



# the future of sustainability assurance

ACCA RESEARCH REPORT NO. 86



**AccountAbility**  
institute of social and ethical accountability



# the future of sustainability assurance

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## **ACKNOWLEDGEMENTS**

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The authors would like to thank the following people for their invaluable insights: Claudia Gonella, previously of KPMG, UK; Eric Israel and Wayne Morgan, KPMG, US; Vernon Jennings, previously of Novo Nordisk; Adrian Henriques, Just Assurance, UK; Sue Todd, Solstice Consulting, Canada; Paul Hohnen and colleagues at the Global Reporting Initiative; and Dunstan Hope, BT. We would also like to thank past and present colleagues at AccountAbility, John Sabapathy, Mirahv Joseph, Jonathan Cohen and Philip Monaghan.

Importantly, we must also thank those interviewed for their expert views on where they think assurance will be in five years time: Ernst Ligteringen of the Global Reporting Initiative; Claus Frier of Novozymes, Denmark; Eileen Kaufman of Social Accountability International, US; Professor Nola Buhr of the University of Saskatchewan, Canada; Anne Gadegaard Larsen of Novo Nordisk, Denmark; Clare Griffin of Camelot, UK; Preben Soerensen of Deloitte, Denmark; Geoff Lane of PricewaterhouseCoopers, UK; Lars-Olle Larsson of KPMG (Sweden) and Chair of the European Federation of Accountants (FEE) Sustainability Assurance Group and member of the International Federation of Accountants (IFAC) Sustainability Panel of Experts, Belgium; and Professor David Owen of the University of Nottingham, UK. Finally, we are very grateful for the support, insights and guidance of Roger Adams and colleagues at ACCA. AccountAbility would like to acknowledge the ongoing support of our AA1000 work, by Novo Nordisk, Esmée Fairbairn Foundation and BAT. Any errors are, of course, the responsibility of the authors.

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# Contents

<b>Acronyms</b>	<b>6</b>
<b>Executive summary</b>	<b>7</b>
<b>1. Introduction</b>	<b>13</b>
<b>2. Developments in reporting and assurance</b>	<b>19</b>
<b>3. Dimensions of sustainability assurance</b>	<b>31</b>
<b>4. Standardising sustainability assurance</b>	<b>55</b>
<b>5. Materiality</b>	<b>63</b>
<b>6. Assurance scenarios – the world in 2020</b>	<b>71</b>
<b>7. Experts' views on the future of sustainability assurance</b>	<b>79</b>
<b>8. Conclusion</b>	<b>89</b>
<b>Appendix: Descriptions of the key standards referred to in the report</b>	<b>95</b>
<b>References</b>	<b>97</b>

## Acronyms

BAT	British American Tobacco
CERES	Coalition of Environmentally Responsible Economies
CSR	Corporate social responsibility
CSRR–QS	Corporate Social Responsibility Research – Quality Standard
DJSI	Dow Jones Sustainability Index
EMAS	Eco-management and Audit Scheme
ETI	Ethical Trading Initiative
EU	European Union
FEE	Fédération des Experts Comptables Européens (European Federation of Accountants)
FLA	Fair Labor Association
FSC	Forest Stewardship Council
GAAP	Generally Accepted Accounting Principles
GAAPS	Generally Accepted Accounting Principles for Sustainability
GAASS	Generally Accepted Assurance Standards for Sustainability
GA	Global Alliance for Workers and Communities
GRI	Global Reporting Initiative
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IFOAM	International Federation of Organic Agriculture Movements
IFSAP*	International Federation of Sustainability Assurance Providers
ILO	International Labor Organisation
ISA	International Standard on Auditing
ISAE	International Standard on Assurance Engagements
ISO	International Organisation for Standardisation
JSE	Johannesburg Stock Exchange
MSC	Marine Stewardship Council
NAO	National Audit Office
NGO	Non-governmental organisation
NRE	Nouvelles Régulations Economiques (New Economic Regulations – France)
RSPCA	Royal Society for the Prevention of Cruelty to Animals
SAI	Social Accountability International
SRI	Socially responsible investment
TRI	Toxic Release Inventory (Act – US)
UNEP	United Nations Environment Programme
UNGC	United Nations Global Compact
WWF	World Wildlife Fund

\* This is a fictional organisation, which is part of the Gold Scenario in Chapter 6.



# Executive summary

The goal of sustainable development requires that organisations take responsibility for their social, environmental and economic impacts. Credible information about performance is crucial in effectively managing these impacts and communicating with diverse stakeholders. Organisations are therefore seeking to give assurance concerning how their actions and impacts affect their stakeholders.

A variety of approaches has been developed to satisfy the demands of managers, trading partners, investors, consumers, regulators and non-governmental organisations (NGOs) for relevant, timely and accurate information relating to aspects of economic, social and environmental performance. This report provides a review of the current state of sustainability assurance and offers perspectives on where it is going in the future.

## WHAT IS ASSURANCE?

Assurance is an evaluation method that uses a specified set of principles and standards to assess the quality of an organisation's subject matter and the underlying systems, processes and competencies that underpin its performance. Assurance includes the communication of the results of this evaluation to give the subject matter credibility for its users. Auditing, verification and validation are some of the tools and processes by which assurance is obtained. Various organisations (audit firms, NGOs, quality assurance consultants) and individuals (opinion leaders) provide assurance. Assurance often is assumed to apply only to a company's published reports, but it applies equally to the assurance of the company's underlying systems and processes, as well as its products, services and governance.

Four dimensions and eight key questions have been used to map the current diverse approaches to assurance and to signpost possible future directions for development.

## 1. Assurance appetite

### *What is assurance for?*

- Meeting legal compliance requirements: eg for financial and environmental reporting.
- Convincing: building trust and credibility or gaining specific certification.
- Decision-making: ensuring credible information to facilitate decision-making by stakeholders.
- Learning: improving management systems through use of standards and processes of continuous improvement.

### *Who is assurance for?*

- Indoor stakeholders: management and board concerned with risk and value creation require assurance that information is accurate and complete.
- Back-door stakeholders: investors and regulators interested in assurance that looks at risk and legal breaches.
- Front-door stakeholders: media and NGOs remain cynical about assurance. Some customers are responsive to product certification.

### *The bottom line*

Generalised public reporting has so far driven external assurance but may not in the future. Assurance is not simply about boosting the credibility and usefulness of an organisation's claims to the outside world. Companies at the forefront of sustainability assurance developments recognise that it plays a key role in ensuring the credibility and usefulness of information flows within the organisation, particularly information from non-traditional and non-commercial sources. There may come a time when public reporting is seen to be an end-of-pipe mechanism that is part of a wider set of approaches to providing assurance employed by organisations to their stakeholders. This will mean that other drivers of external assurance will appear, as demands arise for greater alignment between stakeholders' and business's imperatives.

Therefore, sustainability assurance that is conducive to the fulfilment of different stakeholder needs will be more effective in enabling accountability to drive performance improvement. Limited forms of assurance, which guarantee data accuracy and reporting of well-established issues, can help to deliver accountability to consumers and civil society as well as performance in terms of compliance with basic standards. However, there are likely to be complex trade-offs between different areas of impact or controversies over whether issues fall within a company's responsibility or challenges that require completely new ways of working. Consequently only assurance that ensures that more than lip service is paid to stakeholder engagement, and that ensures measurement and management systems are able to translate this into learning and innovation, will be able to deliver the requisite performance changes.

## 2. Assurance methodology

*What standards and principles govern the assurance process?*

Standards inform assurance by providing normative frameworks, management standards, or process and reporting standards. They can be:

- definitive frameworks based on international agreement or accepted science
- membership requirements for specific markets or organisations
- stakeholder standards that codify concerns of stakeholder groups
- legal frameworks backed by compliance mechanisms or the potential for litigation.

*What level of assurance is offered?*

There are different levels of assurance.

- Data – is the information presented accurate and complete?
- Systems – are the systems for collecting data and managing performance robust?

- Materiality/risk – is the scope of information provided sufficient? What are the implications for the company?
- Compliance/responsiveness – is the organisation meeting its commitments, responding to stakeholders and complying with standards?
- Commentary – how well is the company doing? What else should it be doing in this area?

### *The bottom line*

A range of principles and standards can be used to govern the assurance process and provide benchmarks and guidance for carrying out the assurance engagement. The emerging global architecture of standards can be understood better when framed by two distinct sets of characteristics – what they govern and how they bite. Standards govern in three distinct ways: by prescribing what an organisation should or should not do (eg normative frameworks or laws); by providing guidance on how to do it (eg management standards); and by prescribing what an organisation should account for and how (eg process and reporting standards). Standards then 'bite' in the following ways: by providing the last word on an issue; by providing an entrance into a rating system such as the Dow Jones Sustainability Index (DJSI); by codifying stakeholder concerns; and by their basis in law.

One key remaining gap in the array of standards on offer, identified both by technical bodies and multi-stakeholder initiatives, is a common process framework for reporting and assurance of sustainability. This would require a complementary set of Generally Accepted Accounting Principles for Sustainability (GAAPS) and Generally Accepted Assurance Standards for Sustainability (GAASS), as well as a definitive management system standard (eg SIGMA). The GAASS would need to provide a common platform for assurance, integrating the range of standards that provide guidance in specific areas.



### 3. Assurance scope

#### *What issues are covered?*

Assurance can cover specific areas of performance:

- social, eg human rights, labour standards, diversity
- environmental, eg emissions, energy use, environmental management systems
- economic, eg financial performance, multiplier effects.

Sustainability assurance aims to cover overall performance.

#### *What level of organisation is covered?*

Assurance may cover different organisational units:

- specific, eg supplier audits, product level assurance and labelling
- company level – the assurance of statements, systems and metrics covering the whole company or group. This may take the form of assurance of a sustainability report, separate social, environmental and financial reports, or stakeholder engagement processes.

#### *The bottom line*

While some assurance approaches focus on a predefined set of performance indicators (financial profit and loss, carbon emissions or child labour, for example), sustainability assurance aims to capture the entirety of a company's impacts. Limited-scope assurance is useful for stakeholders interested in specific issues (a product line free from genetically modified organisms, for example) and for managers of functional areas. Sustainability assurance must cover these issues as well as emerging areas and risks, which cannot be captured with predetermined and limited scope. It is here that the material issues of concern to stakeholders will be key in defining the scope.

