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**Examining climate-related disclosure and connectivity:
Perspectives and challenges for Australian public sector and not-for-profit entities**

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Executive Summary

This report investigates the connectivity of climate-related disclosures for Australian public sector and not-for-profit (NFP) entities, with a focus on perspectives and challenges for such disclosures. The objective is to examine the current understanding of preparers and users and the implementation of connectivity between non-financial and financial information in reporting for these sectors. Specifically, it explores stakeholder perceptions of connected reporting and the key barriers that work against the preparation of reports containing connected information.

The report highlights that few Federal Government entity reports in our sample contain climate-related and financial information that is connected. It identifies key challenges for the public sector more broadly and for NFP reporting relating to climate-related disclosure, including resource constraints, cost-benefit trade-offs and decision-usefulness concerns. Key findings reveal that connectivity is perceived to extend beyond linking climate-related disclosure to financial statements in these sectors. Instead, connectivity is also viewed in the context of service delivery, decision-making and overall organisational purpose. The report offers recommendations for standard-setters and regulators, including developing a tiered approach to disclosure requirements, enhanced stakeholder education in using the reports as well as more nuanced sector-specific guidance on connected reporting. The need to prioritise service performance reporting was also a theme. The research contributes to the dialogue around the distinct challenges, benefits and approaches to connectivity for public sector and NFP climate-related disclosure.

Objective

This report outlines research investigating the connectivity of climate-related disclosure for Australian public sector and not-for-profit (NFP) entities, with a particular focus on perspectives and challenges for connectivity of such disclosures.

The key research objective of this report is to examine the current understanding of preparers and users and the implementation of connectivity between non-financial and financial information in public sector and NFP private sector reporting. In addressing this objective, the research also considers some of the key themes surrounding NFP and public sector reporting relating to climate-related disclosure, including sector specific nuances in the reporting environment and underlying organisational purpose, resource constraints and decision-usefulness of reported information. In addressing these core themes, the research also provides some examples of connected information in reports, offering insights into the likely implications for enhancing the overall quality of reporting in line with existing guidance on sustainability reporting (e.g. AASB 2024a, 2024b).

Overall, the research aims to formulate evidence-based recommendations for standard-setters and regulators to support and enhance the implementation of climate-related disclosure for Australian public sector and NFP entities. By addressing these objectives this report aims to contribute to the ongoing dialogue on enhancing the quality and decision-usefulness of public sector and NFP reporting, particularly in the context of climate-related disclosures and their connectivity with financial information.

Background

In recent years, there has been a growing recognition of the importance of sustainability reporting alongside financial reporting, culminating in the introduction of mandatory climate and sustainability reporting in many jurisdictions, including Australia (Deloitte, 2025). While financial reporting is well established as providing essential information about a company's economic performance, broader climate and sustainability reporting extends the boundaries of the reporting landscape (Davern et al, 2022). Despite the complementary nature and focus of these types of reporting, there are gaps between financial and sustainability reporting frameworks and practice, resulting in incomplete (or inconsistent) information for stakeholders. Accordingly, in this context, the concept of connectivity between climate-related disclosures and financial reporting has gained increasing attention internationally (e.g. UKEB, 2023). However, research on the topic of connectivity in reporting remains limited, especially in the context of the Australian public sector and NFP organisations.¹

In September 2024, amendments were made to the *Corporations Act 2001*, introducing mandatory climate-related reporting requirements for large Australian entities.² The mandatory climate-related reporting requirements will be phased in over three years, starting with the largest entities, asset owners, and National Greenhouse and Energy Reporting (NGER) reporters in the first financial year commencing on or after 1 January 2025.

¹ There has been discussion for some time about how company reporting approaches might evolve alongside a rapidly changing business environment (EY, 2016). Further, while advocates of Integrated Reporting have long asserted the benefits of a broader approach to business reporting (Magli and Amaduzzi, 2025), we know less about the implementation of connected reporting for Australian government and NFP entities (Tirado-Valencia et al, 2020).

² [Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Act 2024 - Federal Register of Legislation](#) (accessed 15 May 2025)

Entities captured by the September 2024 changes are required to prepare a sustainability report in accordance with the Australian Accounting Standards Board's (AASB) sustainability standards and lodge the report with their annual financial report and directors' report.³ At the time of writing, the AASB has issued two sustainability reporting standards:

- AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (voluntary); and
- AASB S2 *Climate-related Disclosures* (mandatory).

AASB S2 requires entities to disclose information about climate-related risks and opportunities that could reasonably affect their cash flows, access to finance, or cost of capital (para. 2). Disclosures cover four key areas: governance, strategy, risk management, and metrics and targets.

Some public sector and NFP entities are captured by the mandatory climate-related reporting requirements,⁴ however, NFP entities registered with the Australian Charities and Not-for-profits Commission (ACNC) are not required to provide financial reports under Part 2M of the *Corporations Act* and are, therefore, not captured by the mandatory climate reporting regime.

In addition to the *Corporations Act* requirements, at a Federal level, the Commonwealth Climate Disclosure Pilot⁵ initiative was established by the Australian Government in 2022 to enhance climate-related disclosures and reporting across its non-corporate Commonwealth entities. State-level initiatives, such as the climate-related financial disclosures released by NSW Treasury for selected entities, also closely align to Australian Sustainability Reporting Standards starting from the 2024-2025 financial year.^{6 7}

Literature review

The notion of connectivity in reporting is not uniformly defined across the literature. While AASB Sustainability Reporting Standards (AASB S1 and AASB S2) introduce the term “connected information”, consistent with standard setters in other jurisdictions,⁸ other sources employ differing terminology. An overview of the various terms used in some of the existing literature is presented below:

1. *Connected information* (AASB, 2024a, 2024b):

An entity shall provide information in a manner that enables users of general purpose financial reports to understand the following types of connections:

- (a) the connections between the items to which the information relates—such as connections between various sustainability-related risks and

³ The sustainability report is subject to audit requirements in accordance with auditing standards issued by the Australian Auditing and Assurance Standards Board.

⁴ For example, government business entities are captured by the requirements, as are not for profit entities that are companies limited by guarantee.

⁵ [Commonwealth Climate Disclosure Pilot | Department of Finance](#) (accessed 13 May 2025)

⁶ [Climate-related financial disclosures | NSW Treasury](#) (accessed 13 May 2025)

⁷ This report does not provide a summary of all potential public sector and NFP climate reporting requirements. Rather, the focus is to provide a snapshot of the connectivity of current reporting by Federal government entities and to offer qualitative evidence of stakeholder perspectives and challenges for public sector and NFP entities in reporting connected information.

⁸ For example, European Sustainability Reporting Standard S1 (ESRS 1) refers to the need for connected information in a similar way to Australia.

- (b) opportunities that could reasonably be expected to affect the entity’s prospects; and the connections between disclosures provided by the entity:
 - (i) within its sustainability-related financial disclosures—such as connections between disclosures on governance, strategy, risk management and metrics and targets; and
 - (ii) across its sustainability-related financial disclosures and other general purpose financial reports published by the entity—such as its related financial statements (see paragraphs B39–B44). (para 21)

Drawing connections between disclosures involves, but is not limited to, providing necessary explanations and cross-references and using consistent data, assumptions, and units of measure. (B42)

There are no specific public sector or NFP amendments to AASB S1 or AASB S2 relating to connectivity.

2. *Connectivity* (Barckow & Faber, 2023): Aiming to produce holistic, comprehensive and coherent general purpose financial reports, which is also achieved by connectivity in products and processes.
3. *Connectivity* (EFRAG 2024): Connectivity is a nascent and multi-dimensional concept introduced to enhance the usefulness of reported information (e.g., it is an ESRS and IFRS S1 requirement and a guiding principle of the IR framework, and implicit in the TCFD recommendations). At the same time, the term so far has no commonly accepted definition nor is it included as one of the qualitative characteristics of useful information in the *Conceptual Framework for Financial Reporting*. Connectivity of reported information is the attribute of high-quality information that supports the provision of a holistic and coherent set of information within and across different AR sections (or different corporate reports).

