



31 March 2006

Dr Anthony Marinac  
Committee Secretary  
Parliamentary Joint Committee on Corporations and Financial Services  
Department of the Senate  
Parliament House  
Canberra ACT 2600

**Office of the President**

**CPA Australia**  
ABN 64 008 392 452

**CPA Centre**  
Level 28, 385 Bourke Street  
Melbourne VIC 3000 Australia  
GPO Box 2820AA  
Melbourne VIC 3001 Australia  
**T** +61 3 9606 9606  
**F** +61 3 9602 1163  
**W** [www.cpaaustralia.com.au](http://www.cpaaustralia.com.au)  
**E** [national.president@cpaaustralia.com.au](mailto:national.president@cpaaustralia.com.au)

**By email:** [corporations.joint@aph.gov.au](mailto:corporations.joint@aph.gov.au)

Dear Dr Marinac

### **Submission on Inquiry into Corporate Responsibility**

CPA Australia would like to thank the Committee for the invitation to provide supplementary comment concerning audit and assurance issues related to triple bottom line (TBL) reporting and the broader aspects of the disclosure of corporate non-financial performance.

In considering these matters there can be identified two interrelated streams of development; first the possible frameworks within which standalone TBL or sustainability reports are produced, and second, the disclosures that directors are sought to make periodically as part of their description of operating and strategic performance.

The current status of regulatory developments and supplementary guidance in both aspects are outlined in the attached research commissioned from the University of Sydney. This research, separate to that described in our submission, was undertaken to determine amongst the Asian-Pacific economies the nature of regulatory developments and other professional and commercial initiatives in accounting, auditing and corporate governance. The specific focus was to identify and describe those developments seen as having the objective of enhancing corporate transparency and accountability to a broader set of stakeholders for environmental and social performance. As a general observation, it can be concluded that whilst the current status of development suggests that there is significant momentum and interest to warrant efforts towards the better capture, measurement and reporting of information, further advancement in this direction globally and across the region requires cooperation between governments, regulators, the professions and industry itself.

The details describing developments in Australia are contained on pp. 4 – 8 of the attached research report. Drawing on this information, the following observations are made:

- Described in this research are the findings of an examination conducted on behalf of CPA Australia by the RMIT School of Accounting and Law which reviewed, on a world-wide basis, the assurance practices of TBL reporting amongst 160 companies that released a form of attestation in relation to their TBL reports. The terminology of 'assurance' is noteworthy as it is distinguishable from 'audit' – the latter which denotes the forming of an external view in relation to compliance with a specific framework on which the information is based with a high level of assurance. This high level of assurance distinguishes an audit from other assurance services. 'Audit' is thus often conducted in the context of a statutory framework.

Consistent with CPA Australia's 2005 broader research into current sustainability reporting practices, there exists, an 'audit expectations gap' whereby the actual function and objective of an audit and the perceptions of the public regarding the function and objective of an audit are varied. This, along with the considerable diversity in format and scope of the sustainability disclosure practices themselves, can attract the accusation that an element of this reporting is merely 'green wash'.

At a more critical level, however, the current diversity in practice which to a substantial degree can be attributed instead to the characteristics of early take-up of voluntary sustainability reporting, impedes the comparison of environmental and social performance between entities. Developments in assurance practices will undoubtedly aid confidence in non-financial reported information as an essential adjunct to decision making by both internal and external stakeholders. The types of required development in assurance practices can be identified, and a number of significant advances in these directions are apparent, though not highly prescriptive or 'rule-based' - an approach that CPA Australia would endorse given both the relative novelty and subjective nature of non-financial disclosures. As such, the RMIT report suggests that the type of information that accompany a TBL or sustainability assurance statement should include statement or description of:

- the objectives of the assurance engagement – for example, to give opinion on all or part of the report, to assess controls and systems or to assess performance and processes against targets or controls;
- the scope of the assurance statement - such as the concentration on environmental or other matters only, management systems such as those used to monitor performance against environmental targets;
- level of assurance – the level of assurance will affect the type of opinion expressed by the assurance provider and the nature, timing and extent of procedures undertaken;
- the reporting framework against which the reports are prepared - for example the Global Reporting Initiative (GRI) or AA 1000 frameworks, and relevant industry specific statutory requirements;
- the audit and professional standards which govern the work of the assurance provider (eg International Standards on Assurance Engagements - ISAE) which will govern such matters as the required expertise of those engaged in the assurance assignment and the basis of disclosure of any restrictions placed on the scope of work.

