework has been applied to community engagement projects working towards achieving the SDGs.

- [7] Arup has recently signed up to the [Engineers Declare](#) agreement which demonstrates our intent to act. Initiatives of a similar nature are ways to display action.

2 Enhancing the credibility of disclosures

2.1 Are there additional sources of assurance evidence that could be included?

Other sources of evidence could include:

- Certification on offsetting program (what offsetting dollars are going towards)
- Interviews with employees. Even though interviews with key stakeholders is mentioned in Table 3, which may include employees, speaking to employees may demonstrate whether companies truly endorse sustainability strategies.
- Disclosures are signed off as part of a company's annual audit via a separate engagement.
- Usage of new technology such as blockchain to provide evidence of sustainable procurement and supply.

2.2 Do you foresee issues in the supply of assurance? Why?

Accountants are well placed to help shape the future with our business acumen and robust approach to reporting. However, a potential issue arises naturally with sustainability reporting being a relatively new practice. There are many qualified and knowledgeable accountants in financial accounting who can apply and present information according to accounting standards but there is a lack of accountants who are experienced in reporting around sustainability. In addition, companies may not be aware of what type of documentation they need to maintain to provide the appropriate level of assurance for disclosures. This was evident in the application of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments, where the lack of understanding imposed challenges for both companies and the audit companies. Guidance from assurance practitioners and clear, concise frameworks, as well as appropriate level of collaboration and engagement among different accounting bodies and accountants in practice, may help to alleviate this issue.

Although providing disclosures are optional at this stage, reporting on SDGs is gaining traction with clients wanting evidence of how an organisation is demonstrating its commitment to a sustainable future. Therefore, inevitably, companies may have to provide the assurance going forward and as part of their reporting requirements. Therefore, there needs to be a strategy in upskilling current Accountants in practice to avoid confusion in adoption. This strategy could include additional

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educational streams offered by the professional accounting bodies such as ICAANZ, CPA, ICAEW and AICPA.

Sustainability reporting has inherent assumptions and therefore providing assurance and comparability across businesses and industries may be fraught with flaws.

Lastly, the evidence suggested in Table 3 appears to be mainly internal evidence and intuitively, provides less assurance compared to external evidence.

2.3 Are there alternatives to assurance that could be included to enhance credibility of reporting?

It is difficult to have alternatives to assurance as it is important in verifying the accuracy of reporting.

However, as mentioned in section 2.2 above, a complement to assurance is to make accounting for sustainability a compulsory subject at university for those studying accounting. It could also be incorporated into the professional accounting qualifications. Currently, sustainability reporting is briefly touched on through university and accounting qualifications without a meaningful attention.

Alternatively, if organisations were to consider investment in sustainability accreditation/knowledge (as part of CPD) that could be relied upon by the professional accounting bodies as an enhancement to credibility.

In addition, it is recommended to establish comparable measures as benchmarks relevant to the industry and SDG goals, which sit outside of regulatory compliance. This will help provide transparency to stakeholders on relative performance. E.g. Property developer “A” engages in x% of renewable timber construction compared to Property developer “B”.

3 Alignment

3.1 Are there further opportunities for aligning existing frameworks?

There are further opportunities for aligning existing frameworks which can be used as an opportunity to better define measurability and comparability in an industry specific context. In the context of the built environment an alignment can be made with frameworks such as ISCA (Infrastructure), NABERS, and Greenstar (Buildings). There is also an opportunity to have non-executive directors on the board to provide an external perspective.

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4 Other matters

4.1 Are there additional matters which should be addressed prior to finalisation?

Prior to finalisation, it is recommended to have a set of guidelines on an industry by industry basis. This will maximise impact and improves ease of reporting and comparing. For example, companies operating in the Built environment, can collaborate and work with Consult Australia to create benchmarks for the industry.

Appendix

A1 List of Contributors

Name	Position
Alyson Tong	Chief Financial Officer
Sarah Choi	Management Accountant
Riley Duane	Graduate Analyst
Tom Lu	Associate – Management Accountant
Maryam Maleklou	Senior Management Accountant
Margaret McGeown	Associate – Statutory Accountant
Arthur Xenakis	Associate – Finance Operations Leader