Connectivity of reported information can also be categorised into point-in-time connectivity (i.e. connection of information across different corporate reports at the reporting date) and intertemporal/over time connectivity. The latter includes linking or explaining the effects of risks and opportunities on the entity’s financial position, financial performance and cash flows over multiple time horizons (short, medium and long term); and also providing disclosures that enable users to understand the migration of items from one corporate report to another across different time periods (e.g., what may trigger a risk disclosed in the management report/ sustainability statement at a particular date to become a recognised provision in the financial statements at a future date).

Multiple terms are associated with or sometimes used synonymously in relation to connectivity. These include complementarity, coherence, and consistency. In this paper, we treat these terms as elements of the notion of connectivity. We also consider integration in reporting to be broader than connectivity.

4. *Connectivity* (EY, 2024): Explanations of connections between sustainability-related financial disclosures and other general purpose financial reports, including current and anticipated effects on financial position, performance, and cash flows.
5. *Connected reporting* (KPMG, 2024): Consistency between sustainability-related disclosures and financial statements, including data and assumptions across the annual report.

These terms highlight the importance of linking sustainability information with financial reporting; however, as highlighted by EFRAG, there is currently no commonly accepted definition. Accordingly, the potentially lack of shared understanding of the meaning of ‘connectivity’ may pose challenges for both preparers and users of reports. While the definitions share similarities in emphasising the integration of sustainability and financial information, they differ in scope and specificity.

Currently, research that explicitly addresses the connectivity between climate-related disclosures and financial information is scarce, particularly studies focusing on the public and NFP sectors. This gap is predominantly due to the for-profit focus of extant accounting studies, with most papers addressing connectivity through an Integrated Reporting lens or IFRS context typically provide quantitative and/or case-based analyses of reporting by for-profit companies (Barnabè et al., 2022; Grassmann et al., 2019; Lu et al., 2024; Masiero et al., 2019; Tirado-Valencia et al., 2024; UKEB, 2023; Wang et al., 2024).

Further, data availability appears to be a challenge, as mandatory climate reporting has not yet been adopted in many jurisdictions, and Australia has only recently introduced AASB S1 and AASB S2. Hence, studies involving the public sector and NFP organisations typically examine limited or small samples of entities.

Also relevant is that the Integrated Reporting Framework has largely influenced existing literature on reporting by public sector and NFP entities (Adams & Simnett, 2011; Caruana & Grech, 2019; Guthrie et al., 2017; Tirado-Valencia et al., 2019; Williams & Lodhia, 2021). Much of the existing literature on connectivity stems from research on Integrated Reporting (IR) and Integrated Thinking (IT), where connectivity is one of six guiding principles. The ISSB assumed responsibility for the IR Framework in 2022 and the IASB and the ISSB plan to develop a corporate reporting framework which incorporates principles and concepts from the IR Framework.⁹

Challenges in Implementing Connectivity

Several challenges emerge from the literature regarding implementing more connected reporting in the public sector and NFP organisations. For example, cost considerations pose a significant issue as disclosing connected information can be both complex and expensive (EFRAG, 2023). This barrier has been noted by the Australian Government (2023) and in studies on integrated reporting implementation (Caruana & Grech, 2019). Charities have also expressed concerns about the value or utility of implementing new non-financial reporting requirements (Hooks & Stent, 2019).

According to prior literature, sustainability accounting standards can also be adapted to the public and NFP sectors (Simnett & Huggins, 2015), however, this is not without challenge. For instance, NFPs are typically smaller and face distinct challenges, such as resourcing issues and may not have specialised reporting expertise or data collection and measurement capability, limiting their ability to produce high quality connected reports. Challenges for government entities may also include the balancing of transparency and security concerns. For both government and NFP entities, comparison and benchmarking are challenging, as is the connecting of sustainability disclosures with existing accounting standards, such as relating climate risk information to going concern assessments under IAS 1 (EY, 2024).

Consistent with the challenges that NFPs and public sector entities face, the perspectives of users of public sector and NFP reports are likely to differ from those of for-profit entities.

⁹ [IFRS - Integrated Reporting Framework](#) (accessed 15 May 2025)

However, such differences are not well articulated within the literature. Although AASB S2 notes that the stakeholders of NFPs could include parliaments, taxpayers, donors, and service recipients, the stakeholders of public sector entities are less clear. In the literature on connectivity, users of public sector reports are typically only recognised as members of parliaments (Caruana & Grech, 2019).

Benefits and Opportunities

Despite challenges, prior research indicates that connected reporting offers several benefits for public sector and NFP organisations. Climate reporting, for instance, can facilitate greater alignment in reporting with organisational purposes. For certain NFPs, connected reporting aligns with their focus on intangible, longer-term outcomes (Daff & Parker, 2020). At the same time, public sector entities may also benefit from increased transparency and accountability through more connected reporting, which aligns with their broader purpose of providing societal services (Caruana & Grech, 2019). EFRAG also highlighted, more generally, that connectivity can enhance decision usefulness of both financial statements and sustainability disclosures, help to understand linkages, broadens the use of financial statements, reduces expectations gap and helps to avoid greenwashing (EFRAG, 2024). As a result, connected information could potentially support better decision-making by providing a more holistic view of an organisation's performance and risks.

Unique Considerations for Public and NFP Sectors

The extant literature does not clearly distinguish how connectivity in reporting by NFP and public sector entities may vary. However, several factors highlight the differences between reporting by public and NFP entities compared to reporting in a for-profit context. Users of NFP and public sector reports encompass a wider range of stakeholders, including donors, service recipients and taxpayers (AASB, 2024b). However, there is a higher accountability focus, particularly for public sector entities, as these entities face pressure to report in ways that ensure transparency, flexibility, and accountability to citizens (Caruana & Grech, 2019; Katsikas et al., 2017).

In relation to NFP reporting, recent research has highlighted the current challenges in reporting, noting that “there are many challenges faced by [the NFP sector] in transitioning from low levels of sustainability management and disclosure to comprehensive accounting and reporting” (Lodhia, 2025, p. 360) so unsurprisingly no published research could be found evidencing climate risk reporting being undertaken in this sector.

Approach

The research applies a mixed-method approach, with qualitative (semi-structured interviews) and quantitative (annual report analysis) methods applied. The focus of the research is on the qualitative approach, which provides rich insights into the current thinking of parties in the NFP and public sector ecosystem. The quantitative analysis offers important context within which to evaluate these insights gained from the interviews.

For the qualitative research, we conducted formal interviews with 17 experts: 11 with a public sector background and 6 with a NFP background. Interviewees had on average 27 years of professional experience. Interviewees came from a broad spectrum of organisations including state/federal and local government departments and agencies, professional services (consulting in sustainability reporting), small and large NFPs.

Table 1: Interviewees

Sector	Organisation Type	Interviewees
NFP	Large NFP (not a sustainability-specific purpose)	NFP1, NFP4
	Small NFP (not a sustainability-specific purpose)	NFP17
	Professional services	NFP5, NFP7
	Undisclosed for confidentiality reasons	NFP6
Public sector	Federal Government	PS10
	State Government	PS11, PS12, PS13, PS16
	Local Government	PS2, PS9
	Professional services	PS3, PS8, PS14, PS15

At the time of interview, all interviewees were currently employed in financial reporting or corporate governance roles. All have experience across multiple organisations in senior financial reporting-related roles.

Using a semi-structured interview protocol, we generated over 90,000 words in interview transcripts for subsequent analysis. The interviews were conducted from March 2025 – April 2025. Thematic analysis was employed to identify common themes, barriers and opportunities related connectivity between financial and sustainability reporting.

