



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

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Your ref: (09) 07

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Dear Ken

**AMENDMENTS TO THE FReM SUSTAINABILITY REPORTING**

The Institute of Chartered Accountants in England and Wales (ICAEW) is pleased to respond to your request for comments on *Amendments to the FRem Sustainability Reporting*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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## ICAEW REPRESENTATION

### ICAEW REP 121/09

#### AMENDMENTS TO THE FReM SUSTAINABILITY REPORTING

Memorandum of comment submitted in November by The Institute of Chartered Accountants in England and Wales, in response to HM Treasury consultation paper *FReM Exposure Draft (09) 07 Sustainability Reporting* published in August 2009.

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## INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (ICAEW) welcomes the opportunity to comment on the consultation paper *FReM Exposure Draft (09) 07 Sustainability Reporting* published by H M Treasury.

## WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

## MAJOR POINTS

### Support for the initiative

4. We support the aim of the proposed amendments to the FReM, to require external reporting by public sector entities on their sustainability performance.
5. We welcome the increased prominence of sustainability within the public sector and encourage this type of initiative, which gives the public sector the opportunity to lead other organisations by example, building on the momentum of existing reporting requirements such as the Sustainable Operations on the Government Estate (SOGES) targets.
6. In view of the wide variety of different sustainability reporting practices already in existence and the desirability of avoiding any further proliferation, we welcome the link between these proposals and the 'Connected Reporting framework' proposed by the Accounting for Sustainability project, as well as its consideration of other regimes such as the Carbon Reduction Commitment Energy Efficiency Scheme and SOGES.
7. We agree that the most appropriate channel for reporting sustainability information is in entities' annual reports, as this will reinforce the message that sustainability should be at the core of organisational performance and should be acknowledged and visibly supported by the Chief Executive Officer, as well as helping to limit the total number of reports published by entities.
8. In our view, assurance is desirable. We believe that the method through which assurance will be provided should be determined in consultation with those who would provide this assurance, such as the National Audit Office (NAO).
9. Furthermore, the proposed amendments should be worded to facilitate this assurance. If it is to be provided then it will be necessary to turn any 'guidance' into mandatory requirements. It will also be necessary to consider other matters, including 'materiality' levels, with reference to which the information will be reported and will be subject to scrutiny.

## RESPONSES TO SPECIFIC QUESTIONS

**Q1: Do you agree with HM Treasury's proposal to amend the FReM as described in the exposure draft? If not, why not, and what alternative do you propose?**

10. Yes.

**Q2: Do you agree with the proposed effective date, and any proposed transition provisions, for the issue as described in the exposure draft? If not, why not, and what alternative do you propose?**

11. We believe HM Treasury have chosen a realistic time table and a feasible plan for the proposed changes. Central government departments have been collecting much of this data for considerable time, although this guidance represents a new typology. We especially support the alignment with timescales employed in the CRC Energy Efficiency Scheme.

12. However, some consideration should be given to consequences and a proposed action plan if there is any delay in implementation of the Government's 'alignment project' (as detailed below).

13. We would welcome a proactive plan to expand guidance to cover local authorities also.

**Q3: Do you agree with the proposed (minimum) sustainability reporting scope? If not, why not, and what alternative do you propose?**

14. The issue of boundary-setting is critical and the authors of the draft are clearly aware of this and generally have taken it into account well. However some clarification is still required. At present the guidance suggests that an organisation must conduct sustainability reporting for those entities over which it has budgetary control, to match departmental financial accounting boundaries. It is our understanding that the financial reporting boundary and the budgetary boundary differ for Departments. As a result the alignment project has been developed to remove this difference, by bringing Non-Departmental Public Bodies (NDPB's) within the Departments financial reporting boundary. If the intention is for sustainability reporting to follow the financial reporting boundary, as we believe that it should, then this should be made clearer in the guidance.

15. We would broadly support the inclusion of a recommendation to request sustainability performance data from suppliers, recognising the large buying power of the public sector and its ability therefore to encourage a wider behaviour change.