Materiality will be an ever-present issue, as it is in financial auditing, but it seems to be today's hot topic. For those involved in sustainability reporting, it is deemed to be the key issue in disclosing relevant and meaningful information to stakeholders, as well as

persuading the financial markets of the importance and relevance of sustainability. One of the key challenges will be in balancing out the power and influence of stakeholders, where because some stakeholder voices may be louder than others (eg media vs community group), certain issues are seen to be more material than they actually are, while others are not considered important. Nonetheless, assessment of materiality to stakeholders must form the basis of determining scope within sustainability assurance.

### 4. Assurance providers

#### *Who provides assurance?*

Assurance is carried out by a range of different providers.

External:

- audit professional
- corporate social responsibility (CSR) specialist consultancy
- civil society organisation
- opinion leaders/advisory panel.

Internal:

- functional areas
- risk assessment/internal audit
- board level.

#### *How are they able to offer assurance?*

A range of competencies is necessary:

- credibility/stakeholder representation
- general assurance competency, eg in checking data, understanding the role of assurance and analysing systems
- process competencies, eg communicating with stakeholders, determining materiality and assessing the company's responsiveness
- substantive/content competencies on relevant social, scientific, economic and industrial issues.

#### *The bottom line*

Assurance providers of sustainability reports and processes are an eclectic grouping and reflect the diversity of subject matter and approaches to assurance. They also reflect the different appetites of

stakeholders. Generally, civil society and opinion leaders tend to make more normative and prescriptive judgements, akin to evaluations of substantive performance. Professional accountants, quality assurers and CSR consultancies follow an approach similar to that in financial audit reports and limit themselves to more clearly delineated judgements about the accuracy of the data and systems that produced the information. Within the company itself, staff from relevant departments, the internal audit function and members of the board also have responsibility for collecting and verifying information and providing appropriate levels of assurance to others.

No single assurance provider is able to assure the sustainability of an organisation. Multiple sources of legitimacy and expertise will need to be involved in sustainability assurance, reflecting technical and process competencies and specific expertise. This is neither a feature of the newness of the field nor of the inexperience of those involved, but it reflects the need to understand information and concerns from outside commercial and professional spheres.

## THE FUTURE OF SUSTAINABILITY ASSURANCE

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In order to speculate on the future direction of the field of sustainability assurance and understand the kinds of dynamics that are likely to lead towards different outcomes, we have outlined three different colour-coded scenarios for the next 15 years.

### Grey

Legislation is introduced, requiring companies to disclose a range of social and environmental performance indicators. Assurance focuses on data accuracy but has little effect on improving performance.

### Gold

A set of overarching GAASS is established. Assurance moves away from a limited focus on public reporting to providing information for learning and innovation based

on stakeholder engagement and examination of management systems. This is accompanied by enabling legislation.

### Black

A multitude of competing assurance approaches initially flourish but lack of rigour leads to tarnishing of the assurance profession by involvement in mismanagement scandals. Assurance becomes an internally-directed tool for ensuring legal compliance.

The *grey scenario* offers universal application and mainstreaming beyond leading companies. However, reporting and assurance become removed from stakeholders' concerns and the basis on which performance is achieved. In the *black scenario*, approaches to assurance flourish at the outset but end in a collapse of credibility and a return to greater regulation of business' social and environmental impacts – with all the strengths and weaknesses that national regulation of the international business environment implies. The *gold scenario* provides flexibility with rigour and offers the greatest contribution to sustainable development through assurance and more enabling legislation. It remains the most ambitious outcome for advocates of sustainability assurance to aim for.

In order to see where experts in the field believe sustainability assurance will be in 2010, we asked them to give their 'real world' views, using the scenarios as a point of reference.

Respondents believe that the current diversity in approaches is likely to continue over the medium term, reflecting the needs of companies and stakeholders in relation to different industries, issues, cultures and national regulatory environments. They identify a series of mechanisms in which best practice in assurance is likely to be developed and mainstreamed over coming years, through the leadership of pioneering companies and practitioners, development of voluntary and professional standards,

and finally ‘soft’ enabling regulation. Views centre on a number of key tensions and problems facing the development of a robust and widespread assurance methodology. These include: the need to ensure both materiality and comparability, the issue of assurer liability, the problem of how to integrate the ‘three pillars of sustainability’ and the need to demonstrate that the benefits of assurance justify its costs.

A crucial step towards addressing these tensions and realising the gold scenario is the development of GAASS. To be effective drivers of enhanced organisational sustainability, these would have the following characteristics.

- **Focus on driving performance.** Assurance of timely and appropriate data and underlying systems is essential to enable stakeholder decision-making and compliance with standards and policies. Assurance that incorporates stakeholder engagement will go further in capturing controversial and contested areas of responsibility and driving necessary learning and innovation.
- **Based on materiality and stakeholder engagement.** Assurance that is limited to a predefined set of issues may overlook issues material to the present and future decisions of stakeholders and the health of the company. A redefinition of materiality is needed, that does not limit assurance to a predefined set of issues but defines it in relation to the full range of compliance requirements, policy positions, peer-based norms and stakeholder concerns affecting the organisation.
- **Enable a range of organisations and individuals to provide assurance.** No single assurance provider is able to assure the sustainability of an organisation. Multiple sources of legitimacy and expertise will need to be involved in sustainability assurance.
- **Build on diverse assurance processes.** Specific assurance processes have been developed to meet different stakeholder appetites (these include financial assurance, supply chain assurance, labelling schemes, etc). GAASS would not replace these, but provide a common platform for overall assurance, which would go further in understanding trade-offs, emerging issues and the relative importance of different areas of impact.
- **Enable integration.** Assurance must be able to provide an evaluation of an organisation’s overall performance and forward-looking indications of its abilities. Integration is not only a matter of aggregating information flows from within the company and from specific assurance processes but also of ensuring the quality of these systems, which underpin performance.

Issue-specific standards (eg SA8000) and audit-type assurance standards currently in development by accounting bodies (eg ISAE3000) offer the foundations for what could become a more stabilised architecture of standards for assurance. However, what is not clear is the extent to which such developments can provide a common platform for assurance that includes the required wide array of assurance processes and levels inherent in assessing sustainability.

What is required from standard developers, business and civil society groups is cooperation and the consequent development of an architecture of standards that integrates accounting, reporting and assurance of sustainability. The Global Reporting Initiative (GRI) provides the basis for a generally accepted reporting standard into which other standards can be drawn. The AA1000 Assurance Standard offers the basis for a common platform for assurance that allows for the inclusion of other specific standards, such as SA8000 and ISAE3000. It allows for the inclusion of stakeholder views in determining materiality and enables different assurance providers

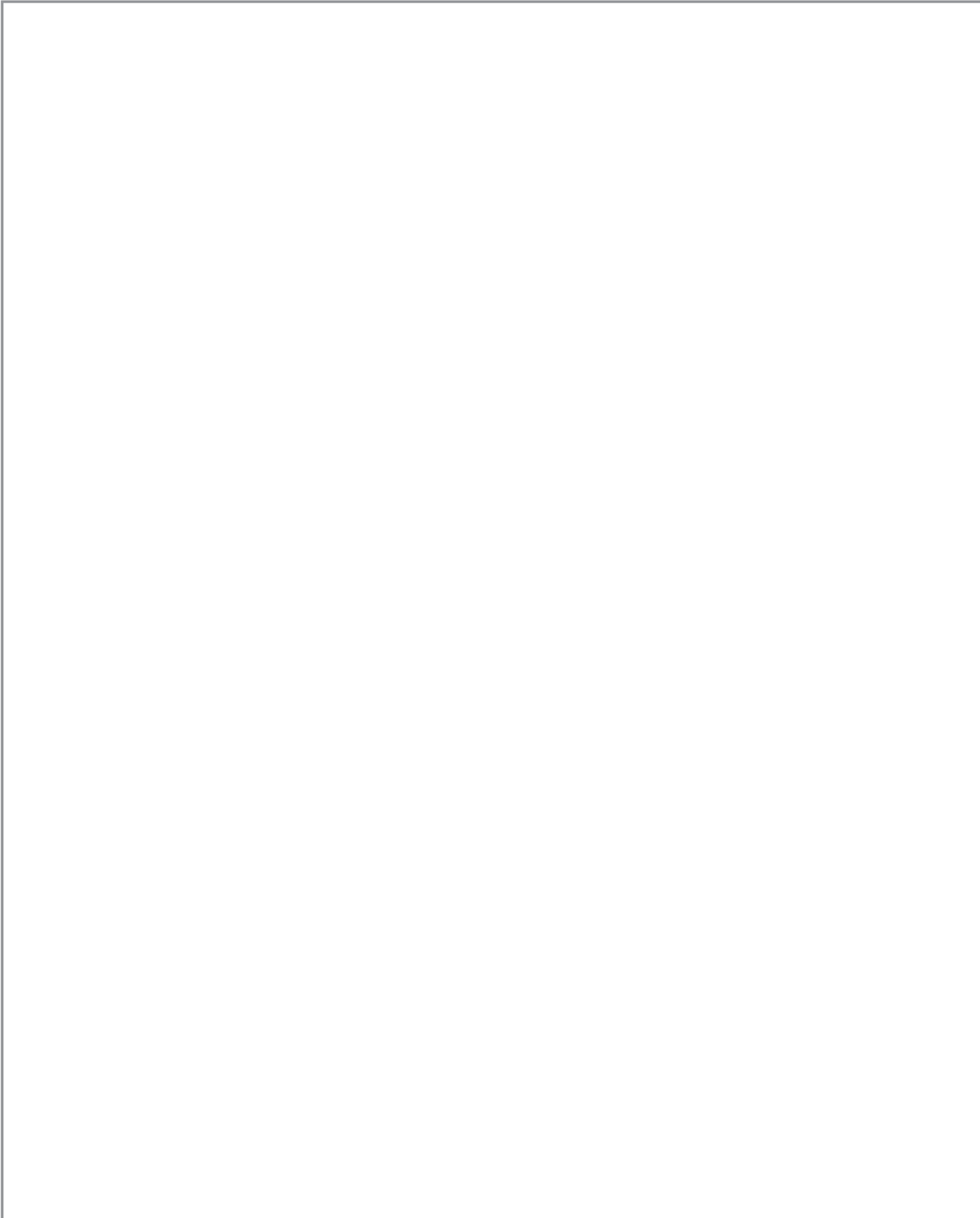
and levels of assurance to be used within a single assurance framework. AccountAbility and the GRI are consequently working closely to facilitate harmonisation between sustainability reporting and sustainability assurance.

For sustainability assurance to contribute significantly to sustainable development it must become *the way* that organisations attest to their overall performance. This will neither happen by chance, nor because it says so in any standard, but will come about only if sustainability assurance can prove itself by providing a better set of signals about an organisation's ongoing health and performance than financial figures alone.

