



report of the judges



ACCA AUSTRALIA AND NEW ZEALAND AWARDS FOR SUSTAINABILITY REPORTING 2005

introduction

The Association of Chartered Certified Accountants (ACCA) has been a proponent of sustainability reporting for organisations large and small, private and public, from any industry sector, for more than 15 years.

Around the world, ACCA holds awards programs in more than 20 countries that recognise organisations that produce sustainability, environmental and social information. In Australia and New Zealand, we have been hosting the ACCA Sustainability Reporting Awards since 2002.

ACCA has a firm commitment to supporting organisations that produce sustainability information, and we recognise the considerable effort that the organisations that enter these awards expend to produce their reports.

While many organisations have made considerable progress in preparing sustainability reports with meaningful, valid data, there is still some way to go before the judges can conclude that there is widespread adoption of robust sustainability reporting practices by Australian and New Zealand entities.

The judges have prepared this document in the hope that organisations that produce sustainability information will take on board the suggestions it contains and build these recommendations into next year's reports. The judges also hope that it will be a valuable guide for companies considering reporting sustainability information and researching what constitutes best practice sustainability reporting.

entrants 2005

Accident Compensation Corporation

www.acc.co.nz

AGL (The Australian Gas Light Company)

www.agl.com.au

ANZ

www.anz.com

Australian Ethical Investment

www.austethical.com.au

BHP Billiton

www.bhpbilliton.com

Bluescope Steel

www.bluescopesteel.com

Boral

www.boral.com.au

British American Tobacco Australia

www.bata.com.au

Citipower/Powercor Australia

www.powercor.com.au

City West Water

www.citywestwater.com.au

Forests NSW

www.forest.nsw.gov.au

Gosford City Council

www.gosford.nsw.gov.au

Hydro Tasmania

www.hydro.com.au

IAG New Zealand

www.iag.co.nz

Iluka Resources

www.iluka.com

Insurance Australia Group

www.iag.com.au

Investa Property Group

www.investa.com.au

Kingsgate Consolidated

www.kingsgate.com.au

Lion Nathan

www.lion-nathan.com.au

Macmahon Holdings

www.macmahon.com.au

mecu

www.mecu.com.au

Murray Irrigation

www.murrayirrigation.com.au

National Australia Bank

www.nabgroup.com

Orica

www.orica.com.au

Sydney Water Corporation

www.sydneywater.com.au

The Warehouse

www.thewarehouse.co.nz

Thiess

www.thiess.com.au

TRUenergy

www.truenergy.com.au

URS New Zealand

www.urscorp.co.nz

VicSuper

www.vicsuper.com.au

Vodafone New Zealand

www.vodafone.co.nz

Watercare Services

www.watercare.co.nz

Wesfarmers

www.wesfarmers.com.au

Westpac Banking Corporation

www.westpac.com.au

WSN Environmental Solutions

www.wasteservice.nsw.gov.au

Yarra Valley Water

www.yvw.com.au

judging

Key features of sustainability reporting

An excellent sustainability report clearly acknowledges and explains the environmental and social impacts of an organisation's operations and products. The report also demonstrates the organisation's policies, targets and long-term objectives to reduce any adverse environmental and social impacts.

Panel of judges

Professor Craig Deegan

Professor of Accounting
RMIT University

Amanda McCluskey

Manager, sustainability
Portfolio Partners

Glennys Purcell

Director, Prime Minister's Community Business Partnership Secretariat
Department of Family and Community Services

Professor Carol Adams

Professor of Accounting
La Trobe University

Charles Berger

Legal Adviser
Australian Conservation Foundation

David Brunoro

Assistant Director – Corporate Sustainability and
Government Operations Section
Department of the Environment and Heritage

Terence Jeyaretnam

Principal
URS Australia

Francis Grey

Head of Australian Research
Sustainable Asset Management (SAM) Australia
& New Zealand

Lyn Mayes

Communications and CSR Consultant
New Zealand Business Council for Sustainable
Development

Dr Ian Woods

Senior Research Analyst, Sustainable Funds
AMP Capital

Judging criteria

Judges assessed the applications based on three key elements: completeness, credibility and communication. More information about the criteria can be found at: www.accaglobal.com/sustainability.

