Training Seminar on Auditing Sustainable Development

Dr Vivi Niemenmaa

Training Day of the 14th Eurosai WGEA Annual Meeting

Skopje, 26.9.2015
Structure of the training day

9:00-11:00

Dr Vivi Niemenmaa, European Court of Auditors

• Back to basics: The concept of sustainable development
• Governments catching sustainable development
• The Role of SAIs in Securing Sustainable Development Goals
  Mr Didik Ardiastanto, Ms Susilowati, SAI Indonesia
• CSR, TBL, GHGRP and all the abbreviations explained:
  Introduction to sustainability reporting

Coffee break
11:30-13:00
Key note presentations and a panel chaired by the Auditor General of Estonia

- **Sustainable development challenges in FYR Macedonia** Ms Sandra Andovska, Cabinet of Deputy Prime Minister for Economic Affairs of the Government
- **Climate change and sustainable development** Dr Teodora Obradovic Grncarovska, National coordinator for climate changes, Ministry of Environment and Physical Planning
- **Panel discussion: Challenges and opportunities for SAIs in auditing sustainable development** Invited AGs/Presidents of the Network/neighbouring SAIs

Lunch
14:00-15:30
We love practical examples: SAI presentations

• Research on sustainable development in Bulgaria by using key indicators  
  Ms Eva Galabinova, Mr Dimitar Dimitrov, SAI Bulgaria

• Audit of sustainable development in Poland  
  Mr Jacek Jezierski, SAI Poland

• Reflections on audit and sustainable development  
  Mr Sascha Baum, SAI Germany

• Discussion and introduction to the group work

Coffee break

16:00-17:00
OMG! I need to plan an audit on sustainable development! I need help!

• Group work

• Conclusions 17:00
THE CONCEPT OF SUSTAINABLE DEVELOPMENT
The Concept 1/2

• Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland report 1987).

• Key message: time-scale crossing the generations
AUDIT EXAMPLE: Nuclear decommissioning

- NAO UK: “Current plans envisage that the decommissioning and clearance of most sites will take around 100 years.”
Source: ECA Special report No 22/2016: EU nuclear decommissioning assistance programmes in Lithuania, Bulgaria and Slovakia: some progress made since 2011, but critical challenges ahead
Carbon lock-in:
Do we lock ourselves with today’s decision to a unsustainable infrastructure for a long time?

GLOBAL EQUITY, AUDIT CASE:
Pacific coordinated audit on climate change

- Pacific Island nations particularly vulnerable to the climate change
- Emphasis on adaptation because cannot do much to global GHG reductions
- Cooperative audit found that Pacific Island states were not responding effectively to the challenges
- Need for technical and administrative skills
The Concept 2/2

• Three pillars of sustainable development

• Key message: you need to consider them all in order to understand the sustainability implications
AUDIT CASE: Economic and social costs of pollution

The SAI of Indonesia (BPK) completed in 2014 an audit that assessed the effectiveness of a government agency’s activities in the Brantas River watershed. To calculate the effects of a decrease in water quality, BPK used a modelling approach to estimate the economic and social costs of pollution. The model describes the relationship between the degree of water pollutants in the water bodies (e.g. rivers) and the production costs for water companies using that water body as their raw material. The audit found out that the costs of wastewater treatment increase as more pollutants enter the river. This leads to increased fees, which will disproportionally affect the poor. With the help of the model, the economic and social costs were calculated.

Source: ISSAI 5110 draft.
Need to look beyond environmental sector

Source: NAO (2015). A Short Guide to Environmental protection and sustainable development
Exercise:
Three dimensions of sustainable development
### “Rio markers” related to SD in the EU’s Horizon 2020 research programme

<table>
<thead>
<tr>
<th>Rio Marker</th>
<th>Economic dimension</th>
<th>Social dimension</th>
<th>Natural dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>40%</td>
<td>✓</td>
<td>✓</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>✓</td>
<td>—</td>
<td>✓</td>
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<td></td>
<td>—</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>100%</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

✓ = contributes
— = does not jeopardise
Timeline of SD in the UN context

1992
Rio Earth Summit

2002
Johannesburg WSSD

2012
Rio + 20

2015
Agenda 2030 SDGs
MDGs and SDGs

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development
To sum up: Sustainable development

- Accepts the idea of growth
- Is theoretically linked to the discussion on ecological modernisation
- Vague and can be misused
- But is a valuable tool to analyse complex topics
- Is essentially connected to good governance, transparency, participation

Source: UNEP (2011)
GOVERNMENTS’ ROLE IN SUSTAINABLE DEVELOPMENT
What could be the Governments’ role in ensuring sustainable development?

