



Our Ref: D23/13766

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Dear Chair

**REQUEST FOR SUBMISSION TO THE INQUIRY INTO HOW THE WESTERN AUSTRALIAN GOVERNMENT'S PROGRESS TOWARDS ACHIEVING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) OUTCOMES IS ASSISTING TO SECURE INTERNATIONAL INVESTMENT.**

Thank you for your letter of 28 June 2023 requesting a submission to your current inquiry. Noting my Office does not comment on Government policy, I appreciate the opportunity to address issues related to monitoring and reporting requirements. I provide the comments as the statutory independent external auditor of financial and non-financial reporting and performance across the 320 entities that comprise the Western Australian (WA) public sector. My Office performs a critical check and balance within our Westminster system of Parliamentary democracy

**ESG monitoring and reporting in the Western Australian public sector is not new**

I acknowledge the momentum behind ESG reporting and assurance, particularly within the private sector. However, it should be recognised that it is being built on 30 years of a building interest in non-financial reporting and assurance generally, and that ESG reporting in the Western Australian public sector is an evolution, not a revolution.

To provide some important context, it is worth noting that in WA we already cover aspects of environmental, social and governance reporting and assurance. This is provided through our agency annual reporting and our Office's financial, controls and Key Performance Indicators (KPI) audits. Annual audited KPI results for State sector entities cover many aspects of non-financial performance, especially social and governance aspects. The growing interest in non-financial information in the public sector has also corresponded with the advent of performance auditing in the public sector, and our Office's efficiency, effectiveness and compliance audits.

What is new with respect to monitoring and reporting ESG outcomes, is the climate focus within environmental reporting, particularly the shift from climate-related emissions reporting<sup>1</sup> to climate-related financial risk reporting. This is a very technical area and requires a separate sustainability reporting standard. The International Sustainability Standards Board arose from the G20 Summit in Glasgow and sits alongside the International Accounting Standards Board (ISSB). In the same vein that the Australian Accounting Standards Board (AASB) adapted international financial reporting standards, sustainability standards will be

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<sup>1</sup> Already reported and audited under the *National Greenhouse and Energy Reporting Act 2007* for those entities within the specific emissions thresholds.

also adapted for the Australian context subject to stakeholder feedback and fit-for-purpose assessments<sup>2</sup>.

### **The Office of the Auditor General's (OAG) observations and participation in monitoring and reporting ESG outcomes**

It would be relevant for the inquiry to examine and consider whether the WA public sector already has a degree of sound reporting of ESG outcomes and how they might fit into a broader standardised sustainability reporting framework. It is my Office's view, based on our visibility of, and work in all State entities, that governance reporting is well-developed, with public sector entity annual reports being the main example. In addition, social outcome monitoring and reporting in WA is demonstrated in the many audited KPIs for relevant entities, and at a national level there is the *Report on Government Services* by the Productivity Commission that collates additional data related to social outcomes. My Office has also contributed to non-emissions environmental monitoring and reporting through a number of more in-depth environmental audits in the past, including but not limited to:

- [Regulation of Air-handling and Water Systems \(Report 20: 2022-23\)](#)
- [Compliance with Mining Environmental Conditions \(Report 11: 2022-23\)](#)
- [Managing the Impact of Plant and Animal Pests: Follow-up \(Report 4: 2020-21\)](#)
- [Waste Management – Service Delivery \(Report 3: 2020-21\)](#)
- [Management of Salinity \(Report 8: 2018\)](#)
- [Rich and Rare: Conservation of Threatened Species Follow-up Audit \(Report 16: 2017\)](#)

In order to further progress towards monitoring and reporting ESG outcomes that would assist in securing international investment, an opportunity exists to better catalogue the existing reporting arrangements that apply, and are currently underway, across the WA public sector. Without such an inventory, Parliament is unaware of the available data capture and reporting mechanisms for sustainability reporting that are already in place and what a reasonable expectation might be for the WA public sector. Such an inventory would be able to assist in implementing and building the necessary capacity and capability as well as addressing any gaps that significant stakeholders may seek to see addressed over time.

