Training Seminar on Auditing Sustainable Development

Dr Vivi Niemenmaa

Training Day of the 14th Eurosai WGEA Annual Meeting

Skopje, 26.9.2015

EUROSAI
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Structure of the training day

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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

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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

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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

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THE CONCEPT OF SUSTAINABLE DEVELOPMENT

The Concept 1/2

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- 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

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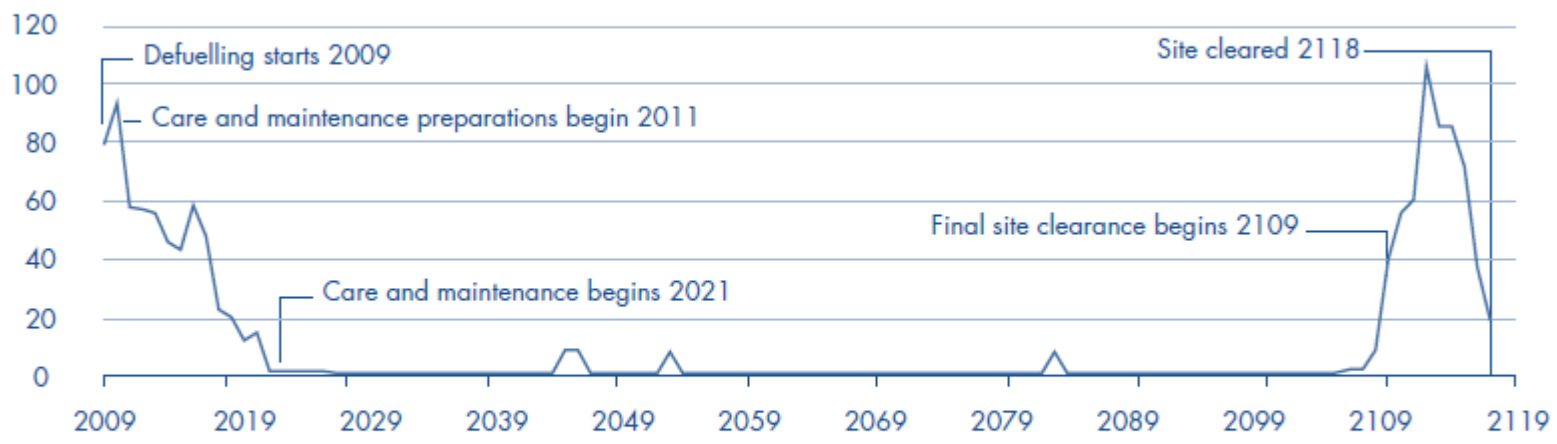
- NAO UK: “Current plans envisage that the decommissioning and clearance of most sites will take around 100 years.”

5 Planned profile of expenditure at the Oldbury Magnox reactor, 2009 to 2119



Source: National Audit Office presentation of data in Oldbury lifetime plan, March 2007

NOTE

Plant is due to cease operations at the end of 2008. Costs are undiscounted and at 2007 prices. See note to Figure 4: key dates and the expenditure profile will be revisited by the site licensee when new plans are submitted in March 2008.

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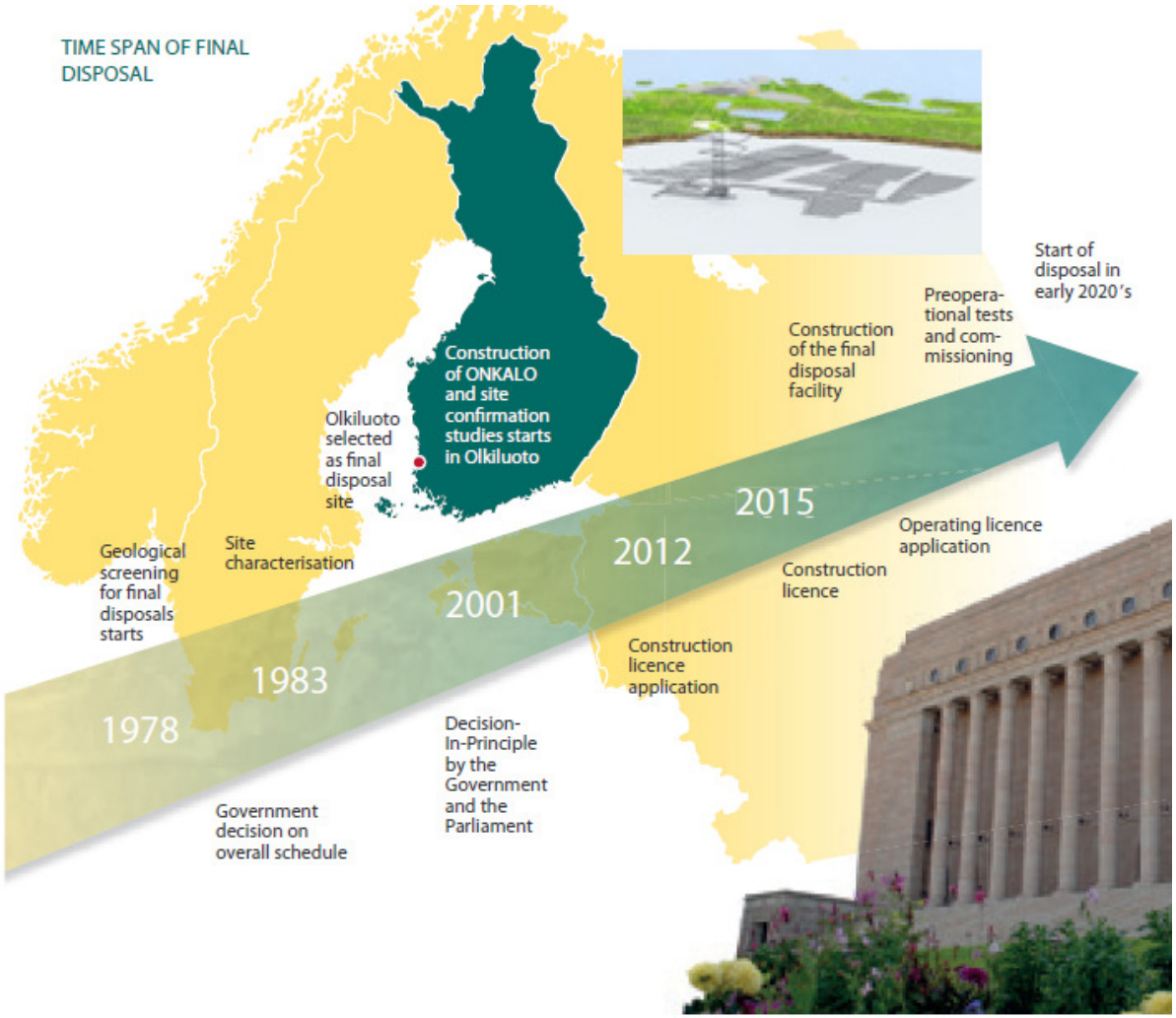