In addition, to provide a snapshot of the current state of play for connectivity within annual reports for public sector entities, as agreed with the AASB staff, the quantitative research focuses on Commonwealth (Federal) entities and companies. As part of the Commonwealth Climate Disclosure Policy all Commonwealth entities and Commonwealth companies will be required to publicly disclose their climate risks and opportunities in their FY 2026-27 annual reports. Entities are encouraged to voluntarily disclose their climate risk management activity before the allocated date. We analysed the annual reports for 164 Federal government entities. The reports were the most recent available for each entity as of 5 November 2024, resulting in a sample comprising fiscal years 2023 (88 entities) and 2024 (76 entities).

We extracted climate-related excerpts from the bodies of the annual reports based upon key phrases that are related to climate change (Sautner et al. 2021). Each excerpt comprises sentences surrounding a climate-related phrase. Excerpts where there were adjacent sentences with climate-related phrases were combined into a single excerpt. Company reports can include multiple extracts when there was a climate-related phrase in more than one area of disclosure.

We are unable to report a comparable empirical analysis of NFP reporting connectivity due to the typically lower underlying level of climate reporting observed for these entities.

A detailed outline of the research approach is outlined in Appendix A to this paper.

Results

Annual Report Connections

Public sector entities

Table 2 provides summary information about the degree of connectivity evident in the 164 Federal Government entity annual reports that were included in our analysis. On average, each entity discussed climate-related issues in 10.95 report excerpts. Half of the entities have fewer than six report excerpts that mention material climate-related issues. Consistent with their role in government, the Department of Climate Change, Energy, the Environment and Water had the highest incidence of climate-related disclosure (102 excerpts). Thirteen entities discussed climate-related issues in only one excerpt.

When the entities discussed climate-related issues, the average connection for each excerpt was on 2.92, which indicates that on average, although the excerpts include quantitative discussion of the issues, the information provided largely leaves estimation of the financial impact of the issue to the report reader.

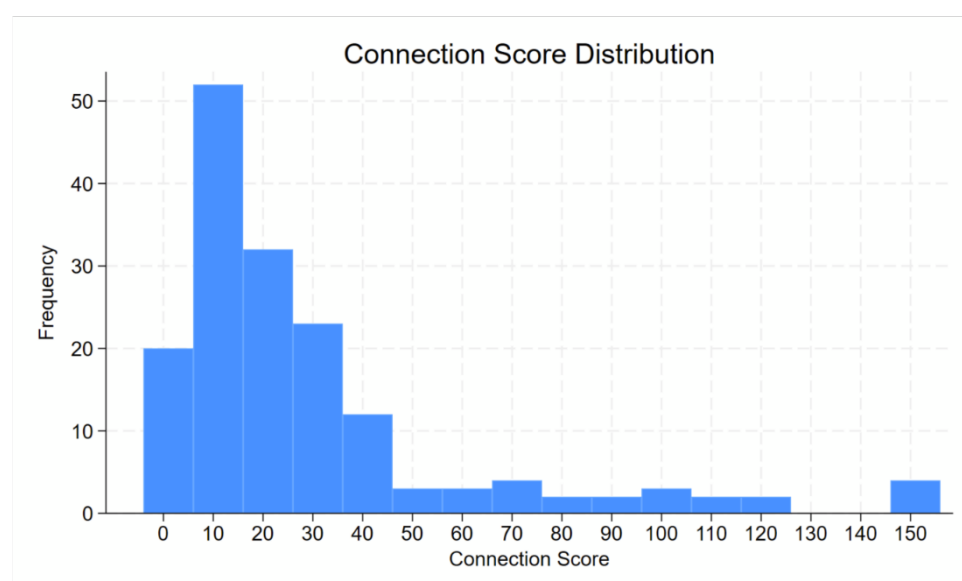
The overall connection score varied greatly among entities. On average, the connection score was 32.09, with a minimum of 1 (Food Standards Australia New Zealand and Seafarers Safety Rehabilitation and Compensation Authority) and a maximum of 405 (Clean Energy Finance Corporation).

Table 2: Summary Statistics for Connectivity within Federal Government Entity Annual Reports

	Mean	Standard Deviation	Minimum	Maximum
Number of Excerpts	10.95	15.52	1.00	102.00
Excerpt Score	2.93	1.404	0.00	5.00
Entity Connection Score	32.09	47.64	1.00	405

Figure 1 provides a histogram that depicts the distribution of connection scores across the sample. Over half of the government entities have a connection score of less than 20, indicating that the majority of reports do not provide very strong connection between climate issues and their financial implications. Four entities have a connection score exceeding 150 (Clean Energy Regulator, 176; Australian Renewable Energy Agency, 249; Department of Climate Change, Energy, the Environment and Water, 268; and Clean Energy Finance Corporation, 405). These last results are consistent with the remit of these departments, as they are directly focused on climate-related issues.

Figure 1: Distribution of Connection Scores for Federal Government Entity Annual Reports



Note: The figure depicts the number of entities with different levels of connection scores. Bins indicate scores within 10-point increments. The final bin includes all scores greater than 150.

The most common connection scores for the excerpts were 1 (n=457), which discuss financially material climate-related information but do not provide any quantitative disclosure, and 3 (n=807), where there is disclosure of financial information that relates to a material climate issue but there is no means of identifying the climate-related component of the disclosure. Fewer than 10 per cent of the excerpts we examined represent high connectivity. Such disclosure provides the reader with both context and financial information. Below are two examples of disclosure with high connectivity:

‘Our activities include education, monitoring, and enforcement to protect Commonwealth fisheries from illegal fishing, and engaging internationally to provide specialist advice, as well as delivering capacity building programs to deter illegal, unreported and unregulated (IUU) fishing beyond Australia’s borders Climate adaptation program Climate change challenges our understanding of, and ability to influence, fish stocks and marine ecosystems AFMA’s Climate Adaptation Program is implementing a range of measures to incorporate climate change information and risks into decision-making frameworks, to ensure that management of Commonwealth fisheries is adaptive to the impacts of climate change Data transformation and electronic monitoring program AFMA was provided \$21 million over the forward estimates in the 2021 to 2022 Budget to reduce regulatory burden, increase productivity, and improve environmental outcomes across Commonwealth fisheries.’ (Australian Fisheries Management Authority 2024, p. 28).

‘We facilitate international trade opportunities by showcasing Australian solutions to the world. Our support has further strengthened Australia’s leadership position in renewable energy and providing net zero solutions in the global market. In 2022 to 2023, Austrade facilitated ninety-three outcomes in the resources and energy sector,

representing \$937.1million in export sales.’ (Australian Trade and Investment Commission 2023, p. 76).

Overall, we find a relatively low level of connectivity in reporting across the Federal entities, except in those entities with a clear environmental focus. Because climate-related issues differ widely across entities, we do not expect all entities to have a large number of areas in their reports that discuss these issues. However, the relatively low average connection score per excerpt indicates that entities can provide additional discussion to enhance the connectivity of their reports. The interviews provide insights into our finding of overall low connectivity and what can be done to increase the connectivity of reporting in this sector.

NFP entities

To confirm the lower observed level of climate reporting for NFP entities we extracted a random sample of 120 reports filed with the ACNC and manually reviewed the content.¹⁰ This analysis revealed two reports that referenced ‘climate change’ and one report that referenced ‘net zero’. The reports were further analysed and received a zero connection score. On each occasion there was no evidence that climate-related considerations influenced the content of the financial reports. This confirmed the systemically low level of climate reporting for these entities and suggests an avenue for further work by the AASB to understand and address challenges these entities face in reporting this information.