16. Point 2.17 is currently too vague. For example, where should the boundaries be set on 'work done on behalf of your organisation'? Would this include building works, either new or refurbishments, completed by an outside contractor rather than a direct labour unit, or environmental impacts incurred by foresters and paper manufacturers in producing the paper used as stationery by entities? There would be significant challenges in securing the data from external contractors and in making sure that this data was produced to the correct specification and classification, especially if contractors had a range of clients with different requirements. Furthermore there would be a challenge in confirming that this has been done accurately. This point needs to be more specific, even if only as recommendation and guidance at this stage rather than in the form of a binding requirement.

17. We broadly we agree with the scope of the guidance covering greenhouse gas emissions, waste and finite resources. We believe they are likely to be sufficient for making at least high-level benchmarking comparisons between different entities which are sufficiently similar in their activities for this to be a worthwhile exercise to attempt. We also recognise that the diversity of

objectives and activities across the public sector is likely to mean that in many cases, just as in the private sector, valid comparisons between different public sector entities are likely to be difficult.

18. We agree with the inclusion of greenhouse gas emissions scopes 1&2. We challenge the decision that scope 3 emissions should include only business travel, and suggest consideration be given to expanding the boundary, based on an analysis of the types of information that existing reporters already collect and which is therefore likely to be relatively easily available.

**Q4: Do you agree with the proposed model sustainability report? If not, why not, and what alternatives do you propose?**

19. We fully support the use of the Accounting for Sustainability connected reporting framework, in particular because its feasibility for this purpose has already been tested and established by the Environment Agency in its annual report.
20. It would be logical to check that local authorities, who are not covered by this guidance, are also using the connected reporting framework so that results can be easily compared in the future. We suggest that the Department for Communities, and Local Government and CIPFA be approached and invited to advise on this.
21. Point 2.14 of the Draft Guidance proposes that each entity should report its performance in normalised as well as absolute terms, with this normalisation being done on the basis of £ expenditure. We fully support this in principle, but would also make several recommendations on how this should best be applied.
22. A ratio of a sustainability impact per £ of expenditure could produce strange results unless a distinction is made between administrative and operational expenditure, and the ratio based on only the former, since the role of many government bodies is to distribute funds. For example, the quantity reported by an entity such as the Criminal Injuries Compensation Authority would be very different under each basis; however 'sustainability impact per £ operational expenditure' would be misleadingly low and not a valid indicator of underlying performance.
23. To ensure valid and meaningful comparisons over time, particularly over long periods, inflation should be taken into account by requiring previous years' indicators to be re-calculated based on the current value of money at the time of reporting.
24. Administrative expenditure should be used as the main basis for normalisation since it is universally relevant across all entities. Encouragement should be given to consider other bases where relevant (for example headcount or full-time equivalents, floor space or room volumes).
25. The sample report which is provided in Annex 2A is unrealistically brief, covering only three pages. Whilst we recognise the benefit of being concise in a guidance document, as currently worded there is a risk of encouraging the opposite extreme and it could give a misleading signal and encourage entities to over-summarise or exclude important data. We would suggest that the illustration is expanded by adding three bullets to each explanatory box to indicate that some degree of explanation of key themes is expected. We would also recommend that a full example is worked up before the guidance is published, or that there is a standardised option to cross-reference to appendices with fuller reporting.

**Q5: Do you agree with the preferred option for introducing sustainability reports in Annual Reports, i.e. option 3? If not, please state your reasons and any alternative option you support or propose.**

26. We consider that Option 3 is both realistic and feasible, but would also welcome a plan to move towards a more challenging option.