Source: ECA Special report No 22/2016: EU nuclear decommissioning assistance programmes in Lithuania, Bulgaria and Slovakia: some progress made since 2011, but critical challenges ahead

Carbon lock-in:
Do we lock ourselves with today's decision to a unsustainable infrastrucuture for a long time?

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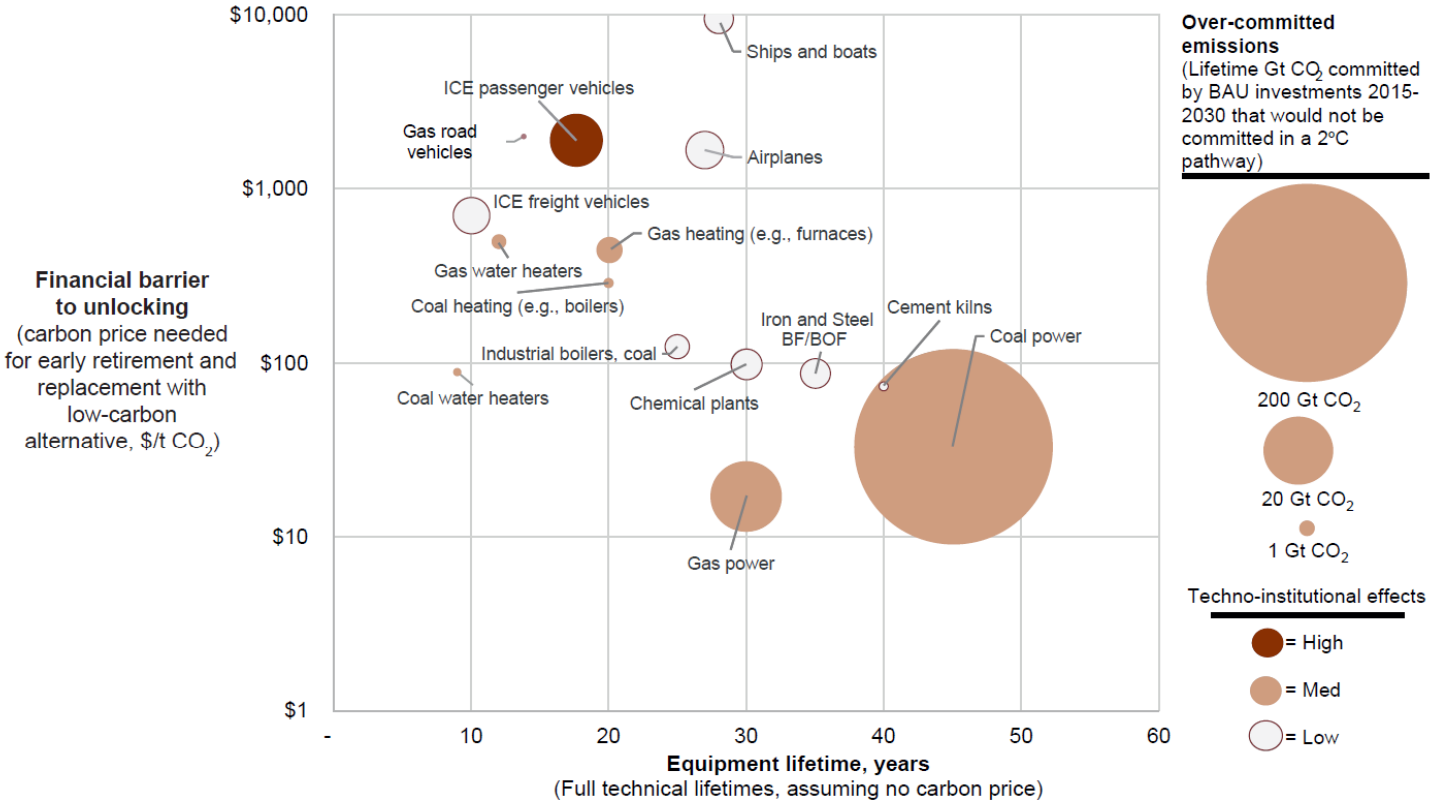

Figure 1: Global carbon lock-in analysis, demand side. Technologies are placed on the chart based on their technical lifetimes (x-axis) and financial barrier to unlocking (y-axis). The size of each bubble is proportional to the over-committed CO_2 emissions due to business-as-usual investments in 2015–2030. The bubble's colour reflects the degree of the techno-institutional lock-in, from low (light brown) to high (darker brown).