Completeness (40%)

Corporate context

Key (direct and indirect) environmental impacts of business considered and explained

Environmental policy and management commitment

Rationale behind choice of EPIs used in report

Environmental targets and objectives

Product or service stewardship

Supplier procurement policies and issues

Scope of the report (by entity)

Reporting and accounting policies

Report audience identified

Linkages between environmental reporting and sustainability issues

Credibility (35%)

Internal credibility:

- Headline environmental achievements in current period
- Named board member responsible for environmental issues
- Contact name and details for person in charge of report
- EMS and its integration into the business process
- Contingency planning and risk management
- Internal audit
- Compliance/non-compliance record
- Environmental impact data
- Conventional finance related data
- Environmental financial statements and full cost accounting

External credibility:

- ISO/EMAS accreditation/certification
 - Adoption of reporting best practice
 - Approaches to stakeholder dialogue
 - Use of stakeholder feedback
 - Third party statement
 - Factors the panel will bear in mind include:
 - Remit and scope
 - Indication of site visits and site specific testing
 - Interpretation of data/performance reported
 - Identification of any data/information omitted that could/should have been included
 - Independent comment on corporate targets set and impacts identified
 - Shortcomings and recommendations
-

Communication (25%)

Layout and appearance

Understandability, readability, accessibility and appropriate length

Frequency

Communication and feedback mechanisms

Innovative approaches

Availability of a summary report and/or executive summary

Comprehensive navigation through report

Use of internet

Reference to website and other reports

Appropriateness of graphs, illustrations and photos

Integration with financial statements

winners 2005

BEST SUSTAINABILITY REPORT

mecu

mecu limited's 2005 sustainability report

www.mecu.com.au/SUSREPORT/sustainability.htm

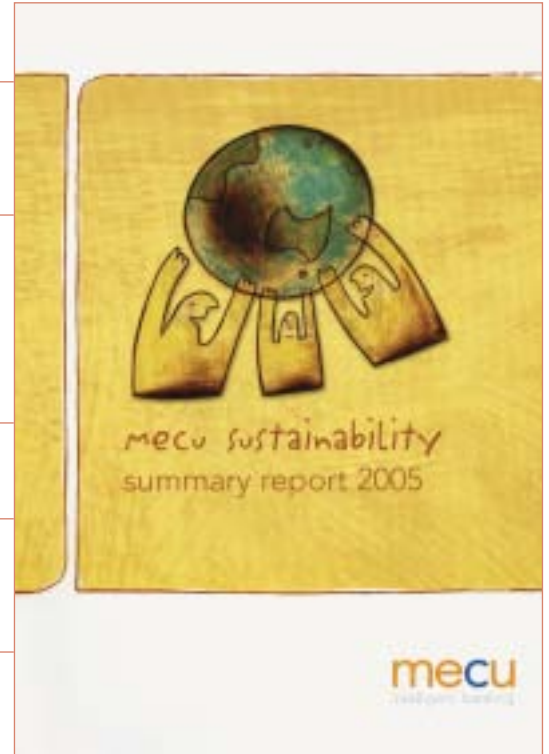
Mecu's online sustainability report was particularly sophisticated, and Mecu should be congratulated for being a market leader in sustainability reporting in the banking and financial services industry

Approach to sustainability is well enunciated. Mecu have built their proposition around the *raison d'être* for credit unions which is community and society driven – this allows them to have a very clear picture of their role in sustainability. This extends to both their direct impacts and more importantly to their indirect impacts which offer the most scope to benefit society.

The early work which Mecu is doing with suppliers forms a good basis for them to report on next year

GRI indicators have been well used and linkages on the website are easy to follow. As a first report and as a relatively young organisation Mecu have reported on their benchmark position and provided historic data

Summary report provides main information which is supported by a web site that is easily navigated. Website navigation is clear and easy to follow. The use of 'page scroll' helps focus the reader. This is a good example of producing a summary report supported by a web based longer document.



