Nº 3 | 2019

Journal

Time to act

EUROPEAN COURT OF AUDITORS

Table of contents

NUMBER 3/2019

12

23

INTERVIEW
Jyrki Katainen, Vice-President of the European Commission
EU fully committed to sustainable development

INTERVIEW
Eva Lindström, ECA Member
Sustainability risks are financial risks!

44

SDGs beyond Europe – Latin Amercian and Carribean SAIs cooperate on auditing the SDG on gender equality

By Osvaldo Rudloff Pulgar, Office of the Comptroller General of Chile

65

76

▶ **ECA JOURNAL LONG READ**

How external auditors can help corporates report on non-financial information and meet Sustainable Development Goals

By Valérie Arnold and Krisztina Szenci, PwC Luxembourg

▶ **INTERVIEW**

Emma Navarro, Vice-President of the European Investment Bank

Sustainability is in the DNA of the Bank

86

Sustainable investments: the great transformation for companies, investors…and consumers

By Georg Kell, Chairman of Arabesque

Table of contents

PRODUCTION

Editor in chief:
Gaston Moonen
Tel.: +352 4398 - 45716
E-mail:
antonius.moonen@eca.europa.eu

Deputy editor:
Derek Meijers
E-mail:
derek.meijers@eca.europa.eu

Desktop publishing: Nicolas Toulas
distribution:
Directorate of the Presidency

Photos:
Reproduction prohibited

© ECA
© European Union, 2019
Reproduction is authorised provided the source is acknowledged

The contents of the interviews and the articles are the sole responsibility of the interviewees and authors and do not necessarily reflect the opinion of the European Court of Auditors

Unless indicated otherwise, all pictures and graphical visuals originate from the ECA

For more information:
European Court of Auditors
12, rue Alcide De Gasperi
1615 Luxembourg,
LUXEMBOURG

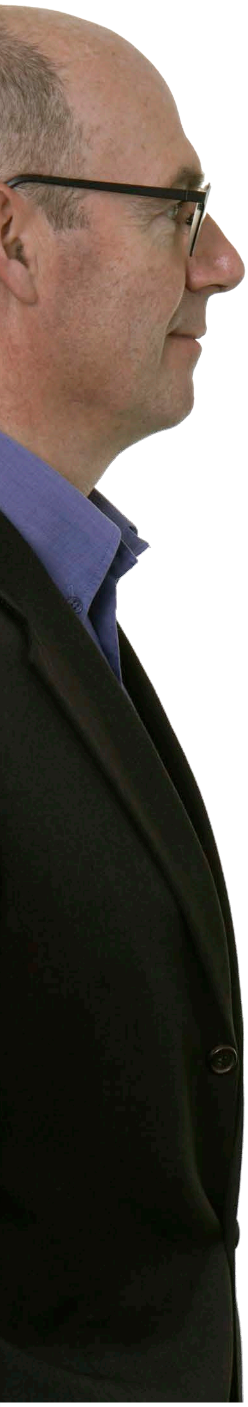
eca-journal@eca.europa.eu

Past editions of the Journal can be found on ECA's website:
eca.europa.eu/en/Pages/Journal.aspx

eca.europa.eu
@EU auditors

Editorial

Agenda 2030 – a sustainable promise to the world?



They say that every new generation has the right to its own ideals, their ambitions to make a better world. I can only concur with that, thinking about my own ideals when I was 'new.' And asking myself how they have been taken over by day-to-day life. A thought echoed sometimes by my children, all teenagers who have refreshing assumptions, fresh ideas and vigour to go for change and challenge systemic weaknesses in society. Take for example my youngest daughter, who not only has the same age as Greta Thunberg, the Swedish teenager activist. She also regularly uses Greta's language to express the need for drastic change. Her concerns relate not only to human behaviour leaving considerable climate footprints, but also to inequalities, use of resources and social injustice in the world. All nice and well, but sometimes I caught myself thinking 'Keep on dreaming.'

But it turns out that she is not the only one dreaming about a new agenda for this world. In fact, if you take a closer look at what the United Nations Agenda 2030 actually contains, it becomes clear that Greta's and my daughter's ideals are shared by many around the world. To be more precise, by 193 countries –all UN member states - when they adopted the Agenda 2030 in 2015, containing 17 Sustainable Development Goals (SDGs) with the slogan 'Leave no one behind.' Never before has the world community so overwhelmingly agreed on such a far-reaching agenda. Because taking a closer look at the SDGs tells you that they are rather bold, not only on climate action and biodiversity, but also seeking to eliminate poverty and hunger and promoting ambitious objectives on health, education, work and even justice and peace. And, looking at the political spectrum, signed by the widest variety possible. More details on the background of the Agenda 2030 process can be found in this Journal in the article of Karin Huber-Heim.

Looking even further at the Agenda 2030 details, one may be forgiven to think that this agenda is an auditor's dream (or an auditees nightmare). Not only do the 17 SDGs have 169 targets for action. Each target has between one and three indicators used to measure progress towards reaching the target. In total, there are 230 approved indicators that could be used to measure compliance. Exactly what auditors around the world need to assess progress towards achieving the Agenda 2030, as 193 countries committed themselves to do so. That means only 11 years from now.

Unfortunately, the world is not (yet) an ideal place, as is elaborated upon by ECA Member Eva Lindström. This became clear during the Sustainability Reporting Forum the ECA organised in June 2019, following its publication on EU reporting on SDGs. For various reasons – be it the voluntary and global character of how to reach these goals or the interlinkages between them – not only progress of reaching the goals but even reporting on such progress, or the lack of it, turns out – in friendly auditor's terms – to be suboptimal.

This does not mean that the EU and its Member States are sitting idle. Sincere efforts, both on action and reporting on it, are undertaken at EU level to make progress towards meeting the SDGs, as European Commission's Vice President Jyrki Katainen and also EIB Vice-President Emma Navarro make clear in this Journal. But, as several of the contributions from public as well as private auditors show: the promise to the world to deliver has not yet been translated into sufficient action to make 2030 a credible target year for realising most SDGs.

Several contributors to the Journal provide advice, ranging from the winning streak of sustainable financing to slashing illicit financial flows to local awareness campaigns to engage multiple stakeholders. What resonates most vividly is the call for action as expressed by the young contributors to the ECA Forum in June 2019. Action as demanded by Greta Thunberg's earlier this year from world leaders, saying 'I want you to panic. [...] I want you to act as if the house was on fire – because it is.'

The feelings of our children, our future generation, show more than mere idealism. They show a sense of urgency. A sense of urgency which is also evidenced by many reports - including those from auditors . A sense of urgency to take better care of the world than is done now. Because they realise: what is gone is gone. And we have only this one world to live in.

Gaston Moonen

From Millennium Development Goals to Sustainable Development Goals – just more of the same?

By Karin Huber-Heim, Bertalanffy Center for the Study of Systems Science

Source: Yuttana Contributor Studio /Shutterstock.com

Creating the foundation for the next generation

Adopting the Agenda 2030 in 2015 has been considered by many as a great achievement. But research shows that implementation is lagging farther and farther behind. As Academic Programme Director and Associate Professor at several universities of Applied Sciences, Karin Huber-Heim has a strong focus on education and promotes the SDGs in curricula, research and teaching relating to circular economy systems and behaviour change. She has been a member of the board at the Global Compact Network Austria and has an international reputation in advising organisations on their strategic integration of the SDGs for sustainability and innovation. Below she focuses on the ambitions set out in 2015, the interaction between the different Sustainable Development Goals and a systemic move to the participation of all people, whatever country, level or sector they live and work in.

Let's talk about the future: the SDGs - pathway to a sustainable future

The Sustainable Development Goals (SDGs) have set the agenda to transform our world by the year 2030 and beyond. Addressing the multiple challenges humanity is facing in achieving well-being, economic prosperity, and environmental protection for all, it provides a holistic and multidimensional view on development rather than a restricted set of dimensions and targets.[1] Countries and regions, governments, the private sector and civil society are called upon to collectively and collaboratively make efforts to transform the world for the better, leaving no-one behind.

1 Pradhan P., Costa L., Rybski D., Lucht W., Kropp J. P., A Systematic Study of Sustainable Development Goal (SDG) Interactions, Earths Future, Volume 5, Issue11, November 2017, p. 1169-1179

This powerful vision comes at a time of great uncertainty and climatic instability and political tensions within and among states. To make a sustainable future reality for everyone on this planet, incremental improvements and trade-offs between the economy, the environment and society have to be shifted towards radical transformation for the common good, with all sectors starting simultaneously. The greatest risk we face to reaching the goals is delaying urgent decisions, the greatest barriers are competitiveness and acting in silos. The imperative is acting together for 2030, with the participation of all countries, all stakeholders and all people.

From MDGs to SDGs

When the Millennium Development Goals (MDGs) were issued in 2000, a period of 15 years for halving extreme poverty rates, halting the spread of HIV/AIDS and providing universal primary education in developing countries seemed ambitious, but doable. They were agreed to by all the world's countries and all the world's leading development institutions to meet the needs of the world's poorest.

By 2015 the world had changed in many ways. The target of reducing extreme poverty rates by half had been met already five years ahead of the 2015 deadline. Nevertheless, extreme poverty in certain areas still exists to this day – nearly 10% of the world's population live on $1.90 a day and 12.9% in 2014 remained undernourished (see World Bank for data). Primary school enrolment figures had been raised impressively, but the goal of achieving universal primary education had been missed. While some forms of discrimination against women and girls are continuously diminishing, gender inequality, also in industrial countries, continues to hold women back and deprives them of basic rights and opportunities.

Child-mortality rates were improved, but still 16 000 children under the age of five continue to die every day from preventable causes. The same applies to maternal health: despite impressive improvements made, 830 women die each day in childbirth, or as a result of complications arising from pregnancy – roughly one every two minutes. The fight against diseases showed mixed results: while new HIV/AIDS infections decreased, almost half the world's population is at risk of malaria. In 2015, the incidence rate was 91 new cases per 1 000 people at risk, an estimated total of 214 million cases. Official development assistance from wealthy countries to developing countries increased by 66% reaching $135.2 billion – but as it was not designed as eyelevel global partnerships for development, it did not lead to a widespread improvement in people's living conditions, where it was needed most.

Agreeably, important improvements were achieved - yet not enough to make a significant difference. And new issues added complexity, uncertainty and urgency at many different levels and plenty of areas still need action. A new set of goals was to be built on the Millennium Development Goals to complete what these did not achieve.

The Global Goals

Based on the remaining tasks and due to the pressure that climate change-induced natural disasters and eco-system decline is putting on the population in many parts of the world, an enhanced systemic approach to change has been developed under the guidance of the United Nations. Sustainable economic, social and ecological development issues have been the subject of the international debate now for some decades. There has been and is a lot of talk, but national political, economic and social interests do not coincide, and too little has happened for too many years. To guide all existing interests into the same direction, the 193 member states of the United Nations started a multistakeholder process that lasted three years.

Based upon deliberations of the United Nations Conference on Sustainable Development in Rio de Janeiro, Brazil, in June 2012, and its outcome document *The Future We Want*, the UN High-level Political Forum on Sustainable Development was established. In

2013, the UN General Assembly set up a 30-member Open Working Group to develop a proposal on subsequent goals, the Sustainable Development Goals. The annual High-level Political Forum on Sustainable Development serves as the central UN platform for follow-up and review of the SDGs, where member states report on progress.

As a result, the 2030 Agenda for Sustainable Development with 17 SDGs at its core was adopted in the General Assembly meeting at the UN Sustainable Development Summit in New York in September 2015. It was seen as a landmark for multilateralism and international policy shaping. *Transforming our world: the 2030 Agenda for Sustainable Development* was adopted the same year as the *Paris Agreement on Climate Change* (December 2015) and refers to it in Goal 14.

All member states agreed and committed themselves to achieve the 17 Global Goals for Sustainable Development at national, regional and international level by 2030. The SDGs serve states, companies, educational institutions and civil society as a compass, with the help of which a fair, clean and good world for all is to be strived for globally. It is widely acknowledged that reaching the goals urgently needs transformative steps to shift the world onto a sustainable and resilient path.

Agenda 2030 - leave no-one behind

Where goals are to be achieved, a roadmap needs to be drafted. To reach the 17 Goals a global plan of action for people, planet and prosperity has been developed. All countries and all stakeholders are called upon to implement and bring this plan to life through collaborative partnerships, thereby making SDG17 the key-goal to achieve all of them. Global Partnership for Sustainable Development should be carried by a spirit of global solidarity, and focus in particular on the needs of the poorest and most vulnerable.

Each of the 17 goals is supplemented by a set of targets to demonstrate the scale and ambition of this new universal agenda and to balance the three dimensions of sustainable development: economic, social and environmental. The interlinkages and the integrated nature of the Goals are of crucial importance in ensuring that the purpose of the new Agenda is realised. As all 17 goals are interdependent, reaching the targets will sometimes lead to synergies as well as trade-offs.[2] In 2016, the total of 169 targets was supplemented with a proposed list of 230 SDG indicators. They were developed by the Inter-Agency and Expert Group on SDG Indicators (IAEG-SDGs) as a practical starting point for action in 2016.[3] The interdependency of the goals and targets are a massive institutional challenge at both national and international levels.

Take, for example, certain actions related to SDGs 6, 7, 11, 12 and 15 which will generate synergies and co-benefits for other SDGs. Investments in wastewater treatment with energy co-production may simultaneously contribute to increasing water (SDG 6) and energy (SDG 7) security and improving public health (SDG 3), and contribute towards more sustainable cities (SDG 11)[4] Actors and decision makers should be aware of these affects when developing and designing measures and strategies.

Some member states administer their public policy sectors, such as health, energy, agriculture and education, through sectoral ministries and agencies, while others do not - leading to a lack of joint agendas and coordination often resulting in inefficient or even contradictory policy actions within states and among them. Target 17.14 can therefore serve as a reflection of the aspirations that already exist at the national level to work across policy sectors and coordinate them better. This will also prove a political

2 Pradhan et al, 2017

3 https://sustainabledevelopment.un.org/content/documents/11803Official-List-of-Proposed-SDG-Indicators.pdf

4 TWI2050 - The World in 2050 (2018). Transformations to Achieve the Sustainable Development Goals. Report prepared by World in 2050 initiative. International Institute for Applied Systems Analysis (IIASA), Laxenburg, Austria. www.twi2050.org last accessed 05/07/2019

exercise, in view of the political, institutional and cognitive limitations to how large complex problems can be addressed in policy making. [5]

Peace and prosperity for people and planet - now and into the future

The SDGs represent a description of the world in which we want to live in 2030: a world where people and the environment are respected and the opportunities for a good life for future generations are not impaired or damaged by short-term thinking. In an unprecedented development and negotiation process involving all member states, experts and representatives of business and civil society, ideas and wishes for a good global society were collected, analysed and discussed. It is widely acknowledged that the goals can only be reached with the participation of all countries, all stakeholders and all people.

States, citizens and businesses must all participate in the implementation of the objectives - no group can achieve enough on its own. While states enact policies and laws to provide the appropriate framework conditions for necessary change, educational institutions are called upon to provide knowledge and skills to learners of all ages to promote sustainable development. They thus make an important contribution to anchoring awareness of sustainable living and economic practices in society. These include information and knowledge about sustainable production and consumption, human rights, gender equality, a culture of peace and non-violence, world citizenship, as well as appreciation of cultural diversity and the contribution of culture to sustainable development.

The international community has set itself ambitious goals: the eradication of poverty and hunger, the improvement of health and gender justice, as well as access to education, clean water and more renewable energy. At the same time, the economy is called upon to provide decent work with simultaneous economic growth for innovation, while production and consumption should be sustainable. Inequalities should be reduced and infrastructure and cities should be designed to be sustainable and worth living in. Measures to protect the climate, ecosystems on land and in the oceans, are needed, as are strong and equitable state institutions.

Global multi-actor partnerships to mobilise and share knowledge, expertise, technology and financial resources are key to achieving these goals. The formation of effective public, public-private and civil society partnerships should support the achievement of the goals in all countries and especially in developing countries.

The challenges

Growth, therefore, will look different for industrial countries than for developing and emerging countries. While the first need to invest in regenerative systems for production and sustainable consumption, the later will need to unlock their potential in the most sustainable and regenerative way. By collaborative partnerships for technology transfer and capacity building we can pave the way for shortcuts to clean and sustainable lifestyles for millions in developing and emerging countries, without detouring to the environmentally and socially damaging processes industrial states went through to achieve progress.

According to the Sustainable Development Report 2019 by *Bertelsmann Foundation and Sustainable Development Solutions Network* there are mainly 3 to 4 SDGs in which all countries are stagnating or experiencing deterioration:

5 Nilsson, Mans, Understanding and mapping important interactions among SDGs, Background paper for Expert meeting in preparation for HLPF 2017 Readying institutions and policies for integrated approaches to implementation of the 2030 Agenda Vienna, 14to 16 December 2016 https://sustainabledevelopment.un.org/content/documents/12067Understanding%20and%20mapping%20important%20interactions%20among%20SDGs.pdf last accessed 05/07/2019

- 12 (Sustainable Consumption & Production)
- 13 (Climate Action)
- 14 (Life below Water)
- 15 (Life on Land)

Furthermore, no country on Earth is on track when it comes to achieving the SDGs. Even the countries that are generally at the top of most development rankings still have a lot of work to do. With regard to the current political situation in Europe, SDG 10 also needs to be brought into focus, as inequalities within or among states can prove to be an enormous barrier for positive transformation and collaboration.

If we can realize these universal and transformational ambitions across the full extent of the Agenda for 2030, the lives of all can be profoundly improved and our world will be transformed for the better. We are the generation that can create the future we will live in – let's start today.

EU fully committed to sustainable development

Interview with Jyrki Katainen, Vice-President of the European Commission

By Gaston Moonen

Jyrki Katainen

European Commission Vice-President Jyrki Katainen is responsible for 'Jobs, Growth, Investment and Competiveness'. This includes for example the promotion of structural reforms in EU countries and helping improve the business environment in the EU. He was keynote speaker at the Sustainability reporting Forum the ECA organised in Brussels on 17 June 2019. He responds to some questions on how the Commission has integrated the SDGs in EU policies and where the EU stands regarding reporting on realising the SDGs.

Mainstreaming SDGs in the European policy framework

When you think about the EU and sustainability, what are the key issues that come to your mind?

Jyrki Katainen: I think it is fair to say that the EU has a strong starting position and track record. The EU is fully committed to sustainable development. It is part of our DNA. And Europe was a leading force behind the adoption of the Sustainable Development Goals – the SDGs – and also of the Paris Agreement on Climate Change. EU policies, funds and actions cover all SDGs and provide a significant contribution to their implementation. This is the case not only within the EU, but also outside, through EU external action and trade.

> *... the EU has a strong starting position and track record.*

What has the Juncker Commission done to realise the SDGs, particularly in the European Union?

Jyrki Katainen: Since 2015 – when the 2030 Agenda for Sustainable Development was adopted – the Commission has been following a two-step approach towards the implementation of the SDGs. I think we can distinguish two work streams here. The first work stream is to 'mainstream' the SDGs in the European policy framework and the Commission's priorities. We, as Commission, have mainstreamed sustainable development into key cross-cutting agendas but also sectoral policies and initiatives. I can even say that this Commission has put in place some of the most ambitious agendas in the world to fully deliver on the SDGs.

Let me give you some examples which address, at the same time, the economic, social, environmental and governance aspects of sustainability. These are policies of a new kind, a 'new generation' of policies. Just to name a few:

- The Circular Economy Action Plan includes steps for changing consumption and production patterns, by focusing on the design of products, waste management and increasing consumer awareness;
- The EU Plastics Strategy and legislation on single-use plastics will protect the environment from plastic pollution while fostering growth and innovation;
- The Action Plan on Sustainable Finance will provide for the first time investors with full information on what is a sustainable investment, and create a new market for it;
- The Investment Plan for Europe boosts investment for Europe's future, for instance in renewable energy, circular economy, digitisation, innovation and social entrepreneurship.

Presenting a vision for the a sustainable future

What does the Commission do to ensure that SDGs are well integrated in the ongoing discussions for the new Multiannual Financial Framework (MFF)?

Jyrki Katainen: This relates exactly to the second work stream of the two-step approach I was referring to earlier. As Commission, we have presented a vision for a sustainable future for the EU, reflected in the Commission Reflection Paper 'Towards a Sustainable Europe by 2030.' We published it in January this year, together with First Vice-President Frans Timmermans.

The Reflection Paper forms part of the discussion on the Future of Europe and aims to inspire the discussion on the political priorities post-2019. We also decided to present different scenarios, offering ideas to spur the debate and thinking. In the Reflection Paper we identify key policies areas where we need to take further steps towards sustainability: circular economy; food systems; future–proof energy, buildings and mobility and last but not least, a socially fair transition. Of course we are not starting from scratch and a lot has been achieved already. But further and prolonged efforts are needed.

> *"Of course we are not starting from scratch and a lot has been achieved already. But further and prolonged efforts are needed.*

Having goals is one thing, how to get there is often a much more difficult challenge. Does the Commission also present concrete ideas on the instruments to be used to realise a sustainable Europe by 2030?

Jyrki Katainen: We certainly do. The Reflection Paper also identifies the key enablers for the sustainability transition. Just let me mention a few. First, we need to invest more in education and training. It is the best investment we can make for our future to ensure equal opportunities and fairer societies. Second, we need to invest more in research, development, innovation and digitisation, in particular in artificial intelligence. It has huge potential, for example in health or agriculture, and Europe cannot lag behind in this field. Third, a key enabler is the rule of law and respect of fundamental values. We have recently seen worrying signs of leaders calling the very foundations of our democracies into question.

> *"First, we need to invest more in education and training. It is the best investment we can make for our future to ensure equal opportunities and fairer societies.*

The Reflection Paper focuses – understandably - on how Europe can achieve the SDGs by 2030, but I want to underline the global dimension to it. Challenges like climate change do not stop at borders. We need and will continue contributing to solutions together with the rest of the world in multilateral forums. We will make a positive contribution through development cooperation, initiatives like the External Investment Plan, as well as through open and rules-based trade.

The Commission Reflection Paper - with its different scenarios - should drive citizens, stakeholders, Member States and the European Parliament, to reflect towards which Europe we want by 2030 and provide feedback to the Commission, giving guidance on the priorities to pursue going forward. With this reflection paper we also presented a call to the rest of the world, not to get tempted by easy solutions that may solve symptoms in the short term, but do not address the causes of our problems in the medium-term. If we wait too long, challenges will only get bigger and we miss out on the opportunities.

> *"If we wait too long, challenges will only get bigger and we miss out on the opportunities.*

Monitoring and reporting

For the citizens, stakeholders like Member States and the EP, but also at the global level, such as the UN, it will be important to have reliable information on how the EU contributes to sustainable development and where the EU is when it comes to reaching them in time, that is by 2030. In its review the ECA concludes that the Commission still has a few steps to take when it comes to reporting on the contribution of the EU's budget and policies towards the 2030 agenda for SDGs. What is your view on where the Commission stands and can improve?

Jyrki Katainen
Sustainability Reporting Forum
17/6/2019, Brussels

Jyrki Katainen: Let me first underline that I believe that monitoring the implementation of the 2030 Agenda is key. Without knowing where we stand, it is difficult to progress. The Commission supports a robust global monitoring and review process, which will enable us to take stock and adjust our approach as needed.

These robust assessments of the EU's progress on the SDGs are provided in several reports. The 'Eurostat Monitoring Report on progress towards the SDGs in an EU context' is a key tool for facilitating the coordination of SDG policies. It promotes the assessment and monitoring of progress in implementing the SDGs, and it helps to highlight their crosscutting nature and the links among them. Also, the first Joint Synthesis Report on the implementation of the European Consensus on Development, published last May, shows how the EU and its Member States are jointly delivering on the UN 2030 Agenda through development cooperation and supporting partner countries in pursuing the SDGs.

So, as a first reaction to the rapid case review, I must say that the Commission does report and monitor how the EU policies contribute to sustainable development, and we will continue to do so. However, as is also indicated in our Reflection Paper, it is clear that there is room for further strengthening this aspect. One scenario of the reflection paper indeed refers to a specific EU SDG implementation strategy, for instance.

When it comes to reporting at the global level on where we stand, the United Nations' High-level Political Forum is the central platform for follow-up and review of the 2030 Agenda for Sustainable Development. The EU reporting will be based on the Commission's Reflection Paper and its annexes, the 2019 Eurostat report, the Joint Synthesis Report and the 2019 EU report on Policy Coherence for Development. And I very much look forward to further ideas, from the ECA and others, on how to improve our reporting, which the next Commission could possibly take forward.

Mainstreaming the SDGs in EU policies and reporting the results

By Gert Jan Koopman, Director-General for Budget, European Commission

Implementing the Sustainable Development Goals (SDGs) often also requires the necessary financial means to be made available from both private and public sources. Gert Jan Koopman, one of the speakers at the Sustainability Reporting Forum on 17 June 2019, has been Director-General for Budget at the European Commission since 2018. He is therefore excellently placed to elaborate on this topic. He argues that there are some key policy foundations and enablers that should underpin the sustainability transition, and refers also to the three scenarios the Commission put forward at the beginning of 2019 on how to realise the SDGs within the EU. He explains that the EU budget, although important, is clearly not the only instrument suitable for achieving the SDGs, and describes how the Commission currently accounts for the SDGs in its performance and reporting framework.

Why sustainability matters

Sustainability is itself a positive goal. It is about making people's lives better, making sure that our economic growth allows us to maintain a model that produces fair outcomes for all and does not consume more resources than the Earth has to offer.

In 2015, the General Assembly of the United Nations adopted the set of 17 Sustainable Development Goals (SDGs) to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda, the '2030 Agenda'. The EU was a leading force behind this. The 2030 Agenda offers a unique framework for global transformative pathways towards sustainability. Each of the 17 goals has specific targets - 169 in total.

Setting goals is important for many reasons. First, they are essential for mobilising people and resources, involving leaders, politicians, the scientific community, governments and international organisations for a common purpose. Secondly, they help individuals, organisations and governments worldwide to agree on a direction.

Sustainable development challenges are closely interlinked and require integrated solutions and mutually dependent factors. The SDGs have to be implemented by each country, but each country needs to consider its own actions in relation to the goals. Notably, implementation of the SDGs at EU and Member State level can reinforce actions and bolster results. The SDGs represent a paradigm shift in how sustainability is promoted through and mainstreamed into numerous programmes and spending instruments, integrating and balancing the economic, environmental and social dimensions and converting them into internal and external actions .

Sustainability and the EU

Policy foundations, enablers and scenarios

On 22 November 2016, the Commission adopted a Communication on 'Next steps for a sustainable European future' in response to the 2030 Agenda. The Communication presented a picture of what the EU is doing to contribute to the 2030 Agenda by highlighting key EU policies for each of the 17 SDGs. It explained how the ten priorities of the Juncker Commission for the 2014-2019 period contribute to the 2030 global agenda. And it announced the launch of a high-level multi-stakeholder platform, chaired by First Vice-President Frans Timmermans, with a role in the follow-up and exchange of best practice on the implementation of the SDGs.

On 13 September 2017, Commission President Jean-Claude Juncker, in a letter of intent accompanying his State of the Union Address, announced that the Commission would produce a reflection paper on the follow-up to the SDGs, including on the Paris Agreement on Climate Change. In January 2019, therefore, the Commission published its *Reflection Paper on a Sustainable Europe by 2030* and accompanied it with a detailed set of annexes reviewing performance and the recent measures taken by the EU in relation to the SDGs. The contribution of the EU's high-level multi-stakeholder platform was also attached.

Cover of the Commission's Reflection Paper, published in January 2019. Source: Commission.

The Reflection Paper focuses on the key policy foundations for the sustainability transition, which include:

- Moving from a linear to a circular economy;
- Correcting the imbalances in our food system;
- Future-proofing our energy, buildings and mobility;
- Making sure that the transition is fair, leaving nobody and no place behind.

The Paper also concentrates on the horizontal enablers which are needed to underpin the sustainability transition. These enablers are: education, science, technology, research, innovation and digitisation; finance, pricing, taxation and competition; responsible business conduct, corporate social responsibility and new business models; open and rules-based trade; governance and policy coherence at all levels.

The Paper puts forward three scenarios to stimulate discussion on how to follow up on the Sustainable Development Goals within the EU. These scenarios are illustrative: they aim to offer different ideas and spur debate and thinking. The eventual outcome may also be a combination of certain elements from each. The three scenarios are:

1. An overarching EU Sustainable Development Goals strategy guiding the actions of the EU and its Member States;
2. Continued mainstreaming of the SDGs by the Commission in all relevant EU policies, without imposing action on Member States;
3. An enhanced focus on external action while consolidating current sustainability ambition at EU level.

Reporting the EU's progress on the SDGs

Robust assessments of the EU's progress on the SDGs are provided in several reports. The 'Eurostat Monitoring Report on progress towards the Sustainable Development Goals in an EU context'[1] is a key tool for facilitating the coordination of the EU's SDG policies. It promotes the assessment and monitoring of progress in implementing the SDGs, and

1 https://ec.europa.eu/eurostat/web/products-statistical-books/-/KS-01-18-656

it helps to highlight their cross-cutting nature and the links among them. In addition, the first 'Joint Synthesis Report of the European Union and its Member States on the implementation of the European Consensus on Development'[2], published in May 2019, shows how the EU and its Member States are jointly delivering on the 2030 Agenda through development cooperation and supporting partner countries in pursuing the SDGs.

All of the above highlights the Commission's leading role in the EU regarding the SDGs. Yet it is not correct to state that the SDGs are the EU's strategic agenda or the objectives shaping the Commission's work programme. Those objectives are decided in accordance with the EU priorities set by the Council and the European Parliament.

We now find ourselves at exactly the time when such decisions are taken. The newly elected European Parliament will draw up its priorities in the coming months, and a new strategic agenda for 2019-2024 was adopted by the European Council on 20 and 21 June. These discussions will shape the role and the extent to which the SDGs will be part of the objectives of the new College of Commissioners, which is due to be formed later in 2019.

Gert Jan Koopman of the European Commission speaking at the ECA Sustainability Forum on 17 June 2019

Sustainability and the EU budget

In 2015, Commission President Juncker noted that the EU budget 'is not an accounting tool, but a means to achieve our political goals.' Indeed, the Commission proposal for the multiannual financial framework (MFF) for 2021-2027 will be a great tool for fully integrating sustainability. It is guided by the principles of prosperity, sustainability, solidarity and security. Sustainable development is at the very core of the proposals. It is a cross-cutting priority, not just one heading or a single programme.

Just one sizeable example of the commitment to mainstreaming the SDGs in the new MFF is climate action. Although this only represents one of the 17 SDGs and thus a small part of the 2030 Agenda, the Commission has a very ambitious target of investing at least 25% of the EU budget in climate action.

Reporting on sustainability progress and achievements

The 2030 Agenda and the SDGs put a lot of emphasis on data and indicators, considering that a robust monitoring and review framework is also crucial for an effective and operational strategy. Sustainability is by definition a multi-faceted subject, which makes data collection and reporting challenging and complex. There is no one-size-fits-all for a private or public sector organisation in this regard. And there is no specific legal obligation for the Commission and other EU institutions to produce sustainability reports in the same way as for large companies under EU Directive 2014/95.

With regard to the EU budget, one also needs to take into account the context in which it operates: around 75% of the EU budget is not implemented by the Commission alone, but by the Member States in shared management. This specific feature of the EU budget cannot be disregarded in the discussion about sustainability reporting by the Commission. If we want to make real progress on more comprehensive reporting, we need to have the Member States on board.

Moreover, EU spending programmes address not only sustainable development challenges, but also, to a large extent, EU policies and regulatory instruments. Measuring

2 COM(2019) 232 final.

and quantifying the contributions spending programmes make to the SDGs is extremely challenging, and can be made further problematic by interdependencies with national strategies.

In consideration of the above, the Commission has linked the SDGs to its current performance and reporting framework. At present, the Commission connects spending programmes to the relevant SDGs in the annual programme statements annexed to the draft budget - see **Figure 1**. The Commission will look into how it could further enhance the readability - and thereby also the accountability - of its current reporting to provide a more comprehensive overview of its contributions to the SDGs.

Figure 1 – Linking EU programmes to the SDGs

SDGs	EU dimension	EU Programmes
1 NO POVERTY	End to poverty in all its manifestations, including extreme poverty, over the next 15 years	EFSI, Erasmus+, Solidarity Corps, Social Fund, Agriculture Guarantee Fund, Maritime and Fisheries Fund, Anti-Fraud Information System, Humanitarian Aid, Statistical Programme, European Aid to the Most Deprived, Agriculture Rural Development Fund, Development Cooperation, EU Aid Volunteers
2 ZERO HUNGER	End hunger and malnutrition, and ensure access to safe, nutritious and sufficient food	Agriculture Guarantee Fund, Maritime and Fisheries Fund, AMF, Food and Feed, Humanitarian Aid, Horizon 2020, Social Fund, European Aid to the Most Deprived, Agriculture Rural Development Fund, LIFE, Development Cooperation, Nuclear Cooperation
3 GOOD HEALTH AND WELL-BEING	Ensure health and well-being for all	EFSI, Erasmus+, Solidarity Corps, Maritime and Fisheries Fund, Health Programme, Humanitarian Aid, Horizon 2020, Solidarity Fund, LIFE, Development Cooperation, Nuclear Cooperation, EU Aid Volunteers
4 QUALITY EDUCATION	Ensure access to equitable and quality education through all stages of life	EFSI, Erasmus+, Social Fund, Agriculture Guarantee Fund, Humanitarian Aid, Solidarity Corps, Agriculture Rural Development Fund, Maritime and Fisheries Fund, Rights Programme, Globalisation Fund, Support for Turkish Cypriots, Development Cooperation, Nuclear Cooperation, Cooperation with Greenland
5 GENDER EQUALITY	Ending all forms of discrimination, violence, and any harmful practices against women and girls in the public and private spheres	Erasmus+, EaSI, Solidarity Corps, ESF, Instrument contributing to Stability and Peace, Humanitarian Aid, Justice, Rights Programme, Globalisation Fund, IPA II, European Neighbourhood, Development Cooperation, Partnership Instrument, CFSP, EU Aid Volunteers, Cooperation with Greenland
6 CLEAN WATER AND SANITATION	Ensuring universal access to safe and affordable drinking water, sanitation and hygiene	Agriculture Guarantee Fund, Humanitarian Aid, Horizon 2020, Agriculture Rural Development Fund, LIFE, Development Cooperation, Nuclear Cooperation, Civil Protection Mechanism
7 AFFORDABLE AND CLEAN ENERGY	Progress made in reducing its energy consumption, in securing sustainable energy supply and in improving access to affordable energy	ITER, EFSI, Euratom, Agriculture Guarantee Fund, Consumer, Horizon 2020, Agriculture Rural Development Fund, European Neighbourhood, Development Cooperation, Partnership Instrument
8 DECENT WORK AND ECONOMIC GROWTH	Fostering sustainable economic growth, in increasing employment and in providing decent work opportunities	EFSI, COSME, Development Cooperation, Erasmus+, EaSI, Solidarity Corps, Customs, ISA2, Social Fund, Agriculture Guarantee Fund, Creative Europe, Fiscalis 2020, Agriculture Rural Development Fund, LIFE, Globalisation Fund, IPA II, European Neighbourhood, Development Cooperation, Partnership Instrument, Nuclear Cooperation, Civil Protection Mechanism
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Progress in strengthening R&D and innovation and in promoting sustainable transport	ITER, EFSI, COSME, CEF, ISA2, Social Fund, Agriculture Guarantee Fund, Horizon 2020, Agriculture Rural Development Fund, LIFE, Support for Turkish Cypriots, European Neighbourhood, Development Cooperation
10 REDUCED INEQUALITIES	Reducing inequalities between and within countries and in achieving social inclusion and safe migration	Erasmus+, Solidarity Corps, Solidarity Fund, AFIS, Rights Programme, EFSI, Humanitarian Aid, Fiscalis 2020, European Aid to the Most Deprived, AMF, Rights, Globalisation Fund, Development Cooperation, EID, Cooperation with Greenland
11 SUSTAINABLE CITIES AND COMMUNITIES	Enriching the quality of life in cities and communities, in promoting sustainable transport and in alleviating adverse environmental impacts	EFSI, Social Fund, LIFE, Horizon 2020, Solidarity Corps, Rights, Development Cooperation, Partnership Instrument, Civil Protection Mechanism
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Decoupling environmental impacts from economic growth, in decreasing its energy consumption and in tackling waste generation and management	LIFE, Food and Feed, Consumer, EFSI, Horizon 2020, Fiscalis 2020, Solidarity Fund, Agriculture Guarantee Fund, Agriculture Rural Development Fund, Support for Turkish Cypriots, European Neighbourhood, Development Cooperation, Partnership Instrument
13 CLIMATE ACTION	Climate mitigation efforts and in establishing climate initiatives. Climate impacts are measured to assess how and to what extent climate change is affecting Europe	LIFE, Humanitarian Aid, ITER, Horizon 2020, Solidarity Fund, Agriculture Guarantee Fund, Agriculture Rural Development Fund, Solidarity Fund, Development Cooperation, Partnership Instrument, Civil Protection Mechanism, EU Aid Volunteers
14 LIFE BELOW WATER	Advancing marine conservation, in fostering sustainable fishery and in ensuring healthy oceans	Maritime and Fisheries Fund, Horizon 2020, LIFE, Development Cooperation, Partnership Instrument
15 LIFE ON LAND	Improving the status of ecosystems, in decelerating land degradation and in preserving biodiversity	Agriculture Guarantee Fund, LIFE, Horizon 2020, Customs, Agriculture Rural Development Fund, Development Cooperation, Nuclear Cooperation, Partnership Instrument
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Ensuring peace and personal security, in promoting access to justice and in safeguarding effective justice systems	Erasmus+, Solidarity Corps, Social Fund, ISF, Justice, IPA II, CFSP, EIDHR, EFSI, Rights, Support for Turkish Cypriots, European Neighbourhood, Development Cooperation, Instrument contributing to Stability and Peace
17 PARTNERSHIPS FOR THE GOALS	Progress in strengthening global partnership and in improving the financial governance in the EU	Copernicus, ISA2, EIDHR, Instrument contributing to Stability and Peace, ITER, LIFE, Rights programme, Development Cooperation, EID, EU Aid Volunteers, Partnership Instrument

Source: European Commission

How to ensure SDGs are implemented in an accountable way at regional and local level

By Arnoldas Abramavičius, First Vice-President of the European Committee of the Regions' ECON Commission

Source: Association of Local Authorities in Lithuania

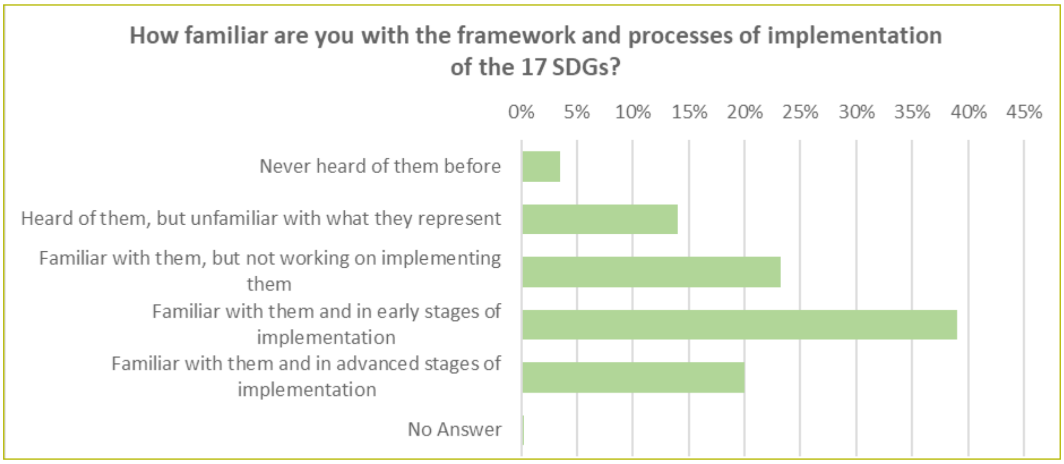
In 2015, the UN General Assembly adopted the Sustainable Development Goals (SDGs). The focus now is on how to implement them to meet the objectives set for 2030. It has become increasingly clear that achieving the objectives will require an intensive effort at all levels of policy making, not only at corporate level, but also by each one of us. Arnoldas Abramavičius is First Vice-President of the European Committee of the Regions' Commission for Economic Policy (ECON), and is a Member of Zarasai District Municipal Council in Lithuania. He is particularly well placed to explain the role of regions and cities in reaching the SDG targets, and how to keep accountability for these actions high on the agenda.