- Setting the strategy
- Ensuring mainstreaming
- Acting as a role model
- Coordinating
- Supporting regional and local action
- Engaging stakeholders
For benchmarking

• European Sustainable Development Network (ESDN)
CASE: Switzerland

- Latest SD Strategy for 2016-2019
- Since 2009, the NSDS is part of the Government Legislative Programme bringing more efficient coordination and more solid institutional anchoring
- Linkages between the federal, cantons and local level managed within the framework of the ‘Sustainable Development Forum’
- The coordination function in the Government by the Interdepartmental Sustainable Development Committee
- Large public participation e.g. related to preparations of Agenda 2030
- Monitoring with the help of 73 indicators
- Assessment method to assess political projects from a sustainable development perspective
Figure 1: How sustainability assessment is embedded in the evaluation system

<table>
<thead>
<tr>
<th>Politics and the state</th>
<th>Sustainable development-related assessments (cross-sectoral)</th>
<th>Sectoral assessments</th>
</tr>
</thead>
</table>
| Situations and trends (monitoring) | MONET  
Core indicators  
Sustainability reports | Sectoral statistics  
Agricultural report  
Environmental reports etc. |
| Political initiatives and programmes | Regulatory Impact Analysis, RIA  
Economic assessment (VOBU) | Strategic Environmental Assessment, SEA  
Energy Impact Analysis, EnIA  
Health Impact Assessment, HIA |
| Projects | RSI / RIPSI | Environmental Impact Assessment, EIA |
| Business / companies and public administration | | |
| Financial investments | Sustainability ratings | Eco-rating  
Social rating  
Finance rating |
| Individual companies and administrations | Sustainability reports  
Quality systems for sustainable company management | Environmental reports  
Financial reports  
ISO 14000  
SA 8000 |
Figure 4: Overview of the target system (Federal Council criteria)

So1 Promote human health and security
So2 Guarantee education, personal development and individual identity
So3 Promote culture, social heritage and resources
So4 Guarantee equality before the law, legal certainty and equal rights
So5 Promote solidarity within and between generations

Ec1 Increase incomes and employment
Ec2 Maintain productive capital
Ec3 Improve competitiveness and innovative capacity
Ec4 Pursue market principles
Ec5 No public debt at the expense of future generations

En1 Maintain natural habitats and biodiversity
En2 Control the use of renewable resources
En3 Limit the use of non-renewable resources
En4 Limit pollution
En5 Reduce environmental disasters
CASE: Finland

- Latest strategy The Finland We Want by 2050 — Society’s Commitment to Sustainable Development in 2013
- Currently Prime Minister’s Office coordinating the work
- National Commission of Sustainable development with a large network of stakeholders
- Sustainable Development Expert Panel
- 39 national indicators
EUROSTAT SD indicators
Exercise:
Indentifying sustainability topics and linking them to the SDGs
Topics for the groups:

- How are climate change and public health connected?
- Heatwaves in cities: What sustainable development dimensions (economic, social, environment) could be connected to them?
- How could you analyse migration and refugees in the context of sustainable development?
- How would energy policy fit into the sustainable development matrix (economic, social and environmental dimensions)?
- What could be the gender aspects related to transportation?
THE ROLE OF SAIS
What use is SD it for auditors?