This partly will be dependent on the development of GAASS with the characteristics outlined above, but also on the ability of regulators, investors, pricing mechanisms, industry and consumers to use this information to affect the business environment, ensuring the internalisation of environmental and social costs and catalysing significant changes in patterns of production and consumption. If this happens, sustainability assurance will become less driven by the need to appear trustworthy to all and more aligned to the needs of investors, regulators and managers to identify, reward and invest in strategies that deliver innovation and performance.

## 1. Introduction

The goal of sustainable development requires that we do not pursue activities that threaten the long-term well-being of the planet and its people.





The goal of sustainable development requires that we do not pursue activities that threaten the long-term well-being of the planet and its people, and that we address pressing issues such as the persistence of poverty. This imposes responsibilities on all of society's actors: government, NGOs, companies and individuals. For organisations, the responsibility entails managing their total social and environmental 'footprint' effectively and being accountable to stakeholders.

This report is about the future of assurance – the assurance of the social, environmental and economic performance of organisations. It examines the current state of practice in this emerging field, highlights the key questions that remain contentious and sets out future scenarios for the development of 'sustainability assurance'.

### **Box 1: What is sustainability?**

*Sustainability is the capacity for continuance in the long term. Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.* (Tomlinson 1987)

*Creating a sustainable future economically, socially and environmentally requires that the actions of governments, organisations and individuals do not cause irreparable damage to the environment and to society, which would threaten the long-term survival and well-being of the planet and its people.*

*Sustainability in the context of organisations encompasses the social, environmental and economic impacts of a business or other organisation. These impacts are judged in terms of the extent to which they contribute to sustainable development.* (SIGMA Project 2003)

Assurance is an evaluation method that uses a specified set of principles and standards to assess the quality of an organisation's subject matter and the underlying systems, processes and competencies that underpin its performance. Assurance includes the communication of the results of this evaluation to give the subject matter more credibility for its users. Auditing, verification and validation are some of the tools and processes by which assurance is obtained. Various organisations (audit firms, NGOs, quality assurance consultants) and individuals (opinion leaders) provide assurance. Assurance in this context has been associated traditionally with a company's published reports but can apply also to the assurance of the underlying management systems that deliver performance, as with SA8000 and ISO14001.

The motivation for sustainability assurance has been driven by the need for more credible information about performance, both within and outside organisations. In the main this has been in response to the demands of external stakeholders, including trading partners, investors, consumers and NGOs, for externally assured

### **Box 2: Existing approaches to assurance**

In a single company, assurance approaches might include:

- site audits for environmental pollution, and health and safety
- assurance for product certification purposes (from forest and marine stewardship to quality assurance to labour standards)
- internal and external financial audits
- use of an external advisory panel on corporate responsibility
- a check on the accuracy of data in the annual sustainability report
- a statement on an aspect of performance by an opinion leader.

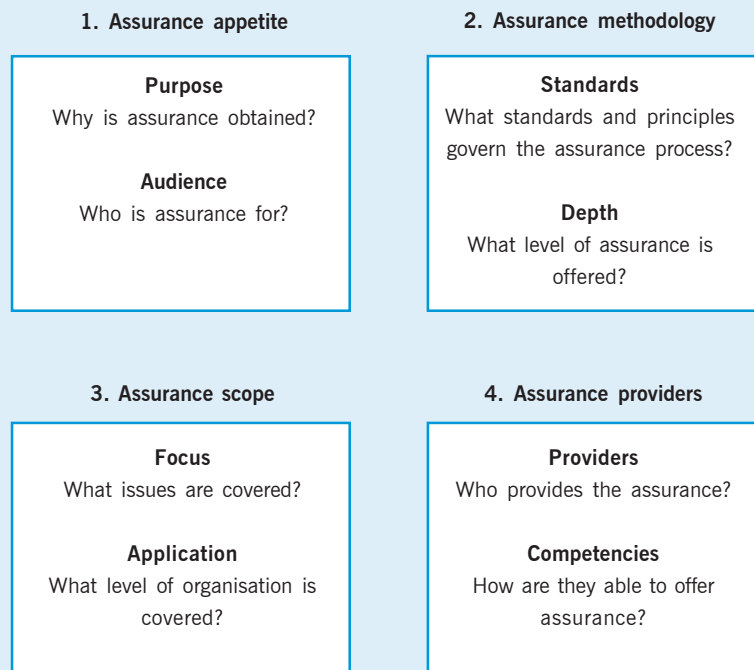
information relating to their concerns. The benefits of sustainability assurance for organisations include improved overall management of performance in relation to existing policies and commitments, improved risk management and better understanding of emerging issues.

This report therefore considers the future of approaches to sustainability assurance, including both overall assurance and more specialised models of assurance, focusing on key aspects of financial and non-financial performance. From this perspective, financial audit methodologies can be seen as being one

specialised assurance approach among many. Others may include labour standards audits in supply chains or environmental management audits (see Box 2 on page 15).

To begin to understand how and why different approaches to assurance have developed and importantly, how they fit together, a framework of four defining dimensions of assurance is used (see Figure 1.1 below). This framework allows us to describe and analyse (in Chapter 3) the current diversity of practice and the challenges and opportunities facing sustainability assurance in the future.

**Figure 1.1: The dimensions of assurance**



### **Who and what will sustainability assurance really be for?**

Will it only pertain to the assurance of reports? What kinds of assurance do different stakeholders have an appetite for? Can assurance be all things to all stakeholders, or will different kinds of assurance be needed to satisfy the demands of different audiences? Which audiences for assurance will be most significant in enabling organisations to be steered towards sustainability?

### **Which methodologies will provide the most useful and reliable basis for decision making?**

How can assurance capture organisations' capacity for innovation and future performance improvement, not just historical performance outcomes? Will assurance be standards or stakeholder driven, or some combination of these approaches? To what extent will assurance be able to meet the need for predictive information while remaining robust?

### **How will different spheres of impact be covered within a single assurance process?**

How should organisations integrate their diverse assurance practices into a single assessment? What kind of relationship will there be between financial audit and sustainability assurance – will one sit alongside the other, will sustainability concerns change the rules of financial audit or will financial audit become a component part of sustainability assurance?

### **How will the mainstreaming and standardisation of assurance allow for multiple approaches to assurance provision?**

Will professional audit-based assurance become the only method of assurance or will other kinds of providers be able to be integrated? Are there crucial areas of expertise missing from the current mix of assurance providers, which will need to be developed?

The final and overarching question is: what difference will sustainability assurance make to enhancing

organisational performance? In order to shift patterns of production and consumption towards sustainability, significant changes in technology, business operations and the market will need to take place. If sustainability assurance is to be effective in promoting sustainability, it must be able to catalyse such change.

Economic signals that promote unsustainable behaviour by not taking into account the externalised negative impacts of actions and decisions must be turned around to ensure that sustainability pays. Assurance must form part of this positive feedback loop. It must go beyond ensuring disclosure concerning compliance with basic standards and norms or levels of eco-efficiency, to be able to support and reward sustainable performance. It can do this by providing a foundation for innovation and development of new business models, better understanding of the long-term risks and opportunities that businesses face and targeted reward structures.

What kinds of assurance will be able to support the feedback loops in which sustainable choices by individuals and actions by companies are rewarded in financial terms? Certainly assurance of *performance* and not simply of *reports* will be crucial. The answer will not be just in the assurance process itself but in associated management, governance and regulation systems that enable better information about sustainability to be translated into rewards and sanctions. This may be through private mechanisms such as consumer preference, performance-related pay structures, investment decisions and insurance costs, as well as public mechanisms, including regulation and legal liability, taxation structures, licensing, planning, public procurement and public-private partnerships.

These are not idle speculations about what the future may bring, but are questions about a future that current interventions and initiatives are helping to shape. Initial experimental approaches to the measurement, management, disclosure and assurance

of social and environmental impacts by organisations are now being developed into a range of process and performance standards to enable more widespread uptake. These offer the foundations for what could become a more stabilised architecture of standards for assurance and could be developed into a set of Generally Accepted Assurance Standards for Sustainability (GAASS).

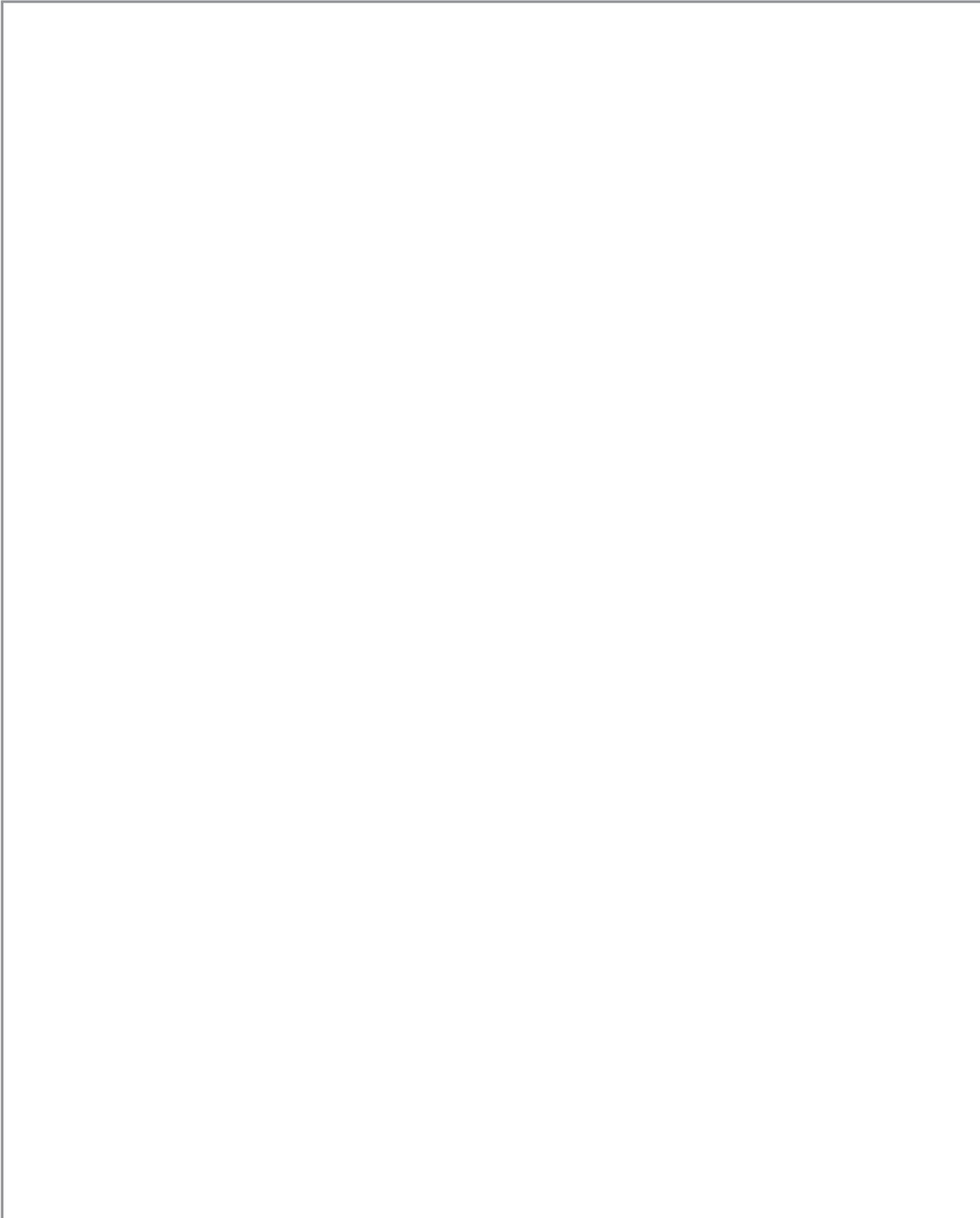
From today's rainbow of approaches, three scenarios are outlined in Chapter 6, which help explore the possibilities of convergence around a set of GAASS or of a continued lack of integration. These scenarios allow us to speculate on the form and nature that such a set of GAASS may take and the ultimate outcomes for sustainability.