**Q6: Do you agree with the proposed content and coverage of the draft sustainability reporting guidance? If not, why not, and what changes do you propose?**

27. Yes. Please see answers to Q3.

**Q7: Does the proposed draft sustainability reporting guidance provide you with sufficient information to facilitate your completion of a sustainability report for inclusion within your Annual Report? If not, what additional information would you require?**

28. Yes. Please see answers to Q4.

**Q8: Do you agree the proposal that external assurance be required on sustainability reports included within Annual Reports? If you agree do you have a view on the level of assurance required? If you do not agree, please state your reasons.**

29. Assurance is desirable, but some thought should be given to the kind of assurance framework that should be employed. Clearer protocols and criteria for GHG emissions are developing in particular the International Auditing and Assurance Standards Board (IAASB) has issued a consultation paper on "*Assurance on a Greenhouse Gas Statement*", the results of which should be considered.
30. We believe that sustainability reports can be made assurable, but there are several assurance options that could be considered, and we would suggest that further consultation is required with accountants that would be involved in the performance of such work, such as the National Audit Office (NAO). One such assurance option would be the ISAE 3000 assurance framework which applies to engagements other than audits or reviews of historical financial information. It is regularly used in the commercial sector to provide assurance over carbon reporting. If such a framework were to be used, it must meet all the requirements for an accountant to apply ISAE 3000 to provide the necessary assurance. This should be considered in consultation with the NAO. If ISAE 3000 is employed, it will be necessary to turn 'guidance' into mandatory requirements and to consider other matters, such as materiality levels with reference to which the information will be reported and subject to scrutiny.
31. While we recognise that the proposed amendments are in draft only, we believe that there is scope to make it clearer which sections of the amendments are mandatory, and which are 'best practice' in order to provide clarity to the auditor. Some of the present wording leaves room for discretion to reporting entities and this should be reworded (removing words such as 'if', 'could' and 'may' – as in section 2.6) to present a clear mandatory minimum framework, against which an accountant can assess performance and accuracy. More prescriptive language would also define what was meant by the use of words like 'true and fair' and 'materiality' (section 2.27) in the context of any assurance engagement, and again we recommend that this is considered in consultation with prospective auditors such as the NAO.
32. If agreement on the level of assurance were not initially possible, there exists the option to implement the amendment without the need for assurance to be provided at this stage. The requirement for assurance could then be added once the appropriate framework is in place.

This could also be done on an incremental basis if there is any difficulty in providing assurance over all of the information – for example, the first step might be to focus on assurance of carbon reporting, where a standard method of calculating emissions already exists. However, as has been found in the health sector in relation to Quality Accounts, the absence of assurance over non-financial data can affect the amount of faith a user of the information places in it, thus calling into question the value of producing it at all.

**Q9: Do you have any further comments or suggestions related to the proposals?**

33. While we suggest some changes are made to the scope of the guidance, we recognise the importance of prompt action and would not seek to delay the launch of the guidance as a result of these changes.
34. Point 2.10 appears to confuse targets with indicators or measures. The latter can be quantified on several different ways including actual past measures, target measures (which may include a 'stretch' element), realistic forecast and so on.
35. In point 2.13 it would be useful to specify or at least recommend the number of prior years of data that should be provided.
36. In point 2.18 'finite resources' should be defined to help report preparers decide what should be included. Furthermore, it is currently not clear how the cost of the purchase of licences is relevant to the sustainability report, as this is not directly linked to environmental performance. Some context would be useful.
37. In point 2.19 we suggest that accounting systems could also be used to capture physical data as well as monetary data. Furthermore that accounting systems should be designed by defining codes of accounts which support environmental reporting (for example keep the costs of different modes of travel distinct, do not post travel costs to the same codes as other costs with different environmental impacts such as hotel accommodation and subsistence).
38. Point 2.20 requires some clarification. Scope 3 emissions for business travel, for example may not necessarily be 'less significant in size' for all entities. We also recommend that guidance is provided on GHG conversion factors for simplicity.
39. Also in point 2.20 under waste 'absolute values' we suggest that units in weight or volume are specified.
40. Annex 2A point 3 'carbon-saving expenditure' needs to be defined as it is currently not clear what this is. It also begs the question of the value of knowing the amount spent, since what matters environmentally is the impact not the cost. Some improvements may be possible with very little or no outlay, in other cases large amounts could be spent for relatively little savings.

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