Interviews

The interviews revealed perspectives on the concept of connectivity for climate-related disclosures had multiple elements. That is, the concept of connectivity for participants was not limited to connectivity between climate-related disclosure and financial information in reporting. Rather, it was viewed as a broader, organisation, or sector wide concept that touched on a much wider set of reporting topics and challenges. In this context, Figure 2 shows the broad connectivity themes that emerged from the interviews. Each of these key themes is discussed below.

¹⁰ It is possible that these entities may undertake climate reporting outside the scope of their ACNC filings, such as when preparing an impact report. (e.g. Lord Mayor’s Charitable Foundation https://www.lmcf.org.au/getmedia/c70c7ca2-1d00-4752-940e-783e7b4de965/Impact-report-FY-2021-22_FINAL.pdf.aspx?ext=.pdf) (accessed 26 May 2025). We recommend as an avenue for further research an expanded remit for analysis to include such reports in understanding connectivity in reporting.

Figure 2: Interview themes for connectivity in reporting



Connectivity

The interviews highlighted that consideration of climate-related disclosure practices in the Australian public sector and NFP sectors are still in their initial stages. A number of participants noted that the sectors are just starting on the journey, and it is early days, and practice is expected to evolve over time (e.g. PS3) whilst also noting that currently such reporting is not an expectation of stakeholders (NFP1).

A central point of discussion revolved around the appropriateness of integrating climate-related disclosures within annual reports and/or financial statements. For example, one participant expressed scepticism about the proposed approach of including climate-related disclosures as part of the annual report, citing concerns about the potential lack of coherence and symmetry in combining financial, operational and environmental reporting within a single document:

'S2 suggests that this information, as envisaged by S2, should be basically part of the annual report of entities. I personally ... think that's ludicrous, because what you're going to have is really three reports in there. It's going to be [a] financial report, a report of operations and an environmental report. I mean, and I can't see the symmetry between those three. So, there's a lot of stuff still to be worked out.' (PS12)

However, other participants emphasised that connectivity and alignment between these different aspects of reporting was an essential element of climate-related disclosure, including the need for consistency in the information, assumptions, and narratives used across these different reporting elements:

"...[a]t a board level, you would have hoped, you would hope that those people in charge of governance are actually looking at the two side by side and saying, Are these two consistent with each other? Are they telling the same story? Appreciate that... your financial statements are a bit historic, so you just look at the past, and the climate stuff is ... forward looking, but there is a bit of a Venn diagram in the middle where, there are things that you need to take into account." (PS15)

Several public sector participants highlighted the connection between climate-related disclosures and risk management, financial governance and going concern considerations.

Participants highlighted that connectivity is fundamentally about risk management, financial reporting, governance, and accountability, with managing significant risks being a crucial consideration for an entity's going concern and future financial obligations.

'...see the connectivity again, is, really, is risk management, financial reporting. It's about, basically, it's about financial governance. It's about accountability... and as part of that, and accountability, it's also basically, you know, general purpose reports. There's also the going concern, the underlying objective going concern. So, managing big risks is a big consideration for going concern, and to the extent that these risks might manifest in future financial obligations important. So to me, the connectivity is, is risk management and the impact on going concern in the future, you know, sustainability of... entities or the sector, to me, that's the connection.' (PS12)

'...[f]or us, it's around making sure that your climate reporting [is] consistent with your financial reporting in terms of the information that you use and the assumptions that you make, and that they kind of connect together. So, if you identify risks and opportunities, in your kind of reporting, and they don't sort of show up in your financial reporting, then you've got an issue...It shouldn't just be what you have in your financial statements, is what is driving it. This should be something that should be ingrained in your governance framework and how your decisions are made, if we want to actually get to net zero. So it's like the reporting is the output, but the effort should be there.' (PS14)

However, others also emphasised the need for connectivity to be authentic in its approach:

'[c]onnectivity, oh, that's an interesting question, actually. I think you still need some connection between your financial statements and what's going on, but obviously it's like a balance of information. So connectivity is like, where you do have connection, it is appropriate to link the two and explain it, but where you don't, you shouldn't have to force a connection with the financial statements. Like the financial information does have a role to play, to an extent, but at the end of the day, you should have a good balance of both financial and non financial information, some of it will link back to the financial statements, where those links happen. Great. Explain it. That's connectivity. Where they don't, don't force the issue. It doesn't always have to reflect back onto your financials.' (PS8)

The role of stakeholder education and understanding in facilitating effective connectivity was also raised as an important factor to consider, in particular in the public sector (PS 11 and 12). Participants highlighted the varying levels of financial and climate-related literacy among stakeholders, suggesting the need for simple measures, targets, and key performance indicators (KPIs) to enhance stakeholder engagement and understanding (PS16). This highlights the importance of potentially tailoring climate-related disclosures to the specific information needs and knowledge levels of different stakeholder groups.

The interviews also explored the connection between climate-related disclosures and asset management practices, particularly in the public sector. It was noted that organisations leading in sustainability and environmental risk management are increasingly recognising the link between these factors and their long-term asset management plans (PS9), although the level of analysis and mitigation strategies may still be in the early stages:

'...asset management strategy [are] not that evolved. There is mention of climate impacts, but I don't think the level of analysis has been done to ... to really understand, the impacts and what can be done about mitigating them.' (PS16)

‘...[I]t’s still fairly early days. You know, they, they would have identified the risk, but what are they actually doing to mitigate that risk, from an asset management perspective? Probably not so much, at this point in time, but they’re at least recognising it.’ (PS9)

These observations suggest a potential alignment between climate-related disclosures and long-term asset management considerations, which could facilitate greater connectivity over time.

Interestingly, participants from the NFP sector emphasised the importance of aligning assumptions, strategies, and decision-making processes across climate-related disclosures and financial planning, budgeting and forecasting processes. This perspective suggests that connectivity may feature more prominently in the integration of climate considerations into forward-looking financial planning and decision-making, rather than solely through immediate impacts on financial reporting.

‘...making sure that decisions that have been taken based on the climate information, or what’s being presented as the climate information does connect with what’s being presented in the finance that there is alignment in terms of strategy and decision making between the two. Now, we know that a lot of the climate stuff may well be forward looking, so it may not have an immediate impact ... We’re seeing it built into goodwill type of impairment, you know, those sorts of impairment calculations in terms of provisions and those kind of areas and assumptions and so forth. So, some of it might find that it actually doesn’t have an actual financial impact, but it’s still being incorporated now into those assumptions that underpin the valuations or the impairment testing.’ (NFP10)

‘...[i]t’s actually about thinking about that strategy and that forward looking financial plan, and actually, how does that need to change, and how are we building in, you know, mechanisms around that... It’s about alignment of assumptions, in some ways, actually, that financial planning, the budgeting and forecasting processes, is where we might actually start to see more.’ (NFP10)

A number of participants emphasised the role of storytelling and narrative in facilitating connectivity between climate-related disclosures and financial reporting:

‘...[y]ou can have financial statements without notes, without any information, without any narrative, any commentary, and I would suggest that they are limited in their utility. It’s the narrative and what the numbers mean and the story behind that – what’s happening within the organisation, the environment they’re operating within – all of those things are needed in order to tell a fulsome story... and so, I would suggest that the, the climate-related elements, regardless ... of whether they are numbers or whether they are words, they are a key part of that story...the value is the context’ (NFP6)

‘...[i]t’s about the narrative for the reader and surely it’s more useful if you do if you are helping them by connecting the dots and saying how these things are joined. Otherwise, the reality is, is that the user has to try and work it out for themselves.’ (NFP10)

‘...[i]n terms of the connectivity piece, I view this as one set of reporting. So, the key point is really explaining that coherence between the two sets of reports and yes, the sum of the preparation basis may not be the same, i.e., as at 30 June, you know, assets, liabilities, revenue, expenses for the period versus over the short, medium and long term. Clearly, the time horizons are different, and it’s as much about explaining why

they're different. But connectivity is going to be as important as explaining whether the data and inputs and assumptions are the same... This is storytelling, in my mind, and it's having the coherent story, because it's still the same entity, it's still the same facts and circumstances, we're just reporting information about it from two slightly different perspectives. (PS3)