AWARD FOR CONTINUED HIGH-QUALITY SUSTAINABILITY REPORTING

Watercare Services

Watershed – an integrated approach

www.watercare.co.nz/assets/Publications/report_2005/wc_ar_2005.pdf

Watercare Services has demonstrated high quality reporting ever since it began entering these awards

Objectives clearly outlined

Comprehensive in identification of sustainability reporting

Excellent presentation of performance

Integrated report, but with significant focus on sustainability

Continues to be absolutely top-notch in terms of content, scope, relevance to key issues for the organisation, and integration of sustainability and financial reporting

Independent assurance

Balance of environmental, social and economic issues

Solid use of GRI, innovative sustainability accounting

Easy to navigate around the report

Front fold out good for ease of reference when reading objectives

Self assessable indicators

Use of ruler system innovative

Well structured and concise

The split into a main annual report, with vast additional material available on the web for those who are interested, is sensible

Overall excellent presentation



AWARD FOR CONTINUED HIGH-QUALITY SME SUSTAINABILITY REPORTING

Australian Ethical Investment

Australian Ethical Investment Sustainability Report 2005

www.austethical.com.au/__data/page/711/AEI_Report_Sustainability_2005.pdf

Australian Ethical Investment reports at a very comprehensive and meaningful level, and the quality of its report is outstanding given the company's small size

Lots of discussion around risk based approach and governance systems supporting that

Trend data on relevant environmental impacts on performance adds to the credibility of the report

The report gives a good 'feel' for the priorities of the organisation, how they want to position themselves both among peers and in the community

The report is a 'no frills' approach which is refreshing in some ways



AWARD FOR SUSTAINABILITY COMMUNICATION USING THE INTERNET

BHP Billiton

A sustainable perspective – BHP Billiton Sustainability Report

<http://sustainability.bhpbilliton.com/2005/index.asp>

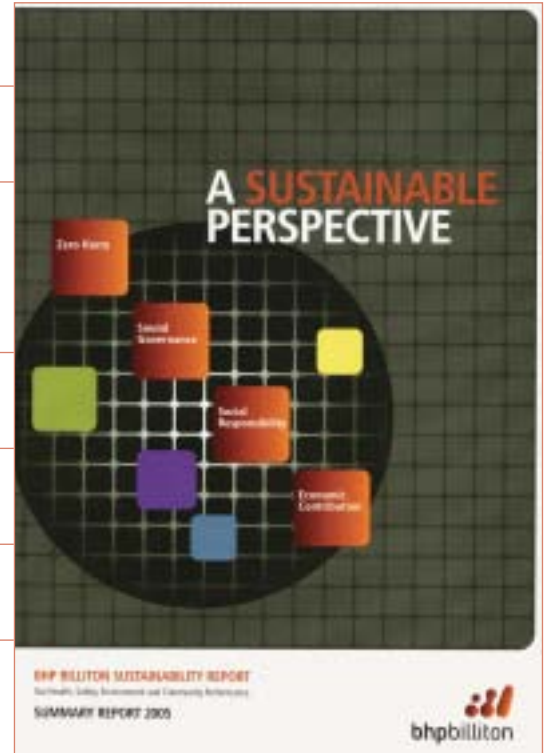
BHP Billiton's use of the internet to report sustainability information was significantly more developed than any other reporter

Excellent summary given the scope of operations and good linkages to other BHP reporting. Where information can be found and how to read the report clearly outlined. The areas of governance, health, safety etc give good insight and business lines would be too complicated for a summary report.

The performance at a glance table at the front gives a good insight into the groups performance 'warts and all'. The transparency increases credibility.

Governance systems and reporting frameworks give confidence in the 'embedded' nature of sustainability and case studies give tangibility.

Good mix of text and summary graphs. Report is easy to read and not cumbersome. Good design and layout.



COMMENDATION FOR ACHIEVEMENTS IN SUSTAINABILITY REPORTING

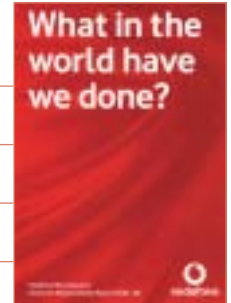
Vodafone New Zealand

What in the world have we done? Vodafone New Zealand corporate responsibility report 2004–05

Covers key issues relevant to the industry

Discusses stakeholder engagement processes

Integration of annual reporting requirements, corporate governance and financial aspects within sustainability reporting



IAG New Zealand

see – social, economic, environmental – Sustainability Report 2005

Links risk management of insurance directly to sustainability

Stakeholder views are filtered through the stories

Interesting style and communicates well the issues associated with the products they provide



URS New Zealand

The things we value – 2004 report on our economic, environmental and social performance

Covers most issues relevant to business

Good to see a consultancy attempting a report

Report is appealing and based around values which are core to reporter



judges' comments

Every organisation that entered ACCA's Sustainability Reporting Awards for 2005 should be recognised for taking the time to prepare a report, considering sustainability in their business and also entering these awards. For most businesses, sustainability reporting is a voluntary activity, and it is important to acknowledge those Australian and New Zealand entities that are producing sustainability information, recognising the need for transparency in non-financial areas of their corporate performance.