Role of regions and cities in implementing the SDGs

EU Member States have committed to reaching the Sustainable Development Goals (SDGs) as part of the 2030 UN Agenda, but national governments alone cannot deliver on this commitment. Indeed, while the remits of subnational authorities vary widely between Member States, they have a crucial role to play in achieving the SDGs.

Our analysis shows that 65% of the 169 SDG targets cannot be reached without the consultation or involvement of regions and cities. Indeed, while most public policies and investments are a responsibility that is shared between all levels of government, the majority of total public investment in the EU comes from subnational authorities. Most of these investments concern services and infrastructure for which cities and regions have decisive responsibilities, such as education, health, social infrastructure, drinking water, waste management, transport and housing.

In a survey conducted by the European Committee of the Regions (CoR) and the OECD a few months ago, we discovered that 59% of the subnational authorities that responded were familiar with the SDGs, and currently working on implementing them. This result is even higher if we go beyond the overall average and look at specific categories: 87% of respondents from large cities and 78% of those from regions are currently implementing the SDGs.



Source: European Committee of the Regions/OECD

'Localising the SDGs' means translating them into local and regional realities in order to take into account the real socio-economic potential – but also the specific characteristics – of territories. For instance, the city of Utrecht in the Netherlands has adopted the SDGs as a framework for guiding the city's development, as well as its cooperation with other cities. The municipality also tries to increase awareness of the SDGs amongst Utrecht's residents and businesses.

The City of Strasbourg has taken an ambitious approach that includes mapping the city's budget through the SDG framework and evaluating the contribution of expenditure required to achieve the SDG targets.

Recommendations by the European Committee of the Regions

Central messages

The CoR actively promotes and encourages active involvement by sub-national stakeholders, and uses a bottom-up approach to implement the SDGs.

This is the core message of the CoR opinion entitled '*SDGs: a basis for a long-term EU strategy for a sustainable Europe by 2030.*' As rapporteur for this opinion, I also insisted that the Commission should provide an overarching EU strategy which would facilitate the implementation of the SDGs by Member States but also by local and regional authorities. This strategy – which would replace the current Europe 2020 strategy – should contain targets, timelines and deliverables by 2030. It would have the advantage of going beyond political cycles and addressing all issues simultaneously.

The Committee of the Regions is an advisory body representing regional and local authorities in the European Union. With 350 members (mayors, heads of regions, and regional and local councillors), it represents the diversity of the European Union.

The CoR promotes the active involvement of sub-national stakeholders in implementing the SDGs. Through its members and the territorial associations with which it cooperates, it also promotes co-learning between European regions and cities that share their experiences in this regard.

This opinion also promotes and advocates the use of existing horizontal tools to mainstream the SDGs in all policies (with special emphasis on Cohesion policy, the European Semester and the Better Regulation guidelines).

Targeted recommendations for better reporting at EU level

Given the extremely ambitious objective of achieving the Sustainable Development Goals by 2030, it is essential that all stakeholders should participate and be held accountable for their actions, but also – and most importantly – for their potential inaction. Indeed, the impact of past global efforts to make progress towards sustainable development could have been much greater had those efforts been accompanied by an effective mechanism to ensure they were fully implemented.

Effectively measuring progress by regions and cities in implementing the SDGs is paramount, given that achieving these goals will require involvement by all stakeholders – without exception. While private companies increasingly include sustainability in their annual reports, local authorities should also have the ambition and the means to be transparent and accountable to citizens for their commitment to sustainability.

Arnoldas Abramavicius of the European Committee of the Regions, with on his left side Heidi Hautala, MEP, speaking at the ECA Sustainability Reporting Forum on 17 June 2019

Creating a genuine monitoring system at EU level would help provide stakeholders and citizens not only with information on the whole implementation process, but also with instruments for better governance and accountability. In this regard, the CoR opinion also contains recommendations to encourage EU institutions and Member States to increase their reporting on sustainable development. These recommendations are as follows:

- the next President of the European Commission should report on the implementation of the SDGs to the European Parliament and the Council on an annual basis;
- the European Semester should be aligned with the SDGs to transform it into a coordination and enforcement tool. In terms of reporting, the 'Annual Growth Survey' would therefore become the 'Annual Sustainable Development Survey';
- a multi-annual EU Sustainable Development Survey should be created to take stock of the implementation of the EU strategy and the Member States' Sustainable Development Action Plans.

Sustainability reporting by regions and cities: limits and challenges

Local and Regional Authorities are not included in VNRs often enough at UN level

While regions and cities are strongly committed to implementing the SDGs, their participation in the United Nations Voluntary National Reviews (VNR) is significantly lower. In 2016 and 2017, only 38 out of 65 VNRs mentioned the engagement of subnational authorities and only 27 involved regions and cities in the decision-making or consultation process leading to their VNR. This situation is also reflected in the CoR/OECD survey: only 21% of all respondents have contributed to their national government's VNR. Once more, this average hides significant differences: while one third of responding regions have contributed to their national VNR, the figure is much lower for small municipalities – dropping to only 11%.

This suggests that many of the subnational authorities actively implementing the SDGs are not involved in sustainability reporting at national level – at least as part of the VNRs. A handful of cities, and regions such as Wales, have already prepared their own *Voluntary Local or Regional Reviews*. These individual initiatives are highly commendable but are no substitute for an inclusive process in which all national governments would actively involve cities and regions in their national reporting processes.

The challenge of collecting disaggregated data representative of the local level

Measuring progress is indeed an increasingly important aspect for sub-national authorities implementing the SDGs, even if 57% of all respondents to our survey still do not use any indicators or did not answer. It is interesting to note that EU and UN indicators are used about half as often as local indicators, which could suggest that they are not necessarily suited to local and regional realities. Besides, developing local indicators to take account of regional disparities is very time- and resource-intensive.

The Basque Country has adopted the 'Agenda Euskadi 2030' that sets out 50 indicators covering targets for each sustainable development goal. These indicators closely reflect UN and EU indicators, but are sometimes significantly geared to the regional and local context and the level of information available. The Basque Country collects its data in partnership with local stakeholders and the private sector.

In addition, the data needed to monitor progress are not always available at regional or local level. While the effectiveness of sustainability reporting also depends on the quality of the data collected, more disaggregated data – at regional level and, if necessary, at local level – would allow better distinctions to be made when the national average is misleading.

Involving all stakeholders means recognising their respective roles

By way of conclusion, it should be stressed that each level of government decides how to implement these ambitious goals in the light of its own national context, and reviewing a country's progress is strictly voluntary. This means that implementation of the SDGs will largely rely on citizens who will have to remind their leaders of their commitments and then hold them accountable. In this regard, *positive accountability* – which means celebrating achievement and seeking ways to accelerate it – is paramount. We must focus on what it would take to improve implementation, on how best to remove obstacles, and on how to mobilise the necessary resources.

Achieving the SDGs will require the involvement of all stakeholders, at all levels, everywhere in the world. Full recognition of the role of regions and cities in localising the SDGs – and their resulting empowerment – will increase the likelihood of achieving the SDGs in time . These stakeholders are undoubtedly an essential part of SDG governance and implementation that leaves no one – and no territory – behind.

Sustainability risks are financial risks!
Interview with Eva Lindström, ECA Member

By Derek Meijers and Gaston Moonen

ECA Member Eva Lindström with an SDG she believes the ECA can particularly contribute to, SDG 16

Eva Lindström was the ECA Member responsible for the recently published rapid case review Reporting on sustainability - A stocktake of EU Institutions and Agencies. On 17 June 2019 she hosted the ECA Sustainability Reporting Forum in Brussels. The objective of this conference was to bring together major stakeholders from both the public and the private sectors and raise public awareness on sustainability reporting and the auditors' role. We interviewed her about sustainability reporting, the Sustainable Development Goals (SDGs), and the main challenges for the public and private sectors in this area.

Putting sustainability reporting on the agenda

On 17 June 2019, ECA Member Eva Lindström hosted the ECA conference on sustainability reporting in Brussels to raise awareness for the topic and to bring together major stakeholders from both the public and the private (audit) sectors. She explains the conference was set up around three main themes highlighted in the rapid case review: 'These were the state of sustainability reporting, the information needs of stakeholders, and the auditors' role in sustainability reporting. One of the main goals of the event was to offer a forum for exchange between EU and national audit institutions and the private sector.'

> *"... such exchange about the topic of sustainability reporting is important because a lot is going on in the private and the big private audit companies are investing into this topic.*

Eva Lindström underlines that such exchange about the topic of sustainability reporting is important because a lot is going on in the private sector and the big private audit companies are investing into this topic. Eva Lindström: 'We can learn a lot from each other, also when it comes to performance work and sustainability reporting.' She continues: 'For me, one of the key take-aways from the conference was that auditors need to step up when it comes to auditing sustainability reporting.' She adds: 'Participants in the conference underlined the need for sustainability reporting to create trust, to keep organisations accountable that they use SDGs and sustainability in their decision making.'

Sustainability reporting as a challenge

> *As institutions, we need to realize that we are in the business of reliability and trust.*

The development of sustainability reporting in the private sector is driven by investors. When it comes to sustainability reporting in the public sector, Eva Lindström sees a clear challenge: 'As institutions, we need to realize that we are in the business of reliability and trust. People, citizens, voters expect that we can report on how we will contribute to the achievement of the SDGs, both in the short as in the long term.' She thinks that, also based on her experience, working for 30 years in the public sector in Sweden, including as Auditor General, institutions take it for granted that their work entails such a contribution by definition and do not explicitly report on it. 'Making the public sector more aware that it needs to actively show how it pursues the SDGs is one major challenge!'

The public sector should have an advantage given the sector's experience with performance reporting. Eva Lindström continues that, 'in the EU budget but also in countries like Sweden, the UK, Denmark, and Finland, there is a long tradition of working with performance reporting. And sustainability reporting is about good performance reporting.' She adds that this also means that sustainability criteria are similar to performance criteria that can often be linked.

The EU and its Member States have actually agreed committed themselves to implement upon the SDGs and the EU clearly supports them as well. We should definitely use our experience and expertise with performance audits and reporting to promote and further develop sustainability reporting.' Furthermore, Eva Lindström thinks that sustainability and the role of auditors when it comes to reporting on sustainability could also be a very good issue to discuss amongst peers and amongst other SAIs.

Action versus perception

> *... SDGs are not just for the developing world, but addressed to all countries.*

The ECA Member notes that an important issue with the SDGs is that many people do not think they are concerned. 'Although the SDG's are not really building on the UN's Millennium Development Goals, they are perceived as their successor. However, contrary to the Millennium Goals, the SDGs are not just for the developing world, but addressed to all countries.' Eva Lindström says that, in fact, people in the developed countries have to realize they have their role to play.' 'We are all part of the problem. So the U.S., Russia, China, and Europe have an extremely important role to play, also, especially, when it comes to climate and all need to report on the measures we take to achieve the SDGs.'

When she says 'we' are part of the problem, Eva Lindström refers to the risk of exporting our carbon-footprint. 'We have regulated our industry very much because we do not want that industry to pollute here in Europe, but despite that we continue to consume, which means the pollution is taking place somewhere else. We have exported our problem, but that does not make it disappear.'

The findings: Reporting on sustainability - A stocktake of EU Institutions and Agencies

Eva Lindström: 'That was quite an impactful review, and I think our auditee, the Commission, is on the same page as the ECA when it comes to importance of reporting, but it can still do more.' She explains that the Commission might be fully aware and supportive of the need for action, but that this is not the same as actually doing something on sustainability reporting. Eva Lindström: 'I see room for improvement.' She mentions a response by Vice-President Katainen to the recent ECA conference on sustainability reporting, who tweeted that 'the EU is fully committed to the SDGs and the Paris Agreement, also by reporting and monitoring progress in a transparent way.'

Eva Linström at the ECA Sustainability Reporting Forum on 17 June 2019, surrounded by SDG 'building blocks.'

Eva Lindström: 'The Commission's statistical office, Eurostat, publishes a report which describes the general development within the EU countries, the Commission published a reflection paper on a Sustainable Europe by 2030. But the Commission does not report on or monitor how the EU budget and policies contribute to achieving the SDGs.' In this context, she also refers to the fact that there is no EU strategy on sustainability and SDGs after 2020 and that the outgoing Commission wanted to leave this decision to its successors. Eva Lindström: 'One could also expect the Commission to have done more since 2015 since they also describe themselves as the ones who were crucial to putting the SDGs in place. There is no time to loose.'

The review was also the first one looking at what each of the 12 EU Institutions and 41 EU Agencies are doing on sustainability reporting. It found that only two European bodies – the European Investment Bank and the EU Intellectual Property Office – have so far published sustainability reports. Other institutions' and agencies' published information is incomplete and piecemeal, risking that important issues are not covered.

Sustainability as a financial factor

Eva Lindström points out the SDGs are important for all countries and sectors and integrate the three aspects of sustainability. 'Sustainability is not only about climate or environment but also very much about economic and social development. Public bodies should take the lead here, but the public sector cannot manage this on its own'.

> *"Sustainability is not only about climate or environment but also very much about economic and social development.*

When discussing possible ways to push sustainability aspects onto the agendas of public organisations and companies, Eva Lindström underlines that an important factor is the increasing reputational risk related to sustainability. 'Increasingly, customers find it important that the companies they purchase products from support the same values they have themselves. So building and maintaining goodwill is hugely important for many companies.' She says that this interplay represents a valuable asset for businesses that has to be maintained and secured. 'Sustainability needs to be considered in risk assessments as well. You have to get the financial departments into this.' She explains that sustainability risks can be financial risks. 'More and more companies also realize this and start considering topics such as climate change in their strategies.' Eva Lindström brings up the risk of greenwashing, where a company makes an unsubstantiated or misleading claim about the environmental benefits of a product, service, technology or company practice. 'You can imagine that sometimes a company has an interest to appear more environmentally friendly than it actually is. This is why clear standards and the role of auditors is so important so that sustainability reporting doesn't become a mere PR exercise.'

We need to enable businesses to use the full sustainable potential and give them a clear competitive advantage over polluting and unsustainable business operators.' She underlines that if consumers and investors do not care, it will not happen. 'But now you can see they start caring, especially young people, and that is extremely positive. But a major issue is that companies and consumers do not have complete and reliable information about sustainability matters, and that is where sustainability reporting comes into play.'

The challenges for auditors

'Many auditors,' Eva Lindström argues, 'have experience with performance audit, but auditing sustainability reporting is challenging – both for the public and the private sector'. She highlights the challenges of defining materiality and of the completeness of reporting, looking at whether all important sustainability matters are reported or whether significant issues are not included.

She thinks it is important that the auditors also communicate clearly that sustainability is an important aspect and that it falls within the scope of their work. 'This is how you can create impact, already during the audit. For example when you talk to your auditee or when you ask input from experts. This creates the awareness that sustainability is something auditors are looking at, which in turn means that it is something the auditee must pay attention to.'

Eva Lindström continues that, for some, this could be perceived as a bit of a sensitive issue, because it entails 'getting political' by asking whether a government is missing out on things to address and whether they are taking the right measures, one might be perceived of becoming political. 'To be clear, I do not think that from time to time being accused of becoming political should be a problem. On the contrary, if we are never accused of being political, we would not be doing a very good job. As auditors, we have to look into whether the right things have been addressed, as we need to audit the right things.'

Communication is essential

Eva Lindström notes that this is also the reason why communication is so important. 'And I absolutely understand that as an essential part of my role as ECA Member.' She explains: 'Apart from delivering on our tasks and producing audit reports, ECA Members are the face of the organisation – especially in the Member States - and have an important role to play in the institution's communication. It is important to realise that we need to start communicating from day one, so from the moment in which we start discussing the topic with the audit team, with the staff, with other colleagues and during the first discussion with the auditees. We should also inform our stakeholders that we are working on a topic, not just once we publish our results.'

She believes that the ECA is doing a good job here and that the result is that the auditees become more aware of important subjects and that this form of awareness raising is beneficial for the discussions about the audit after the report has been published. Eva Lindström: 'If everyone is well-prepared and aware, we can have better informed discussions, which eventually will lead to better decisions, better policies and better results for our citizens. That is in the end why we are here.'

Box – The 4 major challenges identified in the ECA review

1. Developing an EU strategy post 2020 that covers the SDGs and sustainability
2. Integrating sustainability and SDGs into the EU budget and the performance framework
3. Developing sustainability reporting in EU Institutions and Agencies
4. Increasing the credibility of sustainability reporting through audit

Let's talk about... sustainability
with Katharina Bryan and Laura Kaspar

By Derek Meijers and Gaston Moonen

Katharina Bryan

Laura Kaspar

In this new series, we take a look behind the scenes of recent publications and events. We kick off with Katharina Bryan and Laura Kaspar, who work in the private office of ECA Member Eva Lindström. Following the recent publication of the ECA's review *Reporting on Sustainability: A stocktake of EU Institutions and Agencies* and the ECA forum on sustainability reporting, they reflect on the how and what of reviewing sustainable development goals (SDGs) and sustainability reporting.

Intense but rewarding

***Katharina*:** With the publication of the review 'Reporting on Sustainability: A stocktake of EU Institutions and Agencies' and the delivery of the related ECA Sustainability Reporting Forum, June has been quite an exciting time for us. So I welcome this opportunity to reflect and to give some insights and background concerning our work.

***Laura*:** It was definitely an intense but also very rewarding time and I have to say that I am proud to have been part of this project. Personally, I was very excited when I first heard that the ECA was looking into sustainability reporting and that I could contribute to this with my expertise. But let's start with how this task came about.

***Katharina*:** The basic premise of this task was that the EU has committed itself to contributing to the implementation of the Sustainable Development Goals (SDGs) and to sustainability. At the same time, an EU Directive requires certain large companies to report on sustainability or non-financial information.

What we wanted to see was whether the EU and its institutions were undertaking similar efforts or were even leading by example. How is the European Commission reporting the contribution of the EU budget and policies to sustainability and SDG implementation? Are EU Institutions and Agencies issuing sustainability reports, which are demanded by investors and consumers in the private sector?

***Laura*:** Timing was another important factor. Our aim was to focus on establishing the facts and highlighting specific challenges, and for this a review, rather than an audit, was best.

We wanted to issue this report before the UN High Level Political Forum in July 2019. So we knew that we had to produce something fast since we had only eight months from start to finish.

Reaching out to key players

Katharina: We started with a very intensive research phase in which we tried to get the most relevant information, up-to-date data, and an understanding of the developments and approaches in the field. And that is why it was so important to get Laura on board; we recruited her specifically for her expertise in sustainability reporting.

> ***Laura:*** So as a first task, it was important for me to get everyone on the same page to share the knowledge I gained, to have a common understanding of things – because this subject is quite a complex one.
>
> I studied Corporate Social Responsibility at the University of Applied Science in Vienna. It is still a very new field, but that makes it so exciting. In this very practice-oriented education, we learned from experts who shared with us their lessons learned, and heard about the many challenges that come with the objectives of sustainable development.

Katharina: What new insights struck you the most?

> ***Laura:*** For me, it was definitely the insight that different sectors need different approaches. Reporting on sustainable development means something very different for each organisation. So it was important for me to explain that there are certain processes an organisation has to go through to produce a meaningful report. My academic work focused on the private sector, so I had to learn a lot about the procedures and the ways how things are done in the European public sector. There are definitely many aspects that can be learned from the private sector, but you cannot just simply take on board their approaches without adjusting them.
>
> We have taken the example of the different impacts of water usage, comparing a bank and a brewery. The water usage a bank has in its office is far less material than the impact of its funds and investments. For a brewery, however, water usage can be a significant aspect at an environmental as well as economic level. That means that sustainability reporting means something different for each organisation. There is no one size fits all.
>
> It was also good to see how the review benefited from previous work done in the ECA. Katharina, you have been working closely on energy and climate change topics - for example, the report on spending 20% of the EU budget action on climate action.

Katharina: Indeed, the last few years I have been working a lot on climate change issues, focusing on environmental sustainability. With the review on sustainability reporting I found it interesting to learn more on the interrelation between the three pillars of sustainability - environmental, economic and social - and see how the SDGs combine these aspects.

One significant new insight for me was the importance of stakeholder engagement. You have to view the issues not just from the organisations' perspective but also from the perspective of stakeholders. In sustainability reporting, the outcome of these reflections results in the creation of a materiality matrix. This matrix is a useful tool for organisations to start the process of reporting.

An organisation needs to elaborate its greatest impact in the areas of environment, social and governance and needs to match this information with the view of their most important stakeholders. And this exercise is a demanding one. When considering what is material, an organisation has, for example, to think about its impact on climate change and vice versa, namely how climate change will impact its business model.

Auditors need to step up their game

> ***Laura:*** What also really impressed me is experiencing how this whole project developed. We started with extensive research on the status quo, looked for important events in the area of sustainability, and got in touch with Accountancy Europe. They have been co-designing a very useful and comprehensive overview

on how the EU directive 2014/95/EU on non-financial information has been implemented by Member States. This directive is very important, because it requires certain large companies to report on sustainability information.

An examination of the implementation of the EU directive was outside of the scope of our review, but in the end, we gathered some great insights into the implementation challenges which are relevant for the public sector. Through Accountancy Europe we met Wim Bartels, partner for corporate reporting at KPMG Netherlands and programme lead for the Corporate Reporting Dialogue.

The latter aims at better aligning the many frameworks for sustainability reporting to improve the information in reports, facilitating their use by key stakeholders. We turned to Wim for several of our steps in the audit and communication process. He always stressed the great need for auditors to step up their game. One important question he raised stuck with me: 'How to audit a story?'

Katharina: Yes, that was an important point he raised. Sustainability reports provide non-financial information on an organisation which challenges our traditional audit methodology and concepts. For example, how do we define materiality? How can we prevent greenwashing?

The role of auditors in sustainability reporting and questions of methodology increased in importance the longer we worked on the subject, and went right into what is being discussed by the private audit companies and academia. In short, sustainability reporting offers new possibilities for auditors, but also presents challenges for auditors.

What were your greatest challenges with this project?

***Laura*:** I think it's hard to pick one challenge as there have been many things where we had to stay flexible. New findings led to rethinking and restructuring our approach, but in the end this is the way a good report should develop. But to name a specific challenge – we had a very tight schedule for this review, as it was important to publish in June, which meant that we had to fit all our meetings with stakeholders into two months.

Katharina: I agree. Providing an up-to-date report on a broad subject in a short timeframe was, I think, only possible by already having an active stakeholder engagement and communication strategy during the work on the review. Apart from the conventional meetings with Commission DGs, we organised a round table with the partners and CEOs of the four big audit companies here in Luxembourg, visited the OECD headquarters in Paris, had a videoconference with the Commissioner of the Environment and Sustainable Development, Julie Gelfand, from the Canadian SAI.

Figure 1– Stakeholder engagement in drawing up the ECA review

Partnerships for the goals

Katharina: The highlight of our journey was the conference we held on the 17 June 2019 in Brussels. With the title 'Sustainability Reporting Forum: trust, transparency and the role of auditors' we were aiming to bring together the private and the public sector to start the debate. It was the first, high-level EU conference on sustainability reporting and I invite you to read the article of Manj Kalar on it. At the end of this conference we made a team picture and you picked one specific SDG cube for that, why this one?

> ***Laura*:** Even though each SDG is important, I personally think that SDG number 17 'Partnerships for the goals' is a special one. It is very important to tackle this giant and very demanding mission together. We need to collaborate, because we can only reach these challenging targets if we do it hand in hand. Which one would you have picked Katharina?

Katharina: I absolutely agree that we should not lessen the significance of each SDG by choosing one, but if I would have to pick I personally think that climate change is now the most urgent and serious issue for our society.

There is so much at stake if we are not able to reduce carbon-emissions and adapt to climate change. That is why it is important to bring the global goals to everyone's attention, on everyone's agenda and, as you said Laura, work on this together.

From auditing sustainable environment issues to auditing the 2030 Agenda

By Phil Wynn Owen, ECA Member, and Arfah Chaudry, private office of Phil Wynn Owen.

Phil Wynn Owen, ECA Member and reporting Member for several of the performance audits undertaken in this area, Arfah Chaudry, Analyst in his private office, describe the transition in the ECA towards auditing the SDGs, highlighting two reports that particularly relate to SDGs. They also explain why, from an audit perspective, an increased focus on SDGs is helpful.

Phil Wynn Owen, ECA Member, speaking at the ECA Sustainability reporting Forum on 17 June 2019

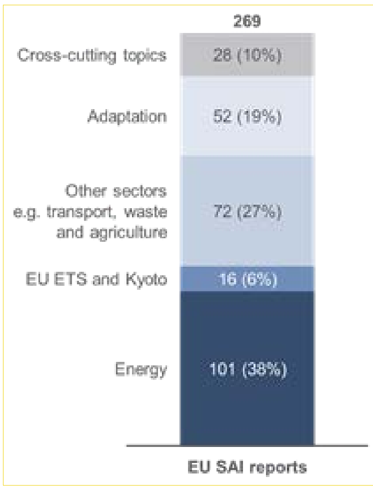
Sustainability issues at the core of the ECA strategies since 2013

In 2014, already half of our 26 special reports and reviews concerned sustainability issues. That was no accident, since auditing sustainability was one of our top three priorities in our strategy up to 2017. Our current 2018-2020 strategy highlights climate change as one of the major priorities we audit. Energy and Climate Change are two closely interlinked, sustainability issues; energy production, mainly from the transformation and combustion of fossil fuels, and energy use – by e.g. industry, households and transport – accounted for 78% of EU greenhouse gas emissions in 2017.

Landscape Review on EU action on Energy and Climate Change

In 2017, we published a Landscape Review on EU action on Energy and Climate Change, which analysed what the ECA and other EU national audit institutions ad, and had not, been auditing in this field over the previous five years. We have subsequently used this analysis to begin to fill gaps in our audit coverage, for instance on adaptation to climate change.

Figure 1– EU Supreme Audit Institutions' audit reports about energy and climate change



Source: EU SAI reports (January 2012 - March 2017)

Audit of the Floods Directive

In November 2018, we published our report *Floods Directive: progress in assessing risks, while planning and implementation need to improve*. Floods and sea level rise can cause injury, loss of life, considerable economic costs, damage to the environment and cultural heritage. As the climate changes, the EU is experiencing heavier rainfall, harsher storms and rising sea levels. Research shows that damage caused by flooding could rise to €20 billion a year by the 2020s, €46 billion by the 2050s, and €98 billion by the 2080s.

Table 1 - overview of climate change-related phenomena and their impact on floods

Climate change-related phenomenon	Impact on severity of…		
	Fluvial floods	Pluvial floods	Coastal floods
More yearly rainfall in some parts of Europe, more intense rainfall events	↑	↑	
Less yearly rainfall in other places, but higher run-off and more intense events	↓	↑	
Sea level rise	↑ (estuaries)		↑
More frequent, intense and lasting extreme events of all sorts	↑	↑	↑

Source: Floods Directive: progress in assessing risks, while planning and implementation need to improve, ECA (2018)

This report was relevant to at least three Sustainable Development Goals:

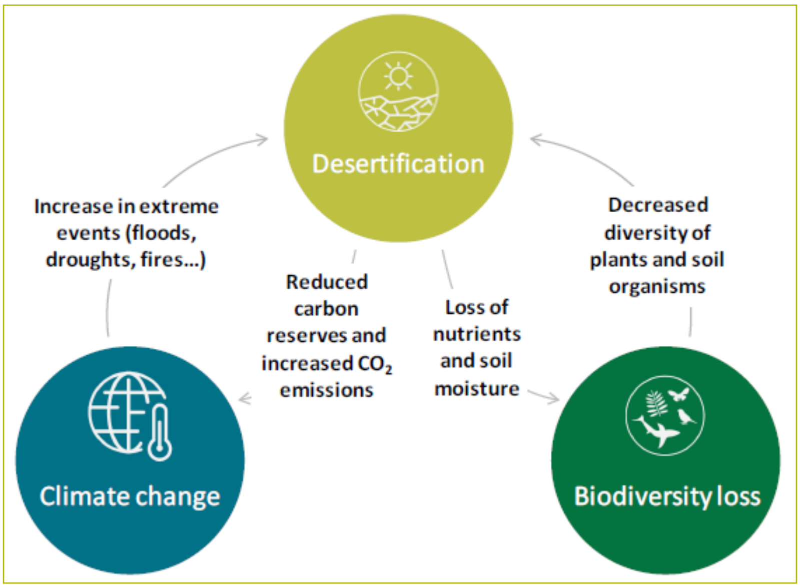
- Target 9.1: Develop quality, reliable, sustainable and resilient infrastructure;
- Target 11.5: Significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters […];
- Target 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters.

We found that the Floods Directive had positive effects overall, but that the implementation of flood prevention measures suffers from weaknesses but also some good practices, in allocating funding, prioritising flood-related measures and implementing the flood risk management plans. We also found that major future challenges remain concerning the need for much fuller integration.

Audit on combating Desertification

We also published a twin adaptation report on desertification, in December 2018, the month following the publication of our floods report. Floods and desertification are related, twin challenges of climate change adaptation. The run-off from flooding and land degradation can make each other worse. Run-off can degrade land cover and worsen soil erosion. In turn, degraded soil increases run-off, contributes to biodiversity loss, and stores less carbon, exacerbating climate change. It can also have demographic and economic consequences, forcing people to migrate away from affected areas. Therefore, more flooding and more land degradation happen alongside each other in a damaging cycle of climate events.

Figure 2 – relationship between desertification, biodiversity loss and climate change



Source: ECA, based on World Resources Institute, Ecosystems and Human Well-being: Desertification Synthesis (2005)

Desertification is relevant to the following Sustainable Development Goals:

- Target 6.4: Substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity […];
- Target 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters;
- Target 15.3: By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world;
- Target 15.5: Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity […].

Projections of climate change in Europe show that the risk of desertification is increasing. Desertification is already a major risk across much of southern Europe.. Thirteen EU Member States have already self-declared themselves at risk of desertification, with France the only Member State with a Mediterranean coast not yet to do so. We found that the risk of desertification in the EU was not being addressed effectively and efficiently and that the steps taken to combat desertification lacked coherence. We also found that there was no shared vision in the EU on how land degradation neutrality, or SDG target 15.3, will be achieved by 2030.

An increased focus on SDGs

The EU has committed itself to implementing the 2030 Agenda and to contribute to the SDGs. It is our duty as public auditors to check that the EU now acts on its commitments and to alert our citizens when risks arise. We consider three main types of risks for the EU:

- First, *financial risk*: not taking action to mitigate and adapt to climate change in timely ways will likely cost public budgets much more if we delay action;
- Second, *reputational risk*: in this age of distrust of politics and fake news, it is vital, to maintain trust in the EU political institutions, that our politicians strive to deliver on their promises, and that they are monitored and held to account by independent, public audit reports when they under-deliver;

- Thirdly, a growing phenomenon, *legal risk*: there is a growing awareness, for instance in the study of commitments made in some International Mixed Agreements concluded jointly by the Member States and the European Union, that our political institutions may be running legal risks, and therefore potential risks of financial compensation and penalties, if they do not effectively act to address climate change.

We have increased our focus on sustainability in recent years, with nearly 30 reports related to sustainability scheduled for publication in 2019. This year, for the first time, our Work Programme for 2020 includes examining how potential audit proposals relate to the SDGs. In addition, we have started to use SDGs as audit criteria, for example in our audit on desertification.

We also collaborate with other Supreme Audit Institutions on sustainability topics. We are part of Working Groups on Environment Auditing (WGEA) at both European level (EUROSAI) and international level (INTOSAI). We contribute to guidance material, training courses and collaborative audits. In October 2019, we will host a Biodiversity Conference with the EUROSAI WGEA at the European Court of Auditors.