Stockholm Environment Institute (2015)
https://www.sei-international.org/-news-archive/3223-qaa-avoiding-carbon-lock-in-from-energy-using-infrastructure

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

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- 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 adminsitrative skills

The Concept 2/2

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- 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

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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

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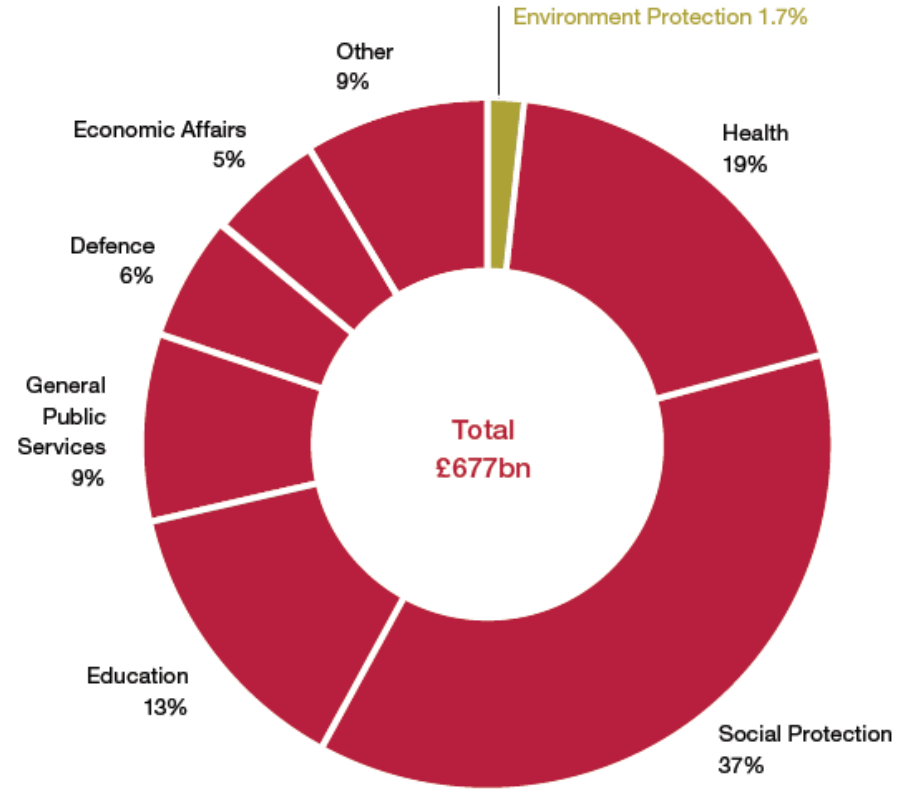
A breakdown of government expenditure (2013-14)

According to the United Nations' Classification Of Functions Of Government (COFOG) framework



Source: NAO (2015). A Short Guide to Environmental protection and sustainable development

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Exercise:
Three dimensions of sustainable development

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“Rio markers” related to SD in the EU’s Horizon 2020 research programme

Rio Marker	Economic dimension	Social dimension	Natural dimension
40%	✓	✓	–
	✓	–	✓
	–	✓	✓
100%	✓	✓	✓