In saying that, however, too few Australian and New Zealand organisations produce sustainability information. According to figures from the Department of Environment and Heritage's latest survey of sustainability reporting, of the 486 companies surveyed, 119 companies (24 per cent) produce what they refer to as a sustainability report (or similar), which indicates there remains an opportunity for many more businesses to consider collecting, collating and reporting this type of information and accordingly see the same benefits being accrued by the 24 percent of reporters. It is estimated that the percentage is the same or less for New Zealand organisations.

The judges would like to congratulate the winners of this year's ACCA Sustainability Reporting Awards. Member-based financial institution Mecu received the award for the Best Sustainability Report. The quality of Mecu's report was excellent, given that this is the first time Mecu has released a sustainability report. More than any other report that entered this year's awards, Mecu clearly and succinctly explains its major impacts and issues, and how they are addressed.

Mecu's online sustainability report was particularly sophisticated, and Mecu should be congratulated for being a market leader in sustainability reporting in the banking and financial services industry.

Without taking away from the exceptional quality of Mecu's report, reporting by major diversified financial services providers may be more complicated, given the likelihood that such institutions are likely to be involved in financing a broader range of activities and offering a greater range of financial products. Nevertheless, Mecu's report is still an impressive achievement for a first-time reporter that has considerably fewer resources than a large bank. One point to work on for next year: judges would like to see all financial institutions, including Mecu, better address the impacts of its lending policy. This was indeed a common limitation of the reports prepared by the entire banking sector. As a group, the banks tended not to recognise, for the purpose of their reporting, the downstream social and environmental effects caused by the funds being advanced to borrowers. There was also very little information on any processes the banks use to monitor the social and environmental impacts associated with loan funds.

New Zealand water company Watercare Services received the award for continued high-quality sustainability reporting. Watercare Services has demonstrated high quality reporting ever since it began entering these awards. Its use of rulers and benchmarks is particularly innovative, and the integration of information throughout the report was among the best of all the entrants. Similar to Mecu, Watercare Services summarises its major issues in an easy to understand, easy to access manner.

As an industry leader in sustainability reporting, the judges would encourage Watercare Services to include more innovative aspects in its report next year and further enhance the readability of rulers (particularly the distinction between past and current years' information).

Australian Ethical Investment received an award for continued high-quality sustainability reporting for a small to medium-sized organisation. Australian Ethical Investment consistently reports at a very comprehensive and meaningful level, and the quality of its report is outstanding given the company's small size. The judges would like to recognise Australian Ethical Investments for its ongoing commitment to good sustainability reporting.

BHP Billiton received the award for sustainability communication using the internet. BHP Billiton's use of the internet to report sustainability information was significantly more developed than any other reporter. Sustainability information on its web site is easy to navigate, with hyperlinks used extensively throughout the material. This makes it very easy to find information.

Judges were concerned, however, with the completeness of BHP Billiton's report. Within the judging criteria, the completeness of reports is the element that receives the most weight and judges felt that BHP Billiton's report needed to meet these criteria

more fully. Some judges expressed concerns about the lack of clarity as to which specific joint ventures were included in the aggregate data reported; the exclusion of joint ventures in which the company is not the operator and lack of a clear explanation of methodologies for calculation of aggregate environmental data. This comment is, however, not specific to BHP Billiton and other companies need also to reflect their wider influence in their sustainability report.

The judges would like to encourage all reporters to ensure that joint ventures are included in sustainability information. Organisations that don't release full details about the impacts of the joint ventures in which they are involved – whether they operate or control the venture themselves or not – run the risk of reputational damage should those joint ventures negatively impact the communities or environments in which they operate. This aspect of completeness also applies to organisations that have missed reporting on potential key sustainability issues (for example, lending and investment policies of major financial institutions), and organisations that have significant tails (for example, supply chains) or limbs (outsourcing or partnerships/joint ventures) where the supplier/service-provider or partner/joint venturer may have an equal or more significant environmental or social footprint than the organisation itself.