Sustainability practice of the ECA as EU institution

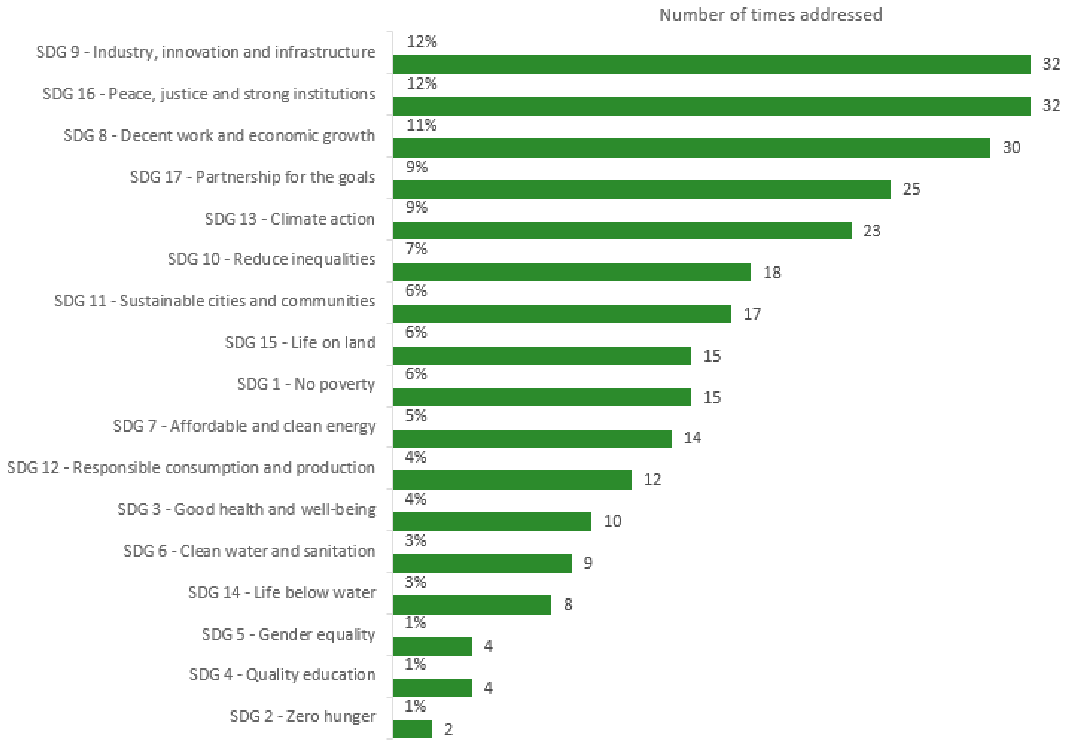
The ECA also seek to apply sustainability practices itself. In the ECA, we defined environmental objectives and an environmental action plan in 2014, where for the first time, ECA set up an environmental programme to address various sustainability themes. For example, we try to reduce the carbon footprint of our buildings and our business travel, though there is much more we could all do. The second set of environmental measures was adopted for period 2017-2019. In March 2017, we received the Eco-Management and Audit Scheme registration, which provides a standard framework to evaluate, report and improve environmental performance. We publish annually the ECA environmental statements, which describes the objectives of the ECA's environmental programme in accordance with EMAS III standards, and triennially ECA carbon footprint reports with annual updates on ECA's GHG emission results, but we have yet to produce a full sustainability report.

Challenges in auditing SDGs

Auditing sustainability is challenging. First, policy-making and policy implementation should be informed by the best available data, modelling and analysis. This is a challenge for some sustainability topics, such as energy and climate change, because of their complexity, the relative novelty of some of the data, and the pace of change arising from both energy transitions and climate change. New technologies – satellites, drones, artificial intelligence – all have the potential to transform data availability and therefore our audit approaches. Second, finding the right metrics and audit criteria can also be challenging. Third, the subsidiarity principle between the EU and Member States adds complexities to our audits. For instance, the EU has climate and energy targets for 2030, but Member States retain responsibility for their energy mix and their energy subsidies.

As a result, because of our audit mandate, we address some sustainability aspects covered by EU budget and policies, more than other aspects of sustainability. We have audited quite often, for example, expenditure and actions concerning SDG 9 (industry, innovation and infrastructure), SDG 16 (peace, justice and strong institutions) and SDG 13 (climate action). So far, we have audited some sustainability topics less, such as SDG 2 (Zero hunger), SDG 5 (Gender equality) and SDG 4 (Quality education).

Figure 3 – overview of SDGs coverage in 2014-2019 ECA reports



An agenda that cannot be ignored

In conclusion, this is an exciting and growing field of audit work, in which many of us are now involved. This autumn we will run an internal training course to share experience and learn from how we are auditing these topics. There is much still to do to add audit value to their agenda and much still to learn.

This is an exciting and growing field of audit work, in which many of us are now involved. This autumn, we will run an internal training course to share experience and learn from how we are auditing these topics. There is still much to do to add audit value to their agenda and still much to learn.

Sustainability: a (new) challenge for Supreme Audit Institutions?

By Ahmed Demir and Bernd Ellermann, German Supreme Audit Institution

Source: Pixabay

Handing Earth to the next generation

Sustainability is not a hype. Concerns about sustainability have been around for some decades and were already expressed, for example, by the Club of Rome in their first report issued in 1972. But what does it entail, how does it affect external public audit and how does a supreme audit institution (SAI) such as the Bundesrechnungshof use the concept for its audit activities? Ahmed Demir is an Audit Director at the German SAI and works as Sustainability Coordinator. His colleague, Bernd Ellermann, Audit Manager, was lead auditor when the German SAI assessed the readiness of the German Federal Government for implementing the sustainable development goals (SDGs). The two authors explain what sustainability means for their institution and how the issue actually impacts their audit work.

Sustainability is the big issue of our time – but what is it exactly?

One of the most commonly used definitions of sustainability[1] seems to be rather simple:

'Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.'

We will see that this apparently simple definition of sustainability may have an enormous impact and far-reaching consequences. In 1987, the Brundtland Commission, an independent commission of experts on environment and development set up by the United Nations, used that exact wording in a report titled 'Our Common Future'. The report marked a milestone on the way to the Earth Summit in Rio de Janeiro in 1992. At this international conference, 172 member states made the idea of sustainable development a guiding vision and adopted Agenda 21, a global action programme for the 21st century.

1 World Commission on Environment and Development 1987, p.41

These ideas and commitments finally culminated in the adoption of the 2030 Agenda by 193 member states of the United Nations at the Sustainable Development Summit in 2015. Seventeen goals for sustainable development make up the core elements of the Agenda. The SDGs are designed to ensure sustainable development at economic, social and environmental level. The aim is to foster economic growth, better living conditions and equal opportunities worldwide. Managing natural resources in a sustainable way is to preserve ecological systems and to enhance their resilience. Thus, sustainability goes far beyond environmental protection.

But why is sustainability an issue for external public auditors?

The International Organization of Supreme Audit Institutions (INTOSAI) has clearly stated that sustainability is an issue for external public auditors. According to INTOSAI, SAIs around the world have the duty to make their contribution and to drive this issue forward. At the Abu Dhabi conference at year-end 2016, INTOSAI members agreed to take an active role in encouraging the global United Nations community to implement, review and follow up on the SDGs.

The United Nations Secretariat, UN funds, its programmes and its specialized agencies offer support to UN member states in implementing the respective goals. They provide advice on shaping relevant legislation or on putting into place the institutions needed. In addition, they also offer technical assistance. Frequently, the United Nations embed SDG aspects in their projects and programmes. In this way, United Nations projects indirectly help member states to make progress towards the respective sustainability goals.

The external audit body of the United Nations, the UN Board of Auditors, has also addressed the SDG issue. In 2017, the Board carried out a cross-cutting review on the way the individual organizations had incorporated sustainability goals into their strategic work. The Board found, for example, that not all organizations had developed a long-term strategy for their role in accomplishing sustainability goals and that lessons learned in this area were not being shared among field offices.

Okay – it is an international issue, but also a national one?

In 2002, the Federal Government adopted the first national sustainability strategy, which has been further refined since then. With the adoption of the 'New version 2016', the strategy has been fully revised on the basis of the 2030 Agenda. This underlines the commitment of the Federal Government to implementing the SDGs. The strategy was recently updated in 2018. Also the parties forming the Federal Government have included the 2030 Agenda in the coalition agreement for the 19th legislative period. They expressly stated: 'Implementing the 2030 Agenda and supporting sustainable development shall provide the yardstick for our government action.'

This clearly illustrates that sustainability issues have a direct impact on the decisions made by the Federal Government and the public sector. For that reason alone, such issues are subject to the German SAI's audits. Moreover, the Bundesrechnungshof has increased its focus on SDGs, also in relation to UN activities on SDGs, thanks to the fact that our President, Kay Scheller, is currently serving as the Chairman of the United Nations Board of Auditors.

However, sustainability aspects have been reflected in our audit work for many years, but such 'aspects' on their own do not constitute a review standard. Basically, our audit work always studies compliance and performance issues in that regard. Why is this the case?

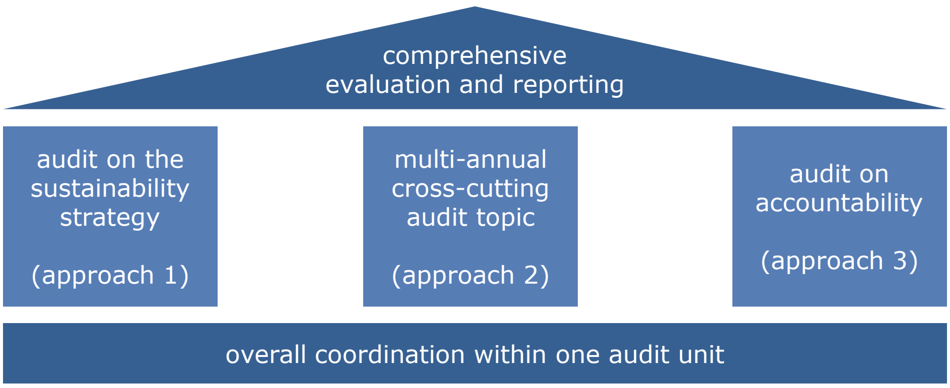
By auditing compliance, we contribute to good governance and proper public sector management. Our audit work fosters government accountability, public confidence in reliable and sound procedures, and strengthens public institutions. It goes without saying that, as a matter of fact, in this way our work contributes to complying with SDG 16 (Peace, Justice and Strong Institutions) of the UN Sustainable Development Strategy.

By carrying out performance audits, we contribute to an efficient and effective use of public funds. This is a prerequisite for ensuring sound public finances as required by SDG 8 (Decent Work and Economic Growth). What also counts in this respect are the economic feasibility studies that government departments are required to conduct for all activities, which have a financial impact. Such feasibility studies are required by the Federal Financial Regulations (our Federal Budget Code). Sustainability aspects can be incorporated in the feasibility studies by means of the life cycle approach.

So sustainability is not a new concept – but how does the German SAI act on the 2030 Agenda?

As the Bundesrechnungshof, our task is to provide independent advice and support to the Federal Government and to help ensure that the public sector accomplishes the sustainability goals. To structure this issue for our purposes, we have developed a sustainability strategy in line with the approaches defined by INTOSAI.

Figure 1 - German SAI's sustainability strategy



Our strategy assigns lead responsibility for coordinating all related activities to one audit unit. The strategy rests on three pillars:

1. Review of national preparedness for the SDGs (INTOSAI approach 1);
2. Definition of a multi-annual cross-cutting audit topic (INTOSAI approach 2);
3. Audit work on good governance (INTOSAI approach 3).

We also strive to embed sustainability issues in all our audit missions. In line with the idea that our SAI should act as a model institution, we have decided to embed sustainability in our work and thus lead by example and make a difference. In this way, we are also acting in line with approach 4 of the INTOSAI declaration.

In July 2017, our governing board - called 'the Senate' - acknowledged the crucial importance of sustainability for the external audit function and called upon all our audit units to take an active role in implementing the sustainability strategy. Since then, the SDGs have been included as an audit priority in audit plans, and findings on this issue have been reported in our core products. Regardless of the specific audit topic, our audit units always take sustainability aspects and criteria into consideration. Our experience shows that sustainability aspects are of particular relevance to most of the topics we audit.

We also carried out audit work to gain a general overview of the implementation of the 2030 Agenda at national level. Our purpose was to get an understanding of the federal sustainability strategy, the bodies involved, their cooperation, governance and coordination, and the steps taken and planned. Our initiative focused on the steps taken by the Federal Government to prepare for accomplishing the SDGs. Or, in other words: how strong is the Federal Government's commitment to sustainability?

How was the audit conducted?

The findings we produced in our audit offer an overview of the Federal Government's sustainability-related activities and will serve as a good basis for our auditors when embarking on future audit missions. We intend to advise the Federal Government on the basis of these findings.

We based our audit work on a questionnaire survey. The audit team interviewed staff of the Federal Chancellery and all other federal departments. In performing field work, we were sometimes confronted with skepticism and the question about our role in the field of sustainability – or rather the statement that the German SAI was not to play any role in this respect. For the most part, however, our initiative was welcomed. And it soon became quite clear that sustainability – contrary to many assumptions – is relevant not only for environmental, agricultural and development cooperation issues but actually government-wide.

Still, we found that often government departments considered sustainability to be limited to the environmental aspect. As a result, some government departments felt they were only affected to a minor degree, or that the matter was of interest to their internal management only. Or they stated that their technical policies already adequately took into account sustainability issues.

What will be the next steps?

We believe that there are three main areas in which we will pursue our efforts in dealing with SDGs.

- First, in the years to come, we intend to advise the Federal Government on the basis of our findings. We are also committed to pursuing our audit efforts on sustainability.
- Second, we intend to publish our audit findings – to the extent possible and permitted – and make them available to the general public. In this way, we seek to help strengthen sustainable development in German society.
- Third, we wish to engage in a dialogue with other SAIs on lessons learned, since our audit findings may also be of added value and professional interest to other SAIs, both in the EU and beyond.

The joy and pain of training on Sustainable Development Goals

By Vivi Niemenmaa, Deputy Director, National Audit Office of Finland

The International Organisation of Supreme Audit Institutions (INTOSAI) has integrated the United Nations Sustainable Development Goals (SDGs) in its 2017-2022 strategy. One of INTOSAI's cross-cutting priorities is to contribute to the follow-up and review of the SDGs. Individual supreme audit institutions (SAIs) are considering how to include SDGs in their audit planning, and are interested in organising training on the topic. Vivi Niemenmaa, Deputy Director at the National Audit Office of Finland, who worked for six years as a seconded national expert at the ECA (until June 2019), shares some of her experiences with sustainable development and some of the eye-openers she had when providing SDG training in Bhutan and Kuwait.

SDGs moving centre-stage

Over the twenty years that I have followed sustainable development discussions, global sustainable development policy has had its ups and downs. Nevertheless, it has been slightly surprising to observe how vigorously the Agenda 2030 and 17 SDGs adopted by the United Nations in 2015 have been pushed to the centre of global discussions, and, in many cases, of national policies. SDGs successfully combine the more environmental policy-oriented 'Rio Process' which started in 1992, and the more development policy-oriented Millennium Development Goals. SDGs provide clear policy goals and targets - and I would not underestimate the power of the outstanding iconography either.

Source: UN

The interest in SDGs means that individual SAIs are yearning for more information about the topic. I conducted two training programmes on SDGs for SAIs in July 2018. I delivered the first one, together with Deputy Auditor General Marko Männikkö and with the support of project adviser Outi Jurkkola, on behalf of the National Audit Office of Finland at the Office of the Auditor General of Bhutan. I gave the second training programme on behalf of the ECA at the State Audit Bureau of Kuwait.

Providing training to the Office of the Auditor General of Bhutan, with Vivi Niemenmaa in the middle of the front row.

The sceptics

Not everyone is excited about SDGs. As an auditor, you sometimes hear comments about whether anyone is really supposed to take the SDGs seriously. I find this a strange argument for an auditor. It is actually quite the contrary: SDGs are a good opportunity to hold governments accountable. After all, if a government goes and signs some papers in fancy meetings, we might as well take it seriously and ask 'What have you done about it?'

Moreover, some people find sustainable development too idealistic or vague. Here, knowledge of the theoretical background helps. Compared, for instance, with 'deep ecology' theory, sustainable development is not radical at all, but accepts economic growth and believes in technological innovation. As for vagueness, with sustainable development we have, for once, a concept that tries to integrate various perspectives, time horizons and geographical scales. This is exactly what we need to solve serious problems.

Appetite for examples and the need to interpret them locally

From their training course, SAIs usually expect to get both information about policy and audit examples. There are many interesting SDG processes taking place around the world. Several SAIs have audited their governments' preparedness to implement SDGs, which is one of the possible approaches for SAIs that INTOSAI has identified. Now the focus is shifting towards auditing the implementation of SDGs. Some SAIs are planning to integrate SDGs in all of their audits, as is the case in Germany. Moreover, it is possible to ensure that SAIs' everyday audit work supports the implementation of the SDGs, and in particular SDG 16.6 (see Box 1), in order to develop effective, accountable and transparent institutions.

Box 1-Four approaches to auditing SDGs (INTOSAI Strategy 2017-2022):

- Assess the preparedness of governments to implement the SDGs;
- Undertake performance audits on key government programs that contribute to specific aspects of SDGs;
- Assess and support the implementation of SDG 16, especially 16.6. on effective, accountable and transparent institutions, and SDG 17 concerning partnerships and means of implementation;
- Being role models of transparency and accountability in their own operations, including auditing and report writing.

When planning a training programme, it is relatively easy to collect policy and audit examples, but a more challenging aspect is to try to adjust the sustainability issues to the local circumstances. As an outsider, you can never fully understand the specific cultural context. I therefore try to stress that I speak from a European perspective, and on top of that from a Nordic worldview, and ask the audience to challenge me if they find some of the examples strange.

Unlike Millennium Development Goals, SDGs are universal, meaning that each country should interpret the goals in the context of their own country. At first glance, for example, SDG 2 concerning zero hunger might seem less relevant for developed countries. But upon further reflection, you soon realise that it addresses questions such as food consumption patterns, obesity and sustainable agriculture. On the other hand, SDG 6 on clean water and sanitation can range from providing basic sanitation facilities to the development of next-generation wastewater treatment tackling traces of medication or micro-plastics, depending on the country's situation and resources.

In Finland, the economic sustainability challenges concern an ageing population and the dependency ratio. But Bhutanese colleagues named their young population and youth unemployment as the biggest problem in their nation of 800 000 inhabitants. Bhutan is a 'carbon negative' country, exporting its hydropower in large quantities to India.

Source: Vivi Niemenmaa

Thimpu, Bhutan

On the contrary, Kuwait, with four million inhabitants, has almost 10% of the world's oil reserves. At the time of the course, northern Europe was suffering from an unusual heat wave and forest fires. But a temperature of 47 Celsius is not an issue in thoroughly air-conditioned buildings in Kuwait. In this situation, northern countries seem to be poorly prepared for extreme heat waves.

A critical question is how to address the carbon risk in such a context. The best I could do was to refer to the future risks related to fossil fuels, the investment principles for funds collected in future from oil revenues, renewable solar energy, and the effects that climate change is having on migration.

Where are the future generations?

I normally like to start a training course by explaining the conceptual roots of sustainable development. You cannot talk seriously about sustainability without stressing the long-term perspective, and connecting environmental, social and economic dimensions. The cross-sectoral approach, breaking silos, can be seen in some of the INTOSAI and SAI activities on SDGs, but it has proved to be challenging for audit policy coherence. SAIs seem to belacking cross-sectoral approaches, and often they are themselves bound to silos where certain departments audit certain ministries.

Overall, I have observed that SAIsattention to the long-term perspective is weaker. I find this worrying, given that future generations are at the very heart of the concept. On the one hand, SAIs should ask their governments whether their sustainability aspirations include future-oriented thinking and long-term risk assessments. On the other hand, SAIs should ask themselves what the time-line is against which they do their assessments and recommendations. If you want to take sustainable development seriously, the next multiannual financial framework or next five-year plan is far from sufficient.

In this context, one interesting example is the audit mandate of the SAI of Bhutan, the Royal Audit Authority, which includes all public funds and resources, including natural resources. Such a mandate greatly exceeds the western audit tradition, and is not limited by any organisational boundaries. It can also help to widen the perspective from auditing annual expenditure to long-term considerations, perhaps to even including natural resources in the national accounts.

Importance of interconnections

Sustainable development can be a valuable tool in making new and sometimes unanticipated interconnections. My favourite part in providing sustainability training is the exercises on making interconnections and the discussion that this process facilitates. For instance, how are public health and fossil fuels interrelated? Well, at the end of the day the ease and convenience of moving around with fossil fuel-powered vehicles is making us fat in an increasing number of countries.

Air pollution is obviously costing us a huge amount in public health expenses, but why are governments paying such little attention to this, and why is the health sector so silent about these problems? Another example is the attempt to increase renewable energy, which has had serious consequences for human rights in some parts of the world. Yet, one can ask: how transparent about this are the funds through which more and more global finance is flowing? As a final example: it is possible to mainstream gender issues into any policy area, as highlighted by the Swedish model of feminist foreign policy.

Training is learning

Planning and conducting such training programmes is demanding, but they are fantastic opportunities to learn. For instance, the Bhutanese Gross Happiness Index is much stronger on cultural aspects than the SDGs. With regard to SAI organisations: the State Audit Bureau of Kuwait has established a Technical Support Department with 54 engineers with different fields of expertise, and 8 IT experts, to provide support for its entire staff. This is an interesting way to increase the quality of audits.

Sustainability awareness varies from country to country. Examples ranging from the monetary value of ecosystem services and the crucial economic significance of tiny little bees providing pollination services, to the idea of gender or climate mainstreaming, or possibilities for SAIs to act as role models in green office practices, can hopefully open our eyes to a new ways of thinking - and auditing.

SDGs beyond Europe – Latin Amercian and Carribean SAIs cooperate on auditing the SDG on gender equality

By Osvaldo Rudloff Pulgar, Office of the Comptroller General of Chile

Source: OLACEFS

Because of their global dimension, SDGs lend themselves to identifying audit topics on which Supreme Audit Institutions (SAIs) can collaborate across borders, for example, by organising coordinated audits, identifying and assessing transnational issues and impacts, highlighting the different instruments used, and benchmarking performance. Osvaldo Rudloff Pulgar is head of the international relations unit in the Office of the Comptroller General of Chile, which hosts the secretariat of the Organisation of Latin American and Caribbean Supreme Audit Institutions (OLACEFS). He explains what OLACEFS is doing to assess SDG implementation, focusing on coordinated audit work undertaken on SDG 5 on gender equality.

Evolving role of SAIs focusing on impact for citizens

In recent years the international community of public auditors has become more conscious of the key role they play as contributors to good governance. For many of them the working model has changed. Supreme Audit Institutions (SAIs) are no longer distant entities for auditees and citizens, they have become collaborators whose task goes further than the audit itself, extending through different areas, i.e. the promotion of integrity, the fight against corruption, citizens' engagement, and support for good governance[1].

At the Organisation of Latin American and Caribbean Supreme Audit Institutions (OLACEFS) level, this change of focus began at the end of the past decade through various initiatives, such as the creation in 2009 of a commission on citizens' participation, and early discussions on gender and external control in 2012.[2] That year we started to

1 OLACEFS, Santiago's Declaration about governance, fight against corruption and public trust, (Chile: OLACEFS, 2013), 1-10 available in: / http://www.olacefs.com/p3558/ (in Spanish)

2 OLACEFS, Santo Domingo's Declaration on Gender and Transparency in External Control, (Dominican Republic: OLACEFS, 2012), 2-3, available in: / http://www.olacefs.com/p1906/ (in Spanish)

work on coordinated audits,[3] a system that is currently established as a capacity building model which allows knowledge exchange and joining forces to work with and visualise different topics of public interest in our region from the SAI perspective.

Sociocultural patterns of discrimination and sexism continue to reproduce inequality and violence in Latin America and the Caribbean. Notwithstanding, we are the only region worldwide where, for more than four decades, countries have been discussing and strengthening their political commitment to eradicating discrimination against girls and women, eliminating gender inequality, and advancing towards guaranteeing girls and women full enjoyment of their human rights.[4]

Nowadays, more than ever, it is clear that without enforcement agreements, commitments and even regulations do not produce any real effect on people's lives. SAIs play a key role in law enforcement. Therefore, we have also focused on this aspect when it comes to gender equality. Indeed, in 2012, OLACEFS issued the Santo Domingo Declaration on Gender and Transparency in External Control, where, for the first time, OLACEFS members were called upon to apply gender policies in their institutions and to audit the standards regarding gender equality in each of their countries. This document laid the foundations for consequent discussions that ended with an invitation to participate in the first coordinated audit of gender equality in the region, which was carried out from 2014 to 2015.

OLACEFS coordinated audit on SDG 5

Source: OLACEFS

The impact of this first OLACEFS audit on the topic may be analysed from two perspectives. If we evaluate it in terms of participation, we could say that it was a disappointing project, since it only managed to involve three out of 22 OLACEFS members (Chile, Costa Rica and Puerto Rico). However, if we analyse it in terms of the impact that the consolidated report produced, it was successful, both at country and organisational level, as further explained in the following paragraphs. Please note that the consolidated report of that audit[5] was the first regional effort to work with the world development agenda (at the time, the Millennial Development Goals), through the creation of a so-called 'Gender Equity Index.'

3 OLACEFS, Coordinated Audit in the Programme of Mercosur Action Free of Foot-and-Mouth Disease, (Brazil: OLACEFS, 2012), 1-18, available in: http://www.olacefs.com/p1906/ (in Spanish)

4 ECLAC, Montevideo's Strategy for the implementation of the Gender Regional Agenda in the framework of Sustainable Development towards 2030 (Chile: ECLAC, 2017), 7-21, available in: https://repositorio.cepal.org/handle/11362/41013 (in English)

5 OLACEFS, Coordinated Audit on Gender Equity in the Supreme Audit Institutions of Puerto Rico, Chile and Costa Rica, (Costa Rica: OLACEFS 2014), 35-65, available in: http://www.olacefs.com/wp-content/uploads/2017/05/Informe_Ge%CC%81nero_Ingle%CC%81s.pdf (in English)

After the presentation of the report and its conclusions to the OLACEFS General Assembly and other forums,[6] the members of OLACEFS confirmed that gender was an interesting audit subject. Reading the report and following the presentation, OLACEFS members realised that concrete actions were needed to enhance their efforts to achieve gender equality.

As a result, in 2017 OLACEFS members started to work on a new audit on gender equality, this time linking it to their work on the 2030 Agenda and SDG 5, gender equality. This allowed continuity of the auditing process on SDGs in which the region was a pioneer. While this new audit was in its starting phase, OLACEFS was also carrying out its first coordinated audit on the SDGs adopted in 2015. In this audit we evaluated transversally the preparedness of the governments in Latin America and the Caribbean to face the challenges that the 2030 Agenda identifies.

The coordinated audit on gender equality was an OLACEFS effort that received support from the INTOSAI Development Initiative (IDI) and whose SDG audit model was adapted to fit the SDG 5 on gender equality. Also, the Inter-American Development Bank (IDB) provided funds for its implementation. Furthermore, this audit was undertaken with the participation of the Tribunal de Cuentas, the Spanish SAI, which makes it the first intercontinental SDG audit performed in the INTOSAI framework.[7]

From plan to practice

The audit's general objective was to check the preparedness of the governments assessed[8] in the context of their implementation of the 2030 Agenda, as well as to define their capacities and resources for monitoring and following up SDG 5 on gender equality, and its respective targets. On that basis, three lines of actions were analysed:

- Planning (internalisation)
- Funding (means of implementation)
- Follow-up (monitoring, evaluation and reporting)

As is common practice in OLACEFS coordinated audits, an integrated index was created that allowed the degree of preparedness of the governments for the implementation of SDG 5 to be determined, along the lines previously mentioned. For this purpose, 4 levels of implementation were defined: not implemented (0%), early development (0% <X <= 50%), developing (50% <X <= 75%), optimised (75% <X <= 100%).

The field work was carried out between April and October of 2018, which allowed the participating entities to issue their respective reports by March 2019. Currently, we are at the stage of consoliding the data and information from the reports presented by each participating entity, which will allow us to then present an Ibero-American consolidated report. However, at this stage we can already share some preliminary[9] results of our work.

Preliminary audit results of the coordinated audit

In general terms, the governments of the participating countries show positive progress on the internalisation/planning axis, obtaining a degree of advancement of 74%

6 Watch audit summary video: https://www.youtube.com/watch?v=QOHv58tAd7E (in English)

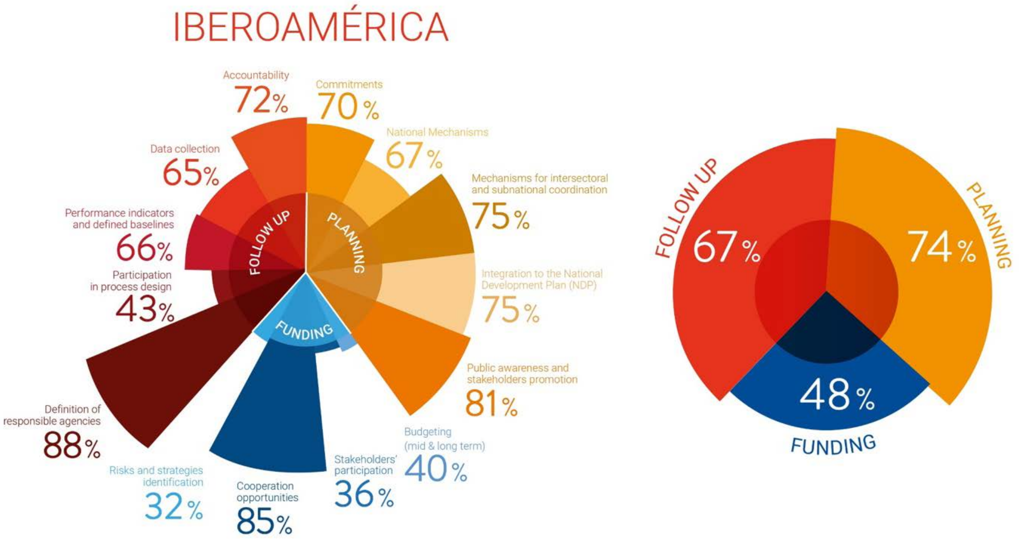
7 Linked with this audit and aligned with the fourth approach the INTOSAI has defined to contribute to the 2030 Agenda (leading by example), as a framework for an auto evaluation by the OLACEFS SAIs, this audit allowed us to discover the situation within our institutions through an evaluation (quantitative in the first stage) of perceptions regarding gender equality,

8 Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, Spain, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay, Venezuela and from the local government of Bogota, Colombia.

9 There are three SAIs that, due to circumstances beyond their control, have not been able to submit their reports. Consequently, the overall results presented here may show some variation compared with the results once consolidation is complete.

and are therefore, according to the integrated index (developed by the Office of the Comptroller General of Costa Rica), in the developing stage. This shows that the different governments have been effective in the adoption of processes and mechanisms that allow the integration of SDG 5 in existing legislation, policies, programmes, plans and budgets. Following an assessment, the conclusion was that these governments had been effective in the distribution of information to, and involvement of, citizens and other actors interested in the institutional processes and mechanisms necessary for integrating SDG 5.

Figure 1 – Some preliminary results of OLACEFS Coordinated Audit on Gender



Source: OLACEFS

These graphics show the three axes in which governments were evaluated (planning, funding and follow-up) and its components. In this overview, it is evident that the governments of Ibero-America have been working towards the preparedness of the implementation of SDG 5, but there are notable flaws in some components, particularly those related to funding.

The financing axis was found to have obtained a degree of advancement, with a score of 48%, of 'early development,' meaning that the governments assessed are identifying the resources and capacities (including means of implementation) needed to ensure the implementation of SDG 5.

In general, among the participating SAIs, there is no evidence that a mid-to-long term needs assessment has been carried out to estimate the resources that are required to implement the 2030 Agenda in general, or SDG 5 in particular. Despite that, we concluded that most governments have institutions in place that are already developing different programmes which are beneficial to girls and women.

At this time, we also observe that, in general, there are no tools in place to evaluate the impact these investments will have in relation to achieving the SDG 5 targets. At the same time, we identified a lack of mechanisms for the integration of stakeholders.

Likewise, there is no needs assessment that shows where resources should go and the amount to which they must be provided. Based on the knowledge of the gaps or risks that may arise, it is crucial to establish cooperation alliances to manage the necessary resources to guarantee compliance with SDG 5.

As for the third axis - follow-up - the related score was 67%, putting it in the 'developing stage.' Regarding this axis, the areas where further work is required by the governments are:

- follow-up, review, reporting and stakeholders' engagement;
- disaggregated data collection;
- identification of indicators and baselines, and establishment of milestones for monitoring, reviewing and reporting.

These preliminary results allowed us to conclude that even though there is still plenty of work to do, particularly regarding obtaining the necessary resources, the governments assessed have generated the necessary conditions to reach the SDG 5 targets.

Other OLACEFS work on SDGs

As to assessing progress in implementing and achieving SDGs, some other issues are relevant and deserve mention here.

Coordinated audit on Protected Areas

The Environmental Commission of OLACEFS will lead a new Coordinated Audit on Protected Areas, inspired by the first coordinated audit on this topic in 2014.

Box 1 -Coordinated audit in Protected Areas

The aim of this audit is is to evaluate - using the INDIMAPA method - the contribution of protected areas to the conservation of biodiversity, as measured under Aichi Targets and SDGs 14 and 15. Besides considering new audit questions this new coordinated audit will broaden the geographical scope of and also be a follow-up to the 2014 assessment. The programme will be carried out between October 2019 and March 2020, while the initiative has been developed within the OLACEFS/German Cooperation (GIZ) project: Strengthening External Financial Control in the Environmental Field.

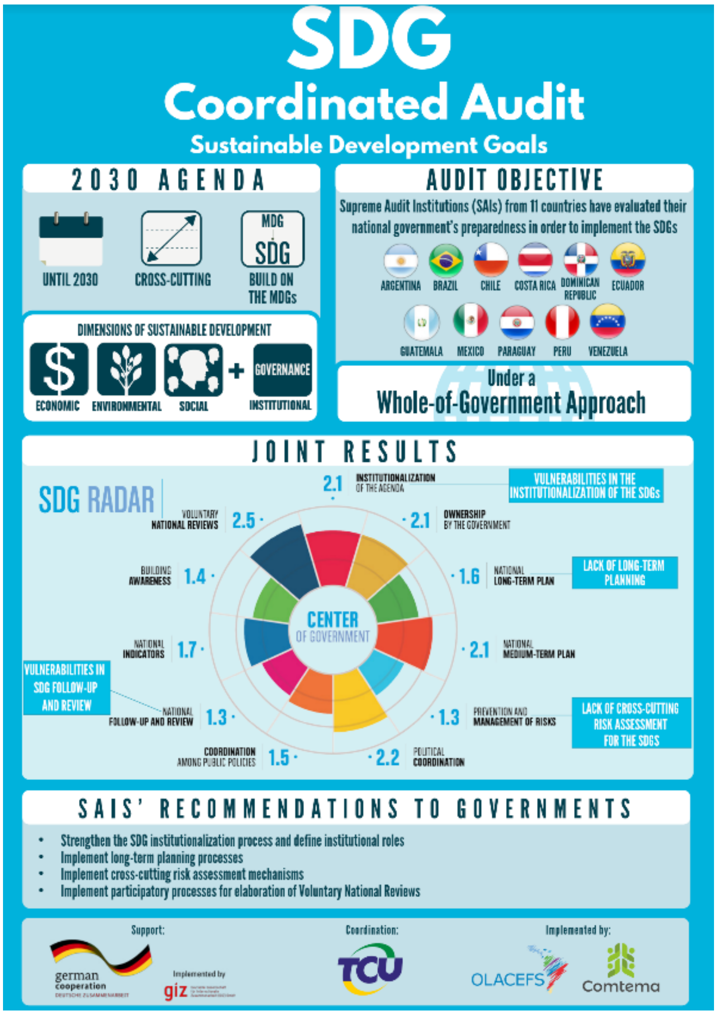
Coordinated audit on Sustainable Development Goals

Developed between 2017 and 2018 as the first coordinated audit on SDGs at global level, this audit evaluated governments' preparation for implementing the 2030 Agenda. This audit used a methodology elaborated by the Federal Court of Accounts of Brazil (TCU), with technical support provided by the US Government Accountability Office (GAO) and by the UN Department of Economic and Social Affairs (UNDESA). See box 2 and Figure 2.

Box 2 – SDG Coordinated Audit

The main tools used in this work were an analysis of fragmentations, superposition and duplications, and a governance evaluation scale, through which it was possible to evaluate in an objective and substantiated manner each component of governance. Through standardised evaluation, the audit assessed the existence and functioning of the centre of government. Furthermore, it analysed the governmental work related to goal 4 of SDG 2, related to sustainable systems of food production.

Figure 2 – Infographic on the OLACEFS SDG Coordinated Audit



Source: OLACEFS

Massive Open Online Course on the SDGs and the role of the SAIs

As an efficient way to allocate the available resources and to ease capacity building for our auditors, we developed a Massive Open Online Course (MOOC) on the 2030 Agenda and the role of the SAIs in the implementation of the SDGs, with the support of the German Cooperation Agency (GIZ).

Box 3-Massive Open Online Course (MOOC)

This course aims to explain the concept and characteristics of the 2030 Agenda, as well as to provide the necessary skills for participants in audits with an SDG focus. The MOOC is available in Spanish, English and Portuguese and was developed with up-to-date educational techniques.