Having speculated about the future, we also consulted with leading experts to get their 'real world' views about the direction in which developments in assurance are currently heading. These are presented in Chapter 7 and include comments of people from professional audit firms (Deloitte and PricewaterhouseCoopers), businesses (Camelot, Novo Nordisk), academics (Universities of Nottingham and Saskatchewan), multi-stakeholder international organisations (Global Reporting Initiative, Social Accountability International), and accounting bodies (Fédération des Experts Comptables Européens/ European Federation of Accountants).

## 2. Developments in reporting and assurance

Management of social and environmental performance, whether as a response to calls for greater accountability or part of new strategies for managing the intangible aspects of long-term business success, is now recognised as part of what constitutes a well-run business.

<b>2. Developments in reporting and assurance</b>	<b>19</b>
2.1 The rise of sustainability reporting	21
2.2 Concerns about sustainability reporting	22
2.3 The importance of reporting	23
2.4 Introducing regulation	25
2.5 Towards sustainability assurance	26
2.6 Understanding terminology	27





## 2.1 THE RISE OF SUSTAINABILITY REPORTING

Since the early 1990s, there has been an increasing interest among the business community in understanding and improving broader aspects of its performance beyond the financial bottom line. Management of social and environmental performance, whether as a response to calls for greater accountability or part of new strategies for managing the intangible aspects of long-term business success, is now recognised as part of what constitutes a well-run business.

During the 1990s, measurement and reporting became the main response by business and civil society to this recognition of the private sector's broader responsibilities. At the same time there was a steady increase in the number of reports from companies covering the social, environmental and economic dimensions of their performance. Many companies began by accounting for their environmental performance – whether as part of their environmental, health and safety (EHS) management, in stand-alone environmental reports, or incorporated into financial statements (FEE 1999; Gray and Bebbington 2002). Management and disclosure of environmental performance in particular became a mainstream concern during the 1980s, particularly in the US, with the Toxics Release Inventory (TRI) Act in 1987, the Chemical Manufacturers Association's Responsible Care Initiative (1988), and the Coalition of Environmentally Responsible Economies (CERES) Principles (1989) following the Valdez oil spill (SustainAbility 2002). Corporate environmental reports also began to emerge from companies at the end of the decade. The move towards social accounting and reporting happened during the mid-1990s, when companies such as The Body Shop International and Ben & Jerry's, followed swiftly by the 'bluechips' such as BT, BP, and Shell, began to publish social reports (Zadek et al. 1997).

Today, some form of non-financial report, whether called sustainability, social, environmental, corporate citizenship or corporate accountability report, is being published by an increasing number of large companies. In 2002, almost half of the Global Fortune 250 companies produced sustainability reports, compared with 35% in 1999 (KPMG 2002). In Canada there were 100 'sustainability reporters' in 2003, up from 79 in 2002 and 51 in 2001 (Stratos 2003).

There have been calls for mandatory sustainability reporting such as the proposed CORE Bill in the UK (CORE Coalition 2002). In an increasing number of countries, such as France, South Africa and Denmark, a degree of sustainability reporting is included as part of stock-market listing requirements. For example, the *King Report on Corporate Governance for South Africa 2002* (King Committee 2002) is a mandatory requirement that stipulates certain standards for corporate governance for companies listed on the Johannesburg Stock Exchange (JSE) Securities Exchange, and recommends three levels of sustainability reporting (although these are voluntary):

- (i) Disclosure of adherence to business principles and codes of practice that can be verified by reference to documents, board minutes or established policies and standards.
- (ii) Reporting on how the steps have been implemented (in such a way as to encourage adherence to these principles, supported by non-financial accounting mechanisms).
- (iii) Investigation and demonstration of changes and benefits resulting from the adoption and implementation of these stated business principles and codes of practice (Burke 2003). Issues most reported on include health and safety (HIV/Aids), employment equity initiatives and social investment prioritisation (including black economic empowerment). Of the top 100

companies listed on the JSE, 85% provide annual reporting on sustainability-related issues, and 77% refer to the existence of an internal code of ethics or corporate code of conduct (KPMG 2003).

Over time, this increase in volume and prominence in reporting has been accompanied by an improvement in the overall quality of such reports: not only do they now cover a wider range of issues, they address them in greater depth and are increasingly integrating the 'triple bottom line' dimensions into what is becoming the more commonly termed 'sustainability report'.

## 2.2 CONCERNS ABOUT SUSTAINABILITY REPORTING

Despite these improvements and the increased take-up in reporting, there are some legitimate concerns about the reports' quality and utility, with claims that reports enable companies to 'hide behind the mask' of apparently responsible behaviour (Christian Aid 2004). For managers and directors there is some concern that the reports have worryingly little to do with performance improvement or providing solutions to the complex issues that sustainability raises. Stakeholders would like sustainability reports to give answers to their basic questions – *How well is this company doing? What is its impact on people and the planet?* There remain some gaps, however, between what sustainability reports currently offer and these expectations.

Sustainability reports can fall short for stakeholders for a number of reasons. While sustainability is an aspiration and 'sustainability reporting' is convenient shorthand for a report that covers currently recognised aspects of social, environmental and economic performance, this glosses over the fact that many of the complexities and trade-offs in navigating towards sustainability remain poorly understood. Secondly, the increased reporting has meant more and more data,

### Box 3: Concerns about sustainability reporting

*While 80% of the FTSE 100 companies now publish environmental and sometimes social reports, the quality of their own reporting varies widely.*

(Christian Aid 2004)

*Over the last few years, the quantity of information that has to be disclosed in annual reports has reached the point where even professional investors fail to read the detail... the time has come to call a halt to disclosure for disclosure's sake. I think we have reached a point where providing less of the right quality will indeed yield more.*

(Chief Executive, UK Institute of Chartered Secretaries and Administrators)

*NGOs and other stakeholders are more likely to acknowledge progress and success if companies are candid about problems and even mistakes. Corporations need to focus on the implementation of substantive policy commitments even if that process is uneven or incomplete.*

(Bennett Freeman, Managing Director, Corporate Responsibility at Burson-Marsteller, Burson-Marsteller 2003)

*The soaring size of corporate reports – a trend also now found in financial reporting – underscores the need for a new push in relation to the closely linked areas of issue identification and materiality.*

(SustainAbility 2002)

*Social reporting is often marketed as a way to contribute to 'reputation assurance'. But nearly half of business and finance journalists in the UK feel that social reports are 'just PR gloss with little real substance'.*

(Doane 2000)

without a proportionate regard for what issues are of material importance, whether to stakeholders, the company or the overall goal of sustainable development. Thirdly, a report which contains only the 'achievements' is quite rightly accused of PR gloss. Finally, with common standards for reporting only emerging relatively recently, data remain difficult to compare – either from year to year or between companies.

In terms of improving performance, sustainability reporting can also fall short of companies' own needs. Research into the impacts of reporting has concluded that there is little evidence to date that sustainability reporting makes a difference to corporate decision making, practices and outcomes (Rubbens et al. 2002). Companies are well aware that an aggregation of common social, environmental and economic performance measures is not enough to guide a company towards sustainability. Therefore, even though sustainability reporting is becoming more common, it is still a fringe activity and remains dislocated from business decisions or basic business models. Much in the same way that traditional philanthropy was, and still is, seen as a voluntary add-on, sustainability reporting fits this mode of corporate thinking and remains disconnected from management accounting and information systems.

Some argue, however, that it is very difficult, if not impossible for a single company to account for its 'sustainability' when it is the wider market system that is unsustainable, rewarding companies that successfully manage to evade the full cost of negative impacts on society and the environment (Gray and Milne 2002).

Some critics contend that sustainability reporting will make a positive contribution to sustainability itself when it is universal, driven by legislation, backed up by external assurance and is based on an assessment that incorporates the efficient allocation and distribution of resources over time between present and future

generations. For others, reporting is a side issue. They want stronger monitoring and punitive sanctions against poor social and environmental performers.

### 2.3 THE IMPORTANCE OF REPORTING

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Sustainability reporting has been an important accountability mechanism and should not be dismissed arbitrarily. In the mid-1990s, in some cases more recently, there was little information published by companies about their human rights, labour standards, or environmental policies and impacts. Reporting has opened up the doors of companies to their stakeholders and there is recent evidence that people are beginning to take notice of reports. As illustrated in Figures 2.1 and 2.2 on page 24, a growing percentage of people have read, looked at, or heard of social and environmental reports (Globescan 2004).