It is important to note that sustainability reporting for organisations that have very complex business issues, with large environmental or community concerns, requires these organisations to make more concerted efforts to genuinely identify and address these issues than smaller organisations (although smaller organisations can also have large sustainability challenges). Many of the reports entered for the awards do not directly address some of their most important sustainability issues. The judges would like to encourage all reporters

to look more objectively at their operations to ensure that significant sustainability issues are openly reported.

Vodafone New Zealand, another first time reporter, received a commendation for its report. Vodafone's report addressed many of the major sustainability issues in the telecommunications industry and is able to clearly communicate these to stakeholders. The report also referred readers to reputable data, for example data from the World Health Organisation (WHO), on relevant topics of concern such as the health effects of mobile phone use. Next year, however, judges would welcome information about Vodafone New Zealand's lending policy and management of its social divide between the "haves and the have nots".

Another New Zealand company, environmental and engineering consultancy URS New Zealand, also received a commendation for its report. As a consultancy, it can be challenging to prepare sustainability information, and URS New Zealand deserves recognition for being the first consultancy to enter the awards. Its report was particularly comprehensive for a first-time reporter.

IAG New Zealand was the third organisation to receive a commendation. Its report communicates its sustainability issues clearly and is very easy to understand for its target audience which is consumers. The report does not, however, include some of the issues that the judges would expect to be covered in a sustainability report such as robust environmental and social data and a comprehensive assurance process.

Although it did not win an award, the judges would also like to congratulate New Zealand's The Warehouse, for being the first stand-alone retailer to enter a comprehensive sustainability report

(retail hardware group Bunnings, as part of Wesfarmers, is incorporated in a broader sustainability report). The Warehouse should also be recognised for including sustainability information related to its supply chain, including detail on suppliers in China. The judges would like to strongly encourage other reporters to follow the lead of The Warehouse and report on their supply chains in Australia and overseas.

There were many new entries in this year's awards, and the judges would like to congratulate organisations who are new reporters for deciding to enter the awards. Many of the new reporters produced reports of a high standard given their relative experience to more established reporters. Many of the small organisations that entered the awards also produced excellent reports, despite their smaller size and access to fewer resources.

As these awards enter their fourth year, continued low level of reporting by organisations in Australasia remains a serious concern. Despite a marginal increase in reporting rates over previous years, Australia and New Zealand lag well behind international best practice reporting levels. The judges note in particular the dearth of sustainability reporting in many sectors, including agriculture, health care, funds management and superannuation, and retail and wholesale trade. Low rates of reporting result in Australasian investors and communities having less relevant information about business risks and impacts. Some judges raised

the question whether voluntary reporting initiatives alone are insufficient.

The judges would like to encourage some of the organisations who have been entering the awards since they began to challenge themselves to become more innovative in the way they report. The judges would also like to see more leadership from long-term reporters in the way they report sustainability information so newer reporters can take some direction from their experience.

report against the judging criteria

Completeness

The breadth and completeness of a sustainability report is the factor to which judges give the most weight when assessing entries in the awards.

While the amount and relevance of information included in reports is gradually increasing from year to year, as we have already emphasised, many organisations are still failing to address within their reports major issues that have the potential to cause either significant human or environmental harm. This is particularly concerning given that many of the organisations that do this operate in industries that have the potential to cause damage.

The better reporters identify potential future negative impacts and set out measurable ways of addressing these impacts. Yarra Valley Water is one organisation that should be recognised for its efforts to identify and acknowledge negative and non-compliance issues and similarly the judges encourage other reporters to talk more openly about their environmental, social and sustainability problems and how they are being dealt with.

Stakeholder engagement is an area that warrants significant attention in many organisations' sustainability reports. While most reports identify stakeholders and say they are communicating with them, they don't provide concrete evidence of the consultation process, nor any evidence of the issues raised during stakeholder consultation and how they were addressed. Also, significant few identify their key stakeholders and the relationships and issues they have with them. The exception among the reporters that entered the awards was the National Australia Bank, which demonstrated more robust stakeholder consultation processes than many other reporters.