For further information: http://www.olacefs.com/lanzamiento-del-mooc-sobre-los-ods/?lang=en

What is next?

We are planning to broadcast the Ibero-American consolidated report on SDG 5 mainly in two complementary ways:

a. Present the report at different international forums,[10] to raise awareness of the possibility of auditing gender issues, as well as the results of our audits.

b. Cooperate with civil society organisations to promote a mutually beneficial partnership and enhance visibility of the audit results and conclusions for stakeholders. For example, we believe that our SAIs cannot constantly monitor all the audit findings in our reports. Instead, given that our reports' findings could be used as a tool to hold governments accountable, civil society may find the reports useful in their advocacy processes.

We hope that our joint efforts as public auditors in scrutinising government action with the help of the 2030 SDGs and in particular SDG 5, will allow our societies to achieve gender equality and empower all women and girls.

10 In June of this year we were on the main panel of the 2019 Women Deliver Conference. In July we will present the results at a UN/INTOSAI event, and later to INCOSAI, the OLACEFS Assembly and at other events yet to be defined

Auditing adaptation to Climate change – some reflections from the Canary Islands, one of the EU's endangered regions

By José A. Melián Hernández, Canary Island Audit Office

Within the framework of the 2030 Agenda several endangered regions have been identified and a number of regional authorities have adopted action plans for addressing challenges posed by climate change. Which are subsequently audited by external public auditors. An example of this is the audit work undertaken by the Canary Island Audit Office - ACC - regarding the environmental measures taken to mitigate or adapt to climate change taking place or foreseen on the Canary Islands. José Melian Hernandez is head of unit at the ACC and leading the team undertaking the audit. Although the audit is still in its finalisation phase he gives some insights on the separate audit steps undertaken and methods applied.

Establishing more awareness for sustainability and climate change

The Canary Islands Audit Office, the Audiencia de Cuentas de Canarias (ACC), as the region's external audit body, is attached to the Canary Islands Parliament and is responsible for the external audit of public-sector economic, financial and accounting management in the Autonomous Community of the Canary Islands (CAC). The ACC's Action Programme for the 2018 financial year included an environmental audit of island councils.

The island councils, as the Canary Islands' governing bodies, have powers to adapt to climate change. In their capacity as institutions, they govern, administer and represent each of the archipelago's seven islands, with their remit including regional and urban planning, transport, infrastructure, forestry, and environmental and nature protection. Their powers enable them to implement island-wide strategies for adapting to climate change.

The Canary Islands have established Biosphere Reserves promoted by the island councils on the region's seven islands: five Reserves cover entire islands and two cover parts of islands (46% of Gran Canaria and the *Macizo de Anaga* on Tenerife). The Reserves' activities have helped to raise public awareness on each island of the need for environmental protection, sustainability and – more recently – climate change.

Map – Territory of the Biosphere Reserve on the Canary Islands

Canary Islands extremely vulnerable to climate change

The United Nations Framework Convention on Climate Change defines climate change as a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods. Climate change will lead to greater frequency and severity of extreme events such as heatwaves, droughts, torrential rain, and floods. These will vary, depending on the geographical area, and will result in a progressive and gradual shift in climate conditions and the associated variables.

Source: ACC

Drougth on the Canary Islands.

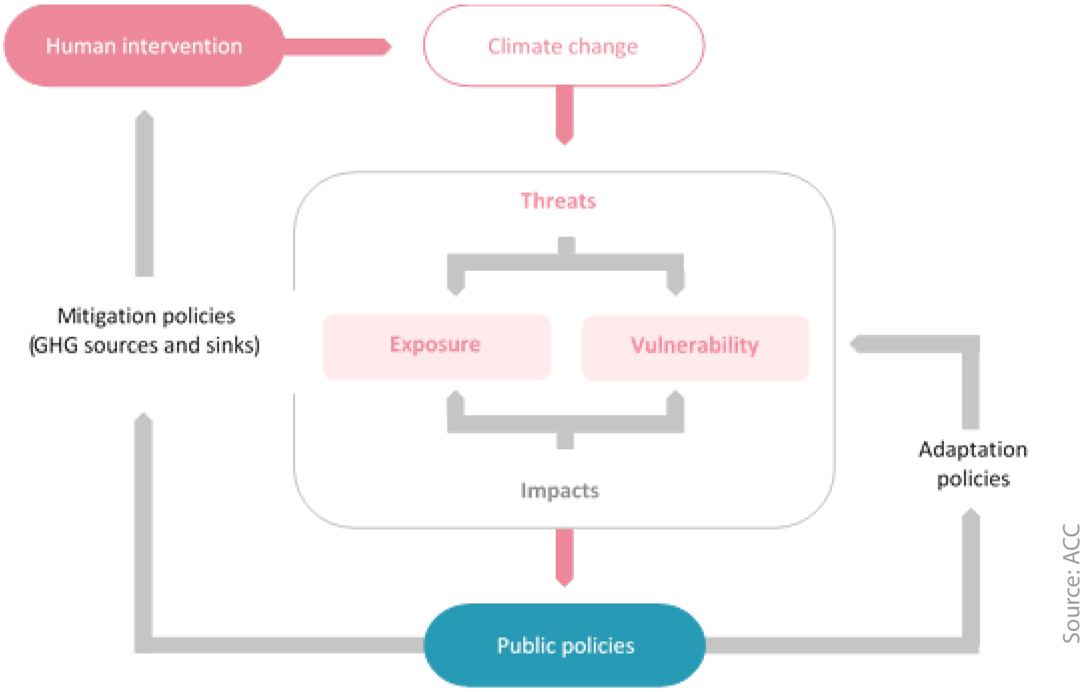
Climate change is undoubtedly the greatest environmental problem and challenge we are facing as a society. Given their geographical location, island nature and biodiversity, the Canary Islands are especially vulnerable to the current and future impacts of climate change on their natural, social and economic systems. *A preliminary evaluation of the Canary Islands' vulnerability to climate change,* a document issued in 2013 by the Canary Islands' Regional Department of the Environment, identifies and assesses 39 impacts of climate change on the natural, social and economic sectors.

The document lists variables that may be generated as a result of climate change, with a degree of confidence of 90% or more: these include an increase in temperatures and extreme rainfall, a reduction in annual average rainfall and a rise in sea levels. The confidence level for an increase in forest fires and Saharan dust intrusions is around 50%, with attendant increases in flooding, the number and intensity of forest fires, and desertification. Two types of climate-change policy are being implemented in response to these threats: mitigation and adaptation.

Source: ACC

Forest fires on the Canary Islands.

Figure 1 - Human intervention and climate change



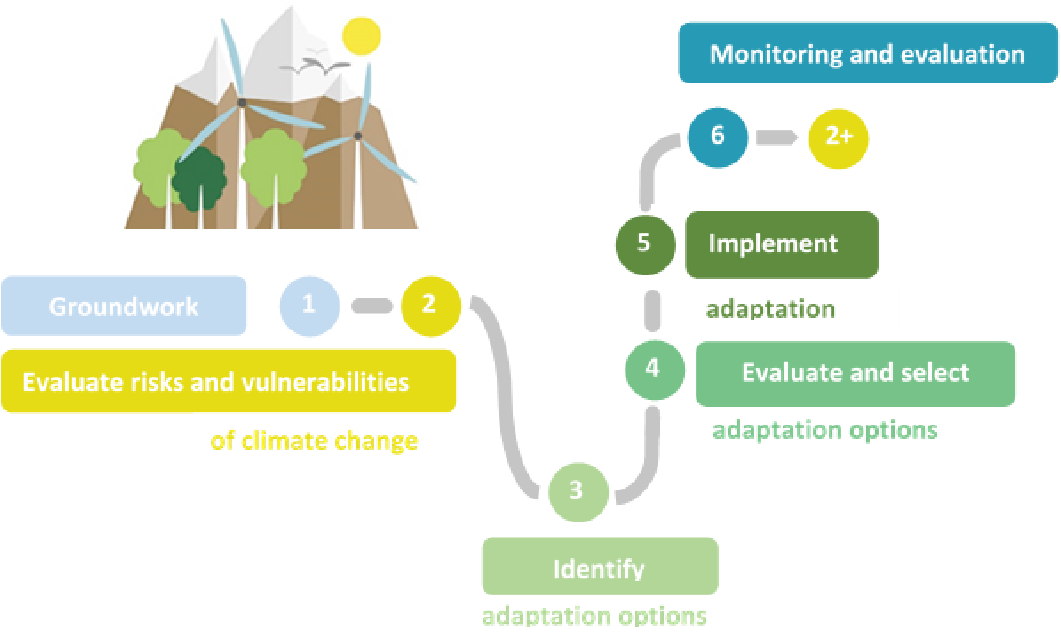
Measures have traditionally sought to promote mitigation policies, essentially by reducing greenhouse gases (GHG). However, these measures have been less effective than was hoped, and GHG emissions have continued to increase year on year. Since 2010, with the adoption of the Cancún Framework Convention and the 2015 Paris Agreement, there has been a clear paradigm shift in climate change policy, with adaptation policies becoming just as important as those aimed at mitigation.

Although mitigation measures are implemented at local level, there is always an international or global perspective due to two factors:

- atmospheric dynamics; and
- reliance on the success of mitigation policies implemented elsewhere.

However much a region strives to implement ambitious mitigation policies, if there is no international consensus among major emission centres, the effects or achievements of mitigation measures will be very limited. However, as climate-change adaptation policies are place- and context- specific, the solutions for dealing with climate change must respond not only to the changes detected but also to a region's specific environmental, economic and social characteristics. This means that adaptation policies and measures must be implemented at a very detailed level, i.e. local or island-specific in the case of the Canaries.

Figure 2 – adaptation to climate change



Source: ACC

Applying the European Court of Auditors' method: a rewarding experience

As the report is still being drawn up and has not yet been approved, described below are the main aspects of the two phases prior to its release: planning and implementation of work. In order to carry out this audit task, the ACC received audit support and advice from ECA staff members, on the spot provided by Katharina Bryon, head of the private office of Eva Lindström, ECA Member. Overall, the experience has been extremely positive. Katharina Bryan's continuous input throughout the task, together with the team's expertise, ensured that the methodology has been applied without undue difficulty.

Source: ACC

Team meeting of the 'Office,' together with Katharina Bryan

Several aspects of the audit approach and methodology are described in the **Textbox** below

Box – audit approach and methodology

PLANNING
1. Preliminary work
This included study of the audit topic, stakeholder management, analysis of risks and objectives and an issue analysis, identifying the key audit questions.

As the topic was very specific, the team was unfamiliar with it and the Office had not previously audited the area, considerable time was spent studying related legislation, as well as reports by international organisations and audit reports by other external audit bodies.

A significant aspect of this activity was stakeholder management. The work involved identifying and organising meetings with around 50 people: environmental managers from the seven councils, Biosphere Reserve managers, staff from other institutions, academics, and representatives of environmental associations (Ben Magec – Ecologists in Action and Greenpeace Spain).

The audit risks were exhaustively analysed, and work was done at the audit planning and evidence stage in order to prioritiseminimise them. A meeting, which Katharina Bryan attended, was held in November 2018 to define the scope of the audit and draw up the following audit questions:

Audit questions identified were:
Main question: are LEVEL 1 question: are the island councils taking appropriate measures to enable the Canary Islands to deal with the effects of climate change?
Secondary LEVEL 2 questions: do the island councils:

- have appropriate plans for adapting to climate change;
- have funding for adapting to climate change;
- implement measures to adapt to climate change;
- monitor the measures for adapting to climate change.

2. Audit Plan
This phase included a plan for obtaining audit evidence (containing questionnaire, other information sources, personal interview) and the audit approach and methodology. This entailed a description of how work was allocated between the members of the team by auditee and by topic (work was divided into four parts: Preparation and planning, Funding, Measures, and Monitoring and evaluation). Also, a document allocating resources and providing an estimated timetable for the work was drawn up. Work was to be completed by the end of March, with a final overrun of two months on account of the difficulty of providing the requested information and coordination with auditees.

On the basis of the work done during the planning phase, an Audit Planning Memorandum and proposed Technical Guidelines were drawn up.

IMPLEMENTATION
1. Field work. This included sending of questionnaire to island councils, analysis of replies received and meetings to clarify uncertainties. As a result of the work, individual reports were drawn up and subsequently submitted to each of the seven auditees for discussion at adversarial meetings. The overall results of the work were recorded under the following headings:

- Findings, sub-divided into five columns: Situation observed, Criteria, Evidence and analysis, Causes and Effects;
- Good practices;
- Recommendations;
- Expected benefits.

2. **Meeting to draw conclusions**. The team, together with ECA representative Katharina Bryan, summarised the audit and its findings and discussed the key messages to be included in the report.

Experiences with a new audit approach

Overall, the experience has been extremely positive. Katharina Bryan's continuous input throughout the task, together with the team's expertise, ensured that the methodology has been applied without undue difficulty.

As regards the methods applied, we noted differences from our usual procedure that have proved particularly useful: stakeholder management and the two meetings to which people from outside the team contributed (one on 'Issue analysis' to define the audit topics, and a second for drawing conclusions). Another difference from our own procedure was that the planning phase was longer than usual, while the implementation and drafting phases were shorter.

The report is up for adoption by the ACC and will then be published, foreseen for September, and subsequently presented to the islands councils, aimed to contribute to improved measures on the Canary Islands to mitigate and adapt the effects of climate change.

The Role of SAIs in delivering accountability and success for the UN Sustainable Development Goals

By Marcos Bonturi,* Organisation for Economic Cooperation and Development (OECD)

The 17 Sustainable Development Goals (SDGs) and its 169 targets require governments to coordinate, consult and work across policy areas in an unprecedented way. This calls for a strategic use of budget, procurement and regulatory tools and the design and implementation of innovative, forward-looking policies and programmes. Marcos Bonturi, Director for Public Governance in the OECD considers that robust monitoring and accountability mechanisms need to be in place to support long-term strategies for SDG implementation that go beyond political cycles. He argues that Supreme Audit Institutions (SAIs) are uniquely placed to provide this crucial function.

The SDGs Pose Complex Governance Challenges

In September 2015, member states of the United Nations jointly committed to the 2030 Agenda and pursuing the SDGs. Yet implementing policies aligned to the 17 goals and their accompanying 169 targets presents complex challenges. This is because the SDGs focus on long-term, crosscutting targets, which are reliant upon collaborative partnerships and cohesive policies to achieve positive outcomes. For example, implementing industrial strategies to expand production and promote economic growth will be beneficial to SDG 8, yet it can also cause an inefficient use of natural resources, negatively affecting SDG 12. Therefore, the need to better understand complementarities and trade-offs is essential.

Implementing the SDGs is also a formidable governance challenge, as it requires administrations to transition away from a siloed approach, to one where collaboration becomes the norm. In doing so, governments can address cross-sector challenges and foster the synergies which are critical to success. The SDGs also call on governments to think long-term to implement policies that consider the effects of policies on people 'here and now', to people from 'elsewhere' and the effect on future generations. Increased partnerships and collaboration are also required, tasking national governments to co-ordinate with all sections of society, including both public and private sector entities.

To overcome these challenges and to achieve the SDGs, it is essential that robust national plans be in place that possess assigned responsibilities and accountability pathways. This allows the progress of SDG initiatives to be monitored, which provides oversight and an up-to-date view of the evolution of national strategies. Such processes can also show if countries are meeting their targets, or to help provide the evidence-base to facilitate necessary policy changes.

Countries also need to possess robust monitoring and accountability mechanisms in their national plans for SDG implementation. Working with countries across all levels of government, the OECD has been sharing knowledge and creating partnerships to create, embed or improve these mechanisms and achieve positive outcomes for the SDGs.

* With thanks to Edward Hainsworth, Gavin Ugale and Sara Fyson (all from the OECD) for their contributions

Supreme Audit Institutions Are Uniquely Positioned to Assist SDG Implementation

The 2030 Agenda commits to ensuring effective implementation and accountability.[2] SAIs can help countries achieve these commitments due to their distinctive characteristics. This includes the ability to independently evaluate programmes across all areas of government (including financial performance) and an ability to work across electoral cycles, which allows SAIs to manage both short-term issues and long-term policy ramifications. Evidence shows how SAIs are increasingly undertaking such actions – moving beyond their traditional oversight roles (OECD, 2018). For instance, in collaboration with the SAI of Brazil, the OECD studied the ways in which SAIs provide insight and foresight to induce changes across the policy cycle. SAIs in the Netherlands and the Republic of Korea have also conducted audits to assess workforce sustainability and the preparedness of governments to manage ageing populations. These audits go beyond a compliance-oriented approach, and the findings supported policy development. As described in the OECD's Framework for Policy Coherence for Sustainable Development (2016), SAIs can also support progress by designing audits to evaluate the cohesive and collaborative nature of SDG initiatives.

Specifically, SAIs can assist SDG implementation in four ways, as was also identified by the International Organisation of Supreme Audit Institutions (INTOSAI) in 2016:

- They can monitor performance and audit how a country is applying the 2030 Agenda across all tiers of government;
- SAIs can advocate good governance through ensuring whole-of-government co-ordination, coherence and wide stakeholder participation;
- By promoting accountability and transparency, SAIs can also act as role models of good governance, improving a country's performance in accordance with SDG 16;
- SAIs can improve national preparedness for the SDGs by strengthening monitoring, assessment and reporting arrangements.

Figure 1– Four Ways SAIs Contribute to the Effective Implementation of the SDGs

Source: INTOSAI, 2016

2 United Nations General Assembly (2015): A/Resolution 70/1/Paragraph 72

The SDGs are an important testing ground for SAIs

A recent review of 43 Voluntary National Reviews (VNRs) highlighted the low level of understanding regarding the SDGs and the role of SAIs, with countries struggling to evaluate their SDG initiatives (IIED 2018). As a result, SAIs remain underutilised - hampering a country's ability to achieve the SDGs. This is a lost opportunity, especially because SAIs can offer valuable contributions to monitor outcomes and identify improvement opportunities for the SDGs. The Austrian Court of Audit provides an example of this positive impact and the role of working to improve governmental co-ordination for delivering the 2030 Agenda (see **Box 1**).

Box 1 – Report of the Austrian Court of Audit on the Implementation of the 2030 Agenda

Between June and September 2017, the Austrian Court of Audit (ACA) undertook an assessment of the legal framework, the responsibilities of the Federal Government and the coordination across all governmental departments to implement the 2030 Agenda. They also undertook a gap analysis of the implementation plan and target monitoring system.

The ACA found that despite the appointment of an inter-ministerial working group, a coherent implementation strategy was lacking, which caused detrimental consequences for its reporting processes. The ACA also noted the absence of systemic coordination across the tiers of government and with civil society – prompting the Federal Government to review its SDG implementation plan and the organisation of its inter-ministerial working group.

Source: OECD (2019)

Finland has benefitted from the added value of SAIs through the work of its National Audit Office, and its provision of an annual report detailing a risk-analysis of the SDGs. This is done separately from one produced by the government. The report provides scrutiny of the SDGs, progress towards national SDG 16 targets, and inserts greater transparency within the government's SDG plans. Meanwhile in Sweden, its National Audit Office audited its government's gender equality initiative, aligned to SDG 5, and strengthened the government's gender mainstreaming strategy by recommending the development of a tailored institutional structure for gender equality.

The OECD also supports progress on SDG implementation for both OECD member states and non-OECD partner countries. For example, the OECD worked with Brazil to improve the government's use of indicators for risk identification, audit selection and achievement of the SDGs (see **Box 2**).

Box 2 – Brazil: Reforming the TCU to Improve Good Governance and SDG Implementation

The Brazilian Federal Court of Accounts (*Tribunal de Contas de União*, TCU) conducts evaluations, highlights risks and offers recommendations for improvements in public administration based on survey data from various sectors.

In 2017, the TCU conducted audits to assess the government's preparedness to implement specific SDGs. This included reviewing the performance of governance mechanisms within the Centre of Government, and the monitoring of SDG targets. The audits identified a number of areas of improvement, which are being incorporated into the Brazilian SDG strategy. Consequentially, the TCU went beyond its traditional oversight role by upholding key functions of good governance in other areas. It has strengthened its governance mechanisms by incorporating good governance concepts into its various internal strategic documents, which has improved the likelihood of success for its SDG initiatives.

Source: OECD (2018)

Partnerships can support progress on the SDGs

Global and regional partnerships can help countries overcome barriers to delivering and monitoring the SDGs by exchanging good practices and practical advice. The OECD supports a number of partnerships that address specific issues related to the role of SAIs in delivering on the SDGs.

Source: OECD

2019 Meeting of the Auditors Alliance at the OECD

Launched in March 2018, the Auditors Alliance is a unique forum for public sector internal and external auditors to work together across all tiers of government including international, national and sub-national levels. This separates the Alliance from existing fora and enables auditors to share guidance from different frameworks, and exchange insights on topics such as innovations in performance auditing, auditing in a digital age and how to monitor the SDGs. The Auditors Alliance currently has over 600 members from 75 countries and we look forward to welcoming more SAIs at the next meeting.

The OECD also co-ordinates with the INTOSAI community, including regional and thematic working groups and the INTOSAI Development Initiative. This includes consultations with the INTOSAI-Donor Steering Committee and the Task Force of the European Organisation of Supreme Audit Institutions (EUROSAI) on Audits and Ethics. The OECD is also exploring co-operation with the INTOSAI Working Group on Key National Indicators to support its work on 'Key Sustainable Development Indicators.' The OECD is also working with UN agencies and the African Peer Review Mechanism to highlight the importance of public governance mechanisms, such as audit and evaluation, in achieving the SDGs.

For more references and information on the various activities, see **Box 3** (next page).

OECD striving for a global platform for exchange to achieve SDGs

The presence of strong monitoring and accountability systems, working coherently in conjunction with SAIs and government stakeholders, can positively affect policy implementation. In the context of the 2030 Agenda, this can help governments reach the SDGs. However, whilst progress is being made, there are still further opportunities for collaboration, increasing the role of SAIs and sharing best practices. The OECD looks forward to working with SAIs and other partners to provide expertise and share best practices in order to achieve the 2030 Agenda. We hope to move ahead to set up a common global platform to facilitate these exchanges and to support countries around the world to put in place effective public governance mechanisms in order to achieve the SDGs.

Box 3 – References

IIED (2018), *VNR Reporting Needs Evaluation: A Call for Global Guidance and National Action*. IIED Briefing – January 2018. DOI: https://pubs.iied.org/17446IIED/

INTOSAI (n.d.), *Auditing Preparedness for Implementation of Sustainable Development Goals*: *A Guidance for Supreme Audit Institutions.* DOI: https://www.idi.no/en/elibrary/cdp/auditing-sustainable-development-goals-programme/807-auditing-preparedness-for-implementation-of-sdgs-a-guidance-for-supreme-audit-institutions-version-0-english.

INTOSAI (2016), *Harnessing the potential for SAIs to contribute to the success of the Sustainable Development Goals.* EUROSAI regional paper for INTOSAI, Theme I: Sustainable Development Goals. DOI: http://www.intosai.org/fileadmin/downloads/downloads/1_about_us/SDGs_and_SAIs/id782_SDGs_EUROSAI.pdf

INTOSAI (2018), *Working Group on Auditing the SDGs: Examples from Supreme Audit Institutions*. Partners for Review: 5th Network Meeting – Berlin, 6th November 2018. DOI: http://www.intosai.org/fileadmin/downloads/downloads/1_about_us/SDGs_and_SAIs/id782_P4R_Partners_for_Review.pdf

OECD (2019), *Governance as an SDG Accelerator: Country experiences and tools*. OECD Publishing, Paris.

OECD (2016), *Better Policies for Sustainable Development 2016: A New Framework for Policy Coherence.* OECD Public Governance Reviews, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/9789264256996-en

OECD (2018), *Supreme Audit Institutions and Good Governance: Oversight, Insight and Foresight*. OECD Public Governance Reviews, OECD Publishing, Paris.
DOI: http://dx.doi.org/10.1787/9789264263871-en.

Auditing SDG financing: towards a European agenda

By Gijs de Vries, London School of Economics and Political Science (LSE)

Source: UN

Speaking about Sustainable Development Goals (SDGs) also means speaking about how to finance the measures needed to attain them. Several avenues of action may need to be used, including slashing illicit financial flows such as cross-border tax evasion, corruption, and transnational crime that negatively impact on countries' capacity to finance public policies. Reducing such flows would also directly contribute to achieving some of the SDGs, such as reducing poverty (SDG 1) and inequalities (SDG 10), promoting decent work and economic growth (SDG 12), and enhancing trust in public institutions (SDG 16), particularly – but not only – in developing countries. Gijs de Vries. a former Vice-president of the Netherlands Court of Audit and former ECA Member, is currently Senior Visiting Fellow at the London School of Economic and Political Science. He points out how public audit institutions can contribute by auditing SDG financing and governments' efforts to reduce these substantial illicit financial flows.

Ambitious goals requiring unprecedented policy efforts…

Agenda 2030 and the Sustainable Development Goals constitute an ambitious and comprehensive roadmap to a more equitable, sustainable, and just world. The SDGs differ from the previous Millennium Development Goals (MDGs) in two major respects. To begin with, the 17 Goals and 169 Targets are more encompassing and more specific than the original 8 MDGs; the new agenda is both broader and deeper. It also addresses far more actors, both public and private. For one thing, the SDGs apply to all countries of the world, contrary to the MDGs, which targeted primarily developing countries.

Unprecedented policy efforts will be required to achieve this broad and detailed agenda across the world. Governments will have to learn to work differently. First, they will have to develop more holistic, multi-sector policies. The SDGs are interdependent: progress in one area, such as reducing poverty (SDG 1) will require successful policies in other areas, such as health (SDG 3), education (SDG 4), gender equality (SDG 5), and so on. Second, governments will have to reach out to other actors. Most SDGs require public-private cooperation with the private sector, as well as cooperation with civil society organisations. Third, governments will have to strengthen cooperation across borders. Progress in many areas, such as protecting the seas (SDG 14), preserving biodiversity (SDG 15), and fighting climate change (SDG 13), will depend on regional or global cooperation.

… and finances from several sources

All three types of interdependence play out in the area of finance. Additional funding will be essential to realize the SDG: the United National Conference on Trade and Development (UNCTAD) estimates that developing countries face an annual financing gap of $2.5 trillion.[1] Closing this gap will require tapping into three main sources: domestic public funding, international public funding, and private investment.

1 UNCTAD, World Investment Report 2014 (New York/Geneva: UNCTAD, 2014)

The critical importance of domestic resource mobilization has been recognized from the start. Domestic resources are the first element of the Addis Ababa Action Agenda (AAAA) for the Financing of Development (2015). According to the AAAA, national governments must improve revenue administration through modernized, progressive tax systems, improved tax policy and more efficient tax collection. The second requirement is to fight the illicit financial flows which affect the public finances in many, mostly developing countries, severely restricting their capacity to finance education, health care, and other dimensions of sustainable development.

International tax evasion, fraudulent trade schemes, and other forms of illicit financial flows disproportionally affect poorer and less developed countries. The International Monetary Fund (IMF) and others put the revenue loss for developing countries from profit shifting at 1.3% of GDP, which is larger than for member countries of the Organisation for Economic Cooperation and Development (OECD).[2] The critical importance of fighting such flows was recognized by the United Nations General Assembly, which called for 'promotion of international cooperation to combat illicit financial flows and strengthen good practices on asset returns to foster sustainable development.' (Resolution A/RES/72/207). In Agenda 2030 governments pledged to 'significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime' (Sustainable Development Goal 16.4).

This raises three questions: what, precisely, are 'illicit financial flows,' what is their size; and what can audit institutions do to bring transparency and accountability to the fight against illicit financial flows?

What constitutes illicit financial flows?

There is no consensus about the definition of illicit financial flows (IFFs). There are two main interpretations. The normative interpretation suggests that financial flows become illicit because they are illegitimate. The legal interpretation regards IFFs as money that is earned, transferred, or used in contravention of existing law.[3] The difference matters. According to the wider, normative definition, for example, tax *avoidance* by transnational corporations constitutes an illicit financial flow; according to the legal definition, only tax *evasion* is covered.[4] Most analysts and governments work according to the more narrow, legal interpretation.

According to this majority view IFFs fall into three broad categories: cross-border tax evasion, corruption, and transnational crime.[5] There are five major sources: bribes, tax evasion, criminal enterprise earnings, corporate profit shifting, and currency regulation evasion.[6]

How big is the problem?

The aggregate, global size of illicit financial flows is difficult to determine with precision, but analysts and agencies concur that the annual volume is high, and even outstrips annual international Official Development Assistance. Africa loses between $30-60 billion per year, according to the African Union/UNECA High-Level Panel on Illicit Financial Flows from Africa. Algeria alone is estimated to have lost $25.7 billion of its national revenue between 1970 and 2008.[7] The annual cost to the Arab region of non-oil trade misinvoicing fluctuates between $60-100 billion, while oil trade misinvoicing costs another $10-35

2 International Monetary Fund, *Corporate Taxation in the Global Economy*, IMF Policy Paper, March 2019,p. 54

3 The World Bank, World Development Report 2017 (Washington: IBRD/World Bank, 2017), p. 278

4 In this interpretation, IFFs include tax evasion by high net-worth individuals and commercial tax evasion through trade misinvoicing. Tax avoidance, although undesirable, is not covered

5 Inter-agency Task Force on Financing for Development, Financing for Sustainable Development (New York: United Nations, 2019), p. 46

6 Peter Reuter, Illicit Financial Flows and Governance: The Importance of Disaggregation, Backgroundpaper for the World Development Report 2017, p. 1

7 *Report of the High Level Panel on Illicit Financial Flows from Africa (Addis Ababa: UNECA, 2015), p. 16*

billion.[8] Gross outflows from Latin America and the Caribbean due to trade misinvoicing have been estimated at $85 billion (2016).[9] These estimates are incomplete, as they only address certain types of IFFs. By comparison, Official development assistance (ODA) from the 30 members of the OECD's Development Assistance Committee (DAC) totalled $153.0 billion in 2018. Developing countries, therefore, lose more in IFFs than they gain from aid.

What can audit institutions do?

The International Organisation of Supreme Audit Institution (INTOSAI) has called on Supreme Audit Institutions (SAIs) to bring transparency and accountability to the implementation of the SDGs. SAIs could play a particularly important role by auditing SDG financing. One way of doing this would be to audit national and international efforts to reduce illicit financial flows.

Working through the OECD, the United Nations Office on Drugs and Crime (UNODC) and other international bodies, governments aim to prevent and correct IFFs. The prevention agenda has four major components: country-by-country reporting of profits; listing of beneficial ownership of assets; automatic exchange of tax information; and anti-money laundering provisions. Additionally, measures have been agreed to return stolen funds to their countries of origin (asset recovery). Audit institutions could audit the economy, efficiency, and effectiveness of these efforts to implement SDG 16.4.

Such audits would benefit from cooperation between SAIs. Cooperation could take two forms: between North and South, and between SAIs from a particular geographic region. SAIs from the global North could initiate bilateral partnerships with SAIs from the global South to audit, for example, the country-by-country reporting of profits, or bilateral exchanges of tax information. Other partnerships would benefit from a regional approach. SAIs from EU countries, for example, could jointly audit their countries' implementation of relevant EU legislation.

By initiating such cooperative audits, SAIs would help to 'develop effective, accountable and transparent institutions at all levels,' as states have pledged to do in SDG 16.6. Since SDG 16 applies to all state institutions, it also applies to SAIs. Like governments, SAIs will have to learn how to work more effectively across borders. In fact, as INTOSAI has emphasized, this is where SAIs may be expected to lead by example.

SDG 16. Source: UN Sustainable Development Knowledge Platform

Possible audit topics

How to do this, in practice? The list of possible audit topics is long, and audit planning will have to fit the specific circumstances of each SAI, but some avenues would seem particularly worth exploring.

In terms of wider international cooperation among SAIs, audits could focus on the national efforts to counter tax avoidance through the OECD-G20 'Base Erosion and Profit Shifting Project.'[10] European SAIs could set up partnerships with SAIs in, for example, Africa, Latin America, or the Arab world.

Another important subject would be tax evasion and related money laundering, an area where national implementation of international agreements has not been successful. In July 2018, for example, Malta became the first Member State to receive a recommendation by the European Banking Authority (EBA) for breaching EU money laundering legislation. In the UK, over £100 billion is laundered each year, according to the National Crime Agency. Very significant IFFs run via offshore constructions in the British Virgin Islands and other Caribbean jurisdictions, as shown by the Panama Papers and the Troika Laundromat

8 *Inter-agency Task Force on Financing for Development, Financing for Sustainable Development (New York: United Nations, 2019), p. 47*

9 Ibid., p. 48

10 https://www.oecd.org/tax/beps/

investigations. Research by Transparency International UK identified 237 global economic crime cases (worth £250 billion) that had been enabled by 1,107 companies in the British Overseas Territories.[11]

Such crime directly affects developing countries, such as when £500 million worth of oil funds, embezzled in the Republic of the Congo, were moved to Anguilla. Joint or parallel audits between European SAIs and Caribbean SAIs could be instrumental to improve national measures to counter such illicit financial flows.

Asset recovery could be a third priority area for cooperation among SAIs. The UN Convention Against Corruption (UNCAC) requires states parties to restrain, seize, confiscate, and return the proceeds of corruption. SAIs could audit national compliance with the UNCAC via the 'Stolen Asset Recovery Initiative' (World Bank/UNODC) and similar initiatives. In the EU, compliance with the Directive on the freezing and confiscation of the proceeds of crime[12] has been low.[13]

Many aspects of SDG 16.4 lend themselves well to joint or parallel audits among European SAIs. Acting bilaterally or multilaterally through the Contact Committee, European SAIs could audit the national implementation of relevant EU legislation such as the EU's Anti-Tax Avoidance Directive,[14] or the exchange of information about accounts held by overseas residents following the Directive on Administrative Cooperation.[15] Other subjects would lend themselves well to audits by the ECA, such as the role of Europol and/or Eurojust in countering IFF-related crime, the effectiveness of the European Commission's international aid in the field of taxation,[16] or the adequacy and transparency of the process of listing by the EU of non-cooperative tax jurisdiction.[17] The lists could easily be expanded.

Time to step up auditing SDG financing

Financing the SDGs will be critical to their success in ending poverty, protecting the planet, and achieving a more just and equitable world. SAIs have an important role to play in auditing SDG-related finance. Illicit financial flows cut into the limited resources available and audits could be instrumental in countering these forms of financial crime. European SAIs are well-placed to lead by example. It is time for them to act, nationally and internationally.

11 Transparency International UK, The Cost of Secrecy (London: TI, 2018)

12 OJ L127/39, 29.04.2014

13 Europol, Does Crime Still Pay? Criminal Asset Recovery in the EU (The Hague: Europol, 2016)

14 OJ L193/1, 19.07.2016

15 OJ L322/1, 18.12.2015

16 European Commission, Communication on an External Strategy for Effective Taxation, COM(2016) 24 final

17 Council conclusions on the revised EU list of non-cooperative jurisdictions for tax purposes, Council Doc 7441/19, 12 March 2019

How external auditors can help corporates report on non-financial information and meet Sustainable Development Goals

By Valérie Arnold and Krisztina Szenci, PwC Luxembourg

Sustainable Development Goals (SDGs) were made for governments. However, they can only be achieved if the private sector embraces the SDGs and understands that a company's societal added-value is as important as the financial value it creates. Such non-financial information needs to be collected, provided against certain standards, and verified in order to be credible and provide reliable insights on progress towards achieving the UN 2030 Agenda. This Long Read is authored by Valérie Arnold, Corporate Responsibility and Sustainability (CRS) Leader, and Krisztina Szenci, CRS Manager at PwC Luxembourg. They share their views on why SDGs integration -and reporting creates new opportunities for businesses, and what role private audit firms can play in building trust in corporate non-financial reporting.

A fractured world sharing one vulnerable Earth

We are living in times of unprecedented global wealth - at a cost. Our relentless pursuit of economic development has introduced inequalities and compromised our climate, water, air, biodiversity, forests and oceans. According to Oxfam, 99% of total wealth generated in the world goes to the ultra-rich (1% of the world population), the poorest half of humanity got nothing[1] Meanwhile, 3.7 billion people, in the poorest half of the world, saw no increase in their wealth. Over 2 billion homes still lack safe drinking water, and more than twice that number lack safe sanitation.[2]

Other than in wealth, the world is fractured by demographics. Africa is young, with an average age of 19 years. Europe is middle-aged, with an average age of 41 years in France and 46 years in Germany.[3] At the same time, 44 400 people a day are forced to flee their homes due to war and persecution.[4] The world is also divided according to the skills gap between skilled workers and others. This is becoming increasingly acute as technological progress and disruption displace labour markets and calls established orders into question.