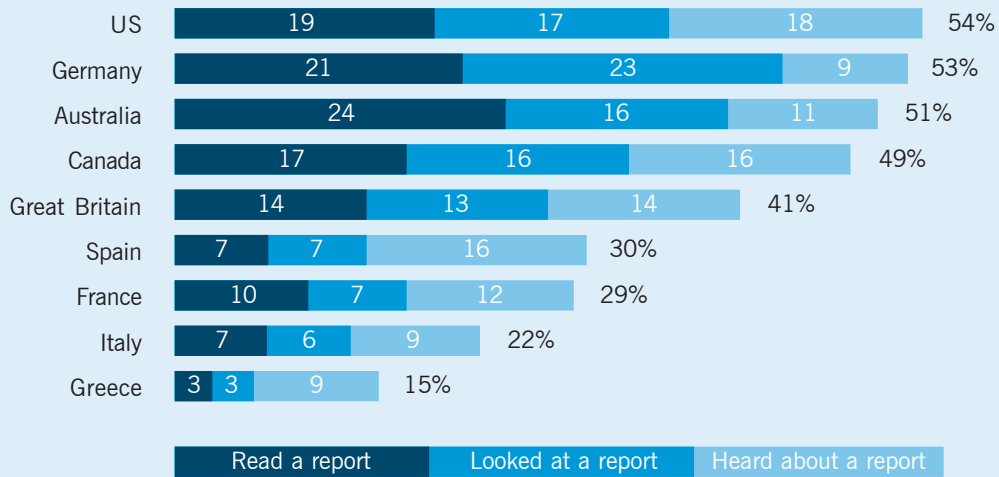
Importantly, this has also influenced the perceptions and purchasing decisions of consumers.

As the Globescan report concludes:

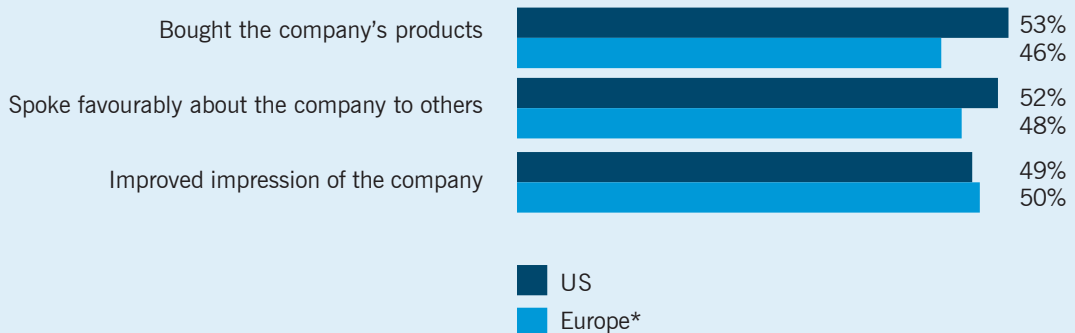
*Thus far, the conventional wisdom has been that the general consumer is not a target audience for CSR reporting. Our research not only suggests that the general public is a potential target audience, but that these reports may also be an influential way for companies to communicate their commitment to CSR, ultimately leading to better reputation and increased market share.*

Key drivers for improvement in sustainability management and reporting are coming both from within companies, in terms of a demand for better information to drive performance and from outside, in terms of the development of standards and regulation in this area. The Global Reporting Initiative (GRI), in particular, offers the basis of standardising reporting to enable comparisons over time and to provide a credible inroad to understanding and reporting on the impact of

**Figure 2.1: Percentage of people who have read or heard of a company's social or environmental report – selected countries, 2004**



**Figure 2.2: Impacts of reading a corporate social report – US versus Europe, 2004**



\* Europe includes France, Germany, Great Britain, Greece, Italy and Spain.

Subsample: respondents who have read or heard about a corporate social or environmental report.

business on society (Hawken and Wackernagel 2000). It is the principal global reference point for a standard set of sustainability reporting metrics and is being used by an increasing number of companies: numbering 500 in over 40 countries (GRI 2004a). It presents the best hope of overcoming the current weaknesses of some reporting processes.

Ultimately what is required is for the right type of information to be communicated appropriately across different constituencies, so that it not only adds value to business but also gives confidence to stakeholders. For companies struggling with a need to manage intangible assets coupled with falling levels of trust and greater demands for transparency, stakeholder engagement and disclosure backed up by credible assurance is likely to be an important development. In this context, the future of sustainability assurance will remain focused on sustainability reports but will also involve more specific aspects of performance. These aspects may be included in the sustainability report but are part of a wider process of providing assurance. Examples would include involvement in social and environmental impact assessments, auditing workplace conditions, greenhouse gas protocols or the evaluation of a community investment programme. This ensures that providing assurance satisfies the needs of stakeholders to be confident about the information, systems, products and services of a company. This then enables accountability to act as a driver of performance.

## 2.4 INTRODUCING REGULATION

There is an increasing number of calls for mandatory reporting regulations to strengthen corporate accountability. These arise from the argument that companies need to be forced to report on their sustainability, because either they won't do it of their own volition or when they do, it is incomplete and rarely material to stakeholder interests (Doane 2000). Examples of such mandatory approaches include

France's National Economic Regulations, *Nouvelles Régulations Economiques (NRE)*, which require all companies quoted on the stock exchange to include social and environmental information in their annual reports (Fatoux 2003).

What is unclear is what effect such legislation will have on the quality of reporting and its ability to influence performance; in particular, whether the level of reporting is adequate to make assurance worthwhile. Research on mandatory environmental disclosure in the US and Canada, for example, shows that

*because of materiality levels, very little detail is provided on the environmental issues governed by accounting standards. Also, accounting standards relating to environmental matters are so narrowly focused that assurance about conforming to them is not very meaningful.* (Buhr 2003)

Regulation is often narrowly defined as being only that which is enshrined in law; ironically this is often the view of non-lawyers. Lawyers, on the other hand, take a wider view of regulation, considering it to stretch from statutory control through to voluntary self-regulation, such as codes of conduct: 'thus lawyers may view regulation as existing where non-lawyers would not' (Bebbington 2003). For example, reporting and assurance can be subject to litigation, in that even though there are no reporting or assurance laws for sustainability, they are still covered by such legal statutes as 'truth in advertising'. This was illustrated in the now infamous *Nike vs Kasky* case (see Box 4 on page 26).

As well as efforts at regulating corporate responsibility through statutory measures and litigation, a plethora of 'corporate responsibility' standards and guidelines has emerged. These include broad principles, such as those of the UN Global Compact, which draws on International Labour Organisation (ILO) conventions, the Universal Declaration of Human Rights and the

#### Box 4: The case of Nike vs Kasky

Marc Kasky sued Nike for making what he believed were false claims in its social report that it paid 'on average, double the minimum wage' in overseas countries and that, 'its workers are protected from physical and sexual abuse'. He did this under Californian consumer protection laws. Nike claimed the statements were political, and therefore subject to full First Amendment protections, and not part of their advertising, which came under stricter legal requirements. Kasky contested that they were part of an advertising campaign, ie they were 'commercial speech'. The case was mutually settled in 2003, with Nike promising to invest in work-related programmes as part of the settlement. The case does, however, have implications for the future of corporate reporting, which makes assurance of information all the more important.

(Business Ethics 2004)

Rio Declaration on Environment and Development. Others are more detailed guidelines, such as the industry self-regulation standard Responsible Care, developed by the chemical industry following the Bhopal disaster. Then there are process-based guidelines, such as those embodied in the SIGMA sustainability management guidelines (SIGMA Project 2003), based on the five capital model of

<sup>1</sup> The five capital model of sustainability is: natural capital (the environment); social capital (social relationships and structures); human capital (people); manufactured capital (fixed assets); and financial capital (profit and loss, sales, shares, cash, etc). See SIGMA guidelines, [www.projectsigma.com](http://www.projectsigma.com)

<sup>2</sup> And increasingly defined, for instance, environmental performance as an aspect of quality and developed ISO standards to encompass it.

sustainability.<sup>1</sup> This draws on a range of other standards including the AA1000 Assurance Standard, EU Eco-Management and Auditing Scheme (EMAS), ISO 9000 and 14000, SA8000, and The Natural Step. The role and impact of standards is covered in depth in Section 3.2 Methodology (page 37) and further details on the relevant standards and guidelines mentioned throughout this report are included in the Appendix (page 95).

Regulation goes beyond what is enshrined in law – it affects what companies say and the way they say it, even when disclosure is voluntary. It therefore affects the way in which assurance providers go about their business. For example, assurance providers may be liable for misstatements in the information they verify. Thus, even without mandatory sustainability reporting legislation, the regulatory environment is likely to play a crucial role in the continuing development of sustainability assurance.

## 2.5 TOWARDS SUSTAINABILITY ASSURANCE

When non-financial reporting changed from being a short, glowing commentary on a company's philanthropy, embedded in the mid-pages of its annual report into stand-alone sustainability reports, external assurance became an essential part of the process. Concerns over the environmental impact of companies' production processes during the 1980s could not be assuaged by reports from the companies themselves. As in the financial sphere, information needed to be assured by an independent third party. A similar story took place during the 1990s, when concerns over labour standards in supply chains and human rights abuses in developing countries led to the development of 'social auditors', supplier audits and certification schemes (Zadek et al. 1997). Alongside the development of social and environmental audits, quality management audits such as those of the ISO family emerged as a way of improving the quality of a company's product and services.<sup>2</sup>



Assurance of sustainability reports has subsequently been on the rise. Research by UNEP and SustainAbility shows that of the top 50 companies globally, only 4% in 1994 had reports assured, which rose to 28% in 1997, 50% in 2000 and 68% in 2002 (SustainAbility 2002). Similarly, KPMG's international survey of sustainability reporting shows that in 2002

*of the 112 GFT250 (Global Fortune) companies that issued a report, 33 (29%) had their report independently verified, compared with 19% in 1999. In all, 25% of leading companies' reports were verified, with 65% of those being undertaken by the major accountancy firms (KPMG 2002).*

The sectors and countries leading the way were the oil and gas and finance sectors, and UK, Japanese, Danish and Dutch companies.

Companies have not been the only organisations open to external assurance processes. NGOs, and public-sector bodies in particular, have opened their doors to different forms of scrutiny. People in Aid for example, a consortium of the leading development NGOs in the UK and Ireland, has developed a code of conduct for human resource management for aid workers. The signatories not only sign up to seven principles relating to their human resource management, but are externally audited against them (Davidson and Raynard 2000), in this case by Ethics Etc, which is also the external verifier for the Co-operative Bank and the Guardian newspaper group. Similarly, InterAction, the largest alliance of NGOs in the US, has a set of 'Private Voluntary Organization Standards', which its members sign up to. They have engaged Social Accountability International (SAI), the developer of the SA8000 standard, to accredit their members (Social Accountability International 2004). Interestingly, the same NGO and assurance consultancies are providing assurance both for companies and NGOs.