In general, the judges would like to see organisations become much better at incorporating information about future plans and their potential impacts in sustainability reports. This would include incorporating more data about the downstream impacts of any new plans, including full details about risk assessment processes used when arriving at a decision to embark on a new project and quantitative data on potential future supply chain impacts.

It's worth making specific mention of the water companies that entered this year's awards. While the standard of reporting among water companies is high, it would be useful for more companies in this sector to report on the quality of their assets, for example pipes and other related infrastructure. Given so many water companies report sustainability data, the judges would also like to see more comparative data included in reports so as to facilitate benchmarking between the organisations.

As we have already emphasised, in the reports from the banking and financial services sector, judges would like to see a much greater emphasis on lending, investment and underwriting policies and practices, including information on the wider sustainability impacts and outcomes of their financial portfolios, as well as loan defaults and management of personal debt levels.

For companies in the mining, energy, manufacturing and agricultural sectors, reports should generally include a comprehensive discussion of climate change, both in terms of impact on greenhouse emissions as well as exposure to climate change-related risks. Climate change is increasingly being recognised as a key risk of business given the various carbon mitigation initiatives being introduced by governments throughout the world. Hence there is an expectation that organisations – particularly those in mining – provide information to enable readers to understand how the organisation is planning to manage such risks.

Generally, when an organisation trades in overseas markets, the judges would also like to see some discussion of the relevant social and environmental issues facing the organisation in these external markets, including an examination of the supply chain in these markets. Reports should also include all markets rather than specifically focusing on the domestic market.

The judges would also encourage companies to better articulate the link between sustainability and corporate governance within their organisation. The Westpac report is one of only a few examples of reports that explain this important link to internal and external audiences. It is important for employees of the organisation, who represent a primary audience, to see this important relationship.

Credibility

Credibility is the second most important factor considered by the judges when they are examining reports.

Judges were disappointed to note that not all of the reports were independently verified or assured and would like to remind entrants that in order to be seriously considered for an award, a report must be credibly verified or assured by an appropriately qualified third party, and there must be credible evidence to prove this.

Although there has been an increase in the number of reports that are independently verified, reports need to better demonstrate how the verification process was independent. Judges would also like to see the verification process focus more closely on forward looking data, not just on historical data. As in previous years there was also disappointment with the ambiguous terminology and the lack of detail found within some of the assurance statements. In many cases it was particularly difficult to gain an insight into the actual procedures undertaken by some of the third party assurance providers. Some companies also include verification as a “tick box” function whilst the quality of the information verified and reported is limited.

In terms of the credibility of data produced in sustainability reports, some organisations need to be careful to include a detailed rationale for why they have decided to report against certain benchmarks for that benchmark to be given credence from report users and other stakeholders.

Communication

Communication is the third most important factor judges consider when looking at the reports.

A two-time previous winner of the award for best sustainability reporting, Watercare Services, should be commended for the consistently high quality of its sustainability report, particularly in its communication of performance. The use of rulers in its report is particularly innovative, although the report needs to be more forward looking, and clearer about when milestones will be achieved.

IAG New Zealand, a first-time reporter, should also be congratulated for the clear communication of its report to a clearly defined stakeholder group, although it does not cover all the issues that should be covered by an insurer recognising the needs of all its stakeholders.

Judges would like to commend BHP Billiton in particular for its use of the web in its sustainability reporting. BHP Billiton's sustainability reporting on its web site is easy to navigate and was significantly superior to other reporters' web sites. Goulburn-Murray Water should also be recognised for the quality of its diagrams and schematics.

invitation to participate

If your organisation discloses sustainability, environmental or social information, we invite you to participate in the 2006 ACCA Australia and New Zealand Awards for Sustainability Reporting. Organisations of any size are invited to participate in the awards.

Next year's timetable appears below.

October 2006 Launch of the awards and entries open

January 2007 Entries close

March 2007 Judging

May 2007 Awards ceremony

For further information, please contact ACCA on +612 9233 1242 or email teresa.cheong@au.accaglobal.com

For information about the awards including judging criteria and information on ACCA's sustainability reporting awards in other countries, go to www.accaglobal.com/sustainability

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Further Information

For further information about the ACCA Sustainability Reporting Awards, please contact:
ACCA Australia and New Zealand Suite 707 109 Pitt Street Sydney NSW 2000
tel: +61 2 9233 1242 / e-mail ausnz@au.accaglobal.com