✓= contributes

— = does not jeopardise

Timeline of SD in the UN context

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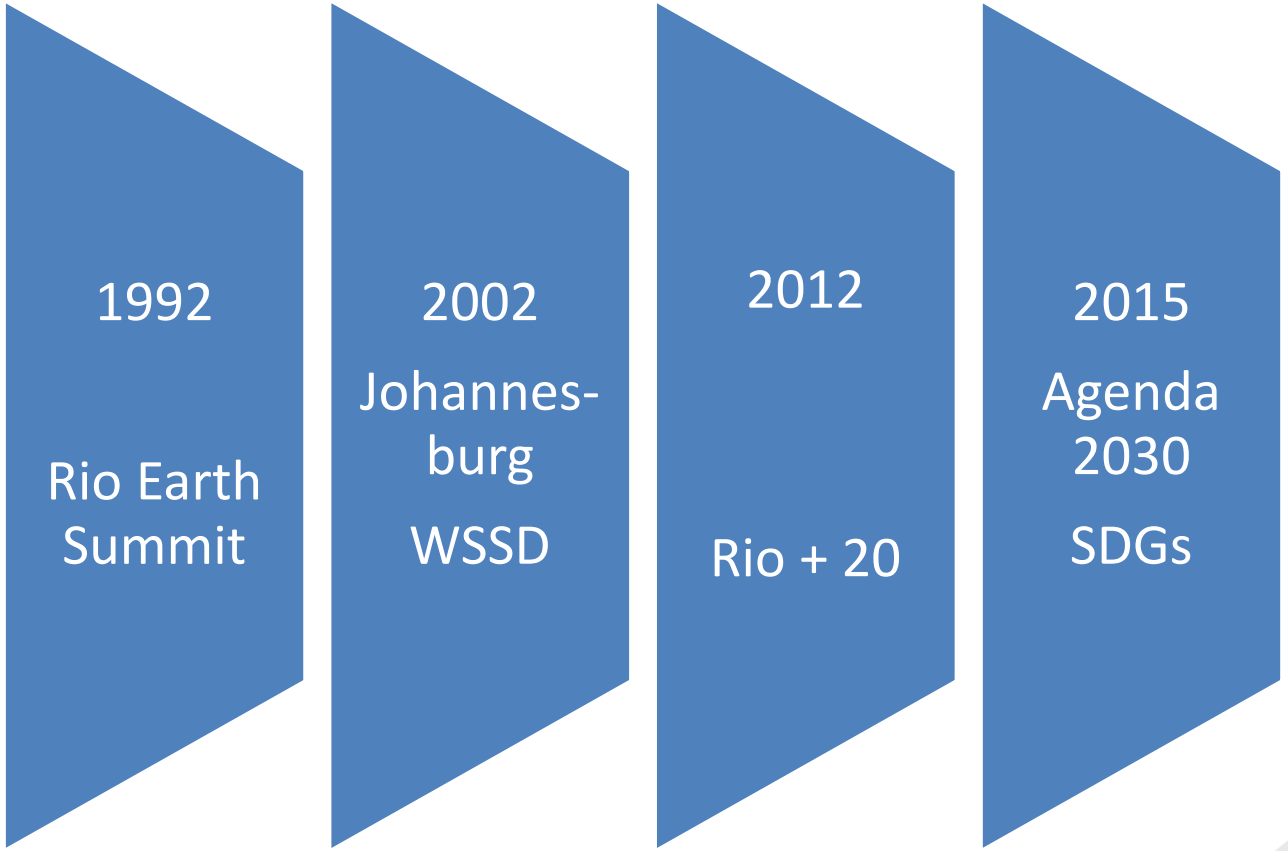

MDGs and SDGs

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1 Eradicate extreme poverty an
2 Achieve universal primary edu
3 Promote gender equality and
4 Reduce child mortality
5 Improve maternal health
6 Combat HIV/AIDS, malaria an
7 Ensure environmental sustain
8 Develop a global partnership

To sum up: Sustainable development

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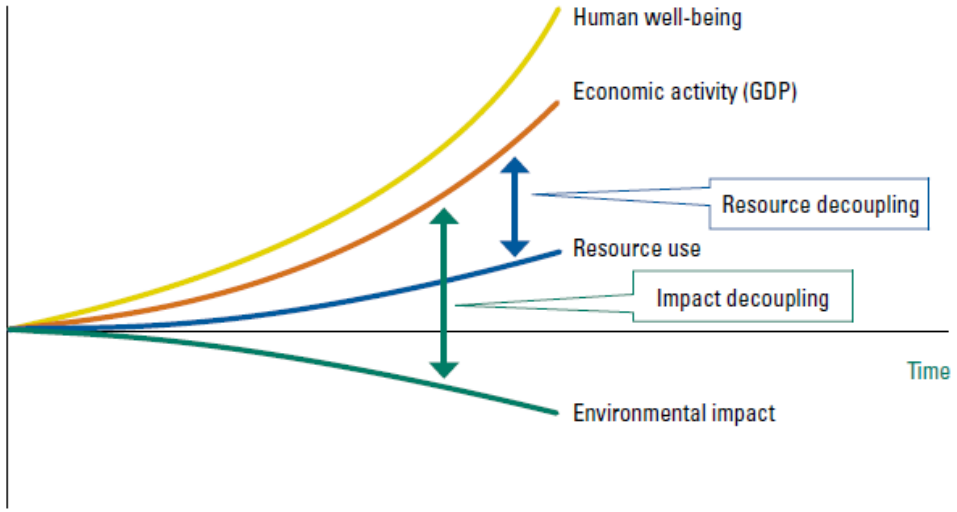
- Accepts the idea of growth
- Is theoretically linked to the discussion on ecological modernisation
- Vague and can be misused
- But is a valuable tool to analyse complex topics
- Is essentially connected to good governance, transparency, participation

Figure 1. Two aspects of 'decoupling'



Source: UNEP (2011)

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GOVERNMENTS' ROLE IN SUSTAINABLE DEVELOPMENT

What could be the Governments' role in ensuring sustainable development?

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For benchmarking

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- European Sustainable Development Network (ESDN)

CASE: Switzerland

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- 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