ECA Journal Short Read

Global initiatives – international agreements, such as Paris and the UN 2030 Agenda globally strive to foster many SDGs for all actors - private and public sectors, citizens, investors, consumers etc. - not just political forces. Businesses have a vital role to meet these goals.

Non-Financial Information (NFI) and Sustainability Reporting – the push for NFI will helps companies to share information on how they contribute to society and the environment, although this differs across EU Member States. This way, their reporting helps recognise accountability, contribute to trust and show strategy. Sustainability reporting will grow, helps organisations to communicate their impacts on social, human and environmental issues and carve out their reputation and long-term risks.

Sustainability reporting – this opens up questions on which standards to use, also to avoid greenwashing. Yet only few companies employ measurable targets and have it integrated in their strategy. While SDGs can open up new opportunities, add financial value and avoid business risks.

Extra-financial audit – auditing has made the transition from a contractual accountancy nature to a public-interest exercise. Extra-financial reporting frameworks are not stabilised and its disclosures combine both qualitative and quantitative information.

Role of assurance vis à vis confidence – it is important for the accountancy profession to give way to ensure data reported is reliable, complete, accurate and supported. The tendency is to have third-parties to provide assurance for long term societal value.

1 Oxfam, Reward work not Wealth, 2018.
2 United Nations Children's Fund (UNICEF) and the World Health Organisation (2015).
3 WorldoMeters - https://www.worldometers.info/
4 UN Refugee Agency.

Given the extent of inequality, social exclusion and climate change, it came as no surprise that when world leaders met in Davos, Switzerland, in 2018 at the World Economic Forum (WEF), they did so to address the issue of '*Creating a Shared Future in a Fractured World.*'

What is required is a systems-level change to deliver a clean, resource-secure and inclusive economy that is enabled by technology and supported by public policy and private investments. Technology alone is not the answer. If not designed and scaled in a smart and sustainable way, it may have unintended consequences that imperil the Earth and society.[5]

Global initiatives

The two international agreements that call for collective solutions and set the framework to ensure a sustainable future in a global economy are:

1. The Paris Agreement (COP 21) 'Save the planet, protect humanity';
2. The United Nations 2030 Agenda for Sustainable Development signed by all UN countries.[6]

Sustainable Development Goals (SDGs) are pertinent to governments, regulators, investors and millions of consumers. They are central to equitable and safe businesses and societal development in the coming years. As former Unilever CEO, Paul Polman, puts it: 'We are at a turning point. Only businesses that help people and planet thrive will succeed.'

Businesses – Purpose and Profit

The vital role of businesses, as resource consumers and engines of economic growth, in meeting the goals of the 2030 Agenda is well acknowledged. They can help address basic needs of personal well-being, providing decent work, and tackling the planet's biggest challenges of resource security, ensuring a healthy ecosystem, and working towards climate stability.[7] We are already seeing companies that have the power to be a 'force for good' and SDG ambassadors. Typically, these companies have a clear corporate purpose and core strategy that is aligned with the SDG agenda.

A strategic approach to sustainability can drive long-term financial value while improving productivity and growth today.[8] However, for some companies, it remains a challenge to put SDGs at the core of their strategies and balance them with profitability, even though there is a clear consensus among the world business community on moving the agenda further by valuing the relevance and the opportunities they could have during this 'transition.' SDGs need to be at the heart of all executive agendas, according to Paul Polman, 'SDGs offer the greatest economic opportunity of a lifetime.' The Business and Sustainable Development Commission, launched in Davos in January 2016, in its 'Better Business Better World' report (2017) agrees. Reportedly, achieving SDGs could open up an estimated $12 trillion in market opportunities.

5 PwC report on 'Innovation for the Earth' (2017).

6 In total 193 countries signed the UN 2030 Agenda, all the members of the United Nations. There are only two countries, the Vatican (officially known as the Holy See), which is an independent nation, and the Palestinian Authority, which is a quasi-governmental body, which cannot cast votes in the General Assembly and therefore are not signatories.

7 CISL: In search of impact, measuring the full value of capital, 2019.

8 UN Global Compact, 2018.

> ”
>
> SDGs offer the greatest economic opportunity of a lifetime.
>
> **Paul Polman**, Unilever CEO

Adopting SDGs will require businesses to drastically rethink how they engage with their entire supply chain. Their coalitions will need to be able to generate profits, and have a positive social, environmental and economic impact. If they hope to attract and retain staff, investors and clients, they will increasingly need to account to shareholders and stakeholders on both financial and non-financial performance. They will need to adopt and report on the 'Triple Bottom Line' of people, planet and profit.

Non-financial reporting

The push for non-financial reporting will require companies to account to shareholders and stakeholders on both their financial and non-financial information (NFI). The details will necessarily have to be provided in annual reports. Ultimately, NFI will help organisations understand how they contribute, positively and/or negatively, to society and the environment. Current EU rules on non-financial reporting only apply to large public-interest entities with more than 500 employees. As a result, around 6 000 businesses, including banks and insurance companies, are subject to non-financial reporting. We believe that over time, and with some modifications, reporting will extend to companies of all sizes.

There is also a difference in how EU member states have adopted the regulation. France has extended the scope of NFI statements to cover certain unlisted companies. UK and France require NFI statements to be included in a single company annual management report, rather than publishing one separately. The approach to verification also varies between member states. Italy requires internal and external audits for all reporting companies. France requires audits for companies above certain financial thresholds.

In general, reporting leads to accountability. Honest reporting fosters stakeholder confidence, trust and employment loyalty. It facilitates sharing values and contributes towards building a more cohesive society. In a competitive landscape, it can serve as an important differentiator.

Reporting should be seen as a strategic tool to shape the company's sustainability implementation strategy. It is a good start towards increasing sustainability performance and efficiency. Importantly, it engages stakeholders, supports sustainable decision-making processes that guides innovation and drives better performance and value creation. Other than improving client relationships and corporate reputation through transparency, reporting leads to improved long-term risk monitoring and management.

Sustainability reporting

The Global Reporting Initiative (GRI) is an independent international standards organisation that helps businesses, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption. It enables companies to assess the environmental impact from their activities, and those of their supply chains.

The GRI was launched in 1997 as a result of the work between the Coalition for Environmentally Responsible Economies (Ceres) and the UN Environment Programme (UNEP). The GRI Sustainability Reporting Standards (GRI Standards) are the first and most widely adopted global standards for sustainability reporting. Of the world's largest 250 corporations, 92% report on their sustainability performance and 74% of these use GRI's Standards to do so.

Given corporate tendencies and government interest towards integrated financial and sustainability reporting, it's more likely that integrated reporting will become compulsory. As a result, we expect that the need for external assurance of sustainability reports will also grow.

The GRI's publication '*Sustainability and Reporting Trends in 2025: Preparing for the Future*' suggests that companies will be held more accountable for their ability to create value for business and for society at large, and decision makers will be guided by ethical values, reputation and risk management. As sustainability data becomes more digitally available, technology will enable companies and stakeholders to access, collect, check, analyse, correlate and present data. As a result, business decision makers will have to take sustainability issues into account more extensively.

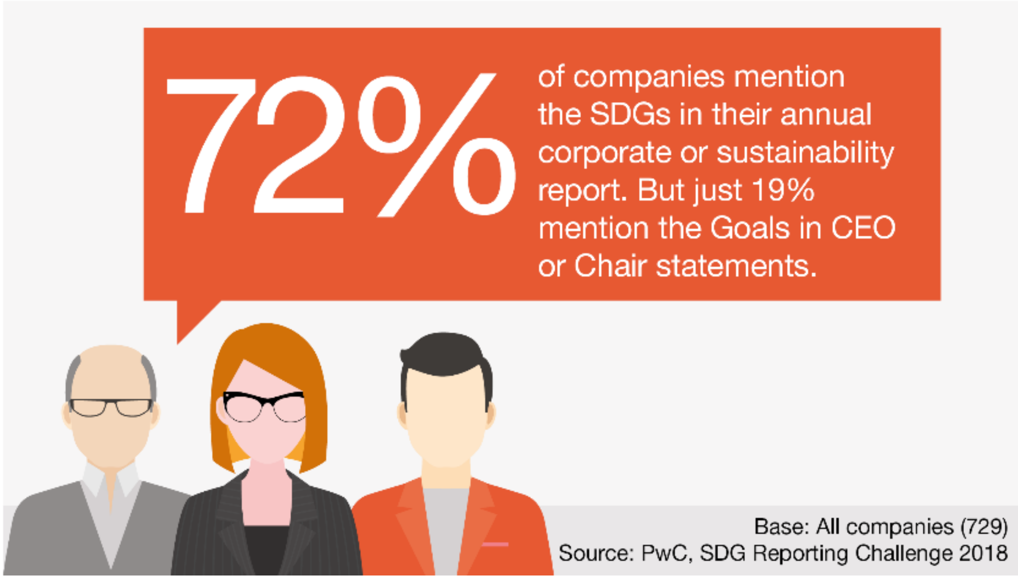
Source: PwC

Interestingly, according to the 'Integrating the SDG into Corporate Reporting: A Practical Guide'by United Nations Global Compact (UNGC), GRI and PwC (2018), many companies already act and report on topics covered by the SDGs, such as climate change, water management and working conditions. To promote SDG adoption and accurate reporting, while avoiding 'SDG washing' (sometimes also called 'greenwashing'), the UNGC and GRI, in collaboration with the PRI (Principles for Responsible Investment), aim to leverage on the GRI Standards and the Ten Principles of the UNGC that help businesses incorporate SDG reporting into their existing processes.

PwC's SDG Reporting Challenge

In 2018, PwC issued its publication *SDG Reporting Challenge: From promise to reality* to assess whether businesses really care about the SDGs. PwC looked at the corporate reporting of more than 700 global companies (mainly listed companies), analysing their commitments to individual Goals and how their reporting reflected integration of these Goals in their business strategy.

In 2019, PwC SDG Reporting Challenge went deeper, and sought to determine how many companies had actually embedded SDG Goals in their core business strategy. The results showed that although corporate reports mention SDGs, companies report descriptively and very few have set measurable targets, or linked them to societal values. More alarmingly, even the NFI-reporting, so sustainability-focused, companies have not aligned their reporting with the SDG framework.



While 72% of the listed companies mention SDGs in their reporting, only 27% include them in their business strategy. CEOs also need to take the lead on SDG engagement. Currently, only 19% of them mention SDGs in the context of their business strategy, performance or outlook statements. CEO involvement is essential for corporate commitment to make SDGs a living reality.

Figure 1– Results at glance

Source: PwC

Main observations around corporate SDG reporting are that:

- companies produce better quality reporting on sustainability indicators that predate the SDGs. Reporting quality is best for indicators such as 'GHG emissions reduction, representation of women on boards and energy efficiency.' This is likely due to companies having established processes and metrics to account for them;

- companies that prioritise specific goals had better quality reporting than those which stated they supported SDGs in general. Companies with clearly thought-out SDG strategies prioritise the most relevant goals, and commit resources to meeting those goals;

- companies with prioritised SDGs are more likely to have metrics and numerical targets to add weight to their reporting. Metrics and targets demonstrate a license to operate, help mitigate risks, maintain reputation and prove the business case for the SDGs;

- companies need to understand the SDG model, with all its 169 targets and 17 goals, to select the right metrics and KPIs. This will help them avoid ´shoe horning' more general sustainability work into the framework of and reporting on specific targets.

SDGs and Financial Value

SDGs can be used to demonstrate the financial value of sustainable action for both organisations and society at large. However, this is only possible if businesses take a reporting approach that takes into account specific SDGs and meaningfully measure progress against them. Currently, businesses need guidance on how to adopt and report on SDGs, and how to holistically integrate them into their business strategies:

1. Awareness: Improve SDG awareness of key stakeholders in the organisation and focus on setting targets;
2. Prioritisation: Use inside-out, as well as outside-in perspectives when prioritising the SDGs;
3. Strategy & Implementation: Set company priorities in line with SDGs, set targets and take actions to meet those Source: PwC targets; and
4. Impact Measurement & Reporting: Define indicators and collect data to communicate company-specific SDG impact to stakeholders.

Figure 2 – SDG integration

Source: PwC

The benefit for businesses is that stepping up to SDGs can open up new opportunities and pave the way to mitigate underlying business risks that may otherwise have remained unaddressed. Once businesses embark on their SDG journey, their goal selection and reporting will become more sophisticated and fine-tuned over time. According the 2019 PwC SDG Challenge, a blueprint for SDG success involves the following factors:

- active CEO and senior executive interest and involvement;
- a commitment to provide the same level of quality of reporting on financial and non-financial information;
- selecting meaningful KPIs to use to drive action and report on progress; and
- a sincere realisation that everyone in the organisation has a role to play in sustainability.

Climate-related Financial Disclosures

Next to the Sustainability Global Agenda, the COP 21-Paris Agreement generated strong signals to address climate change: national policies are put in place to accelerate the transition to a low carbon economy. Businesses should be prepared and do adequate reporting to respond to emerging risks and opportunities generated by climate change. Insufficient disclosure hinders the capital markets from making well-informed asset allocation and risk pricing decisions, and could pose a financial stability problem.

The Task Force on Climate-related Financial Disclosures (TCFD) advocates a scenario-based analysis approach for organisations to understand how the changing climate will impact their business. The TCFD suggests starting with at least a 2 degree Celsius (or less) scenario and following with a business-as-usual scenario. There are strong signals that the TCFD recommendations will become the benchmark disclosure standard for climate change-related reporting:

- prominent investors, such as BlackRock and State Street, have made climate change a top engagement priority and are using their voting power to get investees to disclose against the TCFD;

- credible sustainability benchmarks and indices, such as CDP and PRI, are aligning their scoring methodologies to TCFD;
- the European Commission's guideline on reporting climate related information was launched on 18 June 2019, specifically to look at incorporating the TCFD recommendations in a practical way. This guide is aimed towards companies to better report on the impact their activities have on climate, as well as the impact of climate change on their business.

According to the second status report issued by the TCFD in June 2019 on adoption of the TCFD recommendations, 785 organisations have expressed their support for the TCFD recommendations, a more than 50% increase since the publication of the first status report in September 2018. Leading the way is the 'financial' sector with 374 supporting firms (responsible for $118 trillion of assets), followed by the 'non-financial' sector at 297, and finally 'others,' such as governments and business associations, at 114.

Figure 3 – Suppport for TCFDrecommandations

Source: TCFD status report (September 2018)

With PwC's support in artificial intelligence technology, the task force reviewed reports from 1 126 companies in 142 countries. The results indicate that while the average number of recommended disclosures implemented per company has increased by 29% from 2.8 in 2016 to 3.6 in 2018, 'more progress is needed.'

The TCFD report of June 2019 notes that, according to the United Nations, delays in tackling climate change could cost companies nearly $1.2 trillion over the next 15 years. In June, the Carbon Disclosure Project's (CDP's) Global Climate Analysis report warned that 215 of the biggest global companies report almost US$1 trillion at risk from climate impacts, with many likely to be hit within the next five years. In his opening letter, Michael Bloomberg, Chair of the Taskforce, acknowledges the need for accelerating the adoption of climate-related financial disclosures saying' [...] progress must be accelerated. Today's disclosures remain far from the scale the markets need to channel investment to sustainable and resilient solutions, opportunities, and business models. I believe in the power of transparency to spur action on climate change through market forces.'

Mandatory climate change disclosure legislation, while incredibly useful and necessary, is not sufficient. We will need to see a suite of other measures, including enforcement, practical guidance and exchange of good practices, to support an effective and efficient implementation of the TCFD recommendations.

Furthermore, if the TCFD is to provide greater transparency and clarity on the potential impacts of climate-related issues on companies, disclosures need to urgently move into the mainstream report and not principally be included in separate climate risk or sustainability reports. By including disclosures in the mainstream report, climate-related information can be better connected to financial information. This will help achieve the intended outcome of providing decision-useful information to enable the investment community to make better informed decisions on where and how they want to allocate their capital.

Trust

As non-financial information - NFI - is still in its infancy, establishing appropriate reporting systems is a challenge. Currently, many of the key leading bodies globally, such as standard setters, benchmarking organisations and industry bodies, are working together to try to create a consistent set of indicators for business to measure their performance (based on the 169 SDG targets and climate-related Key Performance Indicators - KPIs). This would be a transformative step, particularly if those KPIs could be disclosed in monetary terms, which would enable true comparison and understanding of a business' contribution to achieving the global sustainability agenda.

Also imperative for stakeholders is the matter of trust. Companies in their reporting can claim all sorts of virtues, but can they be trusted? Trust is not only a matter of faith, global trends show that the credibility of reporting can also be enhanced by external third party assurance. This gives stakeholders confidence in the data and the integrity of companies' reporting.

According to a study of the World Business Council for Sustainable Development (WBCSD) and PwC,[9] investors interviewed said they want assurance reports to give them a better understanding of the assurance work performed on NFI and where significant judgements have been applied. Some reflected that what has been developed for financial statement audit reports could potentially be adapted for NFI assurance reports. Investors also prefer that an assurance report should be presented within the same report containing the NFI. They thought that the frequency of assurance on such information should be annual.

Extra-financial audit: still optional but could lead towards standardisation

Although financial auditing has faced its own challenges, and undergone a series of reforms, its principles are now set in stone. The movement has its origins within the accounting profession, which felt the need to develop a robust accounting framework and to more clearly define how auditors work and the terms of their engagement. The nature of auditing changed when early voluntary initiatives gave way to formal obligations, at which point auditing shifted from being a contractual to a public-interest exercise under government supervision. The IAASB[10] International Framework for Assurance Engagements (adopted in 2015) divides standards into three main categories:

- International Standards on Auditing (ISAs);
- International Standards on Review Engagements (ISREs);
- International Standards on Assurance Engagements (ISAEs).

In the past 15 years, financial audit standard-setting bodies have branched out into extra-financial standards. The IAASB's first extra-financial standard, ISAE 3000, was adopted in 2005 in response to growing demand within the profession for a framework covering non-financial audit and review exercises. ISAE 3000 (Revised), adopted several years later, introduced a series of improvements, although the basis remained the same. Like its predecessor, the revised version is similar in approach to financial audit and review standards (ISAs and ISREs).

ISAE 3000 also follows exactly the same model as financial audit and review standards on the conclusion that auditors are expected to express, offering two options: 'reasonable

9 WBCSD and PwC, Enhancing the credibility of non-financial information: the investor perspective, https://www.wbcsd.org/Programs/Redefining-Value/ External-Disclosure/Assurance-Internal-Controls/ Resources/Enhancing-the-credibility-of-non-financial-information-the-investor-perspective

10 The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body supported by the International Federation of Accountants (IFAC), a non-profit organisation established in 1977 under Swiss law and headquartered in New York.

assurance' or 'limited assurance.' [11] The key point here is that the standard treats extra-financial information in almost exactly the same way as financial information for audit and assurance purposes – an ambitious aim given that extra-financial reporting is an innovative and constantly evolving discipline. In that sense, ISAE 3000 represents a deliberate move towards standardisation.

WBCSD's *Reporting matters 2018* showed that out of 158 sustainability reports reviewed globally, 60% opted for limited assurance, 13% had reports with a combination of reasonable and limited assurance, and only 6% had reasonable assurance. 22% of the companies reviewed did not engage any external assurance provider.

Since audits are optional, only a handful of companies willingly have their extra-financial information externally verified. According to Accountancy Europe, challenges that impact assurance engagements on NFI relate to the variety of existing reporting standards and frameworks that can cause a practical issue for the assurance practitioners to determine their approach and scope of their work.

Standardisation initiatives are ongoing in the European Union as how Member States are implementing the non-financial reporting directive.[12] The directive does not require external assurance on NFI. Some countries, for example Italy and France, require mandatory verification. Notably, even without any legal obligation, many large European corporates engage an independent third party to provide assurance on NFI disclosures for management and sustainability reports, and specific key performance indicators (KPIs), etc.

While much work has gone into building an extra-financial audit and review framework, there are inherent problems that cannot be overlooked:

- a lack of standardisation means that audit and review standards remain necessarily generic and of limited practical use. There is a strong argument to suggest that, in the coming years, audit and review standards will need to evolve in parallel with frameworks governing the substance and format of extra-financial reporting;
- extra-financial assurance is still a largely optional exercise, meaning that engagements are performed by relatively small teams of specialist practitioners (unlike financial audit teams).

The second challenge next to the fact that extra-financial reporting frameworks are not stabilised (in form or substance) is that extra-financial disclosures combine both qualitative and quantitative information. Since qualitative information is by nature largely 'subjective,' practitioners can only check whether issuers' disclosures are consistent, exhaustive and neutral, and are typically restricted to expressing limited-assurance (as opposed to reasonable assurance) conclusions.

Also, there is an important distinction between historical and forward-looking information. While auditors can use observable, verifiable evidence and indicators to check historical information, forward-looking disclosures are qualitative because, in most cases, they take the form of forecasts or commitments. Even for quantitative forward-looking information, auditors can only check whether the figures are consistent, exhaustive and neutral – and are unlikely to be able to give the same degree of assurance from one disclosure to the next.

11 Limited assurance: Lower level than audit – procedures are usually inquiry or analysis, provides statement that did not encounter anything that indicates that information is not materially prepared in accordance with the appropriate framework. Reasonable assurance: Usually used for financial statements audits, provides opinion on whether statements are fairly presented, in all material respects, in accordance with appropriate framework.

12 EU directive 2014/95

Role of assurance in providing confidence

As the role of the accountancy profession on NFI is not clearly defined, it gives an opportunity for the profession to engage with companies on these matters to make sure data reported is reliable, complete, and supported by appropriate evidence.

At present, not all NFI can be assured in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) if it does not meet certain criteria. However, there is an increasing tendency to have third-party insights. When planning and executing an engagement standard auditor concerns will remain. For example, auditors will need to consider:

- how to evaluate the suitability of the criteria being assured;
- materiality considerations;
- consideration of management assertions;
- the nature and robustness of systems being used;
- consistency of measurement;
- standards used for measurement and general acceptance;
- narrative information and its assurance;
- future orientated information and how to audit;
- effective audit evidence needed and what can be obtained.

The good news is that practice shows that, even where frameworks were lacking, having extra-financial disclosures externally audited had helped them become more rigorous and consistent in their reporting – and made their disclosures more reliable and material. Together with standard setters and regulators, assurance providers have a role to play in education about assurance, for both companies and investors. A better understanding of what assurance tries to do can help narrow any expectation gap, enhance benefits for both parties and can improve the usefulness of assurance.

SDGs pushing businesses to long term societal value

Businesses need to create shared value to continue their role as employers, and providers of goods and services to civil society. At the same time, civil society wants to understand the purpose of a business - why are they here, what are they doing, and how will they be able to sustain the business in the long term. Businesses need to demonstrate what they are doing. Their societal value is as important as the financial value they create.

The way that businesses use information about natural capital (and human capital), for example, is already making its way into their decision-making. Companies need to look at how they:

- measure this multicapital value;
- understand its implications;
- collect the important data;
- check that it's accurate.

This is something important for companies to report on, and something for audits to check on to build trust in the future viability of the business.The remarkable thing about SDGs is that it has only taken a few years for 193 countries around the world to come together over a common reporting platform. SDGs are going to be around for a long time, and businesses can plan and invest, given this certainty.

However, adopting the label alone is not enough. Businesses need to demonstrate a deeper understanding and engagement with the SDGs, the targets that sit under the goals, and the actions that are being taken to achieve that target and how KPIs link to these actions. Remember what Paul Polman said, 'SDGs offer the greatest economic opportunity of a lifetime.'

Sustainability is in the DNA of the Bank
Interview with Emma Navarro, Vice-President of the European Investment Bank

By Derek Meijers and Gaston Moonen

Emma Navarro, Vice-President of the European Investment Bank

The European Investment Bank is the world's largest multilateral lender and one of the biggest providers of climate finance. Its 2018 Sustainability Report outlines how sustainability underpins all EIB Group activities. Emma Navarro, the EIB Vice-President responsible for the environment, climate action and circular economy, explains how the Bank is stepping up its climate action and working hard to make the UN Sustainable Development Goals a success.

Familiar with sustainability

When Emma Navarro became a Vice-President of the European Investment Bank in 2018, she was assigned oversight for the environment, climate action and the circular economy, which are key components of the UN's Sustainable Development Goals. When discussing how this responsibility has changed her perspective on sustainability, she explains that her work involves much more than keeping up with current affairs. 'Sustainability has always been at the core of the mission of the EIB, in the DNA of the Bank. In my previous position, since the topic of sustainable finance had been gaining more and more importance, I was already familiar with this topic. I was also chair of the National Promotional Bank in Spain, which also focused on sustainability. For instance, we issued sustainable social bonds.'

> *Sustainability has always been at the core of the mission of the EIB, in the DNA of the Bank.*

She is seeing increasing evidence that sustainability needs to be a top priority for Europe. 'It is of critical importance for the citizens and the planet. And it is clear to me that the private sector is fundamental if you want to achieve the goals of the Paris Agreement and if you want the transition to a less CO2-intensive economy to be successful.'

> *[Sustainability] "It is of critical importance for the citizens and the planet.*

The EIB's fundamental role is to attract private investors to the projects it finances, she says. 'But you need more than that. What we see now is that sustainability is gaining a lot of weight for big and small corporations. But also for the supervisors in the financial sector.'

All investments will be green

The EIB was the first financial institution to issue green bonds, and many other institutions followed suit. The EIB Vice-President explains that the financial world is constantly trying to become greener. In 2015, she participated in discussions on the need to increase the transparency of an investment's climate impact. Today, there is a global Task Force on Climate-Related Financial Disclosures that has developed recommendations to guide financial institutions on climate reporting. 't is a task force for greening the financial system,' Emma Navarro says. 'The aim is to oversee how the financial system will be impacted and to explain the need to respond to the challenges of climate change.'

Emma Navarro says the EIB is taking a lead role in transparency, together with the European Commission. One example is the Bank's contribution to the action plan on sustainable finance. 'One of the problems we have is that we do not have a common language on what sustainability means,' she says. 'Investors need clarity on what is sustainable. The European Commission is developing this taxonomy of sustainability and we are proud to be contributing to this development.'

Sustainability has many dimensions and it is important that one sustainability goal not be pursued at the expense of other goals, she says. 'In terms of the transition to a low-carbon future, for example, there will be transition costs. We need to help the people most affected by these transitions. Some sectors and some people will be negatively affected. Others will win, leading to job creation and growth. But for the most impacted sectors, we need to help them undergo this transition.'

Emma Navarro points out that the EIB was created to support economic and social cohesion in Europe. 'Right now we have a goal to do at least 30 percent of our financing in the EU to increase cohesion, and this will also support the transition to a sustainable economy. In addition to financing sectors such as innovation and energy efficiency, we also support education and social cohesion.'

Sustainable Development Goals

When asked which Sustainable Development Goals are the most important for the Bank, Emma Navarro smiles. 'My first responsibility is the climate. But at the end of the day most of the SDGs are interrelated. We are contributing to SDGs linked to water, climate, food, or gender. When helping one SDG, you also help indirectly other SDGs. For example, take climate change or life below water. For many people, their life depends on the oceans. If we can clean up the oceans and help ocean communities, we also affect SDG 1, regarding poverty.'

> *My first responsibility is the climate. But at the end of the day most of the SDGs are interrelated. We are contributing to SDGs linked to water, climate, food, or gender.*

Figure 1 – EIB investments and SDGs

Source: EIB

She shares an example of how EIB financing can even support SDG 16 – peace, justice and strong institutions. 'In Colombia, where they have an ongoing peace process, we are supporting them in this transition by investing in a project which will have a clear social impact in the region most affected.'

Emma Navarro says it may appear that the EIB focuses only on climate and the environment, but it depends on the region. 'For example, in the EU neighbourhood countries we do a lot to help social inclusion. And in other regions, such as in Asia, our focus is perhaps more on climate. About 10% to 12% of our financing is invested outside Europe and around 40% of that goes to climate issues.'

Aligning with the Paris Agreement

When asked how the Bank selects environmentally sound projects, the Vice-President brings up two issues. 'First, in the assessment and appraisal of our projects we have an emission performance standard. We look at how projects affect greenhouse emissions and how much we can save. And we publish both absolute and relative emissions. I think no other multilateral development bank publishes absolute emissions of projects. We have a system also to price carbon in the appraisal process.'

On the second issue, she points out that all multilateral development banks are aligning with the Paris Agreement. 'We are currently working with the rest of the MDBs to develop a joint framework to see what it means to be 'aligned.' The idea is to present the joint framework in the next climate conference, the next COP in Chile, in December 2019. We need to make sure that everything we finance is compatible with the Paris Agreement. We still need to refine how this is done.'

The EIB's approach is solid and consistent with the Paris Agreement, she says. 'Even if you do a great job financing climate action, the rest of what you do should not be detrimental to the climate. And that is Paris alignment.'

> *Even if you do a great job financing climate action, the rest of what you do should not be detrimental to the climate.*

External assurance

When discussing how the Bank assures investors about the use of its green bonds proceeds, Emma Navarro explains that the EIB also uses third parties. 'When it comes to tracking green bonds proceeds, we are also subject to external audits. This provides reassurance that what we do is indeed green.' The funding from green bonds needs to be tracked to make sure that the proceeds are devoted to green projects, she says. 'We are subject to an external assurance and we also have a methodology which is harmonised with all the multilateral development banks on what can be called green.'

'What is also important here is the fiduciary duty of institutional investors," she adds. "Investors should be informing their clients about what they invest in, what the results are, and the climate impact of the activities they finance.'

From threat to opportunity

It is no surprise to Emma Navarro that climate is being integrated into many new areas and activities. 'Climate is perhaps one of the biggest threats we face. But it is also an opportunity. One of the problems we have is that we see climate change only as a threat and I think that it is important to change your mind-set, to also see it as an opportunity for the modernisation of our economies. For example, many jobs will go away because of automation, but at the same time new jobs will be created. I think that in terms of climate change, first it is protecting the planet, but it is also a long-term investment in the economy.'

For Emma Navarro, climate change is a global challenge that needs a global response. 'And Europe needs to lead this response. For Europe, this is an opportunity to lead.' She says that in the US, despite some statements at international meetings, there is progress at corporate and State level, such as in New York and California, that are very ambitious. Europe has an opportunity to be ambitious across the EU, she says. 'Companies are well aware of the challenges we face and want to be perceived by consumers as sustainable and green. So threats can also create opportunities, and Europe needs to seize them. The EIB is eager to play its role, responsibly and actively, to deliver sustainable impact where it is needed.'

The Sustainable Development Solutions Network - contributing to SDG development , implementation and monitoring

By Giovanni Bruna, Caroline Fox, Alainna Lynch and Emma Torres, Sustainable Development Solutions Network (SDSN)

The adoption of the Agenda 2030 with its 17 Sustainable Development Goals (SDGs) has created a new impetus for gathering expertise on developing and implementing solutions for SDG achievement monitoring progress. Caroline Fox is Head of the Sustainable Development Solutions Network (SDSN) USA, Emma Torres is Associate Director and Head of the New York Office, while Giovanni Bruna and Alainna Lynch are respectively Program Associate and Research Manager at SDSN. In this article they articulate SDSN activities, share findings of the 2019 Sustainable Development Report, emphasize the importance of collaboration and data, and where auditors can contribute.

Mobilizing global expertise

The United Nations Sustainable Development Goals (SDGs) adopted by 193 countries provide a blueprint for coordinated international action towards a just, healthy and secure world for all. This vision for communication and action establishes common ground and catalyzes action by governments, civil society, and the private sector, leading to global transformations. The 17 SDGs are cross-cutting and interdisciplinary, and no one goal can be achieved without impacting the attainment of another. Achieving them requires coordinated effort and the participation of stakeholders at all levels of society and governance. These Goals operate as a north star for organizations and governments alike to align policy, research, and action towards a common vision for economic prosperity, thriving people, and a healthy planet.

About SDSN

Founded in 2012 under the auspices of the UN Secretary-General, the UN Sustainable Development Solutions Network (SDSN) integrated approaches that address the interconnected economic, social, and environmental challenges confronting the world. It coordinates 33 National and Regional Networks and a set of Thematic Networks, comprised of over 1,000 universities and research institutions around the world. It is a growing international community of sustainable development practitioners that has developed concrete solutions, offered practical guidance, and built awareness of sustainable development. An annual Networks in Action

The UN Sustainable Development Solutions Network (SDSN) mobilizes global scientific and technological expertise to accelerate joint learning and promote practical solutions for sustainable development and the SDGs. Alongside and within the robust networks program, SDSN advances global research and policy-oriented initiatives. One such program of work is SDG Indices, which utilize publicly available data to assess cities, states, and countries on indicators that align with SDG progress and achievement. The SDSN produces a deep portfolio of SDG indices that can build global conversation around SDG attainment at global, regional, national, and sub-national scales.

Informed by this work, experts have identified six transformations necessary to achieve the SDGs, underpinned by the principles of leave no one behind as well as decoupling and circularity: (1) Education, Gender and Inequality; (2) Health, Wellbeing, and Demography; (3) Energy Decarbonization and Sustainable Industry; (4) Sustainable Food, Land, Water and Oceans; (5) Sustainable Cities and Communities; and (6) Harnessing the Digital Revolution for Sustainable Development.[1]

Monitoring transformations

1 "Sustainable Development Report 2019" (Sustainable Development Solutions Network, June 2019), https://www.sustainabledevelopment.report.

The success or failure of much-needed transformations to achieve the Sustainable Development Goals will depend, in large part, upon effective monitoring. Well-crafted indicators and high-quality data will give governments, businesses, academia, and civil society the information they need to target resources, policies, and programs. Good quality data will enable to track progress over time, and to change course when necessary. It will also empower citizens to hold public and private sector leaders accountable, and provide opportunities for increased transparency. As one example of this, many countries report progress towards the SDGs annually to the UN through Voluntary National Reviews, or VNRs. Of G20, OECD, and other countries with populations greater than 100,000, only one country will not have completed a VNR by 2020.[2] In 2018, New York City localized this process and released a Voluntary Local Review, or VLR - the first of its kind. Other cities around the world are developing programs to follow suit.

These voluntary reviews, do not on their own will necessarily provide enough information to adequately monitor progress towards SDG achievement at the national or sub-national level. A sound indicator framework can turn the SDGs and their targets into a management tool to help countries develop implementation strategies and allocate resources accordingly, as well as a report card to measure progress and help ensure the accountability of all stakeholders for achieving the SDGs. The mechanics of SDG monitoring are still being worked out, but it is clear that much of the focus of SDG monitoring will be at the national level. Complementary monitoring will occur at regional and global levels, as well as among thematic epistemic communities. SDSN has been at the forefront of discussions on a robust set of indicators for the SDGs, including through our report, *Indicators and a Monitoring Framework for the SDGs*.

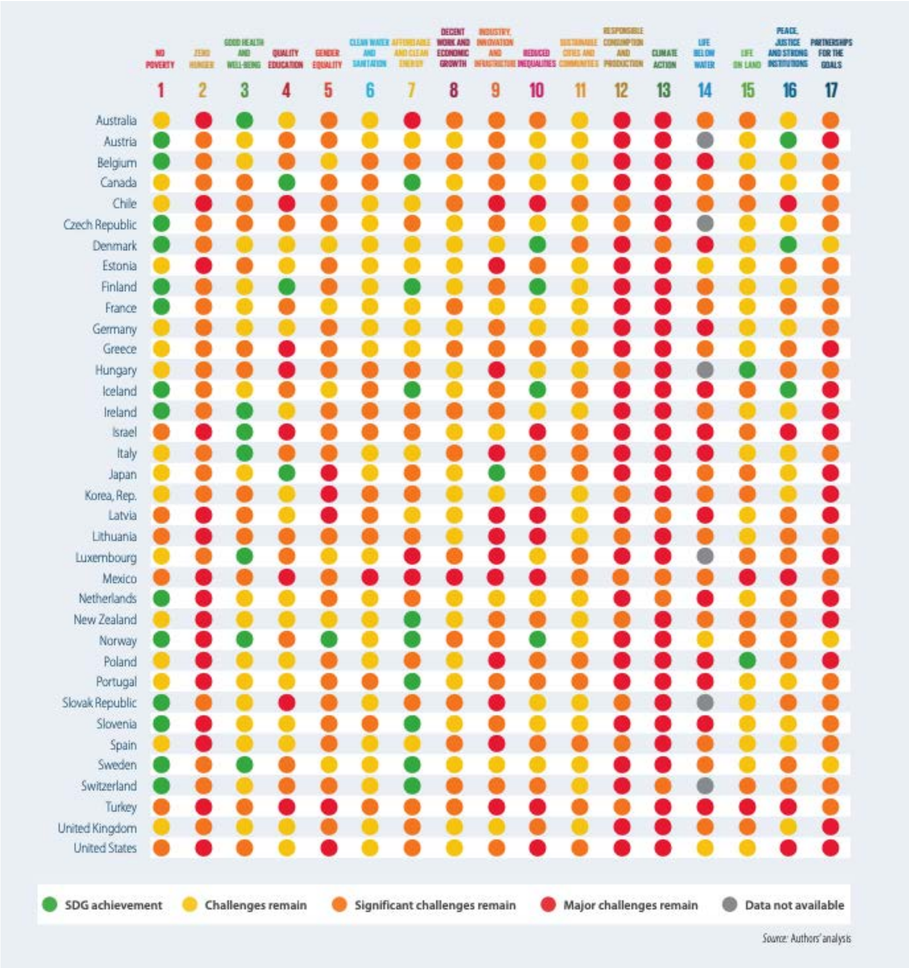
Sustainable Development Report 2019 – progress and stagnation

The Sustainable Development Report 2019, formerly known as SDG Index & Dashboards, is the first worldwide study to assess where all countries stands with regards to achieving the Sustainable Development Goals. The report has been co-produced annually since 2016 by the Bertelsmann Stiftung and the Sustainable Development Solutions Network (SDSN) and it serves as a complement to the official SDG indicators and voluntary country-led review processes. The report, which uses publicly available data published by official data providers (World Bank, WHO, ILO, and others) and other organizations including research centers and non-governmental organizations, is not an official monitoring tool.