The present form of overarching guidance in Australia is currently provided in AUS 110: *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued in June 2003 by the Audit and Assurance Standards Board (AuASB).<sup>1</sup> This standard establishes basic principles and standards to be applied by auditors when completing work such as verification of sustainability reports. It should be noted that AUS 110 does not call for audit of non-financial information, but prescribes principles that should be followed in the event that such an audit or review is undertaken.

The apparent complexity and diversity of issues encountered in the conduct of assurance of TBL and sustainability reports, suggests a need for a more holistic approach addressing the full 'supply chain' of non-financial reporting. This would focus on an understanding of relationships between emergent external reporting frameworks (such as the GRI), the scope and purpose of associated assurance, and perhaps most significantly, the internal methods used by preparers to accumulate and assimilate the data that ultimately forms the report. On this latter point, we would like to reiterate our view expressed to the Committee at its public hearings in Melbourne, that there is an imperative to incorporate sustainability reporting within existing processes of financial reporting which will, in turn, add greater cogency and comprehensiveness in the management of non-financial risk.

In these terms, there can be better understood the paths to the commendable position expressed in the preamble to principle 10 of the ASX's 'Principles of Good Corporate Governance and Best Practice Recommendations' which states:

*Companies have a number of legal and other obligations to non-shareholder stakeholders such as employees, clients/customers and the community as a whole. There is growing acceptance of the view that organisations can create value by better managing natural, human, social and other forms of capital. Increasingly, the performance of companies is being scrutinised from the perspective that recognises these other forms of capital. That being the case, it is important for companies to demonstrate their commitment to appropriate corporate practices.*

---

<sup>1</sup> Australian Auditing Standards will be reissued as disallowable instruments as at 1 July 2006, after which time they will be enshrined within the Corporations Act 2001.

One further development CPA Australia would like to draw the Committee's attention to is the work currently being undertaken by the International Audit and Assurance Board (IAASB) of the International Federation of Accountants (IFAC) in relation to assurance issues arising out of the release for public comment by the GRI of its version three of Guidelines. Aside from addressing fundamental aspects of completeness, neutrality and understandability within the GRI Guidelines, the IAASB in its discussion paper points to the continued complexity of stakeholder engagement, identifying in these terms the choices that have to be made around relevance and materiality within sustainability reporting.

It should be noted that accounting firms, though significant in the market for provision of assurance reports on sustainability reports, are but one of a number of professions active in this area. Moreover, the principle international source of guidance for accountants, that of the International Framework for Assurance Engagements, was revised as recently as early 2004 by the IAASB. The market for assurance services is thus fairly dynamic adjusting to what are still evolving practices in non-financial disclosure. Nonetheless, the development of the GRI's G3 Guidelines with its expanded and more refined structure of metrics, along with the response of the IAASB, should contribute significantly to the ongoing improvement of non-financial reporting, assuaging concerns that it is either highly subjective or excessively prone to distortion ('green wash').

- In relation to the broader but related aspect of director commentary, it is stressed that both the current state of development of practice and the nature of the disclosures required, tend more towards best practice guidance solutions rather highly prescriptive mandatory approaches.