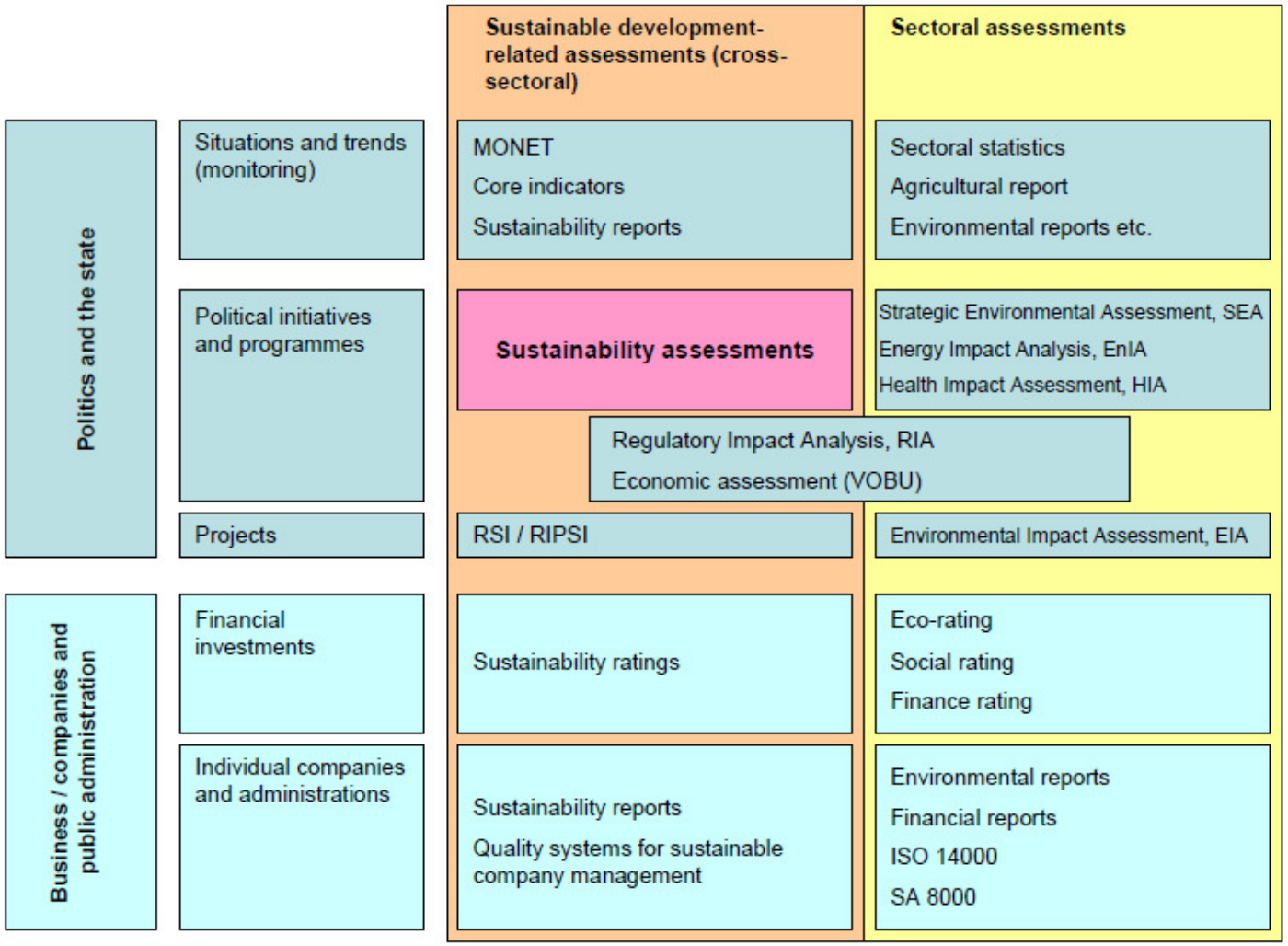
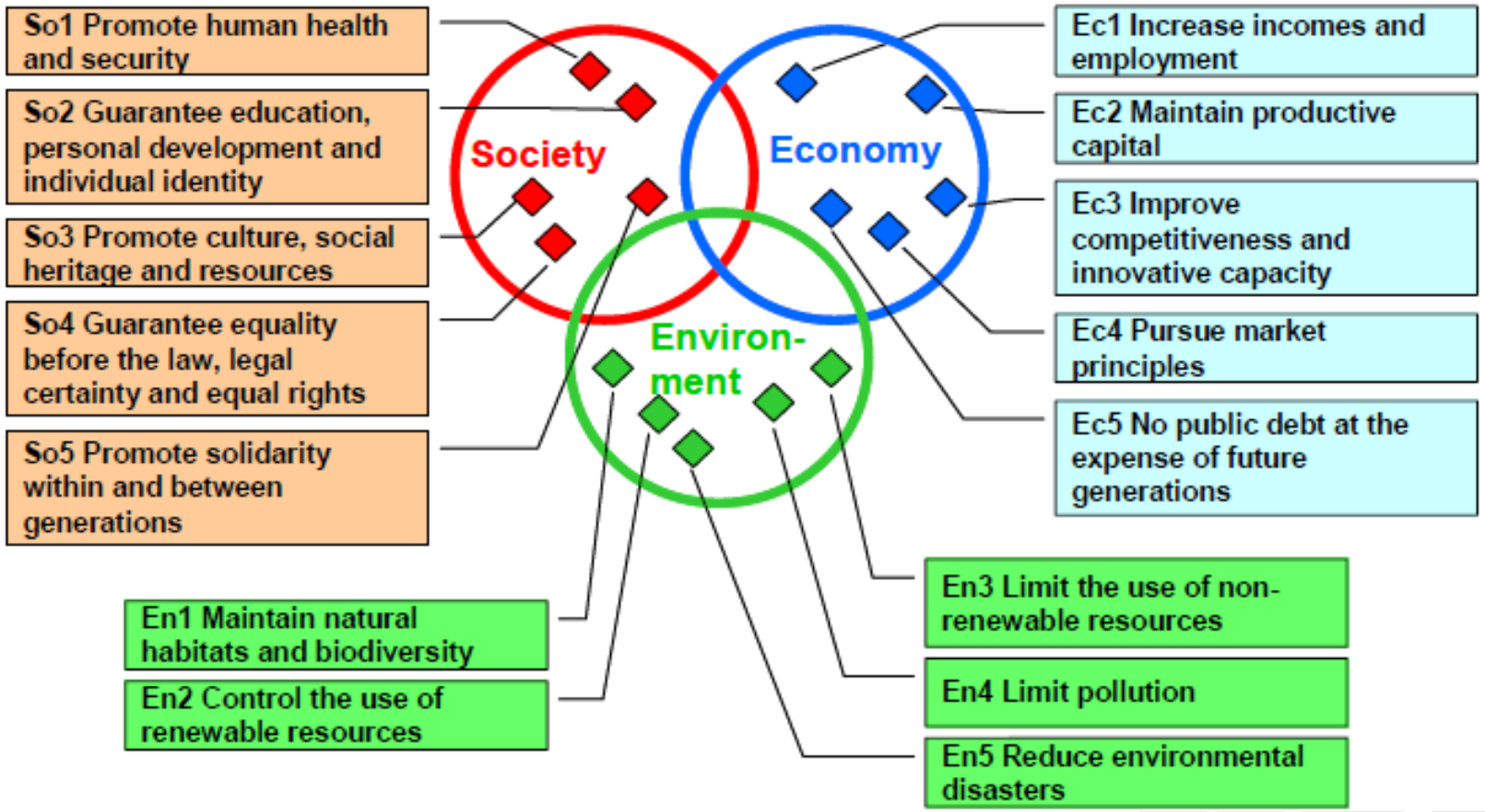