Three Scandinavian countries lead the country rankings in the 2019 Sustainable Development Report: Denmark, Sweden and Finland, and OECD countries hold the top 20 ranks. But even the top-performers don't achieve perfect marks, each is assessed to be performing poorly, or 'red,' on at least one SDG (see dashboard below), nor are they on track to achieve the SDGs overall. Spillover indicators are problematic in high-income countries, many of which also lag on issues related to sustainable consumption and production (SDG 12), climate mitigation (SDG 13), and the protection of biodiversity (SDGs 14 and 15). On the other hand, when compared to the rest of the world, OECD countries perform better on goals related to socio-economic outcomes and basic access to infrastructures including SDG 1 (No Poverty), SDG 3 (Good Health and Well-Being), SDG 6 (Clean Water and Sanitation) and SDG 7.[3]

2 "Sustainable Development Report 2019."
3 "Sustainable Development Report 2019."

Figure 1– SDG Dashboard for OECD Countries



Source: SDSN

Regional and local assessments

Interest in the global Sustainable Development Report has resulted in numerouslocalized assessments of SDG progress, including city[4] and state[5] level indices in the United States as well as city-level indices in Italy,[6] Spain,[7] and the European Union,[8] among others. The SDG Center for Africa and the SDSN have also prepared an Africa SDG Index and Dashboards Report. Several other regional and sub-national assessments are in preparation.

The indices consistently demonstrate that national and sub-national action is critically needed if the SDGs are to be achieved. In Europe, we see that the cities perform best on SDG 3 (Health and Well-Being), SDG 6 (Clean Water and Sanitation), SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure). By contrast, performance is lowest on SDG 12 (Responsible Consumption and Production), SDG 13 (Climate Action) and SDG 15 (Life on Land).[9]

4 Alainna Lynch, Anna LoPresti, and Caroline Fox, "The 2019 US Cities Sustainable Development Report" (Sustainable Development Solutions Network, July 2019), https://www.sustainabledevelopment.report/2019USCities.

5 Jeffrey D. Sachs et al., "Sustainable Development Report of the United States 2018" (Sustainable Development Solutions Network), accessed July 3, 2019, https://www.sustainabledevelopment.report.

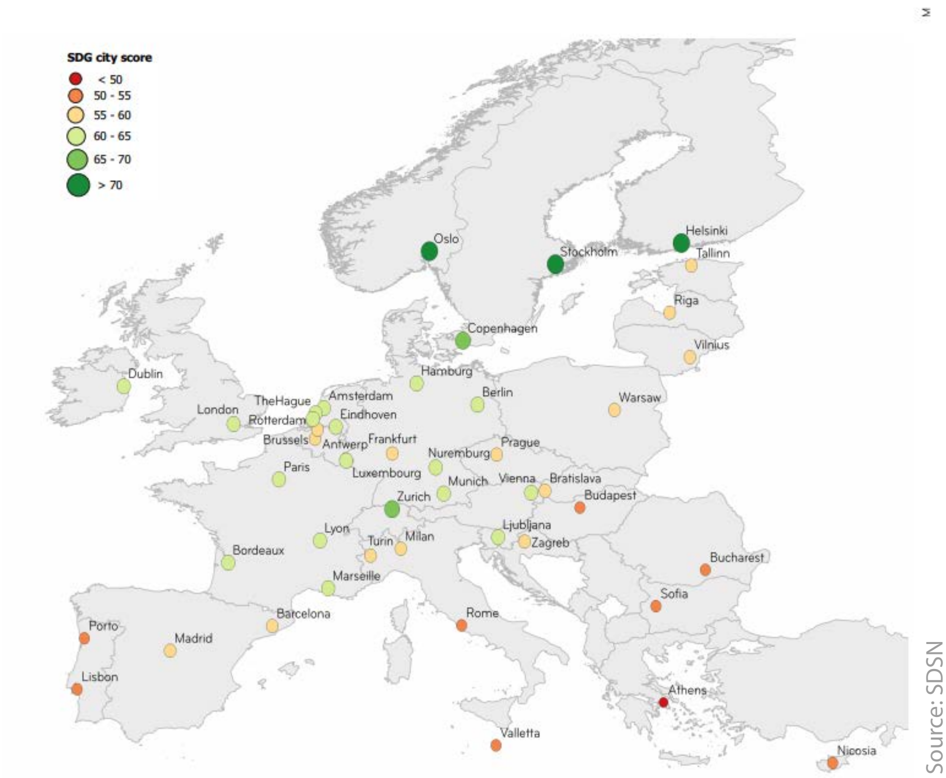
6 "SDSN Italia Launches SDG Cities Index for Italy," November 2018, http://unsdsn.org/news/2018/11/29/sdsn-italia-launches-sdg-cities-index-for-italy/.

7 Eva Izquierdo, "Launch of the 2018 SDG Spanish Cities Index," SDG Watch Europe (blog), November 29, 2018, https://www.sdgwatcheurope.org/launch-of-the-2018-sdg-spanish-cities-index/.

8 Guillaume Lafortune et al., "SDG Index and Dashboards Report for European Cities (Prototype Version)" (Sustainable Development Solutions Network and Brabant Center for Sustainable Development, 2019), https://www.sdgindex.org/reports/sdg-index-and-dashboards-report-for-european-cities/.

9 Lafortune et al., "SDG Index and Dashboards Report for European Cities (Prototype Version)."

Figure 2 – The 2019 SDG scores for European cities



Role of auditors

Auditors can complement and extend this work through various means. A performance audit can help keep track of progress and push for government accountability by identifying weaknesses in public programs and providing practical recommendations for improvements. In the case of the SDGs, where government accountability and reporting varies across countries, a performance audit could increase transparency and rigor. A 2019 paper by the UN Department of Economic and Social Affairs (DESA) discusses opportunities and challenges for supreme audit institutions (SAIs) to building accountability on the SDGs. It outlines two positive impacts of SDG audits:

> *On the one hand, their findings and recommendations can contribute to improving policy design and implementation. On the other hand, audits provide independent and objective evaluations that strengthen transparency and accountability in SDG implementation. This increases the legitimacy and credibility of the SDGs at both national and global levels, contributing to reinforce ownership and support for the Agenda.*[10]

Statistical audits can also benefit SDG reporting and monitoring efforts. For example, SDSN's 2019 Sustainable Development Report was audited by the European Commission Joint Research Centre. The findings confirm the soundness of the methodology, its statistical and conceptual coherence, and considers the impact of key assumptions on the SDG Index ranking.[11] The methodology for the global report is replicated in other SDSN indices, which also are strengthened by the audit findings.

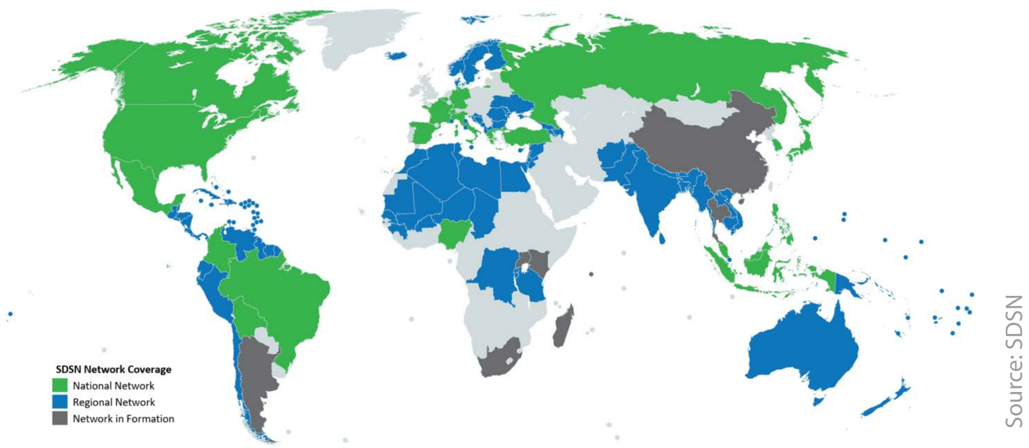
10 Aránzazu Guillán Monteroa and David Le Blanc, "The Role of External Audits in Enhancing Transparency and Accountability for the Sustainable Development Goals," DESA Working Paper No. 157 (Department of Economic & Social Affairs, January 2019), https://www.un.org/esa/desa/papers/2019/wp157_2019.pdf.

11Eleni Papadimitriou, Ana Rita Neves, and William Becker, "JRC Statistical Audit of the Sustainable Development Goals Index and Dashboards," JRC Technical Reports (European Commission Joint Research Centre, May 2019), https://s3.amazonaws.com/sustainabledevelopment.report/2019/2019_JRC_Audit_SDG_Index.pdf.

Going beyond governments through networks

Coordinated global efforts to expand our understanding of the Sustainable Development Goals must not be limited to government. All sectors of society must be involved. Organizations such as the Global Compact, a voluntary initiative based on CEO commitments, and the Sustainable Development Solutions Network, which operates under the auspices of the UN Secretary-General to mobilize global scientific and technological expertise, demonstrate how distinct sectors of society can coordinate at international, national, and sub-national levels towards these common goals, alongside governments and the United Nations.

Figure 3 – SDSN Network Coverage



SDSN's global networks program, a core initiative of the organization, mobilizes action on the SDGs across six continents. It draws upon the knowledge and educational capacity of over 1,000 member institutions. These make up over 30 national, regional, and thematic networks that promote SDG localization and implementation, develop long-term transformation pathways, provide education for sustainable development, and launch solution initiatives to address challenges. Each network focuses on distinct projects and priorities in line with their local contexts and challenges.

One example of this is the Food, Agriculture, Biodiversity, Land Use and Energy Pathways Consortium (FABLE), a joint project of SDSN and the International Institute for Applied Systems Analysis (IIASA). As part of the Food and Land-Use Coalition (FOLU), it mobilizes top knowledge institutions from G20 countries and other countries as well, to support the development of the data and modeling infrastructure to produce long-term pathways towards sustainable food and land-use systems. The aim of FABLE aim is twofold: (i) to promote more ambitious, integrated national strategies, and (ii) to ensure alignment with the global objectives under Agenda 2030 and the Paris Agreement. The FABLE Consortium offers training, technical support, and sharing of lessons for the use of Excel-based tools and sophisticated geospatial economic models.

Individual network initiatives span the spectrum of SDGs and localities. In Europe, SDSN networks include: Black Sea, Germany, Greece, Italy, Mediterranean, Northern Europe, Spain, Switzerland. These country and regional networks are actively engaged in identifying and implementing solutions initiatives, including projects to reduce impact of marine litter, build an SDG Impact Assessment Tool, and enable circular resources flows. In another example, SDSN Australia/Pacific released a guide for universities looking to take on the SDGs in 2017: Getting Started with the SDGs in Universities. A similar resource at the global scale to be released later this year will discuss how universities can leverage teaching and learning to maximize their impact on the SDGs.

SDSN also organizes thematic networks that bring together researchers from around the world focused on a particular issue or topical area, for example Sustainable Cities or Good Governance of Extractive Land Uses. Particularly relevant for discussions of data and monitoring, the Thematic Research Network on Data and Statistics (TReNDS) aims to improve data sharing, strengthen the data ecosystem, and inform investment in emerging data opportunities. TReNDS and the Global Partnership for Sustainable Development Data have established a real time data initiative to identify indicators that can be monitored everywhere around the globe, at all times, with relative accuracy, responding to insufficient timely data availability for SDG indicators. Networks across the globe are working to implement a wide range of solutions. Partnering with auditors who can translate this progress and measure the impact of solution initiatives at the appropriate political level, will be essential to achieving the SDGs by 2030.

Towards a global community of practice

The actions that SDSN, its partners, and network members are undertaking build towards a strong global community of practice informing knowledge and action on the SDGs. The index results, at all levels, demonstrate the immense gaps that remain if the world's countries are to achieve the SDGs, and the solutions developed by SDSN networks illustrate how partnerships and research can be mobilized towards research and action. By strengthening and deepening accountability, monitoring, and evaluation mechanisms to guide and measure progress, organizations and networks can build towards the ultimate goal of SDG achievement.

Sustainable investments: the great transformation for companies, investors… and consumers

By Georg Kell, chairman of Arabesque

Georg Kell speaking at the ECA Sustainability Reporting Forum on 17 June 2019

In the past decades, the expected return on investment has been key for investors, more than ever before, to deciding where to invest. Return in the sense of financial return. But can financial return and sustainable investments make a successful match? Georg Kell is Chairman of Arabesque, a global asset management company characterised by an approach integrating environmental, social and governance big data with quantitative investment strategies. Georg Kell is also the founder and former Director-General of the United Nations Global Compact, the UN's corporate citizenship initiative calling on companies to align strategies and operations with sustainability principles. He was one of the keynote speakers at the ECA Sustainability Reporting Forum on 17 June 2019. Georg Kell argues that, besides the need for corporate statesmanship, there is growing evidence showing that sustainability and profitability are wholly complimentary.

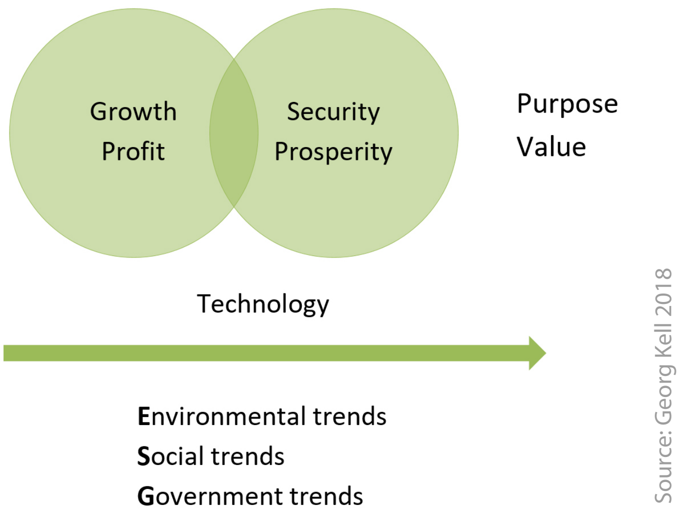
Public and private interests are increasingly overlapping…

The world is changing rapidly. The shift of power from the West to the East and rising nationalism are leading to rivalry and are hollowing out the rule-based system that has supported market expansion and integration for decades. Humanity's growing footprint on the natural environment and the looming climate crisis will soon force our hands, whether we are ready or not. And technological change offers ever greater opportunities to disrupt established practices in both the public and the private spheres. The fast pace of these political, social, environmental and technological changes has - not surprisingly - created much uncertainty.

In these turbulent times where hope and fear, creation and destruction are so close together, the United Nations' 2030 Agenda and the Paris Climate Agreement offer a North Star to renew the idea that managed global interdependence is the foundation of peace and prosperity. Many countries, especially in the European Union, have not forgotten the lessons of history, and for them the idea that human ingenuity is at its best when we collaborate for a greater common good is very much alive.

Business executives and investors have traditionally been reluctant to make their voices heard on broader societal issues. But this is changing. Realizing that healthy markets need healthy societies and that public and private interests are increasingly overlapping, a growing number of business executives are speaking up and taking public stands against discrimination and ethnic chauvinism. While the notion of corporate statesmanship is still in its infancy, there are strong indications that the looming climate crisis in particular is mobilizing the private sector as a force for good.

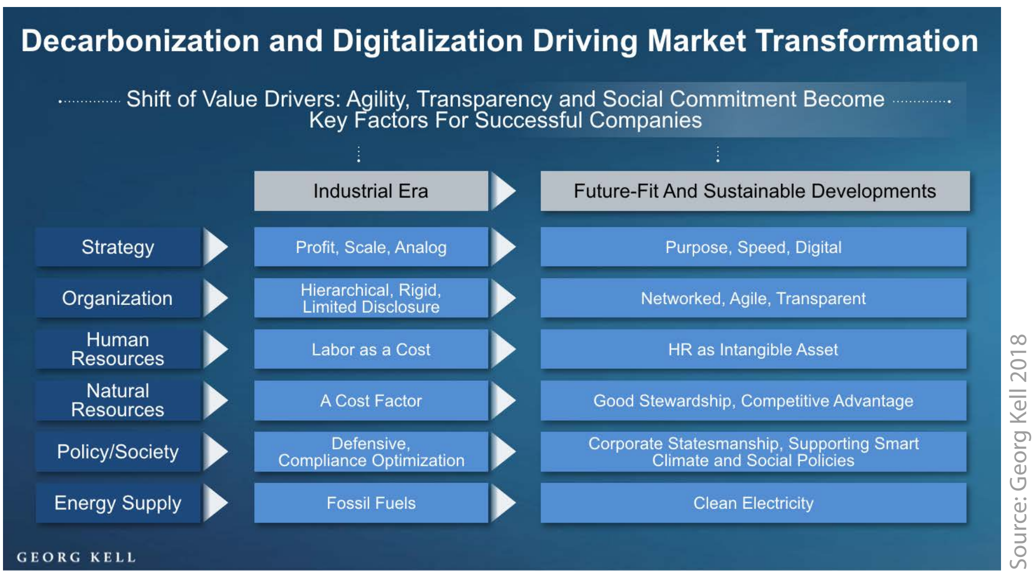
Figure 1 – Growing private/public overlapping interests



…creating new opportunities to become future-fit

A closer look at market-led changes suggests that a major transformation is indeed in full swing. Driven by the twin forces of digitalization and decarbonization, a growing number of corporations have been moving away from industrial-era concepts towards a future-fit model.

Figure 2 – Drivers of market transformation



These changes have far-reaching implications for society and are opening up new opportunities to create a safe and prosperous future. A small but growing number of leading companies, mostly based in Europe, have decided to become carbon neutral by 2050. By doing so, they are undergoing a major transformation and are becoming a force for modernization by pushing for much-needed policy changes, such as carbon pricing and fiscal policies that favor smart and clean production and consumption.

A good example is the German VW Group which is applying the lessons learned from the Diesel Crisis by accelerating digitalization and electrification of transport.

Towards sustainable finance

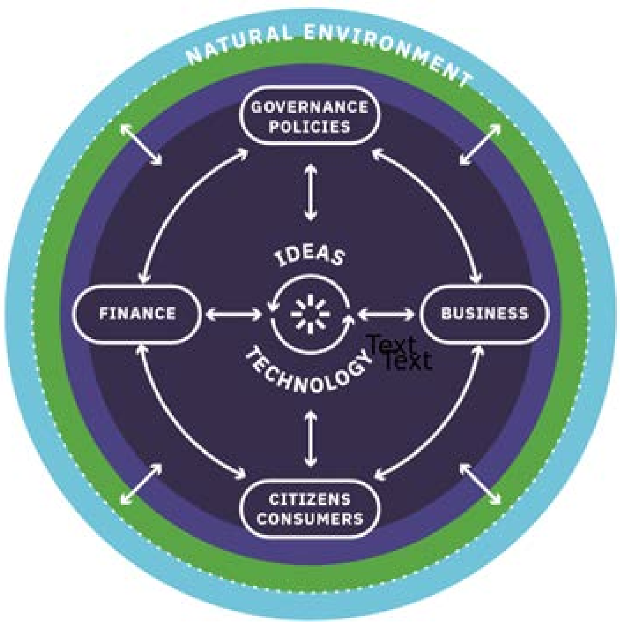
Investors have been waking up as well. While they are still constrained by short-termism and by methods developed for the industrial era, and while it still makes financial sense to burn the globe, a growing number of investors are integrating environmental, social and governance factors into their decision making or are using their engagement with corporations to accelerate market transformation. As the systemic risks of social exclusion and climate change become more obvious, one can expect that investors will increasingly adopt and adjust their strategies. A major development that has been facilitating the interaction between responsible business practices and sustainable finance is data driven, and new tools such as Arabesque's S Ray will help to advance this convergence between business and investors.

As early as 2014 a study undertaken by Oxford university and Arabesque found a positive correlation between long-term profitability and long-term sustainability. Businesses with a strategy for sustainability came out better after the 2009 financial crisis. Research shows that there is a relationship between normative values, and living up to them and profitability: the two go well together. Clearly in the world we live in today defining materiality without a moral orientation is not useful…and not sustainable. In short: integrating ESG into investment decisions does not hurt financial performance, on the contrary. And the financial world is starting to understand this: one third of liquid global finance nowadays goes into 'green' finance. It is only a matter of time before sustainable financing becomes the rule rather than the exception.

Drivers for progress and enablers for sustainable prosperity

Ideas and technology drive human progress. As we are learning that markets and the natural environment need to find a new balance, and as our entrepreneurial ingenuity is finding new and better ways to create value, we have the opportunity to build a new narrative that inspires hope and creativity. The big transformation that is currently reshaping decision making in the market place has the potential to inspire all players of society to realize the full potential of humanity's aspirations.

Figure 3 – the relationship between ideas, markets, and the natural environment



Source: Georg Kell 2018

For the good spirits to prevail and to avoid political fragmentation and rivalry making us repeat the mistakes of the past, it is now imperative to show how new businessmodels can be part of the solution. All over the world, people want to live in peace and prosperity while enjoying the beauty of nature. The big market transformation can become a unifier that focuses our energies on building a better future for all towards the UN 2030 goals. It also opens up new opportunities for collaboration across nations and regions. For example, many corporations in the United States share the understanding that decarbonization is the way to go, and in China, initiatives such as the Global Energy Interconnection are advancing the infrastructure required to do so. Our interdependent world needs more, not less cooperation.

Showing that sustainable businesses are winners

It is now crucial that policy makers embrace sustainable development as the new narrative and support the big transformation. For companies and investors, the challenge now is to bring the evidence that socially inclusive and environmentally friendly business models are winning. And citizens and consumers – by consciously applying their values when deciding how to invest or spend – have the ultimate power to make the great market transformation a foundation for our future.

SDG Watch Europe: civil society organisations join forces to support SDGs

By Ingeborg Niestroy, member of the SDG Watch Europe steering group, and Nick Meynen, Policy Officer for environmental and economic justice at the European Environmental Bureau

In 2015, world leaders agreed on the 2030 Agenda and the 17 Sustainable Development Goals (SDGs) to end poverty and protect our planet by 2030. To stimulate SDG implementation in Europe, SDG Watch Europe was formed in 2016 as an EU-level, cross-sectoral alliance of civil society organisations (CSOs) from the entire spectrum of areas reflected in the SDGs, such as development, environment, and human rights. SDG Watch Europe unites the federations, or umbrella organisations, of all these spheres of civil society. Ingeborg Niestroy and Nick Meynen provide an overview of recent work in this area.

Civil society organisations cooperate to drive SDG achievement

Civil society advocacy work has been crucial in getting governments all over the world to agree on the 2030 Agenda and the 17 Sustainable Development Goals (SDGs). Civil society organisations are now also deeply involved in the 2030 Agenda as watchdogs. They can play an important role in pointing out the contradictions between the different goals, and in advocating the full participation of civil society in all Agenda 2030 implementation and monitoring mechanisms.

To spur SDG implementation in Europe, SDG Watch Europe was formed in 2016 as an EU-level, cross sectoral alliance of civil society organisations (CSOs) from the entire spectrum of areas reflected in the SDGs, such as development, environment, social, human rights, gender, youth and many more.

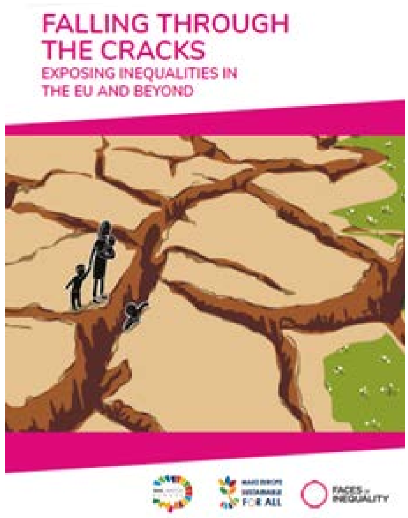
Main projects of SDG Watch Europe

Four workstrands were established by SDG Watch Europe, one of which is monitoring, accountability & review.

For the second step, the aim was to collaborate at national level on SDG implementation, and this was achieved through the 'Make Europe Sustainable for All' project, or MESA, funded through DG DEVCO's DEAR programme. It brings together 25 organisations from 15 countries, organisations which are forming similar SDG alliances within their own countries, or building on existing arrangements. They collaborate for three years in total and in 13 languages. MESA's thematic campaigns have already reached millions of Europeans and thousands of policymakers.

SDG 10 on fighting inequalities

SDG Watch Europe and MESA members also team up for specific projects, such as the campaign on fighting inequalities. Given that the related SDG 10 is one of the SDGs that are being reviewed at the 2019 UN High Level Political Forum ('HLPF'), this event was used to launch a major report. It is a review by country and by topic on the progress on fighting inequality in the EU, or rather the lack of progress: SDG 10 is one of the SDGs where the trends are even going in the opposite direction.



Source: SDG Watch Europe

Cover page of SDG Watch Europe's report on inequalities

Box 1– SDG 10 report *Falling through the cracks: Exposing inequalities in Europe and beyond*

The report shines a light on the impact of rising inequalities on people and planet, as addressed in SDG 10. It makes for sobering reading and maps the reality of various forms of inequality, both nationally and at European level. It consists of 15 national reports and 11 thematic chapters exploring key dimensions of inequality, including gender, age, disability, environmental inequality, ethnicity and homelessness. It shows that there are many forms of inequality in Europe and they are widening. Just as an example: it turns out that the richest men in France have a life expectancy of 84 years, while the poorest men have one of 71 years. It has been produced in close collaboration with SDG Watch Europe, and with the contributions of a total of 58 organizations.

One group of recommendations revolves around repairing Europe's frayed social safety net and strengthening it. Examples in this regard include introducing a basic minimum income for all, ensuring equal pay for equal work, and the expansion of social transfer and social protection policies. On the other side of the balance sheet, the report demands that taxation policies be reformed to help reduce inequalities, protect the environment, encourage more sustainable lifestyles, and avoid harming countries outside the EU. Several recommendations relate to human rights and policies to overcome discrimination against women, the young and people with disabilities, among others. Rather than the current fixation on economic growth, the European Union should seek to enhance quality of life and welfare, the document insists. Towards this end, the report proposes that the EU be guided by a Sustainability and Wellbeing Pact.

Cross-cutting analysis

Two more reports were launched during the HLPF:

- Who is paying the bill? - (Negative) impacts of EU policies and practices in the world
- Decoupling Debunked. Evidence and arguments against green growth as a sole strategy for sustainability.

The former connects dots between policy choices taken in the EU and the results on the ground outside the EU. The latter points to a contradiction within the SDGs: scientists are writing in detail on how the "sustained growth" target, measured in GDP, works against achieving all the "environmental" SDGs, even for high GDP countries.

Source: SDG Watch Europe

Report on externalities:

Who is paying the bill? - (Negative) impacts of EU policies and practices in the world

Cover page of SDG watch Europ's report on externalities

Box 2 – Impact of EU policies

On average, the EU has one of the world's worst environmental footprints per capita, with unsustainable lifestyles based on resource and labour exploitation in other parts of the world.

In order to pursue 'policy coherence for sustainable development', the externalities and spill-over effects of European policies, production and consumption patterns need to be taken into account. This also requires monitoring of the spill-over effects (and setting goals to limit them). Eurostat is not including externalities in their reporting, as indicators do not (yet) exist.

This report is a contribution to filling this gap. It shows in some important policy areas where there is an urgent need for action, because the external effects of European policies are not sufficiently taken into account. These include *agriculture, fisheries, trade, land, finance, chemicals, waste, resources, arms trade and climate.* It concludes that the economy of the future needs to take into account the environmental and social impact beyond the EU borders rather than living in the illusion of a low-carbon, resource-efficient Europe that exports resource-intensive production to other parts of the world.

But SDG Watch Europe and the MESA project do a lot more than producing and promoting reports. They examine how effective existing EU strategies, policies and practices are and provide input through their participation in EU processes, where possible. They monitor and report on how the EU and its Member States are really doing on SDG implementation and scrutinise the EU's own monitoring and reporting.

Financial constrains limit impact

To fund all these activities, SDG Watch Europe depends on financial contributions for temporary projects (like the MESA project) that only benefit a small part of the membership, as well as on voluntary contributions from individuals. Due to the number of activities, unfortunately, there is not always enough money available to – sufficiently – fund all projects.

Civil society advocacy has played a major role in bringing the 2030 Agenda and the SDGs about. We therefore believe that civil society organisations should play and are playing a big role in implementation, as watchdogs, by brokering and building partnerships, by initiating and taking action. Being watchdogs and issueing reports such as the ones presented here, are important functions within the overall mosaic of monitoring and reporting activities, by various civil society organisations as well as institutions such as EU agencies and the supreme audit institutions. Together they form one part of a wide spectrum ranging from quantitative, indicator-based reports to qualitative reports, such as those presented here.

The race for sustainable development: we can only win if we run together

By Barbara Pesce-Monteiro, UN Director in Brussels

Bringing SDGs to children in Peru

Source: Mónica Suárez Galindo, UNDP Peru

The 2030 Agenda and its Sustainable Development Goals (SDGs) are far stretching and require action from many actors at multiple levels and in all countries. This may contribute to the fact that their implementation is not moving fast enough. To make sure it is ready to deliver, the UN has undergone unprecedented reforms. However, ownership of the 2030 Agenda belongs to its 193 Member States, civil society and citizens. For this reason, the UN has undertaken several initiatives to reach these actors and get them fully onboard. Barbara Pesce-Monteiro is the UN Secretary-General's Representative to the EU and Director of the UN and UNDP in Brussels. Below, she presents some key activities of the UN to communicate the 2030 Agenda to all relevant stakeholders, including at the local level.

SDGs are everyone's responsibility

In 2015, the international community came together to adopt the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs). At a historic Summit in New York, all 193 UN Member States committed at the highest political level to collectively work towards achieving these goals in the next fifteen years. This was complemented by the signing of the Paris Agreement by 174 states, including the European Union, in an unprecedented joint commitment to combat climate change and adapt to its effects.

While negotiated in the framework of the United Nations, these goals do not belong to a single institution. The SDGs are universal goals, and apply to developing and developed countries alike, thus also indicating a desirable future for Europe. The commitment of so many sovereign states and the unprecedented involvement of civil society in their definition make clear that the 2030 Agenda and its SDGs belong to our society as a whole and call on everyone's responsibility to implement them: citizens, companies, civil society organizations and political and administrative powers at all levels.

In order to lead by example and be ready to implement the 2030 Agenda, the UN started an unprecedented reform of its development system in 2017, along with parallel processes in the field of peace and security and its management structure. However, while enthusiastically leading these efforts, the UN Secretary-General made it clear that 'the world is not moving fast enough.' The UN recently launched the new SDG Report in New York, which concludes that although progress has been made, 'monumental challenges remain.' Progress is evident tackling extreme poverty reduction, widespread immunization and increased access to electricity, but global responses have not been sufficiently ambitious, leaving the most vulnerable people and countries to suffer most. Overall, it revealed that climate change and increasing inequality are not only undermining progress toward achieving the 2030 Agenda but also threatening to reverse many gains made over the last decades.

This means that stronger partnerships are needed to make the Agenda 2030 a reality. Some alliances, like the one between the UN and the EU, have already changed the lives of millions. However, we need to go much beyond our institution and bring all actors onboard, creating global partnerships for sustainable development (SDG 17) and making all citizens active participants in this common effort, especially young generation who will suffer the most from the consequences of our lack of action.

Fortunately, as testified by the theme of this ECA Journal, many actors have started to act to inform citizens, spreading the word and mainstreaming the Agenda 2030 among the different sectors of society that play the key role in their implementation. The UN itself is on a quest to reach as many people as possible with the universal message of supporting and getting engaged to fulfil the SDGs. These include initiatives to localize the 2030 Agenda, working closely with regional and local authorities, the use of a global network of UN Information Centres and the establishment of a dedicated UN SDG Action Campaign.

Bringing the 2030 Agenda on the ground: democratizing and localizing the SDGs to involve all sectors of society

Implementing the 2030 Agenda means making it closer to the need and daily activities of all parts of society. This has to do with putting it at the heart of existing mechanisms of democratic representation and accountability, like parliaments, which play an essential role in advancing the SDGs by supporting, accelerating and monitoring their implementation.

Localizing the SDGs means the aspirations of the SDGs become real to communities, households and individuals, especially those who are at risk of falling behind. Local governments are critical in turning Agenda 2030 from a global vision into a local reality. Indeed 65% of the 169 targets underlying the 17 SDGs will not be reached without proper engagement of and coordination with local and regional governments. Localizing the SDGs is an opportunity to promote collaborative and participatory processes and thereby facilitate the mobilization of resources, pooling of competencies and creation of synergies at the local level.

Dialogues on localizing the Post-2015 Development Agenda started in 2014, with a key role taken by the United Nations Development Programme (UNDP), UN-Habitat and the Global Taskforce of Local and Regional Governments. Initiatives include integrated territorial platforms led by UNDP to facilitate innovative partnerships connecting cities and territorial actors to share their practices, innovation and knowledge on how to locally implement the SDGs. Also, new tools were developed to guide local policy makers and are continuously supporting the strengthening of local capacities with targeted trainings on all the phases of the SDGs localization process.

The importance of capacity building and training is also testified by the role of the global training arm of the United Nations (UNITAR), which in 2018 built capacities of 84 901 beneficiaries including NGOs, academia, businesses, governments at all level, international organizations and others to respond to global challenges.

UN Information Centres: spreading the UN message

The work of the UN has also demonstrated the potential of promoting ownership of the 2030 Agenda by using a language that makes it relevant to everyone's life and experience. A network of 51 United Nations Information Centres around the world work constantly to spread the UN message, raise public awareness and support the work of the United Nations through strategic communications campaigns, media and relationships with civil society groups. The Brussels-based United Nations Regional Information Centre (UNRIC) for Western Europe works with all stakeholders in Europe: the EU institutions, governments, civil society, universities, schools, youth, private sector, and the media, and aims to inform and engage Europeans on the 2030 Agenda and other strategic global issues.

Among its many initiatives with a strong focus on youth, a board game was created to raise children's awareness of sustainable development issues from age 7 onwards and is available in 17 languages, online, for free. As of June 2019, the game has been downloaded more than 31 000 times, and adopted by many institutions including the European Commission's Directorate General for Development and Cooperation .

Other examples include a partnership established with Sony Pictures to use 'The Smurfs' as champions to raise public awareness - especially among children - on the 2030 Agenda. This culminated in 2018 and 2019 in a travelling exhibit focused on the SDGs and how the Smurfs contribute to a better planet, which has attracted nearly 300 000 visitors between Brussels and Paris.

Source: UNRIC

Go Goals SDG board game

A dedicated Global Campaign

In 2015, the UN Secretary-General mandated a special initiative, the UN SDG Action Campaign, to work across agencies with the goal to scale up, broaden and sustain the global movement of action for the SDGs. The Campaign, based in Bonn, Germany, works with a wide range of partners in calls to action and strategic outreach to individuals and organisations.

Each year, a global mobilization is held around 25 September, which marks the anniversary of the adoption of the SDGs, to call people and organisations everywhere to take action for the Goals. The European chapter, organised together with the German

Federal Chancellery and other key partners, resulted in over 4 000 events across Europe In 2018, over a million people in 1 242 cities and 142 countries participated in effective actions across the world.