Formal assurance is only one method for gaining credibility in reporting, however. Less formally, demonstrable openness to criticism and bad news, the use of widely accepted performance standards and benchmarks as well as the involvement of stakeholders and experts also provide a degree of triangulation and legitimacy.

Early exponents of 'triple bottom line', sustainability reporting and related assurance provision have been experimental. Different companies and assurance providers have taken different approaches to the questions of the role of assurers, the type of assurance and the competencies, expertise and legitimacy required of providers. The following chapters highlight the different approaches taken to answering these questions. First, a word on terminology is required.

## 2.6 UNDERSTANDING TERMINOLOGY

The language and principles of the financial accountancy profession have been brought across into the world of sustainability assurance to ensure its rigour. The European Federation of Accountants (FEE), for example, refers to the International Auditing and Assurance Standards Board (IAASB)'s definition when describing assurance engagements (see Box 5 on page 28). Likewise, Standards Australia, in its proposed guidelines for the 'verification, validation and assurance of environmental and sustainability reports' (Standards Australia 2003), uses terms familiar to financial accountants (reliability, completeness, materiality), as does AccountAbility in its own AA1000 Assurance Standard (materiality, completeness). However, differences in terms and meanings remain. For example:

*it is commonplace to observe that the term 'auditing' is used far more widely than just to mean the 'attestation of accounts'... In particular 'social auditing' and 'environmental auditing' are employed in different ways to mean very different things. (Gray 2000)*

**Box 5: Definitions of assurance, auditing, verification and validation**

**Assurance**

*Assurance can be described as the provision of confidence or certainty by an independent assurance provider to a party or group of persons in relation to certain subject matters. (FEE 2003)*

*The result of a process of planned activities used to provide confidence as to the degree of reliance that can be placed on the reported environmental and related performance. (Standards Australia 2003)*

*Assurance is an evaluation method that uses a specified set of principles and standards to assess the quality of a reporting organisation's subject matter, such as reports, and the organisation's underlying systems, processes and competencies that underpin its performance. (AccountAbility 2003a)*

**Auditing**

*Auditing is an assurance engagement in which the credibility of information is enhanced to a high level. (FEE 2002)*

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. (Institute of Internal Auditors – 2003)*

**Verification**

*A confirmation, through obtaining and evaluating objective evidence that specific requirements are fulfilled. (Standards Australia 2003)*

*A test of detail in which a matter is confirmed by reference to very persuasive evidence, such as checking a disclosure to third-party documentation. (FEE 2002)*

*The assessment (audit) carried out by the environmental verifier to ensure that an organisation's environmental policy, management system and audit procedure(s) conform to the requirements of Regulation (EC) No 761/2001. (EMAS 2003)*

**Validation**

*A confirmation, through obtaining and evaluating objective evidence that the requirements for a specific intended use or application have been fulfilled. (Standards Australia 2003)*

*The assessment carried out by the environmental verifier to check that the information and data within the organisation's environmental statement are reliable, credible and correct and meet the requirements set out in Annexe III, point 3.2. (EMAS 2003)*

The conclusion of a study of some 160 triple bottom line reports and their assurance statements shows that there was

*great variability in the titles of the assurance statements, even where the work undertaken by the assurance provider and the form of the assurance statement appears to be similar. (CPA Australia 2004)*

The definitions set out in Box 5 illustrate the type of language used, the difference in the definition of particular terms (eg assurance) and between terms (eg between auditing and verification).

This mixture of terms reflects the different approaches to assurance currently undertaken. The Eco-management and Audit Scheme (EMAS) does not use the term 'assurance', preferring 'verification and validation' and 'audit frequency' and also states that the assessment (audit) is carried out by the verifier. With EMAS, verification concerns the affirmation of the company's policies as well as the management and audit of systems, whereas validation relates to whether the data are reliable, credible and correct. However, for Standards Australia, verification is an assurance of the *accuracy* of data, and validation is assurance of the *relevancy* of data. The Fair Labor Association (FLA 2004) doesn't use any of the terms, instead preferring 'monitoring' to sum up the process of assuring the working conditions of employees in the factories of apparel suppliers.

The titles of the 'reports' or 'statements' delivered by providers further show the diverse use of terms for what, in essence, is a similar approach: (independent) auditor's report, auditor's statement, independent assurance report, (independent) assessment statement, independent statement, third-party review, external verification, verification statement, independent review. All these are used in the variety of sustainability reports on offer.

**Box 6: The meaning and purpose of an assurance engagement**

*Assurance engagement means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence that intended users can have about the evaluation or measurement of subject matter that is the responsibility of a party, other than the intended users or the practitioner, against criteria. (IAASB 2003b)*

*The assurance process aims to assess and communicate the level of confidence that an organisation and interested parties can place on its reported environmental and related performance. The ability to perform such assurance relies upon the verification of reported information, which in turn requires a review of the processes used to collect, analyse and report the information. The assurance process may also require an assessment of the extent to which a report meets its intended purpose. (Standards Australia 2003)*

*Assurance should provide confidence in the report's underlying information to the reporting organisation's stakeholders, particularly the direct users of the report. (AccountAbility 2003a)*

Variety in use of terms to describe 'assurance' and related statements may continue and will obviously vary according to the subject matter in question.

Homogeneity may come about as sustainability reporting and assurance become more standardised.

However, in the meantime there is a danger that confusion about terms will translate into practice.

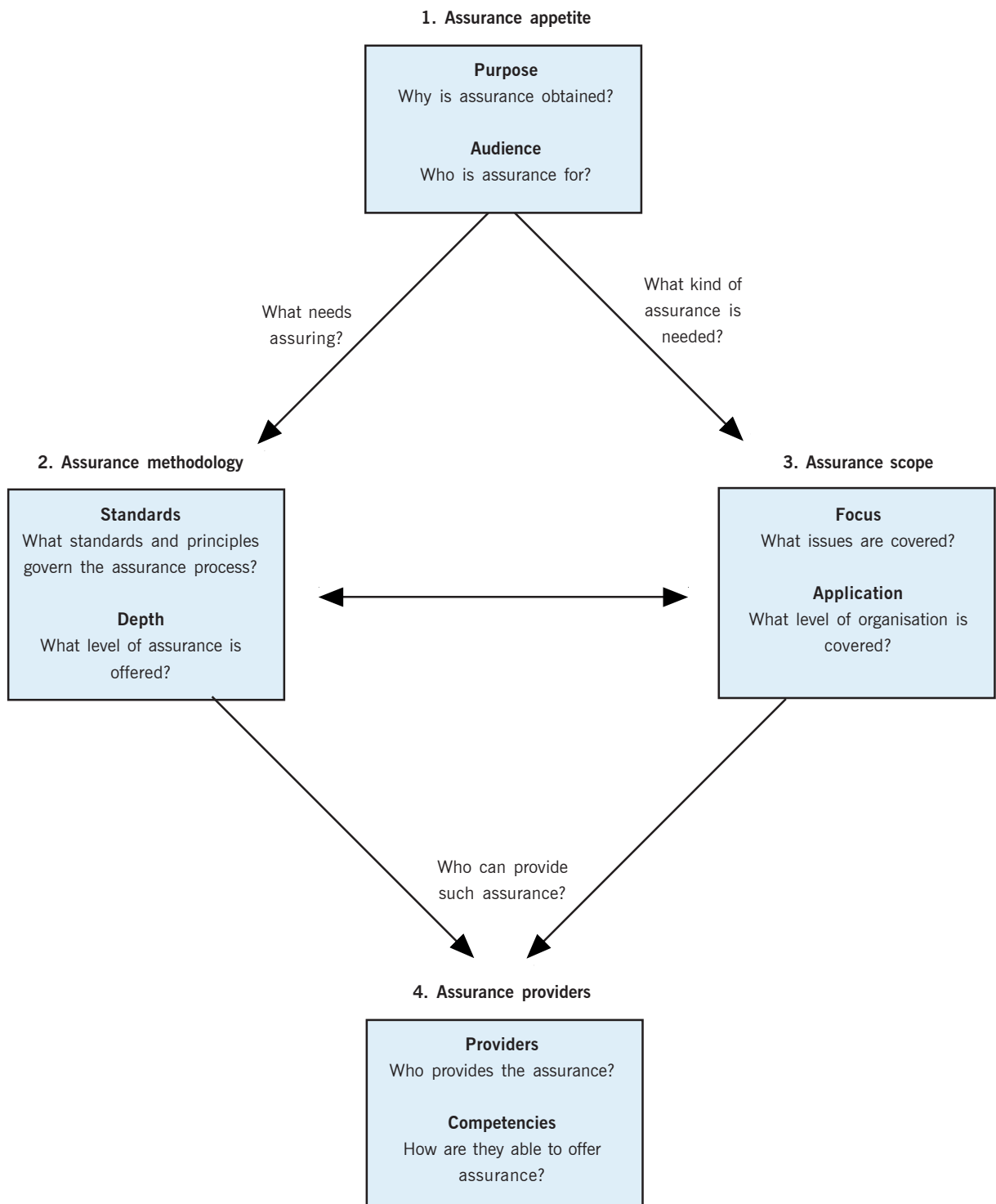
Although it may not halt attempts by companies to be more sustainable, it may well restrain the role of assurance in achieving this goal.

### 3. Dimensions of sustainability assurance

Competing assurance providers are developing and promoting their own proprietary approaches to assurance, while others are trying to create standards that may or may not be compatible with these approaches.

<b>3. Dimensions of sustainability assurance</b>	<b>31</b>
3.1 Appetite	33
3.2 Methodology	37
3.3 Scope	43
3.4 Provision	46

Figure 3.1: Assurance dimensions driven by assurance appetite



Looking across a range of companies, or even a single large company with diverse constituencies, a wide spectrum of assurance approaches can be seen: site audits for environmental pollution as well as health and safety; assurance for product certification purposes (from forest and marine stewardship to farm assurance to labour standards), risk assessment, internal and external financial audits, an annual assurance advisory panel on corporate responsibility, a thousand-figure fact-checking operation for sustainability reporting, a genial but challenging letter in the annual report from a green guru – all these constitute different approaches to assurance, for different issues, needs and stakeholders. Meanwhile, competing assurance providers are developing and promoting their own proprietary approaches to assurance, while others are trying to create standards that may or may not be compatible with these approaches.

To begin to understand why these different approaches have developed, their strengths and weaknesses as well as how they fit together, we can look at four dimensions of sustainability assurance. Within each dimension there are two key questions, whose answers characterise assurance in practice.

#### 1) Assurance appetite<sup>3</sup>

*Purpose* – why is assurance obtained?

*Audience* – who is assurance for?