Figure 4: Overview of the target system (Federal Council criteria)



CASE: Finland

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- 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

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EUROSTAT SD indicators

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Exercise:
Indentifying sustainability topics and linking them to the SDGs

Topics for the groups:

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- 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?

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THE ROLE OF SAIS

What use is SD it for auditors?

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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

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- Provides help for instance with
  - auditing sustainabile development strategy frameworks
  - auditing sustainable development programmes

ISSAI 5130 Draft: Potential questions for auditing sustainable development strategy frameworks

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- 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?

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- 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

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- 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.)

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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?

Source: UK NAO, Departmental Sustainability Overview: Home Office, Briefing for the House of Commons Environmental Audit Committee, March 2014.

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SUSTAINABILITY REPORTING

Sustainability reporting in business sector

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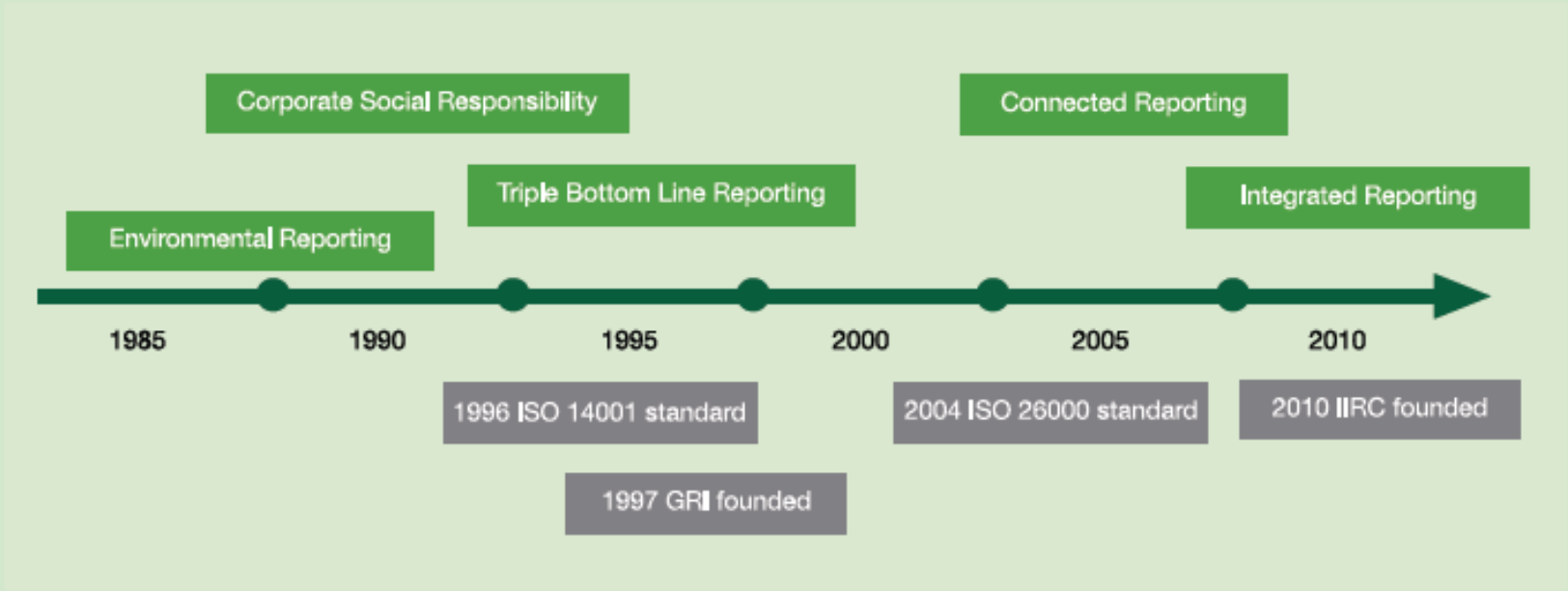
Figure 3:
Developments in sustainability reporting: from single issue reports to holistic sustainability reporting.