Also, to incentivize and motivate the community - mobilizing and inspiring action for the SDGs across the world - the annual SDG Global Festival of Action brings to Germany the most innovative activists, inspiring story-tellers, gifted young advocates and leaders from governments, international organizations, civil society and the private sector, for a 3-day unconventional gathering to share ideas, learn from each other, forge new partnerships, inspire action and scale up actions for the SDGs.

Source: UN SDG Action Campaign

SDG Global Festival of Action

The global campaign also aims to reach new audiences, partnering with some of the top international music festivals in Europe and developing digital content creation and storytelling programs for students, asking them how SDGs are relevant in their communities and what positive action is being taken to make them happen.

Using existing partnerships to enlarge the coalition

Issue like climate change, inequalities of all kind or migration call for multilateral solutions defined and implemented with our societies at large. No country or organisation is large or strong enough to deal with today's global challenges alone. For this reason, closer work between institutions and stronger engagement with all actors outside of traditional decision-making cannot be taken lightly if we aim to accelerate the delivery of the SDGs.

The strategic partnership between the EU and the UN, which are both products and supporters of multilateralism and global partnerships, needs to lead by example in opening up the 2030 Agenda to citizens and civil society actors around the world, supporting people in taking control over their own future. 'Leaving no one behind' is more than a commitment to deliver policies upon passive recipients, and instead expresses the need to create a coalition of people that collectively deliver sustainable development with their daily work; everyone with her or his locally, socially and culturally diverse contribution.

How POLITICO writes about the EU and Sustainable Development Goals

By Eline Schaart and Paola Tamma, POLITICO

Source: politico.eu

POLITICO is a media company that covers, as they call it themselves, 'the politics, policy and personalities of the European Union,' mostly through short news items but also through full stories. How do they address Sustainable Development Goals (SDGs) in their day-to-day work and bring this to their main readers? Two POLITICO reporters - Eline Schaart, who mainly covers sustainability and chemicals policy in the EU, and Paola Tamma, who focuses on environmental issues, explain why and how they use different instruments to bring news about sustainability issues to EU citizens and the rest of the world.

SDGs coverage intersecting with many policy areas...

The term Sustainable Development Goals doesn't exactly roll off the tongue, but it's an issue that frequently crops up in POLITICO's coverage of the European Union.

The Sustainable Development Goals, or SDGs, are a set of 17 targets that the world's nations signed up to in 2015 under the United Nations' umbrella, giving themselves a 2030 deadline to achieve them all. They include broad commitments such as ending poverty and hunger, but also more specific policy objectives such as ensuring that everyone has access to clean water and to affordable and sustainable energy. Each goal comes with measurable targets.

The goals as adopted by the U.N. are meant to set the direction of travel for governments. The job of the European Commission is to transform those broad policy goals into legislative targets. EU policy should reflect SDGs and trickle down into specific policy objectives. Many pieces of EU legislation are linked to the SGDs, with examples ranging from the Renewable Energy Directive, to the Drinking Water Directive, as well as all climate legislation.

That makes the SDGs relevant for coverage of the EU, as the bloc regularly reports on its progress toward the goals, upholding its legislative efforts and drawing links between its own targets and the U.N. agenda.

POLITICO's coverage of SDGs is largely related to where the goals intersect with specific policy areas related to how we divide up EU policy — for instance in agriculture, health, sustainability, financial services and climate and energy. Most stories are focused on the EU's actions (or lack thereof) in achieving the SGDs. The words 'sustainable development goals' appeared in over 400 articles across a variety of POLITICO policy areas.

…or we cover them in a wider context

POLITICO's stories can be divided into three broad categories. The first is newsletters dedicated to a specific policy area. That is where the vast majority of our SDG coverage occurs, usually in the form of 'blurbs' — one or two paragraph stories focusing on a single policy development.

The SGDs are either written about in a global context — a recent example is the World Health Organization's determination that countries are behind schedule in meeting their SDGs — or in an EU-related framework — such as the dispute between the European Commission and the European Court of Auditors over what constitutes good sustainability reporting.

In the latter case, POLITICO received an embargoed copy of the ECA's review and went to a press briefing in Brussels with Eva Lindström, the ECA member responsible for the publication. We wrote about the launch of the review in our daily sustainability snapshot newsletter, which goes out every afternoon and includes insights and news related to sustainability from, among other things, the European institutions, EU countries, industry organizations, academia and environmental groups. In the reporting, we summarized the ECA report and provided a short overview of the EU directive from 2014 that obliged certain large companies to provide sustainability information of their business by 2018.

The launch of the report was followed a week later by a forum on sustainability reporting organized by the ECA. We went to the morning session of the forum to follow the exchange between the Commission and ECA to consequently report in our newsletter that the two parties differ on what constitutes good sustainability reporting.

> **AUDITORS AND COMMISSION DIFFER ON SDG REPORTING:** The European Commission and European Court of Auditors are looking at what constitutes good sustainability reporting. Last week, the auditors published a report saying the Commission, and other EU institutions and agencies, fall short on reporting on sustainability, despite being committed to implementing the Sustainable Development Goals (SDGs) and telling companies to do so.

Source: politico.eu

POLITICO's remaining story formats are alerts — short news items about 250 words in length, and full stories, which can be significantly longer and entail much higher levels of reporting. Alerts are focused on breaking news, and SDGs are often a topic. A recent one involving the goals looked at the European Commission's public consultation on Horizon Europe and to what extent SDGs such as clean water or good health should feature in the multibillion-euro research and innovation program.

The SDGs are a rarity in full stories, and when they do occur, they tend not to be the main focus of the article. That's the case in an interview published in May 2019 with Peter Sands, executive director of the Global Fund to Fight AIDS, Tuberculosis and Malaria. He mentions SDGs once in a broad-ranging interview covering a range of other topics.

Increasing coverage?

Presumably, the importance of SDGs for decision-makers is reflected in our coverage of them. So the more you will read about it in our alerts and full stories, the more likely readers of the ECA Journal will come across them one way or the other in their activities .

Takeaways from the ECA forum on sustainability reporting

Contributions from:

Tytti Yli-Viikari, Auditor General of the National Audit Office of Finland,

Ville Majamaa, Vice-President of the Board of the European Youth Forum and

Wim Bartels, Advisor corporate reporting and partner at KPMG

By Derek Meijers and Gaston Moonen

Interview with Tytti Yli-Viikari, Auditor General of the National Audit Office of Finland

Knowledge sharing

Tytti Yli-Viikari's main motivation to come to Brussels for the ECA Conference on sustainability reporting was to share knowledge. She explains: 'Finland is very advanced when it comes to the national implementation of sustainable development goals (SDGs). But as it is a global agenda it is also important to share best practices that we, among others, can showcase.'

She strongly believes in international cooperation, especially to address sustainability issues. 'Because these are global problems that can only be dealt with internationally and that is also what citizens expect from us. As supreme audit institution (SAIs) we can learn a lot from each other, but especially also from other participants, for example from the civil society organisations represented here at the forum.'

Further to this, Tytti Yli-Viikari underlines that the issue of citizen involvement and participation in audits is a tough one for many European SAIs. 'We see a lot more of this type of cooperation and consulting in the Asian or Latin American context, where some SAIs are actively involved in INTOSAI (International Organization of Supreme Audit Institutions) working groups that develop audit methodologies to include citizen participation.'

Eva Lindström, ECA Member, and Tytti Yli-Viikari, Auditor General of the National Audit Office of Finland

Broader stakeholder participation

Tytti Yli-Viikari adds that, in Europe, SAIs need to understand what the real needs of their stakeholders are. 'If it is about us working on the behalf of citizens, or taxpayers, which is how most modern SAIs see it today, the question we should ask ourselves is: As the world is changing around us, how can we be sure that what we think the expectations are is actually accurate?'

In this context, she points at the risks of increasingly heterogeneous and ever more polarised societies. 'That means that we must determine whose perspectives we are actually talking about. But of course that is a very difficult issue for us auditors because we want to be objective and independent. We cannot be speaking on behalf of just one part of society! We need to broaden our evidence base and our understanding of the different stakeholders in each policy sphere. And that would be an excellent reason to initiate further exchange with civil society as well. '

Tytti Yli-Viikari sees sustainability reporting as the perfect topic to seek further cooperation with citizens and civil society. 'We can see that there is a risk for governments to be reporting solely on their chosen actions, while we actually need the full picture.' She explains that currently, reporting often is incomplete because governments report on data and issues that are available or that in some cases maybe are a bit biased and incomplete. Tytti Yli-Viikari: 'Auditors need to open up to other stakeholder views on the completeness of such information. This could mean they need to check if other relevant information is available, be that with NGOs, private companies, citizens, the media, or the academia.' Apart from this, she sees opportunities to learn from NGOs and private companies about how they are reporting on sustainability, and to ask what their feeling is about how governments are active in those areas.

The need for credible information

For Tytti Yli-Viikari, the main takeaway from this forum on sustainability reporting is that the role of audit and auditors is changing. 'We see that people call for credible information and they want somebody to be there as a guarantee of the accuracy, and also of the completeness of that information.' According to her, the main risk in this context is that, as governments can choose what to report on, they often choose to report on actions, activities or plans to act. 'But that type of reporting does not say much about the impact, nor whether the action was the best choice to achieve the intended goals.'

She adds that this means that auditors should not only check whether a policy measure has actually been carried out, but also what the impact was, and what possible alternative scenarios would have been. 'We can assess what could have gone differently and what could be done differently, and then benchmark that information. Auditors know a lot about risk management and I think we should share that information with decision makers as well. When a government chooses to act in certain policy areas, we might see that it would be interesting or important to act coherently on some other policy areas.'

Tytti Yli-Viikari: 'Auditors are well placed to see such links, and in addition, we are independent and we do not have a political agenda. This means that we have a clear and unbiased view at which things are done, how they are done, and which things are left undone. And we can flag those issues when we report to our stakeholders.' 'So,' Tytti Yli-Viikari concludes, 'sometimes it might simply be about asking the right question at the right time, and about asking if certain policy areas have been considered that could be linked to an action that is being undertaken.'

Main points of the presentation by Ville Majamaa

Ville Majamaa is Vice-President of the Board of the European Youth Forum. Below are the main issues he presented during the ECA Sustainability Reporting Forum on 17 June 2019


Ville Majamaa

Some 1300 days ago, the EU committed itself to adopting and implementing the SDGs and the 2030 Agenda. That was three and a half years ago, and now in respect of the reporting we have seen, including the recent report from the ECA, we hear there is a lot of work to be done. This is very worrying for young people and young generations.

Contributions from: Tytti Yli-Viikari, Auditor General of the National Audit Office of Finland, Ville Majamaa, Vice-President of the Board of the European Youth Forum and Wim Bartels, Advisor corporate reporting and partner at KPMG

The European Youth Forum is an umbrella organisation of European youth organisations, representing 105 youth organisations and bringing together over 40 million young people in Europe. I am very happy to share three messages from them.

First, there is a need for a comprehensive European strategy. The EU is not implementing or not reporting, or neither, on the development agenda. There was a Reflection Paper early this year where a comprehensive EU strategy was one of the three alternatives. One of the three alternatives for the way forward. We share the recognition that more needs to be done. We miss, however, the sense of urgency that we feel, as the young generation. For example, the Reflection Paper admits that we are further away from reaching SDG 10 on inequalities today than when the SDGs were adopted in 2015. Every third young person in Europe, under the age of 24, is at risk of social exclusion or poverty. This means it is not only a development agenda, it is not only an issue in the global South, it is a European agenda. And we are concerned that we are not seeing this overarching strategy. We agree on the other hand, with the Council conclusions of June 2017 and with elected representatives from the European Parliament, that more should be done.

Second, the good stuff is that young people care. We recently conducted a study on youth organisation contributions on SDGs and we were ourselves surprised, having surveyed 89 youth organisations from 37 different countries in Europe at the high awareness of the Agenda 2030 amongst young people involved in youth organisations. The findings were encouraging. However, at the same time, we heard that there are often barriers which prevent the organisations engaging with the agenda's implementation. Resources are an obvious point but often youth organisations are not even considered when the implementation of Agenda 2030 is discussed. So there is this mental idea that young people are somehow not needed in the conversation.

Another example is our view on the next Multiannual Financial Framework. One of the three priorities, in addition to adopting a rights-based approach and youth mainstreaming in the budget, is proof of sustainability for the next MFF. In other words, young people care.

Third, we believe that, for the EU's reporting to be accurate, it should be inclusive, and the EU should consult civil rights representatives, including young people, about the way it is carried out. It also has to be holistic and include more than the EU s development cooperation and external agenda. And finally it should be accessible. There is a lot to say there. It should be available, understandable, it should be in a standardized and user friendly format. Young people are people too and do not like reading long excel sheets. It should be based on indicators, including those that run counter to the Agenda, such as GDP.

Some 1300 days later we are not really where we wanted to see ourselves when the Agenda was adopted. It is still possible to get where we need to go but not if we continue with business as usual. I agree with some of the earlier speakers that to act you need money, but to act you also need power. And this is why young people are marching on the streets. I am glad I was invited to this Forum and did not have to shout from the streets and from the buildings.

Interview with Wim Bartels, Partner for Corporate Reporting at KPMG

The relevance of sustainable development goals (SDGs) for companies

When looking at the importance of sustainable development goals (SDGs) for a company such as KPMG and how much business they generate, Wim Bartels sees a clear growth path. 'We have published several reports on SDGs in the past few years which have created a lot of interest. In terms of business that might have relatively little impact to date, but that does not mean SDGs are irrelevant for us. On the contrary!'

He adds that a good part of KPMG's work in the area of sustainability is currently moving into the direction of business risks. 'Interestingly, one could say that SDGs are business risks but not many companies see it like that yet.'

He explains that KPMG does not have separate assurance engagements on SDGs, but that they are part of broader reports. 'However, sometimes we conduct advisory engagements where companies ask what their focus should be, or in which direction their strategy should move.' According to him, SDGs are increasingly used as a reference framework to look into the 17 global problems that also are an issue for all companies.

Ville Majamaa

'If we look at SDGs for the private sector,' Wim Bartels continues, '40% of the top 100 companies in 50 countries that we researched, so quite a few, look into these topics.'

Lead by example

Moving the discussion to the public sector, Wim Bartels underlines that the key issue is also to lead by example. 'If policy makers say SDGs are important, then of course public institutions should follow that lead, as it is very important to lead by example if you want to be credible and convincing. And that is what is necessary to also get the private sector on board.'

As an example, he mentions the SDG coordinator who was installed in the Netherlands a few years ago. 'The moment he started he asked if it would be possible to formulate national indicators that everyone reports on. That would obviously be a good thing, but, unfortunately, that will never work. Such rules do not really help or push companies, as they will merely see it as something for the government.'

'What does help though,' Wim Bartels continues, 'is when a government says: "This is where we are as a country against the SDGs, but we need more or better information on the private sector and we are going to stimulate that." That would drive reporting, even if it is not regulation, because it shows the importance and urgency.' 'And,' he adds laughing, 'it would drive awareness because executives would get slightly worried when they notice the topic is really important for their accountants! And this is also where public audit bodies could play a major role.'

ECA Sustainability Reporting Forum - time for the truth, the whole truth and nothing but the truth

By Manj Kalar, Kalar Consulting

Source: UN

Temperature records have been broken across Europe yet again during the summer of 2019, and other freak weather events seem to occur on a daily basis. For most people, this confirms that climate change is real. But climate change is only one of the 17 UN Sustainable Development Goals (SDGs). On 17 June 2019 over 130 experts gathered at a conference organised by the ECA to discuss how to improve reporting on sustainability issues and their implementation. Manj Kalar is an independent international public sector consultant. She not only moderated the forum, but also helped in the preparation of it. She provides an overview of the key issues discussed.

Reporting on SDGs to better achieve them

How can we ensure greater transparency, build and maintain trust in reporting progress in achieving the SDGs? This was the question at the heart of a ground-breaking conference by the European Court of Auditors on 17 June 2019 in Brussels.

The conference was the brainchild of Eva Lindström, member of the ECA, who also led a rapid case review to assess the current state of sustainability reporting across the EU institutions. The report identified some good practice exemplars across the private and public sector, but there are clear shortcomings if the EU and its Member States are to achieve the UN SDGs by the 2030 deadline.

The conference had four key aims:

- to examine the current state of sustainability reporting;
- to identify the sustainability reporting needs of stakeholders, including young people;
- to determine what auditors can do to maintain trust and ensure transparency in the information provided by public and private sector entities;
- to look forward, and assess the 2030 agenda.

The team responsible for organising the ECA Sustainability Forum with the SDG blocks.
From left to right: first row: Arfah Chaudry, Katharina Bryan, Eva Lindström, Karin Andersson, Johan Stålhammar, Nikolay Nikolov
Second row: Yves Willems, Ramona Lupu, Manj Kalar, Laura Kaspar

Room for improvement

The conference started with two keynote presentations: Jyrki Katainen, European Commission Vice-President for Jobs, Growth, Investment and Competitiveness, started by acknowledging there was room for further strengthening and monitoring the SDG policies to ensure achievement by 2030. To do so would need enablers: education and training, innovation in Research and Development including developing human-centric AI and data analysis, and human law.

This was followed by a passionate address by Georg Kell, CEO of Arabesque and founding executive director for the Global Compact on Sustainability, having been inspired by the late Kofi Annan. Kell, arriving directly from a two-day conference at the Vatican with other eminent business leaders and the Pope, presented some uncomfortable truths, namely, the 'focus is still short term' and it 'still makes financial sense to burn the world'. However, this is an illusion. The reality is that it does make business sense to pursue sustainable business, in fact over $20 trillion has been invested in environmental, social and governance (ESG) Assets Under Management[1] or around a quarter of all professionally managed assets around the world. Toolkits are being developed to analyse big data and artificial intelligence to help provide business insights to aid the sustainable business revolution.

This set the agenda for the day, which was split into four sessions, starting with the current state of sustainability reporting.

Where are we now?

Hilde Blomme, deputy CEO for Accountancy Europe provided an overview of progress with sustainability reporting, as part of the wider non-financial information directive within the EU for private sector entities. The results were stark and clearly there is a lot more to do. There is a need for both better quality and greater transparency in sustainability reporting.

1 Assets Under management (AUM) are defined as the total market value of the investments that a person or entity manages on behalf of clients. Assets under management definitions and formulas vary by company. More information is available at https://www.investopedia.com/terms/a/aum.asp

Next, Natalia Agüeros-Macario**,** Integrated Reporting Manager of Umicore, showcased the art of the possible with the work that she has led at Umicore, a sustainability reporting award winner. One of the key lessons is the need to engage with stakeholders to identify what they want to know and disclose. One of the complexities to be overcome is the sheer number of different sustainability reporting frameworks. This can often lead to the perception that only those frameworks are used that present the situation in the best light. Let's face it, who wouldn't want to present the very best version of themselves? Don't we all like a little airbrushing in photographs? So why would a company report be any different, particularly where negative reporting can impact share price.

Sarah-Jayne Dominic, head of standards at the Global Reporting Initiative (GRI), highlighted greater convergence in the use of GRI standards globally: of the largest 250 companies in the world by revenue, 93% disclose ESG and three-quarters of them use GRIs. The benefits are clear.

Figure 1 – Effects of reporting on sustainability

Source: Manj Kalar

What do stakeholders want?

The next panel session explored what stakeholders want to see in terms of sustainability reporting. How can we ensure that it's not just PR at best and greenwashing? This session was led by Robert Scharfe**,** CEO of the Luxembourg Stock Exchange who is leading by example as the green bond award winner for several years. He articulately made the case that it makes business sense for the organization to provide good information on sustainability. For example, the CEO of a major airline cited the #flyingshame movement as the number one concern rather than the usual, namely, oil price fluctuation. Scharfe stated that the key issue is assurance that the sustainability information published is right. How do we define what stakeholders want?

Next Heidi Hautala, Vice-President of the European Parliament (Greens/EFA) an ardent advocate of sustainability reporting, stated what she would like to see as a parliamentarian to deliver greater transparency and build trust with the citizen.

Arnoldas Abramavičius**,** First Vice-President of the Commission for Economic Policy of the Committee of the Regions and Member of Zarasai District Municipal Council in Lithuania provided an overview of the research done by the Committee of the Regions and he challenged the EU institutions, notably the Commission to provide sustainability reports. Current indications are more than half of the 169 SDG indicators will not be achieved.

Lazaros S. Lazarou**,** ECA Member, stated that stakeholders wanted holistic, inclusive, accessible information in a standard format that is easy to understand. A start has been made but needs follow up action and a change in behaviour.

The global 'extinction rebellion' movement led by Greta Thunberg has inspired youth to challenge global leaders, politicians and all of us to demand more action as 'humanity stands at a crossroads'. Bringing the youth voice to the conference Ville Majamaa**,** Vice-President of the Board of the European Youth Forum and Sara Fröhling Lind**,** Expert in youth consumption and lifestyle trends at Ungdomsbarometern presented their research into increasing engagement in and desire for action and how they are encouraging change through educating their parents to not buy certain products such as palm oil derived products.

Richard Howitt**,** then CEO of International Integrated Reporting Council, delivered the third keynote address. Howitt recognised the work done on increasing the quality of sustainability reporting information currently available and welcomed the ECA rapid case review report and called on the EU institutions to implement its findings.

Truth, the whole truth and nothing but the truth?

In an era of fake news, how can the layperson discern what is the truth and what is good PR and green washing at best? This is the challenge for auditors to ensure trust is maintained in the reports published by the private and the public sector, especially as there have been many global high-level audit criticisms.

This session commenced with Tytti Yli-Viikari**,** Auditor-General of the National Audit Office of Finland acknowledging that the auditing profession have a key role to play to rebuild and maintain trust. She called on organisations to make a start on sustainability reporting and not let the desire for perfection lead to inertia.

Wim Bartels partner corporate reporting KPMG Netherlands and Programme Lead for the Corporate Reporting Dialogue, stated that non-financial reports need an honest assessment including negative reporting as well as promoting progress on reducing carbon footprint or increasing recycling. By stating the complete picture, not only progress on selected sustainability aspects, would reduce the impression of greenwashing. Honesty is always the best policy.

Valérie Arnold, partner and Corporate Responsibility Leader of PwC Luxembourg, expanded on this and challenged all and consider how auditing will fundamentally change: Digitalization and the use of AI will at some point take over the audit of financial information so the auditor's role will focus on non-financial/narrative information audit. To do this will require different skills such as reviewing the voracity of complex scientific data/assertions made in sustainable reports.

Phil Wynn Owen**,** ECA Member, presented the significant action taken by the ECA, including reports on desertification and flooding. He challenged the audience to think big and look beyond SDGs and wider assessment of the impact we have and examine wellbeing. New Zealand recently unveiled the 'world's first' wellbeing budget prioritising five key government policy aims including taking mental health seriously and improving child wellbeing with specific, measurable targets and funding.

What's next? The 2030 Agenda and the Way Forward

The final session of the day looked at the future challenges and views from Said El Khadraoui who is Advisor to the Head of the European Political Strategy Centre (EPSC), and Wim Bartels. EPSC research identified social and environmental risks topped the Global Risks cited (both likelihood and impact). The issues were interconnected, and it is time for systemic change involving all the actors. Bartels highlighted the deficiencies in current financial reporting in that 'it doesn't tell the full story'. He proposed that what is urgently needed is comparable and efficient performance measures with reporting that is focused on value creation and destruction. To prepare and assure this information will require new and different skills by the financial reporting and auditing professions. To maintain relevance new skills and areas of expertise will be needed that also look at uncertainty and are future orientated.

Annemie Turtelboom**,** ECA Member, opened the discussions with a passionate call to action for all stakeholders.

Key take-aways for SAIs and presenting to UN High-level Political Forum

Eva Lindström presented her main takeaways from the conference: Clearly stakeholders are asking for sustainability information and EU citizens and youth want Europe to lead the way. EU institutions are not fully delivering sustainability reporting, but they are taking steps in the right direction. It is not as simple as copy and paste from the private sector, although the activity in the private sector should serve as very important input.

Trust in the information is key and this is where the auditors have an important role. This is why the audit of non-financial information is becoming increasingly important. If the auditors do not take up their role, questions will be raised as to the added value provided by audit. The profession will therefore need to adapt. This is not an option: this matters to the planet and the global citizen.

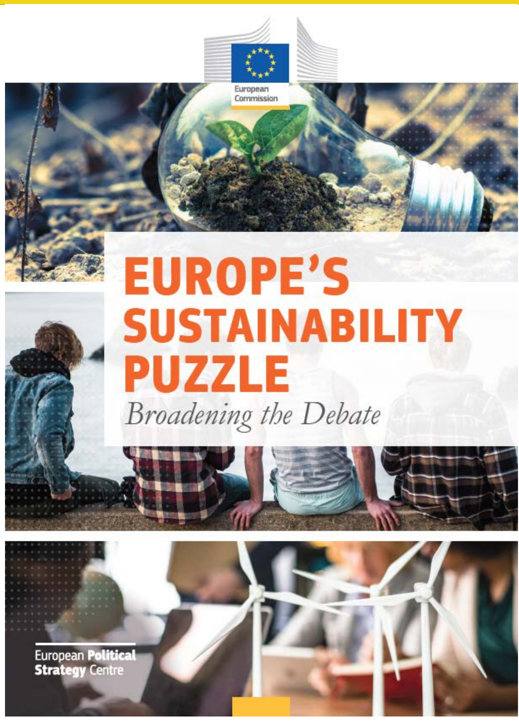
As the new Commission sets the priorities for the next 5 years, achieving the SDGs should be at the centre. Early signs are encouraging with the announcement that 25% of the EU budget would be spent on climate action and monitoring of this part of the budget would improve[2]. Good sustainability reporting bridges the gap between financial and narrative reporting. And it is even more useful in a public sector environment, where it may be more difficult to link inputs to outputs to outcomes.

Getting this right is not an option, our future, and the future of our children's and grand-children's generation, depends on it, as we were reminded by the students who prepared videos to bookend the conference. We need to act. Now.

2 The ECA had previously published a report highlighting weaknesses and the risk of overestimating the monitoring and reporting of climate action spending (SR 31/2016).

Europe's sustainability puzzle - time for systemic change

By Saïd El Khadraoui, European Political Strategy Centre, European Commission



The UN 2030 Agenda, adopted by 193 countries in 2015, not only presents 17 goals, 169 targets and indicators to measure progress but also a clear deadline for reaching them. What kind of challenges does this pose to the EU and which scenarios can we identify in order to address these challenges? Saïd El Khadraoui, Advisor at the European Political Strategy Centre (EPSC), looks ahead, building on the key foresight scenarios presented in the EPSC's note Europe's Sustainability Puzzle.[1]

EPSC publication of 8 April 2019

Source: EPSC

Sustainable development: everyone's concern[1]

Not so long ago, 'sustainable development' was considered exclusively an environmental issue or an agenda primarily targeted at developing countries. The adoption of the 17 Sustainable Development Goals (SDGs) in September 2015 by the member states of the United Nations was a collective recognition of the need for a new approach in the face of the megatrends that are reshaping the world. For Europe, the SDGs offer an opportunity for profound economic and societal transformation. In our recent publication *Europe's Sustainability Puzzle*, we zoom in on the pressing and sometimes sensitive choices that Europe faces, posing questions and exploring solutions to some of the paradoxes that lie at the heart of its current socio-economic model and its long-term sustainability.

The starting point for the EU should be to recognise that any strategy for the SDGs must reflect Europe's unique characteristics as a highly advanced economy in which citizens have become accustomed to high levels of social protection and private consumption, but which today faces significant structural challenges that are becoming increasingly intertwined and dependent on each other.

1 *This article summarises the EPSC's note 'Europe's Sustainability Puzzle', published in April 2019. The paper seeks to accompany the European Commission's Reflection paper 'Towards a Sustainable Europe by 2030', aimed at stimulating further reflection on the EU's vision and strategy for the long-term implementation of the sustainable development goals (SDGs), as part of the broader 'Future of Europe' debate launched in March 2017 by European Commission President Juncker. The views expressed in the note are those of the authors and do not necessarily correspond to those of the European Commission.*

Growth, but not at the detriment of the planet

One initial dilemma is that, so far, high growth and prosperity have tended to come with higher levels of pollution and unsustainable resource use. Europe has already shown itself capable of decoupling GDP growth from emissions growth, thanks to significant progress on energy efficiency and investments in the clean economy. Yet decoupling remains a challenge as current efficiency gains are outweighed by increasing consumption levels or material extraction enabled by economic growth. In addition, the viability of our planet is endangered by other developments such as the loss of biodiversity.

Europe's economy will therefore have to be much more 'circular' or resource-efficient. This will imply investing massively in sustainable physical infrastructure. Attracting sufficient levels of private investment will require putting in place sustainable finance systems that fully factor in environmental, social and ethical risks and opportunities.

Such transparency is critical to mitigating the risk of greenwashing, to allowing investors to make refined choices and reorient capital flows, and to triggering a change in corporate behaviour. It also implies that in a sustainable future, GDP growth or short-term profitmaking will no longer singularly define progress. Instead, measures can focus on rising wellbeing and fully integrate environmental and social impacts.

Fair burden-sharing and fair employment conditions

A second challenge is that although policies intended to curb climate change and environmental degradation will pay off in the long-term, they come with short-term costs that are burdensome for lower-income individuals, businesses in particular sectors, or regions. In some cases, this may spark strong social contestation.

Europe needs a systemic policy mix that takes into account pre-existing inequalities when imposing new costs on citizens, but also makes sure that sustainable alternatives are accessible and affordable in line with the expected consumption change. It also requires anticipatory measures to help regions to develop new growth strategies or workers to be reskilled for tomorrow's economy.

Another challenge relates to the changing labour market and its impact on Europe's social model. Forms of employment other than full-time, open-ended contracts have grown to encompass 40% of European labour market. This in itself is not necessarily undesirable as it may give some workers much-valued independence and autonomy while also potentially enabling a more flexible workforce to respond to the needs of new industries and emerging services.

However, non-standard work and social protection systems are currently not fully compatible, leaving people without full access to training opportunities and basic requirements, and giving rise to new inter- and intra-generational inequalities between those who are employed under contracts with full social rights and those who are not. All in all, this means that social security contributions need to be harmonised across different forms of employment as far as possible, and education and lifelong learning need to be shaped to facilitate effective skill use and match skills to evolving labour markets.

Saïd El Khadraoui of the EPSC speaking at the ECA Sustainability Reporting Forum on 17 June 2019

Sustainable public finance and demographic changes

A fourth challenge is our public finance. Demographic change has long been recognised as a ticking time bomb for fiscal sustainability. Most Member States have started implementing significant reforms to their pension systems. However, a number have already reversed these, or are promising their electorate that they will. In addition, other demographic and societal changes will increase pressure on social protection budgets. These include rising numbers of single parents, the growing need to reconcile work and family life, fewer continuous careers, and the growing need to reskill today's workers for the jobs of tomorrow. Furthermore, sources of revenue are coming under ever-greater pressure as multinationals, platform and digital companies are not necessarily paying their fair share of taxes or social security contributions, while tax competition between member states creates additional difficulties in this regard.

These developments thus require a more strategic fiscal approach centred around the modernisation of taxation tools and public services as well as European cooperation to address tax avoidance and profit shifting by multinational enterprises.

Outsourcing unsustainable practices to…maintain our lifestyle?

The next risk is turning a blind eye to the outsourcing of unsustainable practices. Indeed, what is often overlooked is that advanced, post-industrial economies shift emission-intensive production to developing countries and emerging regions. Up to 75% of the emissions embodied in the final consumption of goods and services are emitted elsewhere in the world. Poorer countries need help to grow along sustainable development pathways and to enable them to leapfrog over polluting infrastructure while continuing to climb up the human development index. But should we also track and price externalities more effectively, and how can we do this?

The sixth risk we have identified is a difficult one: our lifestyle. As an individual's income rises, so does their environmental footprint, as it tends to be associated with where people live, how they move, and what they eat.

Public policies have a defining role in individual consumption patterns. Spatial planning and public transport policies, for instance, are critical in determining the carbon footprint of inhabitants and can create unsustainable lock-ins. There is of course a role for research and innovation: new models of producing, consuming and recycling can bring people closer to sustainable lifestyles. Public procurement, budgeting and taxation measures, coupled with awareness-raising and 'nudging' techniques, could work to effectively and collectively alter harmful consumption patterns without simply delegating responsibility to individuals.

Linking innovation more closely to desired outcomes

Finally, coming back to innovation. This is and will remain one of the main ingredients for a sustainable transition but does not automatically lead to sustainable outcomes. The more innovative (and wealthy) an economy becomes, the faster economic obsolescence accelerates, and the more resources are consumed and waste generated.

Mission-oriented innovation is therefore needed to embed sustainability within economic innovation. It involves focusing not only the direction, but also the rate, of innovation, allowing economic growth in Europe to be harnessed toward sustainable and equitable outcomes. It should be paired with the application of the 'innovation principle', ensuring that the impact on innovation is fully assessed across all stages of the innovation process. Alongside this, public funding will continue to play a key role in de-risking and leveraging private investments, and steering them in the right direction, as well as in bridging the gap from labs to commercialization.

Good data and reporting as conditions for successful transition

In conclusion, it becomes clear that a near-simultaneous shift is needed in markets, policymaking, industry, science, and even culture. It is about an all-encompassing change implying changes throughout and across all market sectors and value chains, from product design and business models to service provision and trade. Furthermore, these shifts will have to happen from the very local level up to the European level and beyond and will require efforts and long-term actions from all stakeholders.

The transition, therefore, needs to be managed. To get there, metrics will be crucial, these being less about linear growth and more about sustainability, progress, convergence and forecasting. This applies to countries but also to companies, and all starts with good data, drawn from good reporting. This is also where auditors enter the picture, by providing assurance that this data is accurate, comprehensive and reliable. Equally, however, we need consistent leadership and oversight at EU level.

Mainstreaming SDGs in future audit tasks – how does the ECA do it

By Zsuzsanna Csak, Directorate of the Presidency

In order to maximize the impact of our work, it is essential to identify, select and plan audit tasks which are relevant and come at the right time. Our programming process helps us to do so. Through our audits we aim to address key issues affecting the EU; and the EUs commitment to the sustainable development goals is one of them. During the last three years, the ECA has been fine-tuning its programming framework by adding or modifying some elements every year. For the AWP 2020 a focus on SDGs was one of these new elements. Zsuzsanna Csak, responsible for programming in the Directorate of the Presidency takes us back slightly in time, to see how the SDGs became part of the programming considerations. Then, we look at what lies ahead.

Sustainable development and SDGs: part of the ECA work programme since many years

Sustainable development has been a very prominent audit subject in recent years, as illustrated by the many reports we have issued on climate change, education, water & sanitation, environment or energy, just to name a few. In addition, already in early 2017, our auditors suggested a task covering directly SDGs in our work. The root of the suggestion was that at the INTOSAI Conference in 2016 one of the focal themes was the role of SAIs with regard to reviewing and monitoring the implementation of the SDGs. While we have been auditing many subjects linked to one or the other SDG goals in the past, the implementation of EU's commitments toward achieving the SDGs had by then neither been audited nor reviewed by us.

We in the Directorate of the Presidency receive many audit ideas as input to the upcoming work programme, but the main challenge is usually the selection and prioritisation. In general, each and every year, there are much more interesting audit ideas and subjects proposed than resources allow us to execute. If an important and relevant subject is not selected for a given year, the good ones are kept and will/can be "recycled". This happened also with audits related to SDGs. Early 2018, when we started preparing the work programme for 2019 two separate audit ideas linked explicitly to sustainable development goals were suggested. The one about reviewing SDGs in a specific policy area (from 2018) and another one to review sustainability reporting in the Institutions. Several other audit suggestions were also closely linked to SDGs, e.g. an audit on gender budgeting, tasks linked to climate change, etc.

The outcome of our 2019 review on sustainability reporting by EU Institutions already published

The College also decided in October 2018 to include a review task on sustainability reporting in the AWP 2019. This review aimed at assessing whether the EU institutions and agencies have carried out the necessary actions to produce meaningful sustainability reports and have increased the transparency of EU institutions and agencies on these matters. This review also looked at the yearly report on sustainable development in the EU published by Eurostat, for which the 2019 edition has just been published (see **Box**).

The outcome of this review, titled "Reporting on sustainability - A stocktake of EU Institutions and Agencies", has already been finalised and published in June 2019.