'...[t]he whole reason we're putting this information out that entities are reporting this is to try to minimise the assumptions that investors and other, I guess, users are making by giving them more information to actually enable them to base their decisions in the absence of information, they'll make assumptions. So, I think that applies to the connection piece as well.' (NFP10)

'...it's not a presentation standard, it's a disclosure standard, presentation is up to you, it's a choose your own adventure when it comes to presentation... and I think that's kind of one of the challenges here, is that, because it is a disclosure standard and not a presentation standard, everyone likes stuff to be clear cut. Everyone wants, give me a you know, bright line rule, we'll follow the bright line rule... and the entities that really approach this well are going to think about the storytelling and think about those qualitative characteristics.' (NFP5)

Although it was noted that there is a need to balance the narrative:

'[w]hat's the role of storytelling in this, in terms of the narrative you're talking about, the narrative between what's going on in the in the sustainability, climate, things, then, and explaining the financials. Do you think that aids in seeing the pathways for connections? I think there is a risk of over-, over-explanation of a concept and labouring it to death. I think less is more. The only caveat to that is less is more only to the extent that it doesn't sort of start stepping into green hushing as a as a concept, right? But I do think that the more you explain, let me phrase it this way, the more you feel the need to explain a number, the more that number is likely to be wrong.' (NFP4)

The potential quantification of climate-related impacts and their integration into financial statements emerged as another key theme. The need for clarity on when sustainability disclosures should trigger the application of accounting standards was highlighted, with one participant suggesting that the transition pathway and associated capital allocation could provide a basis for quantification within financial statements (NFP4).

'I think there's... two sides of the coin for me here. If you, if you've got all the narrative disclosures in your sustainability report, but it's not quantified as impacts on your financial statement... that's basically marketing 101, right? The reverse of that is, if you only have a line item in your financial statements, but you don't clarify in terms of why that quantum is in there and what's driving that number as part of the sustainability report, or your broader reporting, within whatever mechanism you utilise, that number becomes really opaque. So transparency is not really embedded as part of that.' (NFP4)

In addition, concerns were raised around the interaction of the Tiers of reporting for financial reporting (including the currently proposed 'Tier 3' reporting) not aligning to climate-reporting: 'you'll actually end up with three different GAAPs with one set of climate standards, which I think is a very interesting outcome, potentially, and probably not helpful from that comparability standpoint in the market in Australia.' (NFP5)

Connecting to stakeholder expectations as a driver for climate-related disclosure

The interviews highlighted stakeholder expectations as a significant driver for climate-related disclosure practices in the Australian public sector and NFP organisations. Participants acknowledged the diverse range of stakeholders they cater to, including the general public/community, parliament, investors, lenders, creditors, regulators, government funders, members and philanthropists (NFP1, PS9, PS12, PS16, NFP7).

'...I'd say the banks are relatively ready on this, they've been demanding this information for a while, so they're pretty—most of the bigger banks that I talk to are quite excited about the fact that they're going to be able to pull the data from one source, rather than trying to, like, do this massive fact finding exercise. PE firms, again, quite thrilled that they're not going to, like, comb through huge data query sets to kind of get this information... and [pause] ASIC, I think, is very excited—well, not excited, it's probably the wrong word to use—but like, actually, is quite interested to see what's going to come out of this.' (NFP5)

'...I think the really obvious one will be [pause] inflows, the funding, donations, grants, you know, significant, significant, critical components of most charities... and I think the availability of more information, the comfortableness or familiarity with this information, could result in governments of different colours, different persuasions, prioritising support of a particular organisation or prioritising the de-support of a particular organisation [pause] because of their policies or the way they approach things, or the resources they use, or the impact they're having' (NFP6)

'...donors are generally interested in to know that organisations are well governed, that they're financially sustainable and well financially well managed, and that they're that they're also ... [interested in] ... the outcomes of purpose... is being achieved, and how, how is that? And the stories or measurements around that, they're quite interesting.' (NFP7)

Specifically in relation to the public sector it was noted that:

'...the challenge we have in the public sector is we have much, much broader spectrum of users compared to, to the private sector. If you look at our conceptual framework, which has the three primary user groups in the for profit space, like, you know, capital providers, lenders... whereas in our space, we've got much, much broader [stakeholders]. But in reality, though, if we got such a broad group, it is very hard to produce general purpose financial reports that are meaningful, so we should always focus on those that are higher up in the list' (PS13).

In addition, an interviewee highlighted that 'the government's primary responsibility is to the public and its citizens, and they need to be able to get information on things that are important to them.' (PS8) Although, the role of providers of financial capital in the public sector was also highlighted as being significant:

'...public sectors have external debt. In fact, they have a lot of external debt. They have investors, not shareholder; not equity investors, but they have investors in that debt sense, global capital markets, you know, sovereign bonds, all of that, which does mean this argument that, and ... it comes back to not for profits and public sector. They're different. They don't have investors. They just don't have equity investors. But they do have providers of financial capital in different forms, who are external and making decisions' (NFP10)

'...[i]f you look at the objectives of, of reporting, forgetting whether it's internal, external, you know, climate risk [is] very similar to any other risk, managing other risk, there's an external public reporting, accountability side disclosure, which really, as we all would ... I'd like to think we would agree the focus is really focused on the primary external users of a general purpose report.' (PS12)

The importance of stakeholder education and literacy in understanding these disclosures was also emphasised: '[It is] an education challenge... I think if they're literate in financial reporting, they will make themselves literate in, in this climate reporting.' (PS3) However, stakeholder expectations were perceived as varying based on their level of awareness and understanding of sustainability and climate-related issues (NFP10). While some stakeholders, such as banks and private equity firms, were seen as ready and eager for standardised climate-related disclosures (NFP5), concerns were raised about the capability of certain stakeholders, particularly in the NFP sector, to comprehend and utilise such information effectively:

'...[b]ut do they have the capability to understand the disclosure? I think it's, it's an evolving space where there are some sophisticated stakeholders who can, but by and large, I would say that it's ... a work in progress to be able to comprehend what it all means.' (NFP6).

From an NFP perspective, it was further suggested that stakeholders may not necessarily equate concerns and questions about environmental impacts and issues with reporting climate-related financial information. As one participant noted, there is an increasing push from community stakeholders to address environmental issues, presenting an opportunity to bridge the gap with climate-related disclosures (PS9). For example:

'...I would say that the community probably don't, you know, link climate-related disclosures with the questions they have about environmental issues, but there's the, the opportunity there, I think, to bridge that gap.' (PS9)

Reporting was also viewed as a potential competitive advantage:

'...a lot of NFP boards I've spoken to in this space see this as an opportunity to distinguish themselves from their for-profit competitors in the market... and so many of them, despite the fact they're not required to under the Corps Act, are thinking about doing voluntary reporting in this space.' (NFP5).

Some also noted that, regardless of the current maturity, NFP entities would potentially be captured in reporting via the value chain, even if reporting is not 'top of mind at the moment' (NFP10).

Cost versus benefit considerations/perceptions

The interviews revealed significant concerns about the potential costs and reporting burden associated with climate-related disclosures, particularly for NFP entities the cost-benefit analysis was deemed a key consideration: 'cost-benefit should be totally the focus of this conversation' (NFP6) and questioned the potential incremental value for entities and expressed concerns about the potential increase in reporting volume and associated costs:

'... it's cost benefit analysis, really, you know, for the cost of reporting that you're incurring and time, because it does take a lot of time, what's the incremental value that you're getting?' (NFP4)

'...[b]ecause essentially, you know, if you were to basically implement S2 in the full sphere of intention, you essentially have, you know, you can add another 50% to every annual report...and climate risk is not the only risk that they're managing.' (PS12)

'...[w]ould I want my local government to start doing climate reporting? No, because then I know my rates are going to increase like double, so that they can get the resources to report on that kind of stuff properly and it just doesn't make sense.' (PS8)

However, a number of public sector-focussed interviews also highlighted the need to weigh these concerns against the potential benefits and governance improvements of reporting, especially in the public sector context (e.g. PS6, PS14, PS16).