Source: INTOSAI WGEA (2013): Sustainability Reporting. Concepts, frameworks and the role of Supreme Audit Institutions.

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

	Energy	Waste	Water	Procurements
Financial	Expenditure on transportation / heating	Disposal costs	Water bills	Price of purchases
Non-financial	CO_2 tons (per person)	Waste in tons / number of collections / recycled waste	Water consumption (cubic meters)	Share of eco-labeled and fair-trade products

Source: INTOSAI WGEA (2013): Sustainability Reporting. Concepts, frameworks and the role of Supreme Audit Institutions.

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Figure 2:
Differences between sustainability reporting and financial reporting

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

Source: INTOSAI WGEA (2013): Sustainability Reporting. Concepts, frameworks and the role of Supreme Audit Institutions.

AUDIT CASE:
Brazilian audit on rational use of natural resources

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- 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 18.4 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

	2012/13 Emissions (tCO_2e)	2013/14 Emissions (tCO_2e)	**2014/15 Emissions (tCO_2e)**
Scope 1 Direct emissions from fleet and the heating of buildings	5,789	6,169[1]	**6,443**
Scope 2 Emissions from generated electricity usage	20,054	21,201	**13,548**
Gross Scope 1 and Scope 2 emissions	25,843	27,370[1]	**19,991**
Emissions intensity (indexed kg CO_2e)[2]	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 House (St James's) by 927 tCO_2e in 2013/14. 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 tCO_2e (2013/14) to 15,995 tCO_2e (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 35,986 tCO_2e ▲ compared to 31,138 tCO_2e in 2013/14. See our website for more details.

Sustainability reporting in the public sector

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- 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

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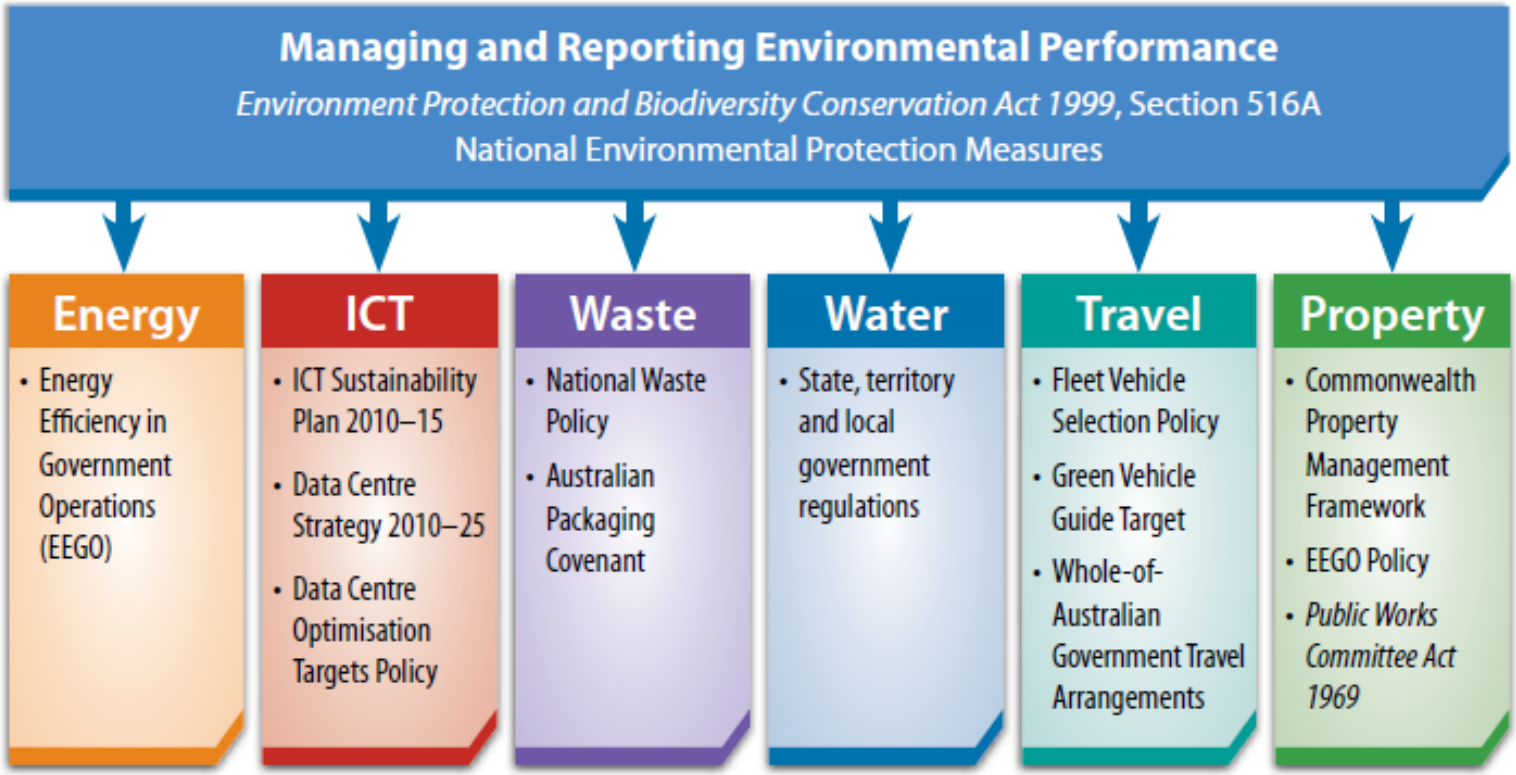
Figure 1 Environmental management framework