1) AUDIT TOOL
   • Help in selecting audit topics, making strategic decision
   • Can be used as audit criteria
   • Can be used as a tool to analyse topics and their interconnections, as a SD ”lens”

2) AUDIT TOPIC
   • e.g. SD strategy
ISSAI 5130 Draft: Sustainable development. The role of SAIs

• Provides help for instance with
  – auditing sustainable development strategy frameworks
  – auditing sustainable development programmes
ISSAI 5130 Draft: Potential questions for auditing sustainable development strategy frameworks

• Overall strategy or framework
  – Does the government have a strategy or plan, based on credible data, which describes its sustainable development objectives and articulates how to achieve them?
  – Does the strategy conform to the government’s international commitments related to sustainable development?
  – Does the strategy identify the policy instruments to be used to achieve the objectives?
  – Does the strategy set out any barriers to its implementation, either externally or internally? If so, does it also include measures to address these barriers?

• Policy integration
  – Does the strategy, and related plans and reports, consider environmental, economic, and social concerns in an integrated manner, including addressing balance and linkages between these concerns?

• Intergenerational analysis and time frame
  – Does the strategy adopt a long-term time frame that incorporates intergenerational principles and indicators, and also considers equity and disparity within the current population?

• Analysis and assessments
  – Are integrated assessment tools used in national reports to identify the environmental, economic, and social costs and benefits of policy and strategy options?

• Coordination and institutions
  – Are a wide range of government departments and agencies involved in the formulation and implementation of national strategies, with overall responsibility in the office of the Prime Minister or equivalent?
  – Are coordination mechanisms effective?
• Local and regional governance
  – Are local and regional authorities substantively involved in the development of national strategies, with certain delivery aspects devolved to sub-national levels?

• Stakeholder participation
  – Are stakeholders (e.g., business, unions, non-governmental organizations) participating with government representatives in the formal process for developing and implementing national strategies?

• Indicators and targets
  – Are strategies based on structured indicator systems (enumerated in national plans and reports) to assist in monitoring progress and to serve as quantitative targets?

• Monitoring, evaluation, and communications
  – Are independent bodies or processes to monitor implementation of national strategies and provide recommendations for their improvement?
  – Has the government established an efficient information system for monitoring and for reporting the results of implemented strategies to Parliament (or equivalent)?
  – Has the government established a consistent method to inform citizens regarding sustainable development strategies and their progress?

Source: Adapted from *Good Practices in the National Sustainable Development Strategies of OECD Countries*, Organisation for Economic Co-operation and Development, 2006
ISSAI 5130 Draft: Examples of questions when determining which program to audit regarding SD

- Are the program’s objectives aligned with the government’s sustainable development strategy and international commitments?
- What measures were taken to assess the balance between the program’s expected environmental, economic, and social impacts?
- Was the program subjected to a strategic environmental assessment?
- Were specific projects under the program subjected to environmental or social impact assessments?
- Does the program pose any significant environmental, economic or social risks (that do not appear to have been mitigated)?
- Have concerns been raised by stakeholders about potential adverse environmental, economic, or social impacts of the program?
- Have the program’s long-term impacts or risks been credibly assessed?
- Does the program involve the risk of notable long-term consequences or costs affecting future generations?
- Does the organization in charge of the program produce an annual sustainability report? If so, is the program’s performance presented in this report?
- Does the program involve any public consultation or other form of public participation?
- Is the organization in charge of the program committed to implementing ISO 26000 standards on social responsibility or ISO 14000 standards on environmental management?
- Does the program require the coordination of the actions of several public sector organizations and/or other stakeholders in order to achieve its objectives?
- What is the potential benefit of auditing this program, through its reporting and the process of initiating and conducting the audit?
- How could timing impact the value of auditing this program? (For example, auditing an infrastructure project in its early stages could have more impact on that project than auditing it after it was built, while auditing it after it was built may have more impact on future projects.)
AUDIT CASE:
Key questions developed by UK NAO for assessing department’s contribution to SD objectives

- Are the department’s policies and policymaking consistent with sustainable development objectives?
- Is the department managing its [property] and operations in a manner consistent with sustainable development objectives?
- Is the department conducting its procurement in a manner consistent with sustainable development objectives?
- Does the department’s governance and leadership promote sustainable development objectives?