#### 2) Assurance methodology

*Standards* – what standards and principles govern the assurance process?

*Depth* – what level of assurance is offered?

#### 3) Assurance scope

*Focus* – what issues are covered?

*Application* – what level of organisation is covered?

#### 4) Assurance providers

*Providers* – who provides the assurance?

*Competencies* – how are they able to offer assurance?

Figure 3.1 on page 32 shows how these dimensions of assurance are linked; here we see that the needs of the assurance audience inform the type and scope of assurance required and therefore the competencies of assurance providers able to offer it.

### 3.1 APPETITE

#### **Purpose: what is assurance for?**

The legal requirements for rigorous financial assurance are well established and historically rooted (although recent accounting scandals highlight their weakness). Environmental reporting and assurance also increasingly are encouraged by legislation. In the US, for example, the TRI Act of 1987 makes disclosure of certain toxic emissions mandatory. Sustainability assurance (and reporting) however, remains voluntary in nature, depending on organisations recognising the benefits of assurance.

The returns from being more socially responsible and accountable have been termed the ‘business case’ (of course, much of the ‘business case’ rationale also applies to other forms of organisation, such as not-for-profit, public sector and cooperative organisations). The starting point for sustainability assurance then, is to understand its purpose and benefits. This is made clear in the GRI’s guideline on assurance (GRI 2002):

*The use of assurance processes should be considered in terms of the value they may bring to reporting organisations, especially where stakeholder expectations have been determined and support for such processes has been identified.*

Assurance ascertains that relevant, accurate and trustworthy information is available to support effective decision making, both internally and externally of the organisation.

<sup>3</sup> This analogy of appetite is similar to that used in risk assessment, where it pertains to the level of risk a company deems to be acceptable. Assurance appetite means that stakeholders have different appetites for assurance, depending on their interests, which require different forms of assurance.

*Internally*

For employees, senior management and the board:

- To provide credible and useful information to support management.
- To improve systems and risk management by alignment with emerging standards of reporting and performance in sustainability and learning from the expertise supplied by assurance providers.

*Externally*

For investors, regulators, consumers and civil society:

- To meet legal, stock market and supply chain requirements as a prerequisite for trading.
- To back up claims and to respond to demands from stakeholders for externally assured information relating to their concerns.
- To provide specific assurances through certifications such as social and environmental labels.

Such credible information and the learning it enables, translate into organisational performance through:

- better management of performance in relation to policies and commitments
- better risk management and understanding of emerging issues
- innovation in response to emerging issues and non-traditional information sources
- investment attracted to companies seen to have good management of sustainability issues
- consumers and potential staff attracted to products and companies which are assured as meeting certain standards
- non-commercial partnerships enabled – civil society organisations willing to provide information and work in partnership where there is assurance of the fairness of the process.

Like the business case for corporate responsibility however, the case for sustainability assurance varies:

there is no 'one size fits all'. It varies according to the type of company in question, the issues it faces and the stakeholders who make up the audience for assurance.

Indeed, there are some companies where the business case for sustainability assurance is not seen to be compelling, despite a strong commitment to corporate responsibility. For example, ITT Flygt in Sweden, which came ninth in UNEP/SustainAbility's top 50 reporters (SustainAbility 2002), state in its sustainability report that:

*This report has not been verified by a third party. It is our objective to present a well-balanced, transparent overview of ITT Flygt's values, policies, management, performance and products. All information has been checked, and to the best of our knowledge, verification would not have added value in terms of credibility.* (ITT Flygt 2001)

For other companies (perhaps in less trusting countries than Sweden), the need for assurance has been brought home by the realisation that their glossy, expensive and well-intentioned social, environmental or sustainability reports were not gaining them goodwill or trust and would need to be made more credible if they were to be of any use. In fact, this cynicism has given rise to a number of external reports, which parody the style of corporate sustainability reports. These are akin to the audits carried out by Social Audit Ltd during the 1970s (Medawar 1976; Gray et al. 1996), whereby an external organisation, such as Friends of the Earth, produces a damning critique of the performance of a large company, in this case *The Other Shell Report*. The reports are replete with an 'independent' audit statement from a similar campaign organisation – FOE's 'auditors' were the Refinery Reform Campaign (FOE 2003).

As outlined above, assurance is not simply about boosting the credibility and usefulness of an organisation's claims to the outside world. Companies



**Box 7: Are the benefits of sustainability assurance proven?**

Although business benefits for the practice of corporate social responsibility have been shown empirically (Weiser and Zadek 2000; SustainAbility 2001), sustainability assurance is a new discipline and the business benefits are largely asserted rather than proven. As with the evidence for a link between responsibility and financial performance, it is difficult to ascertain cause and effect. For example, various studies on the effectiveness of the EU's Eco-management and Audit Scheme show 'EMAS organisations to be more innovative and have a significantly better performance concerning turnover and exports' (EMAS 2003). However, it is not clear whether the firms that apply for EMAS certification are more innovative and better performing firms in the first place, or whether the process itself helps them.

at the forefront of sustainability assurance developments recognise it plays a key role in ensuring the credibility and usefulness of information flows within the organisation, particularly information from non-traditional and non-commercial sources.

**Audience: who wants to know?**

Assurance is useful when it is able to meet different stakeholders' assurance appetites based on what they want to know about and whom they trust. A useful division is made between the needs and concerns of 'indoor', 'front-door' and 'back-door' stakeholders and between individual and institutional stakeholders.

*'Indoor' stakeholders*

Management and the board of directors are concerned with risk as well as value creation. They require assurance that the information on which they base

their decisions is accurate and complete as well as assurance that they are not missing out on issues and risks material to future performance. Employees need to know that health and safety, employment conditions and standards as well as overall performance, are part of the continuing strategy for business success.

*'Front-door' stakeholders*

The media and civil society organisations are generally concerned with misdeeds and will openly criticise companies when they are seen to be negligent on social or environmental issues. Often seizing on hot issues and instances of hypocrisy, they are usually cynical about ongoing assurance, particularly by professional audit firms. Some consumers are responsive to third-party assurance associated with product labelling schemes.

*'Back-door' stakeholders*

Investors and regulators have more formal and more complex relationships with companies and are most interested in assurance that looks at risk and legal breaches. Increasingly, they are also interested in the social responsibility of the company as part of their investment strategy. Disclosure guidelines such as those issued by the UK Association of British Insurers (ABI) are part of a growing set of standards in this area.

Individual stakeholders – staff members, consumers, pension holders and other small investors – are often not the primary audience for assurance: they lack the time or strength of motivation to exert influence individually on the thousands of companies that affect their well-being. Their concerns are reflected collectively (but often imperfectly) through institutions such as trade unions, NGOs and investment funds. In a few cases, however, groups of individual stakeholders *may* be the audience for assurance. One example of this is assurance linked to social and environmental product labels or certification schemes (such as the Royal Society for the Prevention of Cruelty to Animals

**Box 8: Different audiences demand different forms of assurance – the case of GMs**

Different groups of stakeholders are likely to demand different types of assurance concerning a single issue, for example genetically modified (GM) organisms.

- Some consumers want assurance that products are 'GM Free', preferably as a store-wide assurance from a retailer or as a product label. So far they have been willing to take the brand owner's word for it.
- Other consumers have been willing to accept the assurance of scientists and the government that GM foods are safe.
- Many supermarket buyers want assurance from their suppliers that products they source are GM-free (to within an agreed margin) including documentation of supply chain traceability and lab tests.
- The media are not very interested in the continuing assurance of GM-free food – if anything it is a matter for the consumer and lifestyle pages; unless, of course, it goes wrong. Revelations that 'GM-free' cornflakes were contaminated with GM maize would be front page news.
- Development NGOs and environmentalists want assurance that an invitation to engage in dialogue with biotech companies will not be a waste of time or a 'greenwash' PR exercise. Many anti-GM campaign organisations are not interested in assurance of the fairness of any engagement. Their positions are so completely antithetical to that of biotechnology companies that they see no point in engaging.
- Investors in biotechnology and food companies want an assurance that the companies in which they invest have the systems in place to understand and deal with the controversies surrounding their products.
- Agricultural biotech companies need stakeholder engagement and assurance systems to help them understand and deal with the concerns of end consumers who are three or four steps removed from their primary customers. (They could have done with having such systems in place earlier in the 1980s when consumer concern over GM food was dismissed as a fringe matter.)

(RSPCA)'s 'Freedom Food' label which assures animal welfare standards for meat products). Often, where individual stakeholders are interested in assurance, it is not on a company-by-company basis but on a sector-wide basis, in order to compare different companies or products. Independent investor, consumer and employment rating schemes such as the Dow Jones Sustainability Index, Great Place to Work and the UK supermarkets' rating project, Race to The Top are examples of assurance which aims to attest to performance and the quality of information on a sector-wide basis.

### 3.2 METHODOLOGY

The key questions in terms of the methodology of assurance concern the standards and principles that govern the assurance process and the level of assurance that is therefore offered.

#### Standards

A range of principles and standards can be used to govern the assurance process as well as provide benchmarks and guidance for carrying out the assurance engagement. Box 9 on page 38 lists some of the best known. (The Appendix on page 95 provides details of a number of these standards.)

These standards do not interlock neatly in an issue-by-issue way. Any one area of concern may be covered by a multitude of different standards, regulations and guidelines emanating from technical standards bodies, multi-stakeholder coalitions, UN and other intergovernmental bodies, governments, industry bodies and a growing body of certification and rating schemes. The problem for a company is in understanding which is most useful, relevant, credible and compatible with stakeholders. Importantly, this raises problems for an assurance provider in two main ways: first, does the fact that normative issues are embodied in such standards as the UN Global Compact make them material enough to be appropriate subject matter? Secondly, which are the

suitable criteria against which an evaluation of the subject matter information can be made? For example, if a company claims that it has committed to the Global Sullivan Principles, which cover ILO labour standards, how do these marry with the UN Global Compact principles, which also cover such labour standards, as appropriate, ie material or subject matter? And what are the links between these and the GRI as suitable criteria? This last question is beginning to be answered with the GRI now aligning core indicators against the nine principles of the UN Global Compact (GRI 2004b).

The emerging global architecture of standards can be understood more readily when framed by two distinct sets of characteristics – what they govern and how they bite.

Standards work in three distinct ways.