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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

euobserver Newsletter

EU institutions don't follow own advice on climate

Most EU institutions don't compensate for emissions caused by air travel by its members and staff, a report says (Photo: European Commission)

More work needed to cut EU carbon footprint, say auditors

By Marino Donati | 15 October 2014

European organisations should do more to cut their carbon footprint, according to auditors.

(AE) ENVIRONMENT: EU institutions set poor carbon footprint example

Brussels, 15/10/2014 (Agence Europe) - EU institutions and bodies have failed to seize the opportunity to draft and implement a common policy to help meet the EU's target for 2020 of ducing greenhouse gas emissions by 20% compared with the 1990 level, says the Court of litors in a report published on Wednesday 15 October (even though, after 2005, they managed everse the trend of increasing emissions related to their buildings).

EU ignores its own building efficiency initiat

Share 37 Share 27 Tweet 74

Published: 07/11/2014 - 07:13

The energy savings poster displayed outside the Commission's Charlemagne building in June. [Renovate Europe]

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.

Their special report exposed shortcomings in the approach of the European Commission, European Parliament and EU Council, as well as other EU organisations. The report looked at 2005-2013.

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 peformance **indicators**
- **Balance** in reporting about good and bad performance
- Clear and accessible **reporting**

OMG, I need to plan an audit on SD!

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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!

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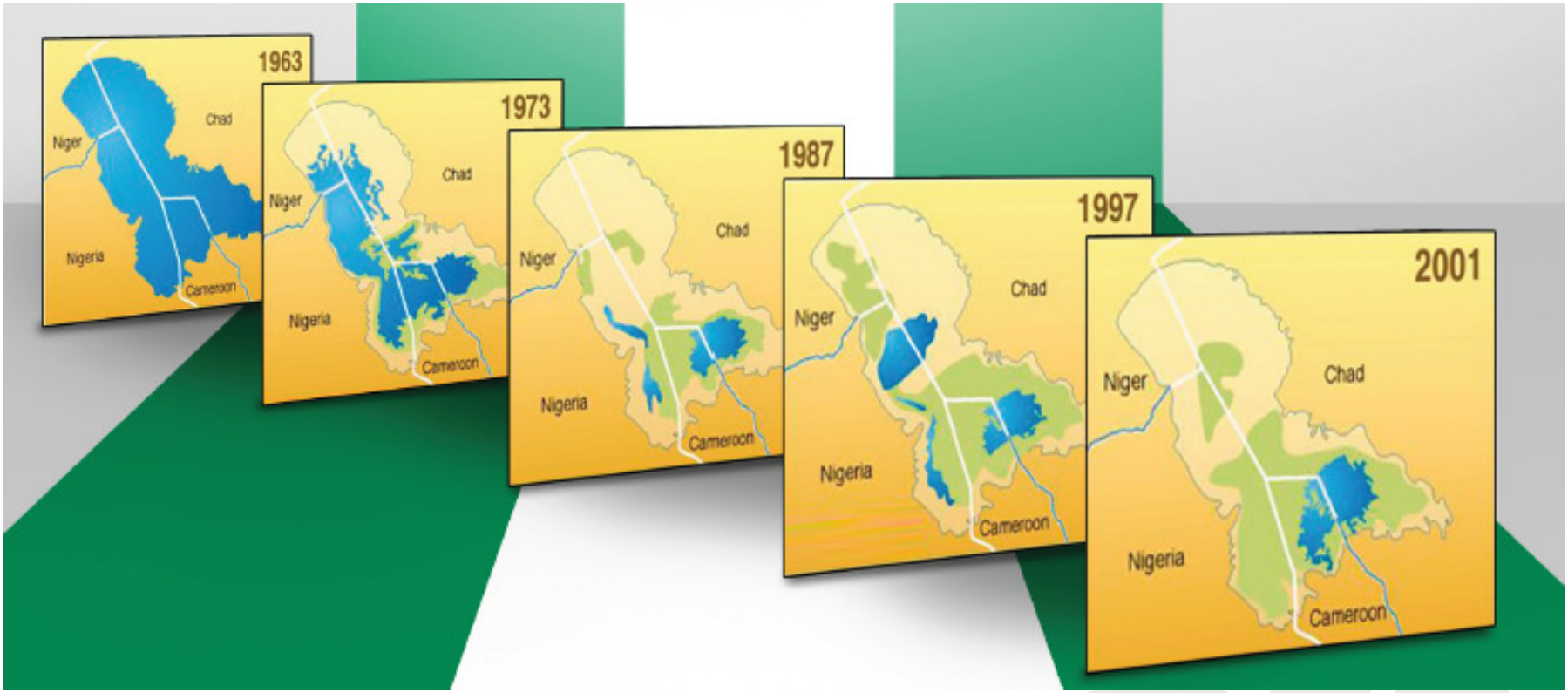
AUDIT CASE: Lake Chad



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