SUSTAINABILITY REPORTING
Sustainability reporting in business sector

### Figure 1: Examples of financial and non-financial environmental information

<table>
<thead>
<tr>
<th></th>
<th>Energy</th>
<th>Waste</th>
<th>Water</th>
<th>Procurements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Expenditure on transportation / heating</td>
<td>Disposal costs</td>
<td>Water bills</td>
<td>Price of purchases</td>
</tr>
<tr>
<td>Non-financial</td>
<td>CO₂ tons (per person)</td>
<td>Waste in tons / number of collections / recycled waste</td>
<td>Water consumption (cubic meters)</td>
<td>Share of eco-labeled and fair-trade products</td>
</tr>
</tbody>
</table>

### Figure 2: Differences between sustainability reporting and financial reporting

<table>
<thead>
<tr>
<th></th>
<th>Emphasis in financial reporting</th>
<th>Emphasis in sustainability reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time-scale</strong></td>
<td>The reported year</td>
<td>Future orientation</td>
</tr>
<tr>
<td><strong>Focus</strong></td>
<td>Issues that organization directly controls</td>
<td>Wider sustainability impacts</td>
</tr>
<tr>
<td><strong>Economic view</strong></td>
<td>Material</td>
<td>Intangible</td>
</tr>
<tr>
<td><strong>Data</strong></td>
<td>Financial</td>
<td>Non-financial</td>
</tr>
<tr>
<td><strong>Materiality</strong></td>
<td>Financial significance</td>
<td>Any information that is significant to readers</td>
</tr>
<tr>
<td><strong>Users</strong></td>
<td>Shareholders and investors</td>
<td>Stakeholders</td>
</tr>
</tbody>
</table>

AUDIT CASE: Brazilian audit on rational use of natural resources

• Audit evaluated public organizations’ adoption of the rules of public purchases regarding sustainability criteria
• Audit found that no clear directions are in place and there are variety of approaches
• The audit found out that public sector could potentially make annually:
  – 20% saving in electric power (USD 150 million)
  – 22% saving in water (USD 42 million)
UK Crown Estates

Highlights of our performance

Net revenue profit
up 6.7 per cent compared to £267.1 million in 2014
£285.1 million
+6.7%

Capital value
up 16.1 per cent compared to £9.9 billion in 2014
£11.5 billion
+16.1%

Property value
up 16.7 per cent compared to £9.4 billion in 2014 (including share of joint venture properties and other property investments)
£11 billion
+16.7%

The Crown Estate total return
Outperforming our target 13.4 per cent (IPD bespoke benchmark)
20.8%

Carbon intensity improvement
+4%

Renewable energy
Offshore operational capacity to date
4.6 GW

Building Public Trust Award for sustainability reporting
2014

GHG Emissions Data –
1 April 2014 – 31 March 2015

<table>
<thead>
<tr>
<th>Scope 1</th>
<th>2012/13 Emissions (tCO₂e)</th>
<th>2013/14 Emissions (tCO₂e)</th>
<th>2014/15 Emissions (tCO₂e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct emissions from fleet and the heating of buildings</td>
<td>5,789</td>
<td>6,169</td>
<td>6,443</td>
</tr>
<tr>
<td>Emissions from generated electricity usage</td>
<td>20,054</td>
<td>21,201</td>
<td>13,548</td>
</tr>
<tr>
<td>Gross Scope 1 and Scope 2 emissions</td>
<td>25,843</td>
<td>27,370</td>
<td>19,991</td>
</tr>
</tbody>
</table>

Emissions intensity (indexed kg CO₂e)
100 98 94

Data note: We have used the GHG Protocol Corporate Accounting and Reporting Standard to calculate our emissions. This includes reporting all sources of emissions that are under our operational control. For more detail on the breakdown of emissions please see online.

1 Improved data management identified over reported Scope 1 emissions at Charles I House (St James’s) by 927 tCO₂e in 2012/13. This is now restated.
2 We have updated our intensity calculation methodology this year. However, we have not restated our baseline (2012/13) or previous year (2013/14) due to the extent of change. Please see online for detail.