Some participants emphasised the need for clarity on the objectives, users, and their information needs before assessing the costs and benefits of climate-related reporting, particularly in the public sector context.

'...[b]efore we go to cost versus benefits, there needs to be clarity on the objective of the reporting, who the users are and what their needs are. It's only after that we can decide, and do more work on the actual cost and benefits.' (PS13)

For smaller NFP entities, the primary focus was often noted as being on securing funding and maintaining cash flow to fulfill their organisational purpose, rather than reporting (NFP5). Participants also acknowledged the challenges faced by service-providing NFPs in terms of their limited ability to influence and mitigate climate-related risks along their value chains (NFP7, NFP4). This discussion dovetailed with broader concerns around the extent of reporting potentially required to meet requirements relating to Scope 3 emissions, for example:

'...[s]cope 3 was never designed, or isn't, at the moment, a very exact measurement methodology, right, because there's estimation and stuff built into it, but it does give you an impression of where your risks actually are along the value chain. The issue for an organisation of our size is, if ...the aim is to drive down on scope 3, for example, right where we're not the largest organisation out there, and we're beholden to contracts with organisations that are much bigger than us. So ... we've got very limited efficacy and agency in terms of engaging with those kind of organisations to say, hey, you need to drive down your carbon emissions, because we've got a target, right? Because you're a very small fish in a very large pond. So I think that's what we're struggling with, is, you know, we've identified where our risks are, but the mitigation of those risks is actually beholden to how much influence we have, which is not necessarily as much as we would like to. So it does need to straddle that kind of question you need to ask in terms of, is the cost of reporting actually a requisite for the amount of agency you have, and what change you can effectively drive? ... Once we get to that, that baseline that we cannot reduce anymore, what do you do then?' (NFP4)

'...I struggle to see the cost benefit for a vast majority, who are typically most not for profits, particularly in my space, would be really service providers... and so, outside of perhaps employee travel, both to and from the office, but also interstate and for work, they, they don't have a lot of room to move, because they're a buyer of electricity. So you know, outside of if they own the building solar panels, which may or may not be possible, they're really caught in the market' (NFP7)

A different perspective was also offered, suggesting that the standards are not merely disclosure requirements but also aimed at improving governance and decision-making processes related to climate-related risks and opportunities in the public sector:

‘...[y]eah, and I don’t view the standards as just disclosure standards. They’re there to improve governance and make decision makers think about what are our processes around capturing these things and coming up with strategies to reduce those risks and improve the opportunities. So it’s not just about this is some burden on us that we need to disclose. It’s also, how do we actually deal with climate-related risks and opportunities?’ (PS15)

The suggestion of a tiered reporting approach was also proposed by some as a potential solution to address the varying needs and capacities of different organisations across sectors:

‘...[m]aybe a solution that ... might need to be considered is sort of a tiered reporting in some way where, you know, there is a more cut down level of reporting in terms of what we need to provide, more like, you know, tier one and tier two, etc.’ (PS13)

Although some participants also acknowledged some inevitability regarding the reporting requirements:

‘...if organisations, if sectors, keep kicking something down the road, then there will ultimately come a time where there has to be a lot of movement in very quick succession, and that causes more pain.’ (NFP6)

Others noted that the potential reporting requirements may not align to the primary focus of the organisation and may result in little benefit:

‘...[t]his is where we start to lose track of what sustainability reporting was actually intended to achieve, and that’s why I’m, like, really reluctant for the public sector to go down the path of ISSB reporting, because it pulls them away from their primary focus of supporting community and like working for the public, because they’re not anymore at that point. Now they’re working for investors, and if they’re meeting investor information needs, like, what about the public’s information needs? What about ensuring that those departments and those agencies are focusing on the things that actually matter, where the ... cost might be very, very high compared to the benefit, but the benefit is still needed.’ (PS8)

Scope of reporting: “climate first” v broader sustainability reporting

The interviews revealed a complex interplay between the emerging requirements for climate-related disclosures and the potential tensions or misalignments with entities’ established reporting practices, organisational purposes, and material issues. While there was a recognition of the growing momentum towards climate-related reporting, participants highlighted concerns that such mandatory requirements could potentially overshadow or conflict with existing sustainability reporting efforts, core purposes and broader stakeholder expectations (e.g. NFP 1).

Participants acknowledged the growing emphasis on environmental, social, and governance (ESG) factors, with some prioritising broader sustainability initiatives or social impact measurement over climate-specific reporting (NFP7, NFP4). This perspective was driven by the recognition that, for some entities, social considerations such as human rights may be more material and aligned with their core purpose than climate-related factors:

‘...I’ve heard some companies say...for example, in the health sector and others, where actually, human rights are some of their biggest, you know, and human capital are some

of their biggest areas... and yet, they're doing all this reporting on climate plus nature...' (NFP10)

'...[w]here I really see the value proposition for NFPs more broadly, is social impact measurement. Because I think for us, that makes ... much more sense in terms of reporting on social impact. So, for us, for example, you know, what is the value increment that we are actually providing to the community, and thinking about how we uplift members and uplift communities, and to really hone our reporting around that. So, I think if you go through a materiality exercise, given nature, climate and social impact, I think you'll find that climate is actually really low down the risk ladder for us, but I think social might be where we should be playing more [attention]...' (NFP4)

'...we had ... an example in relation to social housing...,and, you know, the challenge comes well, do we build more social housing, or do we build slightly less, but make what we build more environmentally sustainable by putting solar panels on which makes it more energy efficient going forward...and those are, you know, real tradeoffs that, not for profits, are having to consider, and make those calls around, and that then goes back to, you know, what are they a bit around, where their funding comes from and what are the drivers?' (NFP10)

'...make the decision as to whether climate should be a specific focus of something like the Department for Education, or if it should be on educating, because you can't look at climate in isolation. For example, when we talk about government, we're talking about much broader sustainability issues, things like human rights. These are, like, big societal needs that, yes, climate plays a part in, but it's not the primary focus of every single department. They each have their own sustainability-related issues that they focus on, and that should be their focus. They shouldn't be diverted to focus on, like the flavour of the week because of what's happening in [the] private sector or what's happening in the for profit space.' (PS8)

In a contrasting view:

'...I feel like I personally prefer S2 to S1 because actually there is a graspable sort of topic that you're addressing. Sustainability just seems too broad the topic and it might be even more difficult to implement than climate, because everybody pretty much understands the understanding of the concept of climate change, but sustainability is a bit more broadly defined.' (PS14)

And even further:

'...I think they're interested in ESG ... I don't have any, any clients that I, I'm aware of, are rushing towards S1 S2 type reporting I think they're... more interested and will continue to report. Now, whether that's in connection with the financial report or somewhere else. Might be somewhere else, there, I would say their environmental credentials, if you want to put it that way. It would be broader than S1 S2.' (NFP7)

Participants also acknowledged the existence of various climate-related initiatives and actions already undertaken by governments, such as climate budgeting, infrastructure planning and risk management strategies.