Box – 2019 report on sustainable development in the EU published by Eurostat

The recently published Eurostat 2019 report 'Sustainable development in the European Union - Monitoring report on progress towards the SDGs in an EU context' shows a mixed picture of EU's progress on SDGs. While the report acknowledges that the EU has been overall successful in promoting sustainable development, it also indicates that further progress in needed, notably on environmental SDGs. It also identifies particular interlinkages and spillovers, and highlights some methodological issues in measuring progress in meeting the SDGs.

Overall, the 2019 report shows that there is still significant progress for the EU to make to successfully deliver all SDGs by 2030.

SDGs and foresight: strategic decisions taken by the College in early 2019

In early 2019, and following discussions at the yearly ECA Member seminar in the autumn of 2018, the College also decided to set up a strategy and foresight team which should help us to make our audit work and oversight capacity more future oriented, and more aligned with our strategy process. Linked to this subject the audit and the importance of the sustainable development goals and the question on how to built them into our work came also up in several of the discussions among Members. The College then also decided that cross-cutting factors, such as Sustainable Development Goals (SDGs), should be explicitly considered when developing audit and review work.

Embedding SDGs in programming: around a third of all potential tasks clearly linked to specific SDGs

With this mandate, when starting again the yearly programing procedure for the 2020 AWP in early 2019, we have invited experts in SDGs within the ECA, to our regular meeting of the Director support teams of the five Audit chambers, with whom we are coordinating the work programming process. They presented the OECD framework and explained how we could identify for each of the proposed task whether there is a strong link to a specific SDG and if so, to which one.

Sometimes the link of an audit subject to one or the other SDG was obvious, sometimes it was more challenging to identify. This exercise was done in May 2019, on the basis of the around 60 potential audit or review subjects to select from (rather than the nearly 100 audit ideas whith which we started the programming process). By analysing all them in detail, we found that around a third of our suggested topics would have had a strong link to specific SDGs. The mostly covered SDGs were No. 8 Decent work and economic growth, No. 9 Industry, innovation and infrastructure, No. 10 Reduced inequalities and Nr 13 Climate action. There was only one SDG, the No. 17 Partnership for the goals for which no strong link was identified to any of our proposed audit tasks for 2020.

We are currently still in the middle of the AWP 2020 process. Obviously, we will not be able to select all of the nearly 60 topics proposed. Nevertheless, our Members will certainly consider, as one important consideration amongst many other, the aspect of the sustainable development goals when finally choosing the portfolio for our next work programme and beyond.

From programming to doing the audits: experimenting new ways of using SDGs in our audits

With the adoption of the 2020 work programme by the College in the autumn, our auditors get the green light to start preparing the audit work on these specific topics. How in practice we will streamline some of our work to SDGs remains to be seen when the teams present the audit planning memoranda (which set out the audit approach in detail).

At this stage, we already have some audit task from the 2019 AWP under preparation, like our gender equality task, where the EU actions could be assessed also against the SDG goal. Which brings up the question of how to use SDGs (and targets) as audit criteria. The extent to which this will be possible in the EU context may be subject to debate, not the least because the EU is not a member of the UN and has therefore not signed up to the SDGs.

We should certainly need to try out different ways of using SDGs in our audits. For doing this, our auditors might need some support from the methodology unit, we could cooperate with other SAIs for some of these tasks, we might set-up some knowledge nodes gathering experts within the ECA, or we could think of having some pilot tasks to establish a set of good practices - but in any case, SDGs will continue to play a role in how we will conduct our audits in the forthcoming years.

Auditing defence: getting ready for an enhanced role for the EU in defence and security matters

By Jana Przibylla and Gina Wittlinger, Directorate of the Presidency

Ever growing global tensions and discussions with strategic allies about the level of investments in security have put defence and the need to spend more on it firmly on the agenda of the EU and its Member States. The EU is also playing a more prominent role in defence procurement and research. The ECA is following these developments closely, as evidenced by two recent knowledge-sharing events. Jana Przibylla and Gina Wittlinger from the Directorate of the Presidency summarize the events.

Recent developments worldwide and in Europe have given new impetus to security and defence policies. Within NATO, there are ongoing discussions about the level of investments in security and the need for most of the European countries to spend more on defence. Several initiatives, such as the creation of the European Defence Industrial Development Programme (EDIDP) and the European Defence Fund (EDF), are expected to increase synergies between action at EU and Member State level. Under the next MFF, EU spending should rise to more than €5 billion per year. While this is relatively little compared to defence spending at national level, it will still constitute a considerable part of the EU budget.

The ECA is following these developments closely, as the new role in defence for the European Commission today also means an expanding role for the ECA, as the EU's external auditor. This is also an area where the ECA can benefit from the knowledge, expertise and skill of the Supreme Audit Institutions (SAIs) of Member States or the International Board of Auditors for NATO (IBAN). Against this backdrop, the ECA recently organised two knowledge-sharing events around this theme, offering its auditors a chance to learn from and discuss with experts in the field.

Workshop 'Auditing Security and Defence Policies of the Union'

From left to right: Juhan Parts, ECA Member, Gailė Dagilienė, ECA director, Hervé-Adrien Metzger, IBAN Chairman

On the 14 and 15 May 2019 the European Court of Auditors held a workshop 'Auditing Security and Defence Policies of the Union'. The two-day event was jointly organised by the ECA and the International Board of Auditors for NATO (IBAN) – the independent, external audit body of NATO - thus contributing to further deepening cooperation between the two institutions.

The aim of the programme was to provide a broad overview of the current European defence situation, a perspective on the legal and institutional framework of the European Defence landscape, as well as the industry perspective and the strengths and weaknesses of European defence capabilities. The workshop also provided insights into the EU's common security and defence policies – in particular from an audit point of view.

Topics covered during the presentations included the processes of European armament procurements, and the role that OCCAR (Organisation Conjointe de Coopération en matière d'Armement / Organisation for Joint Armament Co-operation) plays as an international organisation for the management of cooperative defence equipment programmes. Other sessions looked at the "European defence industrial development programme" (EDIDP), the process of accounting operations financed by ATHENA, the financing mechanism for EU-led military operations, and difficulties specific to auditing defence missions. Furthermore, the participants discussed the challenges they face when auditing common costs, which often entails complex funding structures involving national, supranational and EU financing.

The high complexity and diversity of the European and global security and defence scene are proving to be a substantial challenge for auditors. It is exactly this complexity and the sensitivity of the topic that make it crucial to have reliable independent control mechanisms with the necessary deep understanding of the underlying processes and structures. The ECA, together with Member State SAIs and relevant stakeholders, will continue to foster audit knowledge and exchange in this policy field.

Presentation on auditing performance in the area of defence

On 5 June 2019 Henrik Berg Rasmussen, auditor at Rigsrevisionen, the National Audit Office of Denmark, gave a presentation at the ECA on auditing performance in the area of defence. For the last four years, he has also been a member of the IBAN

Auditing performance in the area of defence - main challenges for the IBAN

Henrik Berg Rasmussen set out to explain that defence projects are usually high-risk projects. This means they usually cost a lot of time and money, have a large scope and an especially high risk of corruption. Moreover, in the military almost all activities pose a security risk as well. From an audit point of view, another difficulty highlighted during the presentation was the fact that, in NATO, it is common to rotate frequently from one post to another. This affects competences and accountability. Performance targets are rather rare. Auditors resort to looking at the effectiveness and efficiency of systems. Performance audits therefore sometimes contain compliance elements. Further challenges can be linked to the sheer organisational size of NATO, which means it takes a lot of time to follow up on things that went wrong. Taxpayers are far away and there is no press attention, although most reports are publicly available.

Preparing for the future – 2019 'hot topics' in auditing defence and auditing defence at the ECA

Henrik Berg Rasmussen underlined that NATO will increasingly shift its focus from the outer area to protecting its own territory. This includes the fight against terror and protecting the southern border area. It will heighten its presence in eastern European countries and in the arctic area, where Russia is currently building up bases. In addition, cyber security is becoming increasingly important. The key challenge is to make sure that all forces, be they air, land, sea or cyber, work together effectively and efficiently in the future.

As more and more money is being invested in defence and security policies, auditing these funds will be even more important in the future. Here, Henrik Berg Rasmussen pointed out that one challenge for the ECA would be that its work would increasingly come under the political spotlight if it started to assess the outcome of defence missions, which are highly political by nature.

ECA delegation meets several stakeholders in Latvia

By Simona Megne, private office of Mihails Kozlovs, ECA Member

Source: Valsts kanceleja/ State Chancellery

From left to right: Klaus-Heiner Lehne, ECA President, Arturs Krišjānis Kariņš, Prime Minister of Latvia, and Mihails Kozlovs, ECA Member.

On 20 and 21 May, an ECA delegation headed by President Klaus-Heiner Lehne and Member Mihails Kozlovs undertook a two-day visit to Latvia. Meeting with several representatives of national authorities, they raised awareness about the ECA's work while receiving feedback on ECA recommendations and specific concerns. Simona Megne, secretary in the private office of Mihails Kozlovs, provides more details on the visit.

Meeting various stakeholders

On 20 and 21 May 2019, ECA President Klaus-Heiner Lehne and ECA Member Mihails Kozlovs visited Latvia, and particularly Riga, for an intensive two-day programme. They first met Ināra Mūrniece, the Speaker of the Saeima — the Latvian parliament — and addressed MPs at a joint meeting of the EU Affairs Committee and the Public Expenditure Committee. In their discussion with the Speaker they stressed the importance of parliamentary oversight of EU spending in the Member States, including making sure that ECA recommendations are taken on board.

At government level, meetings took place with Prime Minister Arturs Krišjānis Kariņš, Minister of Finance Jānis Reirs and Minister of Transport Tālis Linkaits. The discussions with the Prime Minister focused on recommendations that could improve the next EU multiannual financial framework, with an emphasis on achieving greater EU added value. With the Minister of Finance the delegation exchanged views on the ECA's mandate in the area of economic and financial governance, and the joint meeting with the Minister of Transport and the Chair of the Economic Affairs Committee focused on the main findings of the ECA's audit work in the field of EU transport policy.

Enhancing visibility and obtaining feedback for future audit work

Klaus-Heiner Lehne and Mihails Kolzovs also visited the National Audit Office, where they exchanged views with Elita Krūmiņa, Auditor General of Latvia, on the strategic challenges facing supreme audit institutions and best practice in tackling them. The delegation then visited SIA Glāzeri BT, a company with an innovative glass treatment plant which recently received support from the European Regional Development Fund (ERDF) to modernise its production line. To expand the ECA's visibility, Mr Lehne and Mr Kozlovs gave an interview to Latvian National Television in which they stressed that the ECA's role is not only to perform checks, but also to provide advice on how to manage EU funds better.

Visits such as this one to the national capitals to meet personally with members of parliament, representatives of the national administration and other stakeholders are essential for the visibility of the ECA and its audit work in the EU Member States. Decision-makers at national and regional level can benefit from the ECA's analysis and advice, while in the course of these visits the ECA also receives valuable feedback on how its recommendations are perceived and implemented.

Annual meeting of the ECA Members with the European Commissioners – more than a farewell

By Martin Weber, Director of the Presidency

Source: European Commission (https://audiovisual.ec.europa.eu/en/video/I-173794)

Colleges of the European Commission and the ECA - Meeting in Brussels on 12 June 2019

In October 2019, the term of office of the European Commission under the lead of President Jean-Claude Juncker will come to an end. This alone made this year's annual meeting between the College of ECA Members and the College of the European Commission on 12 June 2019 a special one. But the meeting in the Commission's Berlaymont headquarters in Brussels also provided an excellent opportunity for auditor and auditee to look back, take stock and reflect on the many changes in their relation in recent years. Martin Weber, Director of the Presidency, highlights some of the main issues discussed during the meeting in Brussels.

From left to right: ECA President Klaus-Heiner Lehne, Commission President Jean-Claude Juncker and Commissioner Günther Oettinger

Annual forum for exchange between auditor and auditee

On 12 June 2019, the Members of the ECA went to Brussels for their annual meeting with the European Commission. Traditionally these meetings – which alternate between Brussels and Luxembourg – provide an excellent basis for a frank and open exchange of views between auditor and auditee, focussing on general aspects of their relations rather than a specific audit engagement.

President Klaus-Heiner Lehne and the other ECA Members were received by Commission President Jean-Claude Juncker, the first Vice-President Frans Timmermanns, Vice-Presidents Andrus Ansip and Valdis Dombrovskis, as well as Commissioners Günther Oettinger, Cecilia Malmström, Neven Mimica, Miguel Arias Cañete, Dimitris Avramopoulos, Pierre Moscovici, Christos Stylianides, Violeta Bulc, Věra Jourová, Tibor Navracsics, Corina Crețu, Margrethe Vestager, Carlos Moedas, Julian King, Mariya Gabriel and high-ranking officials.

Discussing mutual concerns in a frank and open manner

In his welcome address, Commission President Juncker expressed his recognition of the ECA's role and responsibility as the EU's external auditor, particularly as regards scrutinising the EU's financial management. Moreover, he underlined the importance of maintaining, also in future years, the excellent working relations with the Directorate-General for Budget, currently under the responsibility of Commissioner Oettinger. At the same time, he also did not shy away from addressing some of his concerns to the ECA Members, mainly on the need to conduct audit work in a cost-effective way and to report audit findings in a fair and balanced manner. In his reply, President Lehne underlined the positive contribution made by this 'Commission of last hope' to set the Union back on course in difficult and challenging times.

Three specific clusters – on Competitive Europe, Fair and sustainable Europe and Protective and influential Europe – provided additional fora for discussions in smaller groups. And there was no lack of subjects: from the ECA's on-going audit work to the practicalities of the 'no surprise' approach in interacting with the auditee, or how findings, conclusions and recommendations are communicated, but also on specific measures to further improve cooperation between the largest EU institution and the EU's external auditor. As is usual practice, the outcome of these discussions was reported back to the plenary meeting of all participants, co-chaired by President Lehne and Vice-President Frans Timmermans. A lot of food for thought, also beyond the Juncker Commission's term of office, which will come to its end in October 2019.

High-level meeting between auditor and auditee adapted to the specifics of the EU's institutional settings

Meetings of this kind – at the most senior level - are rather unusual in Member States. But these annual meetings between the ECA, as the EU's external auditor, and the Commission, as its main auditee, have by now become a tradition. A tradition that exemplifies that all EU institutions work together to serve a common goal: to strengthen and to defend the interests of the Union and its citizens , with each institution acting independently and in its own role, but interacting with each other and within the mandate set out in the Treaties.

Source: European Commission

Meetings between the Colleges of the Commission and the ECA on 12 June 2019

Evaluating public policies and programmes: the role of supreme audit institutions

By Derek Meijers, Directorate of the Presidency

On 25 June 2019, the ECA hosted a conference on the evaluation of public policies and programmes by supreme audit institutions (SAIs). Delegations from the SAIs of France, the USA, Sweden, the Netherlands and Switzerland shared their experience in the field with an ECA and online audience. This conference was organized in the light of the adoption of the INTOSSAI guidelines on the evaluation of public policies (INTOSAI GOV 9400) and the ECA's recent membership of the INTOSAI working group on evaluation of public policies and programmes, chaired by the French SAI.

Programme and policy evaluations

Evaluations of programmes and policies are becoming ever more important as citizens expect governments to prove that positive results are achieved with public money and action. SAIs are well placed to perform public policy or programme evaluations because they have the necessary independence, they can develop a knowledge of evaluation methodology and have a knowledge of public policies acquired from their other missions.

Unlike administrative institutions or private organisations, their institutional status as well as their professional and ethical rules ensure their objectivity and their independence from government or private interests. The discussions showed that, in practice, evaluations published by SAIs have an increased impact and add value, as they cover topics that are not usually covered by evaluations performed by the administration, and they are perceived as more objective.

Added value

The conference was a good occasion to share practical experiences on:

- how SAIs implement evaluations in line with their mandates, and what methodologies they apply;
- the difference or link between performance audits and evaluations;
- the requirements in terms of human and financial resources to perform evaluations;
- practical examples of evaluations in the area of investment in public infrastructure, environment, climate, agriculture, etc.

It emerged from the conference that SAIs can perform policy and programme evaluations and that it is necessary that they do so in view of the added value they can offer. In this context, given the complexity of the topic, it is important to share experiences and good practices amongst SAIs. Also, there is no uniform definition of evaluation, different approaches exist among SAIs. The INTOSAI working group is expanding its guidance to develop it in further detail.

Online and interactive

This conference was transmitted live on different social media channels. For the first time, viewers could also participate actively, and questions and comments were received from all continents. One of the comments received was the following: "That's amazing! What an excellent approach to share the conference online. Truly inspiring for other SAIs."

All conference material and videos are available here: https://www.eca.europa.eu/sites/evaluation-public-policies-programmes/en/Pages/Documentation.aspx

Heads of EU SAIs meet in Poland to discuss digitalisation… or 'brown bears' versus 'white bears'

By Marton Baranyi, Directorate of the Presidency

Source: NIK - 2019 Contact Committee meeting in session. From left to right: Tytti Yli-Viikari, SAI Finland, Manfred Kraff, European Commission, Vítor Caldeira, SAI Portugal, Kay Scheller, SAI Germany, Arno Visser, SAI Netherlands.

On 27-28 June 2019 the Contact Committee of the Heads of Supreme Audit Institutions (SAIs) of the EU and its Member States held its annual meeting, this time in Warsaw. The main topic of discussion was the challenges and opportunities of digitalisation, particularly for external public auditors. Marton Baranyi, from the Directorate of the Presidency, reports on the main issues discussed.

Heads of SAIs zooming in on a digital Europe

The 2019 Contact Committee meeting of the Heads of the Supreme Audit Institutions (SAIs) of the EU and its Member States was hosted and chaired by the SAI of Poland in Warsaw on 27-28 June 2019. President Lehne, supported by Members Janusz Wojciechowski and Eva Lindström, represented the ECA.

The main discussion topic of this year's meeting was 'Digital Europe: Challenges and opportunities for SAIs.' Tytti Yli-Viikari, Auditor General of the SAI of Finland, moderated the seminar. The introduction included presentations by Marek Zagórski, the Polish Minister of Digital Affairs, Michal Boni, former Member of the European Parliament, and Malgorzata Nikowska from DG CNECT at the European Commission.

Marek Zagórski emphasised that, despite fierce competition in digitalisation from the United States and Asia, the EU should be aiming for a leading international role in digitalisation, establishing a mindful policy to unleash the intellectual potential of the continent. He argued that the priority areas would be to support and develop a data-driven economy, to develop artificial intelligence, to focus more on e-skills and to regulate online platforms. Michal Boni approached the topic from the citizen's perspective, stressing that digitalisation and smart governance should, in his view, simplify public services, contribute to the secure privacy of state services, and lead to 'e-democracy' — a democracy characterised by both online and offline participation. Malgorzata Nikowska recalled that digital issues were considered a priority for the Juncker Commission, as demonstrated by the Digital Agenda for Europe and the Digital Single Market Strategy. She said that the vast majority of the actions proposed in the Digital Single Market Strategy had already been adopted.

The introductory presentations were followed by two panel discussions. The first, moderated by Janar Holm, President of the Estonian SAI, discussed the challenges and opportunities of carrying out performance audits on EU and national programmes in the area of e-government and cybersecurity. The second panel, moderated by Manfred Kraff, Director-General of the Commission's Internal Audit Service and a former ECA director, focused on the need for SAIs' to acquire competence in auditing digitalisation and in issuing digital resources in audits. The participants on the panel discussed, among other things, the various challenges this posed for the external audit function (including questions of ethics, staff, etc.), and debated the necessity for and degree of change and adaptation to take on the ever-growing new digital audit dimension ('What are SAIs? Brown bears reluctant to change, or white bears both willing and able to adapt to new situations?').

Participants in the *in camera* session, which was restricted to the heads of the SAIs and moderated by Miloslav Kala, President of the SAI of the Czech Republic, mainly discussed possible cooperation in the audit of EU-related topics and future Contact Committee initiatives. In this context, ECA President Lehne informed the other heads of SAIs that the ECA's annual work programme for 2020, currently under preparation, might include several audit tasks on which the ECA could envisage and propose some form of cooperation with other SAIs.

Besides exchanging views and discussing with their peers, the delegation heads were invited to meet the President of Poland, Andrzej Duda, at the Presidential Palace.

Update on various other activities

Source: NIK

President Kwiatkowski of the Polish SAI (right)handing over the chairmanship to ECA President Lehne.

Apart from discussing EU-related topics of general interest, Contact Committee meetings also traditionally offer an opportunity for bilateral meetings between participating heads of SAIs. This year was no different: ECA President Lehne had bilateral discussions with both Krzysztof Kwiatkowski, President of the Polish SAI, and Arūnas Dulkys, Auditor General of the SAI of Lithuania.

Another aspect of Contact Committee meetings is the exchange of views and information on various ongoing activities and EU-related audits being performed by the various SAIs. For example, the Europe 2020 Strategy Audit Network gave an update on preparations for a synthesis report on the SAIs' audits in relation to the targets of the Europe 2020 Strategy. The SAI of the Netherlands presented a joint report on air quality, which was the result of an audit under the umbrella of the EUROSAI Working Group on Environmental Auditing to which the ECA contributed through its special report 23/2018: 'Air pollution: Our health still insufficiently protected'.

President Kwiatkowski, from the hosting SAI, closed the 2019 Contact Committee meeting by handing over the chairmanship to President Lehne. The next meeting, scheduled for October 2020, will again be organised by the ECA in Luxembourg. Next year's topic will be 'EU added value.'

ECA Conference: Greece and the Eurozone: Past, present and future

By Athanasios Koustoulidis, performance auditor, Directorate Regulation of markets and competitive economy

From left to right: Yannis Stournaras, Governor of the Bank of Greece; Maria Demertzis, Deputy Director at Bruegel; Neven Mates, ECA Member; Andrew McDowell, Vice President of the European Investment Bank; Nikolaos Milionis, ECA Member

On 28 June 2019, Yannis Stournaras, Governor of the Bank of Greece, visited the ECA in Luxembourg in order to present the state of play in the Greek economy ten years after the crisis, and his views on the lessons to be learned. Andrew McDowell, Vice-President in the European Investment Bank (EIB), and Maria Demertzis, Deputy Director at Bruegel, joined him as speakers. Athanasios Koustoulidis, performance auditor in Directorate Regulation of markets and competitive economy, reports.

Yannis Stournaras – a technocrat accustomed to taking on big challenges

Yannis Stournaras is accustomed to taking on big challenges. An Oxford-trained economist who played a central role in Greece's preparations to join the euro, he was Minister of Finance in 2012-2014 as Greece faced creditors over its second international bailout. Since 2014, at the helm of the Greek central bank, he has been tackling a banking sector with a high stock of non-performing loans (NPLs). Since mid-2015, he has also had to face the capital controls put in place.

Andrew McDowell and Maria Demertzis – helping Europe strengthen its role and relevance

Andrew McDowell was appointed Vice-President of the European Investment Bank (EIB) in 2016. Prior to his time at the EIB, he was economic advisor to the Irish Prime Minister (PM), gaining extensive experience in economic policy and public service management. Maria Demertzis is Deputy Director at Bruegel, an economic research institute in Brussels. She is a UK-trained economist and previously worked at the Commission and the Dutch Central Bank. She has published extensively and contributed policy inputs to both institutions.

10 years after the crisis - lessons for the future

Before going into the topic's specifics, Yannis Stournaras recalled the heavy toll of the crisis on Greek output, incomes and wealth. He went on to describe the factors that explain the length and depth of the Greek crisis. Among other things, he highlighted that non-performing loans had proved more difficult to manage than initially anticipated. Moreover – in line with the ECA's findings on the Greek adjustment programmes – a more dynamic response during the first years of the crisis and introducing a centralised asset management framework for NPLs could have reduced the problem Greece faces today.

He pointed out that significant progress had been made since the beginning of the debt crisis in 2010. He also referred to the unprecedented fiscal adjustment, the bold structural reforms implemented and the extensive restructuring of the domestic banking system. Nevertheless, the Greek economy continued to face major challenges, in particular due to high public debt, the high stock of NPLs and the extremely large investment gap.

On the topic of the national economic policy's focus on sustainable growth, the central banker indicated he favoured the systemic solutions for NPLs proposed by the Bank of Greece and the Greek Ministry of Finance. In addition, he urged improving the quality and safeguarding the independence of public institutions, highlighting the need for a speedier delivery of justice and a clear and stable legal framework.

Lessons for the future for Eurozone

From left to right: Maria Demertzis, Andrew McDowell, Yannis Stournaras

Presenting the European dimension, Yannis Stournaras remarked that the euro area was quite successful during its first ten years. However, the EMU had lacked the tools to avert and to contain the financial crisis of 2007-2009 that followed. In his view, what was needed today in the Eurozone was to promote simultaneously risk-sharing and risk-reduction measures. In this way an almost non-cooperative zero-sum negotiating game could be transformed into a cooperative win-win one.

EIB's response to the Greek crisis

In view of his previous experience as economic advisor to the Irish PM, Andrew McDowell started his speech by comparing the Greek crisis with the Irish one. He highlighted that in Greece there had been a greater need for structural reforms whereas in his country the trigger for the crisis was the financial sector.

He went on to describe the EIB's increased lending activity during the crisis period by making a special reference to the Investment Plan for Europe, known as the Juncker Plan or European Fund for Strategic Investments (EFSI). He concluded with the EIB's priorities for the future, i.e. broadening the impact of its financing activity, climate action and the strong pipeline of future investments.

Europe's challenges: Preparing for the future

Maria Demertzis focused on the EU's future priorities. She identified internal cohesion within the euro area, climate change, and the EU's relative position in the world as the three key challenges for Europe. Based on the 2003-2017 GDP per capita, she showed a largely positive deviation from the expected growth rate in Central and Eastern Europe but a negative one in Western and Southern Europe.

She also highlighted the trust crisis in Europe and in particular, the fact that people in EU countries with weak governance tended to trust the EU more than their governments and vice versa. Finally, she painted a more global picture and criticised the EU for playing the role of referee between US and China, a role that actually left Europe behind.

Providing support to audit staff working in high-risk countries: agreement signed with the European External Action Service (EEAS)

By Alfonso de la Fuente Garrigosa, Head of the private office of Eduardo Ruiz Garcia, Secretary General of the ECA

What if an ECA auditor has to go on an audit visit to a high-risk country? What is the security situation? Can he or she travel in all parts of the country? What if the project that needs to be checked is located in a conflict zone? These are questions the ECA regularly needs to answer before sending its staff to certain non-EU countries. To enable its auditors to carry out their tasks under the safest conditions possible, the ECA has recently signed a Service Level Agreement (SLA) with the EEAS to provide support to auditors when going on mission to high-risk countries. Alfonso de la Fuente Garrigosa, Head of the private office of Eduardo Ruiz Garcia, Secretary General of the ECA, provides further details.

Ensuring security on the spot

On certain occasions ECA auditors need to go on audit visits to high-risk countries, or areas outside the EU that may be dangerous, where there are conflicts or situations that may potentially pose threats to the auditors' security. The security of our staff is an absolute priority, and information is key to ensuring security.

The European External Action Service (EEAS) has an extensive network of Local Security Officers (LSO) and Regional Security Officers (RSO) that are deployed across EU delegations around the world. They are in charge of collecting and analysing security information, and they are permanently updated about the level of threats and the security situation in the zones under their responsibility. Having their support during an audit visit to a high-risk area can often be essential – for example, when analysing and deciding whether we can travel (or not) depending on security on the ground.

ECA signs service level agreement with the EEAS

The ECA has recently signed a Service Level Agreement (SLA) with the EEAS, so that its auditors can count on such support. The SLA clarifies the distribution of roles and responsibilities between the ECA and the EEAS to guarantee maximum effectiveness in risk prevention and risk mitigation for high and critical threat level countries, as well as management and resolution of security incidents affecting ECA staff on missions outside the EU.

In practical terms, the SLA will ensure security support for our staff by the EEAS RSOs. Reception and pick-up at airport if necessary, security briefings, information on the situation and risks in the area, contact numbers, follow-up, travel advice, and any other measure that RSOs may consider necessary for their security.

The SLA was signed on 5 July 2019 at EEAS Headquarters by the ECA's Secretary General, Eduardo Ruiz Garcia, and the EEAS Secretary General, Helga Schmid, in the presence of all EEAS RSOs, who were meeting in Brussels for their annual training event. This agreement is not only good news for ECA auditors working in high-risk countries, it also constitutes a good example of inter-institutional cooperation.

Eduardo Ruiz Garcia, ECA Secretary General, and Helga Schmid, EEAS Secretary General

Reaching out

Who is auditing the auditors? The ECA peer-reviews the Lithuanian National Audit Office

By Rafal Czarnecki, Directorate of the Presidency

Members of the peer review team at work in the Lithuanian National Audit Office. From left to right: Alfonso de la Fuente Garrigosa, Eduardo Ruiz Garcia and Stéphanie Girard (ECA), Piotr Miklis (NIK), Audronė Vaitkevičiūtė, Mindaugas Macijauskas, Arūnas Dulkys and Inga Tarakaviciute (Lithuanian National Audit Office).

Peer reviews between public audit institutions are becoming more and more common. The ECA is currently conducting a peer review of the Lithuanian National Audit Office, together with the UK National Audit Office and the Polish SAI (NIK). Rafal Czarnecki, a member of the peer review team from the Directorate of the Presidency, provides an insight into the review work so far.

Peer reviews - recommended practice for public auditors

When I explain the role and activities of the ECA, one question arises time after time: who is auditing the auditors? Who is checking whether the auditors themselves comply with the relevant laws? Who is responsible for ensuring that the auditors follow the rules and do their job to the best of their ability? So to what form of external control are Supreme Audit Institutions (SAIs) subject?

The EU and its Member States have different rules and standards defining the SAIs' modus operandi. However, there is also a lot of common ground. Generally speaking, they are all subject to external audits, just like any other public entity, and additional self-imposed control procedures sometimes apply under their internal control systems. Lastly, the International Organization of Supreme Audit Institutions (INTOSAI) recommends that each SAI undergo regular voluntary peer reviews.

A peer review is an evaluation of the organization's performance carried out by an entity or entities with similar competences and responsibilities to the institution being evaluated. In other words, it is a form of assessment where one independent auditor checks another.

On schedule - the peer review of the Lithuanian NAO

At present, the European Court of Auditors is not only the subject of a peer review (see ECA Journal 11-2018), but is also leading a peer review of the Lithuanian National Audit Office, together with the UK National Audit Office and the Polish SAI (NIK). The ECA's review team is composed of Eduardo Ruiz Garcia, the ECA's Secretary-General, Alfonso De La Fuente Garrigosa, Head of the Secretary-General's private office, Stéphanie Girard, attaché in the private office of ECA Member Danièle Lamarque, and myself. The review team also comprises three auditors from the UK NAO and two auditors from the NIK. This is the second time the ECA has been involved in a peer review of the Lithuanian SAI, having already carried out a review in 2014. (https://www.vkontrole.lt/en/docs/NAOL_peer_reviewEN.pdf)

The objectives for the current review were set out in a memorandum of understanding signed at the beginning of this year. The review team was asked to assess:

- the extent to which the Lithuanian SAI's audit approach complies with the international standards of supreme audit institutions (ISSAI), specifically numbers 100, 200, 300, and 400;
- the extent to which the SAI had implemented the recommendations of the previous peer review.

Review activities were planned in accordance with the provisions contained in ISSAI Peer Review Guideline 5600. The scope of the study and checklists were based on the INTOSAI Performance Measurement Framework (PMF), which was developed to measure SAIs' performance against the ISSAIs and other established international measures of good practice for external public auditing. Following the PMF methodology, the activity of the National Audit Office of Lithuania was divided into 25 functional areas and shared between peer review team members.

Field visits were preceded by an intensive preparation period during which a large volume of documentation was collected and analysed. We examined documents relating to the main business processes, including strategic and short-term planning, a sample of financial and performance audit commitments, asset and human resource management, and communication with stakeholders in a broader sense.

In the first and last weeks of June, the evaluation team made two working visits to Vilnius, where the National Audit Office is based. During those visits, we carried out interviews with key staff members and relevant stakeholders. We are now working on a draft version of the peer review report. The objective is to present the outcome of the peer review in the final quarter of this year, as agreed with our Lithuanian peers.

ECA publications in May/June/July 2019

Audit preview

Published on 21/05/2019

Biodiversity in farming

Biodiversity encompasses the variety of ecosystems, habitats and species on which human beings are dependent. It also has social and economic value. Biodiversity in the EU is in a continuous, strong decline. The largest contributor to biodiversity loss is agriculture.

Click here for our report

Audit preview

Published on 28/05/2019

Trade defence instruments

The European Court of Auditors is conducting an audit to assess how successful the European Commission has been in enforcing the EU's trade defence policy. In particular, the auditors will examine whether decisions related to trade defence instruments are appropriate and whether EU action is conducive to proper and efficient implementation.

Click here for our report

Special report 07/2019

Published on 04/06/2019

EU cross-border healthcare: better management needed to deliver on high ambitions

EU patients still face challenges in benefiting from the actions envisaged by the EU directive on cross-border healthcare, according to a new report by the European Court of Auditors. Only a minority of potential patients are aware of their rights to seek medical care abroad. At the same time, the auditors also found problems and delays in exchanging patient health data electronically between Member States. Moreover, actions to facilitate access to healthcare for rare disease patients need to be improved.

Click here for our report

E
FOCUS
A

ECA publications in May/June/July 2019

Special report 08/2019

Published on 06/06/2019

EU needs more wind and solar power to meet renewables targets

The EU needs to take significant action to generate more electricity from wind and solar power and meet its targets on renewables, according to a new report by the European Court of Auditors. Although both wind and solar power have recorded strong growth since 2005, there has been a slowdown since 2014, say the auditors. The Commission should urge Member States to support further deployment – by organising auctions to allocate additional renewables capacity, promoting citizen participation and improving conditions for deployment. At the same time, the auditors warn that half of the Member States will face a significant challenge in trying to meet their 2020 renewables targets.

Click here for our report

Rapid case review

Published on 12/06/2019

EU reporting on sustainability and UN development goals still lacking

Despite the EU's commitment to sustainability and the United Nations' Sustainable Development Goals (SDGs), the European Commission does not report on or monitor how the EU budget and policies contribute to sustainable development and achieving the SDGs, according to a new review by the European Court of Auditors. The building blocks for meaningful sustainability reporting at EU level are largely not yet in place, say the auditors. The Commission has not yet built sustainability into reporting on performance, also due to absence of a long-term strategy on sustainable development up to 2030. Two EU institutions and agencies currently publish a sustainability report, while reporting by others is piecemeal.

Click here for our report

Audit preview

Published on 18/06/2019

Auditors assess EU efforts to combat child poverty

The European Court of Auditors is conducting an audit to assess whether EU action helps reduce child poverty in Member States. In particular, the auditors will analyse the effectiveness of EU policy and funding in supporting Member States' efforts to alleviate child poverty.

Click here for our report

ECA publications in May/June/July 2019

Briefing paper

Published on 20/06/2019

Focus on performance in EU cohesion spending should be strengthened

Stronger efforts are needed to embed effectiveness and efficiency in EU cohesion policy, according to a new briefing paper by the European Court of Auditors. Moves towards this goal in the design of the legislation have not always been matched by effective action on the ground, say the auditors. They identify a number of areas with scope for improvement, from strategic planning and policy implementation to monitoring and evaluation. They also warn that, while increased simplification has a number of benefits, it may reduce the focus on performance in cohesion spending in the 2021-2027 programme period.

Click here for our report

Special report 11/2019

Published on 25/06/2019

EU regulation fosters air traffic anagement modernisation, but EU funding largely unnecessaryand its management was affected by shortcomings, say the auditors.

EU regulation has fostered air traffic management modernisation, according to a new report from the European Court of Auditors. But EU funding of projects was largely unnecessary and its management was affected by shortcomings, say the auditors.

Click here for our report

NEXT EDITION

The ECA in the new political landscape

Following the recent elections for the European Parliament, and the jostle for the new chair persons for the European Council, Parliament, the Commission, and Central Bank, the ECA enters into very interesting, yet demanding times. In the first place because it has to get to know all the new faces that joined the different stakeholders, which also requires the EU's external audit body to actively inform a number of newcomers about its role, mandate and various products. And show where it can provide added value for the work of parliamentarians and policy makers alike.

In addition to this, new faces might have different expectations compared to their predecessors where it comes to what the EU's supreme audit institution should do. Another challenge for the ECA will be to gear its future work to the new political landscape. A new Commission will set different priorities, which could mean that the ECA needs to gain new expertise, or even apply new methodologies, in order to be well-prepared to audit the new programmes and projects that – no doubt – will be launched.

ISSN 1831-449X

EDITION
HIGHLIGHTS

COVER:
Gerhard Gellinger-Pixabay/Nicolas Toulas

QJ-AD-19-003-2A-N