As noted in a number of submission to the Committee, aside from any specific reporting requirements contained in environmental, labour or wider social oriented public laws, the most direct disclosure requirement relevant to corporations is that contained in s 299(1)(f) of the Corporations Act - the provision requiring directors to report on performance in relation to significant environmental regulation. Given the inclusion of this requirement within the *Annual financial reports and directors' reports*<sup>2</sup> provisions, consideration of possible enhancement or strengthening needs to be made in the wider context of emergent regulation and evolving practice in this area.

The authors of Ford's<sup>3</sup> express the view that the requirements of s 299 can be met in a "relatively constrained fashion" falling somewhat short of the more discursive requirements contained in 'management and discussion analysis' as adopted in some overseas jurisdictions. Nonetheless, the introduction of s 299A<sup>4</sup> as part of the CLERP 9 Act 2004, along with authoritative comments<sup>5</sup>, indicate a clear trend towards greater rigor in the preparation of such disclosures and the adoption perhaps of a MD&A 'philosophy', though significantly without pursuing highly prescriptive or mandated approaches.

In addressing the further development or enhancement of s 299(1)(f) in this context, CPA Australia has suggested to the Corporations and Markets Advisory Committee that there is scope for implementing best practice guidance specific the this section. This could perhaps be developed in cooperation between ASIC, the ASX Corporate Governance Council, the Department of the Environment and Heritage, and the professions. As a source of development, guidance may loosely be drawn from the experience gained in developing ASIC's s 1013DA<sup>6</sup> disclosure guidelines<sup>7</sup> and the work undertaken by the DEH in relation to departmental and agency reporting under the Environment and Biodiversity Conservation Act 1999<sup>8</sup> - the experience of preparers reporting under this Act may also form a source of knowledge transferable to the corporate sector, though of course acknowledging the different

<sup>2</sup> Division 1 of Part 2M.3 Financial Reporting

<sup>3</sup> Ford, Austin and Ramsay, *Ford's Principles of Corporations Law* (Lexis-Nexus Online ) [10.230].

<sup>4</sup> Annual Directors' Report – additional general requirements for listed public companies

<sup>5</sup> The authors of Ford's make reference in particular to the G100 and the recommendations of the HIH Royal Commission.

<sup>6</sup> Information about ethical considerations etc., Pt 7.9 – Div 2 – Product Disclosure Statements of Chapter 7 Financial Services and Markets

<sup>7</sup> "ASIC guidelines to product issuers for disclosure about labour standards or environmental, social and ethical considerations in Product Disclosure Statements (PDS)"

<sup>8</sup> section 516A Annual report to deal with environmental matters

orientations in non-financial reporting. The adoption of a principle based approach such as that in relation to s 1013DA, would enable refinement over time as preparers gain greater experience in the practicalities of such reporting.

To conclude our further comments, CPA Australia would like to draw the Committee's attention to a project currently underway with the International Accounting Standards Board (IASB) examining Management Commentary. CPA Australia in its response to the IASB, noted the importance of forward-looking non-financial information as a complement to financial statements. Our view drawn from our regional base of financial accounting expertise, has expressed a strong preference for non-mandatory guidance, given the qualitative and often subjective nature of the disclosures. In addition, there is a need to develop an approach which is cognisant of country-specific practices and regulation.

On the above final point, it was noted that the Corporations Act mandates a degree of *management commentary* information in the directors' report. This information whilst not currently subject to audit, must not be materially at variance with information presented in the audited financial reports.<sup>9</sup> This, CPA Australia believes, provides a balanced situation and an indication of the way forward for the development of non-financial information disclosures.

We again thank the Committee for the opportunity to contribute to its deliberations on the significant and complex issues of corporate responsibility. Should you have any queries on our comments, please contact Mr John Purcell, our Business and Management Technical Advisor (03) 9606 9826 or by email at [john.purcell@cpaaustralia.com.au](mailto:john.purcell@cpaaustralia.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Coughlin', with a stylized flourish at the end.

**Mark Coughlin FCPA**  
President  
CPA Australia

---

<sup>9</sup> AUS 212 *Other Information in Documents Containing Audited Financial Reports*: para. AUS 212.02