'...[y]ou will see that there are so many initiatives and so many actions the government's already taking. You wouldn't expect independent corporates out there to do that sort of thing because of the very nature of the government on government policies... a lot of that independently happens. For example, you know, we do climate

budgeting like, you know, all our budgeting decisions based on climate risk and impact and what our climate targets are, how we invest in our infrastructure to future probe, you know, a future disaster, you know, natural disaster, etc, etc. So we, we already have a lot of these voluntarily as government, it has, as, you know, good citizens and leading the state and the country in many ways. ' (PS13)

'...[t]he reporting gets done. It's just not done publicly. So, people think it's not being done, and it's like, there's a big difference there. It's done, but it's not publicly available. But people just think, oh, because an investor can't see it, that means it doesn't, it doesn't exist. ' (PS8)

Within the public sector, participants acknowledged varying levels of maturity and readiness in terms of climate-related disclosure reporting practices, emphasising the 'learning curve' that will likely develop from the private sector reporting:

'...[a]cross the council network that I work with, most of them are undertaking some form of measurement. Most of them have got multi-faceted teams sitting around a table talking about what it might look like in terms of reporting obligation, but there probably isn't a level of maturity to do much with that accurately, until some broader principles and standards are brought out. So, I think the private sector leading is going to be helpful... The public sector will probably make a better fist of rolling it out than the private sector, because we'll be able [to] leverage from their experience. ' (PS2)

Connecting information applying materiality

The interviews highlighted the importance of the concept of materiality in the context of climate-related disclosures as a key consideration, with participants emphasising the need for reliable materiality assessments (NFP10), and to consider both quantitative and qualitative factors, noting the potential lack of understanding:

'...people always go to the quantitative ... and to me, the qualitative is just as important...and I would put some of the materiality determinations around climate... around the qualitative, so because of that nature, I don't think people will understand them. ' (PS16)

One participant, noted the potential for confusion between the purposes of risk management and external accountability, stating; '...there's a broad confusion amongst those two purposes, which is basically risk management, internal risk management and external accountability.' (PS12).

Regarding the link between purpose and reporting, a concern was also raised that some NFP organisations might find themselves reporting on climate-related issues, even though it may not be the most significant material issue for their organisation.

'...there will be some where they you know, some not for profits, who might find themselves reporting on climate saying it's not the most significant thing. Well, those not for profits, probably need to be thinking, well, actually, how do I communicate what the most significant thing is, in addition to some of this climate stuff, to actually ensure that my users fully understand my organisation and don't think climate is more important than it is because of the absence of other information. ' (NFP10)

Related to this point, participants highlighted the need to consider climate-related risks and opportunities within the broader context of an organisation's overall risk management and

strategic considerations, cautioning against becoming overly focused on climate-related issues at the expense of other material risks and opportunities.

'...you need to understand that sustainability risks are only one set of risks that an organisation needs to manage. You still have business risk. You still have all the other kind of issues that you need to face. So, this is just a component of a broader risk management and identification and mitigation strategy ... I'm just very mindful that we might be going down an avenue of people getting so focused on climate and so focused on the requirements of AASB S2.' (NFP4)

'...my personal view for broader sustainability reporting is, it's two ways you can look at it, and materiality, and that judgement is... key. So what information is material to, to the user? ... and you might find for, for some companies that there may not be a lot of other risks and opportunities, for other sustainability topics that are very material to an entity. I think workplace health and safety is probably a good example of that. I think, information about supply chain and modern slavery is another example. Now, as I call those out, what's an obvious commonality between those two? They're already quite routinely reported. So, I think there's an aspect of information that's commonly reported, it's already understood and expected, and people know how to assess and what that implication can mean.' (PS3)

Materiality was also raised, with interviewees alluding to the complexity of the concept and the difficulty of its application in sustainability reporting:

'...I don't think we did ourselves any favours by having one word materiality that applies to 99 different kinds of concepts, depending on how you view it' (NFP4)

'There's a lot of ... professionals out there from the sustainability space that are not used to applying materiality judgments, and so there's a real chance here for financial professionals to explain to them the concept of materiality.' (NFP5)

Regulatory concern

The interviews revealed a growing momentum, and perceived benefits associated with adopting climate-related disclosures and sustainability reporting practices. Participants acknowledged long term motivation for providing more sustainability and climate-related disclosure:

'I feel like the motivation, the inertia, is moving aggressively toward needing to adopt and provide more information, in relation to sustainability, in relation to climate change, in relation to sustainability. So, I think ... I think there is a benefit to organisations, and it's not just, tick, we've done this, but in a future world where resources are more scarce, then that will help the organisation to adapt to that changed context and environment that they operate within.' (NFP6)

While some participants acknowledged that meaningful change would likely require mandated reporting requirements, others expressed concerns about the potential regulatory burden and distractions from core organisational purposes this could create. One participant highlighted that for any meaningful change to happen it would need to be mandated; however, they would not support such a mandate as it would add to the regulatory burden and become 'just another task that's distracting.' (NFP1) This sentiment was echoed by another participant who noted:

‘...[s]o, anything that is going to add burden is pushed back on, by the charity regulator, purely because it’s just, it’s another thing that organisations have to think about ... and in the current sea of regulatory change and additional compliance requirements... it’s concerning.’ (NFP6)

However, there was a recognition that mandated reporting requirements might be necessary to drive meaningful change, particularly as stakeholder expectations and societal pressures continue to evolve. One interviewee expressed this view, stating:

‘...if it isn’t mandated, it isn’t happening... It would only come about if there was a group of stakeholders or customers that were screaming for it. So that’s once ... organisations get some size about them, this just has to be an extension of the other reporting requirements from a compliance perspective, because I think it’s too big an issue for it to continue to be overlooked. As I say, I just think we’ve got generations coming through that will just insist on the visibility.’ (PS2)

Further, consistent with the view that compliance is a key driver, another interviewee analogised to occupational health and safety requirements: ‘No one cares about it until there’s an accident.’ (NFP1).

The interviews also highlighted challenges associated with providing forward-looking statements, a common aspect of climate-related disclosures, noting caution surrounding such disclosures, stating, ‘directors are still very scared about signing off on future looking statements, so they’re just erring on the side of caution’ (NFP4).

Resourcing and resource availability to provide information

The interviews revealed significant resourcing challenges faced by organisations, particularly in the NFP sector, when implementing climate-related disclosures. A recurring theme was the importance of organisational size, maturity, and the availability of dedicated resources and expertise in determining an entity’s capacity to effectively implement climate-related disclosure.

It was noted that traditional financial metrics alone (for example, revenue) are not accurate indicators of an organisation’s ability to handle climate-related disclosures, nor are they drivers of an entity’s environmental footprint. Instead, suggesting that the size of the finance team could be a better measure of capacity:

‘... I actually think it’s size of organisation, rather than size of, you know, financial metrics, when it comes to these. So, I would say anyone that has a finance team of more than three people is probably what I’d say, a medium size ... and anyone who has a finance team of less than three people is going to be you’re like, I have no clue what I’m doing, but we’re trying hard’. (NFP5)

‘... because the level of work and effort that would be involved is going to be very, very different because of the resources they have available, not just the size of their organisation, but actually the availability of resources and information. So I think that’s to me, that’s where the standard setters will have a role, which is how to ... support that ... proportional application of the standards they don’t, which may well involve not changing the standards or doing a differential reporting, or tiered reporting, potentially, but actually just providing greater clarity on that application’ (NFP10)

Closely tied to organisational size and resources was the need for report preparers within those entities to understand the underlying concepts and principles of sustainability reporting.