Our understanding and measurement of indirect Scope 3 emissions from energy used exclusively by our tenants has improved. As a result emissions previously classed in Scope 1 and 2 have been moved into Scope 3. Previous years have not been restated. Overall Scope 3 emissions have increased from 3,768 tCO₂e (2013/14) to 15,995 tCO₂e (2014/15). Scope 3 emissions also include business travel, car hire, electricity transmission and distribution losses.

Therefore our total gross Scope 1, 2 and 3 emissions for 2014/15 were 36,880 tCO₂e compared to 31,318 tCO₂e in 2013/14. See our website for more details.
Sustainability reporting in the public sector

- Government entities’ reporting an emerging topic and a good practice
- Should the reports be verified?
- What is the role of SAIs?
CASE ANAO (Australia): Better practice guide on sustainability

Figure 1 Environmental management framework

Managing and Reporting Environmental Performance
*Environment Protection and Biodiversity Conservation Act 1999, Section 516A*
National Environmental Protection Measures

- **Energy**
  - Energy Efficiency in Government Operations (EEGO)
- **ICT**
  - ICT Sustainability Plan 2010–15
  - Data Centre Strategy 2010–25
  - Data Centre Optimisation Targets Policy
- **Waste**
  - National Waste Policy
  - Australian Packaging Covenant
- **Water**
  - State, territory and local government regulations
- **Travel**
  - Fleet Vehicle Selection Policy
  - Green Vehicle Guide Target
  - Whole-of-Australian Government Travel Arrangements
- **Property**
  - Commonwealth Property Management Framework
  - EEGO Policy
  - Public Works Committee Act 1969
AUDIT CASE:

How do the EU institutions and bodies calculate, reduce and offset their greenhouse gas emissions?
Audit questions

Do the EU institutions have policies to become carbon neutral and do they effectively implement them?

1. Do the EU institutions have strategies to become carbon neutral in their administrative operations?
   - 1.1 Are the EU institutions committed to mitigating their CO2 emissions?
   - 1.2 Do the EU institutions measure and monitor their full carbon footprint?
   - 1.3 Have the EU institutions set quantified objectives for improving their performance?
   - 1.4 Do the EU institutions cooperate amongst each other in pursuing their objectives?

2. Have the EU institutions put in place management systems and do they implement procedures to become carbon neutral?
   - 2.1 Have the EU institutions put in place environmental management systems in accordance with EMAS?
   - 2.2 Do the EU institutions make full use of green public procurement (GPP) procedures?
What did we find? The report in the media

EU institutions don't follow own advice on climate

More work needed to cut EU carbon footprint, say auditors

EU ignores its own building efficiency initiatives

SPECIAL REPORT: The European Union institutions' buildings policy in Brussels has been "unambitious" in terms of energy efficiency, according to the European Court of Auditors.

Green building standards and initiatives promoted by the EU for greater efficiency are not consistently employed for new buildings or major renovation projects.

Audit findings

• The full carbon footprint of the EU institutions and bodies is not known
• There is no common approach to calculate the carbon footprint of the EU institutions and bodies
• Evidence that emissions caused by EU institutions and bodies as a whole have been falling exists but only related to energy consumption in buildings
• More than half of the audited EU institutions and bodies had not set any quantified targets for reducing their emissions
• No targets beyond 2020
• No carbon offsetting
UK NAO’s GOOD PRACTICE GUIDE ON SUSTAINABILITY REPORTING (2014)

- The role of SD in organisation’s overall strategy
- Explanation which SD topics are material to the organisation and stakeholders
- Targets and key performance indicators
- Balance in reporting about good and bad performance
- Clear and accessible reporting
OMG, I need to plan an audit on SD!

Plan the main audit question (and sub-questions)

Topics for groups:

- The EU cohesion policy support for transportation projects
- The marco-economic forecasts applied by the government
- Management of immigration matters by the authorities
- Research and development in the construction sector
- Effectiveness of flood risk management
- Delivering careers services for young people
- Disaster aid donations
- Implementation of the Convention of biological diversity
Don’t forget the global links!

AUDIT CASE: Lake Chad

https://www.youtube.com/watch?v=S24jFG2LlwM