My Office is also aware of many initiatives currently taking place at the Department of Treasury, Department of Water and Environmental Regulation and WA Treasury Corporation. These stretch over various subjects, and my Office has requested to be part of all working groups as observers to gain an understanding of all policies, procedures and systems being considered and provide feedback as necessary. The working group overseeing climate-related risk has become operational recently, and we have specifically requested a formal invitation from the Department of Treasury to join this group. The area of climate risk will be one of the biggest changes and challenges for the WA public sector to address and, in my view, will be the aspect of ESG reporting and assurance that requires the greatest uplift in capability and resourcing.

### **Securing international investment through Green Bonds**

The role of the WA Government in ESG reporting around addressing the risks related to climate change is important to the communities we serve and investors alike. Investors, both onshore and offshore, are considering governments' policies before making decisions on

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<sup>2</sup> Public sector financial reporting and assurance in Australia follows the standards of the AASB and Auditing and Assurance Standards Board (AUASB) and this will continue for sustainability reporting and assurance.

investment into the corporate and government sectors. An example of this is through the issuance of green bonds.

For governments and corporate entities, green bonds are a way to ensure borrowing markets do not diminish if investors seek a 'greener' portfolio. The State Government is currently well-positioned to offer such a product to buyers who want highly rated bonds in a jurisdiction that is well regarded for its financial governance. In the traditional bond market, my Office already audits the whole-of-government accounts that underpin the State's borrowing and issuance of bonds, and lenders and buyers of our bonds are comforted by our fiscal results confirmed through audited whole-of-government accounts. Buyers of niche 'green' products, which are underpinned by the strong financial governance of our State, are similarly reassured by that.

### **The role of the OAG**

Currently, there does not seem to be any distinct demand in the Government bond market for a level of assurance over green bonds like we provide on government accounts or special purpose accounts. However, given the risks of greenwashing, it is expected that government bond investors will actually want a higher level of assurance in the future as some underwriters and investors are already seeking for corporate green bonds. My Office can provide such assurance if requested.

What we currently know in the ESG reporting and assurance standards space, is that climate reporting will be standardised first, followed by sustainability reporting later on. The ISSB (and subsequent ASSB) sustainability standards are designed to ensure that entities provide sustainability-related information alongside financial statements, ultimately in the same reporting package. Secondly, the expectation is that financial auditors (using multi-disciplinary teams) will be required to provide assurance over ESG reporting. My Office will be ready to audit when requested or as soon as the WA legislative prescripts have been enacted to facilitate the reporting process. There are many examples in the private sector where accounting firms are already providing limited assurance over climate and sustainability reporting aspects as well as green bonds using Australian Standards on Assurance Engagements 3000. This is a critical process to satisfy the needs and expectations of the community, investors, the issuer and regulators as applicable, and maintain quality standards in auditing so that greenwashing does not occur.

### **The way forward**

To ensure we can build the required capability as an audit office, resources will be required through the appointment of qualified staff and developing current staff capabilities. Working with reporting entities in the early stages through pre-audits will likely be undertaken to learn and increase rigour and efficiency in reporting.

I feel it is important to acknowledge that the State Government has gone through similar changes in the past, for example KPI reporting, and when the State Government financial statements preparation changed from cash basis to accrual basis. Our Office, and the State sector more broadly, managed those changes successfully to meet emerging stakeholder information needs.

There is no one-size fits all approach, and I think WA public sector entities will learn from one another as we journey through this emerging field. As a jurisdiction, WA can define

aspects of its own public sustainability reporting framework, consider what is important and, over time, amend, supplement and refine. If the overriding purpose is to make better decisions that inform actions or allocation of resources, and to understand the impacts of those decisions, then the framework, and how it is implemented, needs to be fit-for-purpose in the WA context. Basing this on the AASB sustainability standards will be relevant to an integrated and aligned approach so that WA is part of a national and global system.

I trust the information I have provided will assist the Committee with its inquiry. I am available on [REDACTED] if you would like to discuss this or related information.

Yours faithfully



Caroline Spencer  
Auditor General for Western Australia  
11 August 2023