‘... the tricky part about sector neutrality in this particular form of reporting is that it’s less about, specific metrics or targets. Like it’s not this is what you do if you’re a not-for-profit, and this is what you do if you’re a for-profit, it’s actually about understanding concepts, principles of sustainability reporting. That very much is going to be tied to the maturity of the person doing the reporting in the organisation, not the type of entity. (NFP5)

Linked to this point is the challenge issue of the additional funding needed to implement any additional reporting requirements:

‘... one of the challenges for not for profits, is... how do they get the funding to do some of these reporting and disclosures when it’s seen as not core to their purpose and so often not funded, but an expectation progressively that from those funding that they will be taking. You know, they were starting to be doing more in this space and disclosing that information. But so you’ve got this sort of disconnect between what is actually being funded within a not for profit, versus what the expectations are of what they’re actually going to do.’ (NFP10)

Analysis and recommendations

The research highlights that, while connectivity in reporting is viewed as an important attribute of the reporting environment, the unique purposes, stakeholder expectations, and operational contexts of NFP and public sector organisations may require a more tailored approach to understanding and achieving effective connectivity in considering climate-related disclosure for these sectors in Australia.

It is evident from the analysis of Federal government public sector reports that, currently, except for those entities that have a strong focus on environmental issues, overall reporting of climate-related disclosure is limited and, for the information reported, connectivity to financial reporting is relatively low.

In the NFP sector, where organisations often prioritise social impact, community service, and mission-driven objectives over profit, the notion of connectivity extends beyond the linkages between climate-related disclosures and financial reporting. For example, participants from the NFP sector emphasised the importance of aligning climate-related disclosures with the core purpose, value proposition and stakeholder expectations of their organisations. This suggests that connectivity in the NFP context may involve integrating climate considerations into broader frameworks for reporting on service delivery, impact measurement and the achievement of the organisational purpose. Participants highlighted the potential for connectivity to link more directly in the integration of climate considerations into forward-looking planning and decision-making processes, rather than solely through impacts on financial reporting.

Similarly, in the public sector, the concept of connectivity may encompass the integration of climate-related disclosures with broader frameworks for public accountability, transparency and service delivery. Participants from the public sector emphasised the connection between climate-related disclosures and risk management, financial governance and going concern considerations. Additionally, the interviews revealed the potential alignment between climate-related disclosures and long-term asset management practices in the public sector, suggesting

that connectivity in this context may involve integrating climate considerations into long-term infrastructure planning, asset management strategies and the stewardship of public resources.

Recommendations

A number of recommendations for standard-setters can be made from the research findings.

There is clear support and need for the AASB to move forward **to develop a tiered or proportionate approach to climate-related disclosure requirements**. Standard-setters can promote greater alignment in the integration of climate-related disclosures within existing reporting structures, while also addressing the resourcing constraints faced by smaller organisations. In making this recommendation we note that the AASB has expressed in the Basis for Conclusions to AASB S2 that this is their intention to undertake a project to explore potential solutions for addressing scalability and cost-benefit concerns for NFP entities and smaller entities (BC84). Moving this project forward as a priority in the work program is crucial to address the challenges highlighted by entities to help ensuring proportionate and manageable reporting requirements.

As a longer-term and more significant recommendation, we recommend that the AASB consider advancing the long-running project on **service performance reporting** as a higher priority in the current work program. The interviews highlighted that there is a need for the AASB to evaluate whether climate-related disclosures is the most relevant disclosure for public sector and NFP entities, or if a broader project addressing service performance reporting should take precedence. We recommend that the AASB engage further with relevant stakeholders to establish the relative importance and urgency of service performance reporting compared to climate-related disclosures.

The role of **stakeholder education** and understanding in facilitating effective connectivity emerged as a key theme, particularly in the public sector. Participants recognised the varying levels of financial and climate-related literacy among stakeholders. To address this theme, it is recommended that the AASB develop sector-specific education materials and guidance tailored to the public sector and NFP contexts. In addition, participants from the public sector highlighted the connection between climate-related disclosures and risk management, financial governance and accountability. To address this theme, it is recommended that the AASB and/or other regulators provide sector specific guidance on achieving connectivity and alignment between climate-related disclosures and organisational aspects, such as governance frameworks and risk management considerations relevant to the public sector and NFP context.

Finally, it is recommended that further research be undertaken on the **existing internal and external reporting requirements** for climate reporting and connectivity. This analysis should aim to assess any gaps that may exist between current practices and the needs of users. By evaluating the alignment of reporting practices with stakeholder requirements, opportunities can be identified to enhance the overall usefulness of climate reporting within public sector and NFP financial reporting. In making this recommendation we note that the AASB has established a project in late 2024 to undertake a research project to investigate both the information needs of users of climate-related financial information of NFP public sector entities and guidance that might be needed to assist such entities in applying AASB S2.

Conclusion

This research report has explored the connectivity between climate-related disclosures and financial reporting for Australian public sector and NFP entities. The research findings highlight that, in the public sector and NFP sector, connectivity is a concept that extends beyond linking climate-related disclosures to financial statements. Connectivity is viewed as involving integrating climate considerations into broader frameworks for accountability, service delivery, decision-making and achieving organisational purpose and mission. Additionally, the research revealed concerns that emphasising ‘climate-first’ reporting could overshadow other sustainability issues more closely aligned with the core purposes of some entities.

Significant barriers to implementing connected reporting were identified, particularly cost-benefit concerns and resource constraints facing smaller NFPs focused on service provision. To address this, a proportionate, tiered approach to disclosure requirements is recommended by participants. Furthermore, the need for stakeholder education on climate-related disclosures emerged as crucial, especially in the public sector with its diverse user groups having varying climate/financial literacy levels.

The existing literature on connectivity for public sector and NFP entities is limited. As a result, opportunities for future research include investigating the distinct cost-benefit trade-offs of implementing connected reporting in the context of the public sector and NFP organisations, particularly in resource-constrained environments (for example, local government public sector entities) and exploring how connected reporting impacts decision-making by various types of stakeholders or organisational outcomes, such as performance or reporting in the public and NFP sectors.

The findings in this report provide a foundation for further academic research and dialogue with standard-setters and regulators to examine the distinct challenges, benefits and approaches to connectivity for public sector and NFP climate-related disclosures. In particular, our key recommendations for standard-setting in Australia offer potential impacts in helping to shape the future direction of reporting requirements at this important time in the development of reporting for public sector and NFP entities.

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Appendix A: Methodology

Annual Report Analysis

We analysed the annual reports for 164 Federal government entities. The reports were the most recent available for each entity as of 5 November 2024, resulting in a sample comprising fiscal years 2023 (88 entities) and 2024 (76 entities).

We extracted climate-related excerpts from the bodies of the annual reports based upon key words/phrases that are related to climate change (Sautner et al. 2021). Each extract comprises three sentences surrounding the key word/phrase (the sentence prior to the sentence with the key word/phrase, the sentence with the key word/phrase, and the sentence following the sentence with the key work/phrase). If the first (last) of these sentences includes a key word/phrase, then the excerpt is extended to include the sentence prior to (following) that sentence. This results in the sentences of interest always being surrounded by a sentence that does not have any key words/phrases. To avoid including excerpts that discuss of interactions with climate-related offices rather than an office's own connections, we introduced "negative" key words, including "Australian Renewable Energy Agency"; "Clean Energy Finance Corporation"; "Clean Energy Regulator"; "Climate Change Authority"; and "Department of Climate Change, Energy, the Environment and Water". These terms thus did not result in additional excerpts.

Each excerpt was scored from 0 to 5 as below.

0 – Although related to a climate issue, the excerpt does not contain a valid context to provide a connection, such as only including numbers.

1 – The excerpt includes financially material sustainability information but no explicit financial information.

2 – The excerpt includes non-financial figures and a low level of connection such that statement users must use their own resources or judgement to estimate how the sustainability impact translates to financial impacts.

3 – The excerpt includes financial figures. The climate-related issue is financially material, and the amount disclosed includes the impact of the issue.

4 – In addition to requirements for a score of 3, the excerpt includes clear financial line items or text related to financial analysis of the climate impact.

5 – The excerpt employs clear financial keywords and financial figures, placed within context. This level of disclosure allows users to understand the impact of climate-related issues with little effort.

The measure of connection is the sum of connection scores across all excerpts.