1. By prescribing what an organisation should or should not do – normative frameworks and laws provide a basis of responsibilities, expectations and principles of sustainability, ie 'subject matter', against which to assess performance. Examples of these include The Natural Step, Responsible Care and the UN Global Compact.
2. By providing guidance on how to do it – management standards provide more detailed and practical guidance concerning how to manage performance in relation to these issues and responsibilities. Examples include EMAS, the SIGMA guidelines, and the Global Alliance for Workers and Communities' capacity building to improve workplace conditions in supply chains.
3. By describing what you should account for (and how) – process and reporting standards provide 'suitable criteria' for assurance. These standards do not set normative goals but rather a framework for reporting and assurance of substantive issues and

**Box 9: Sustainability standards used to inform sustainability assurance processes**

AA1000 Assurance Standard  
 AA1000 Framework  
 Amnesty International's Human Rights Guidelines for Companies  
 Association of British Insurers Guidelines  
 Better Banana Project  
 Coalition of Environmentally Responsible Economies (CERES) Principles  
 Corporate Social Responsibility Research – Quality Standard (CSRR-QS)  
 Dow Jones Sustainability Index (DJSI)  
 Eco-Management and Audit Scheme (EMAS)  
 EU Eco-label  
 Ethical Trading Initiative Base Code  
 Ethos Reporting Guidelines  
 European Foundation for Quality Management  
 Fair Labor Association assessments  
 Fair Trade Labelling Standards  
 Forest Stewardship Council  
 FTSE4Good  
 IAASB ISAE3000  
 International Federation of Organic Agriculture Movements (IFOAM) Organic Standards  
 Investors in People  
 ISO14000 / 9000  
 Global Compact  
 Global Environment Management Initiative  
 Global Reporting Initiative  
 Global Sullivan Principles  
 Greenhouse Gas Protocols  
 London Benchmarking Group  
 The Natural Step  
 OECD Guidelines  
 Responsible Care  
 Sarbanes–Oxley  
 SA8000  
 Sustainability – Integrated Guidelines for Management (SIGMA) Project  
 WHO/UNICEF International Code on Marketing of Breast-milk Substitutes

standards. The main relevant standards for sustainability reporting are the GRI guidelines. Relevant standards and guidelines for assurance in this area include the AA1000 Assurance Standard, Standards Australia, IAASB's ISAE3000, FEE's Guidelines, as well as the Swedish institute FAR's guidelines.<sup>4</sup> IAASB's ISAE3000 will be widely taken up as IFAC regulates the accountancy profession. Legislation covering issues such as truth-in-advertising and libel are relevant here also.

In each of these areas, standards may be integrated, generalised or specific to a single area of performance such as human rights or emissions.

Standards 'bite' in a range of ways:

1. By providing the last word on an issue. Definitive frameworks may not have formal processes of scrutiny, reward or censure attached to them at a company level. Rather they may carry weight by virtue of their broad legitimacy, widespread international acceptance or their basis in accepted scientific fact.
2. By providing an entrance. Membership requirements for certification and rating schemes as well as stock markets specify protocols and principles of performance, disclosure and assurance as conditions of entry. Examples include the various organic labelling standards, the Forest Stewardship Council, the Fair Labor Association assessments and SA8000 as well as the King Report's requirements on corporate governance for the JSE Securities Exchange in South Africa. Most recently, a standard (CSRR-QS 2003) has been developed for SRI analysts to ensure the quality of their findings,

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<sup>4</sup>Föreningen Auktoriserade Revisorer (FAR) is the professional institute for qualified professionals in the accountancy sector in Sweden. See [www.far.se](http://www.far.se)

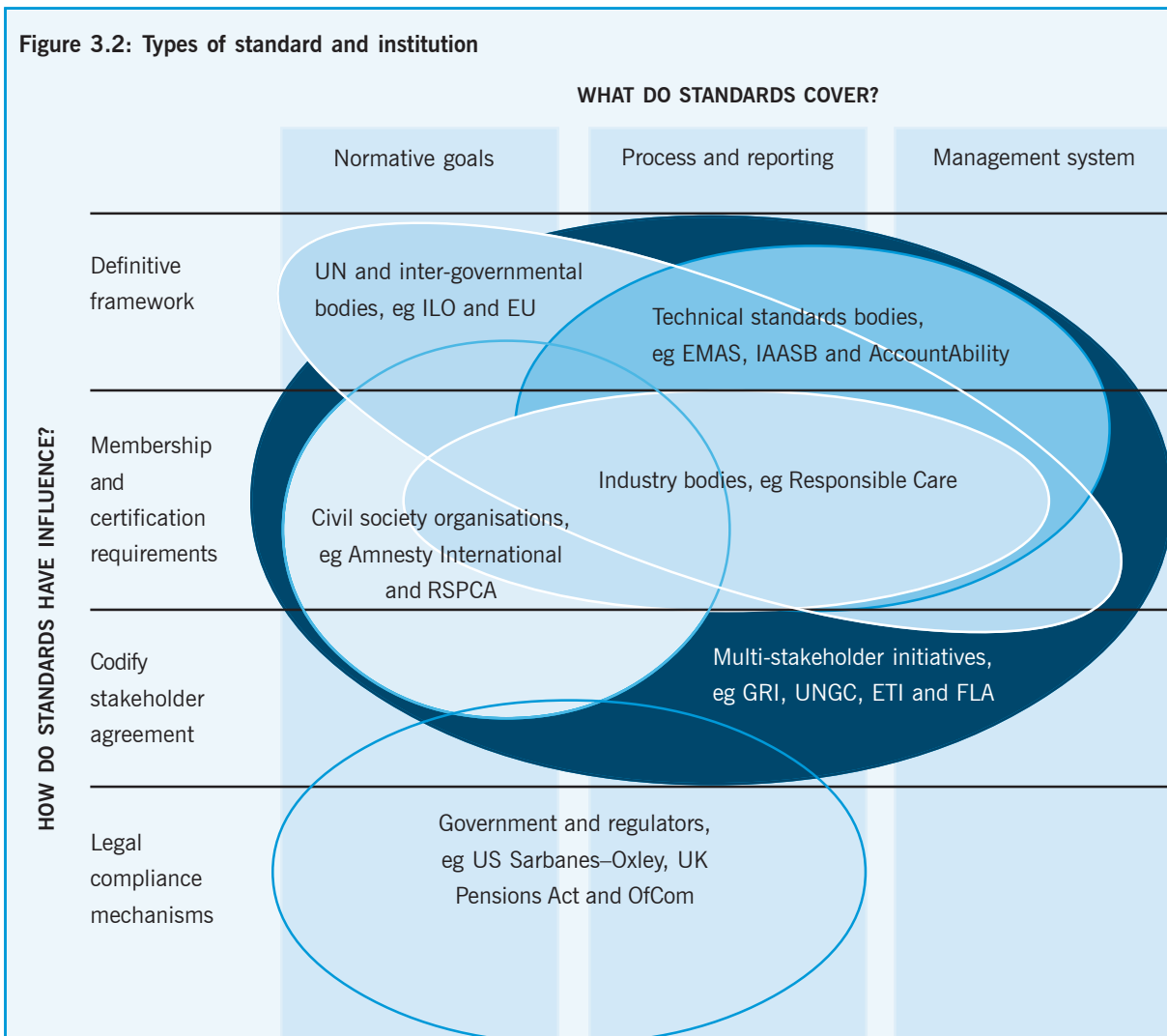
aiming to 'improve quality management systems, and to stimulate transparency, to facilitate assurance processes, and to form a basis for further verification procedures'.

3. By codifying stakeholder concerns. Stakeholder and multi-stakeholder standards codify the concerns and demands of stakeholders. Examples include standards emanating from individual civil society organisations such as Amnesty International's Human Rights Guidelines for companies and the increasing number of standards developed from multi-stakeholder processes, such as the Forest

Stewardship Council, the Ethical Trading Initiative and the Global Reporting Initiative.

4. By their basis in a law. Legal frameworks are backed by compliance mechanisms or the potential for litigation. Examples include substantive regulations around issues such as consumer protection and environmental impacts and mandatory disclosure legislation such as that embodied in Belgium's social labels which enables consumers to identify products that have been produced according to ILO conventions on labour standards, the UK Pensions Act and the US TRI Act.

**Figure 3.2: Types of standard and institution**



Some standards combine a number of functions or sources of influence. The SA8000 standard on labour conditions in supply chains, for example, covers normative goals and management systems and is backed both by a membership/certification scheme and the legitimacy derived from its development from a multi-stakeholder process involving companies, labour unions and consumer NGOs.

None of the ways of working or sources of influence is limited to a single organisation. However, different types of organisation have tended to develop archetypal standards, from the definitive, normative frameworks of UN bodies such as the Universal Declaration on Human Rights to the process and management system focus of technical standards bodies. These trends are mapped out in Figure 3.2 (see page 39), which shows the general patterns of clustering of different types of standard in relation to the institutions that have developed and promoted them. Over time, standards can change the way they work, for example moving from being membership based to becoming accepted as definitive, or even legally binding.

Multi-stakeholder based standards and organisations, from the UN Global Compact to the Forest Stewardship Council, cover the broadest range of forms as they have attempted to fill in the gaps between existing standards.

One key remaining gap that has been identified, both by technical standards bodies and multi-stakeholder initiatives, is for a definitive process framework for reporting and assurance of sustainability – a complementary set of Generally Accepted Accounting Principles for Sustainability (GAAPS) and Generally Accepted Assurance Standards for Sustainability (GAASS), as well as a definitive management system standard for sustainability. There are a number of emerging standards developing in these areas – notably, the GRI Guidelines for Reporting, and the

AA1000 Assurance Standard, FEE's guidance on sustainability assurance, accounting bodies such as Standards Australia and the publication of IAASB's ISAE3000 for assurance, as well as the Project SIGMA guidelines for management.

What is clear, however, is that any definitive standard for sustainability assurance needs to be able to accommodate and integrate different types of standard, in particular, reporting standards. This is because they offer different mechanisms for ensuring credible and useful information to meet the needs of different stakeholders (both internal and external) and to provide relevant guidance for specific sectors and issues, which could not be captured at a generalised level. As a response to this need, AccountAbility and the GRI are working closely to facilitate harmonisation between sustainability reporting and sustainability assurance. This cooperation is with a view to making it easier for companies wishing to apply various standards concerning their sustainability performance.

**Depth: the truth, the whole truth and then what?**

One of the most striking differences between assurance approaches is in the depth of assurance offered. Some assurance is limited to attesting 'the truth', ie only that data presented by the company are accurate, while some go further to specify 'the whole truth and nothing but the truth', ie that data presented are accurate, complete and relevant. A few go on to make a pronouncement of guilt or innocence for misdemeanour against sustainability and suggest measures for restitution.

The issue of 'levels of assurance' is a thorny subject in any of the triple bottom line spheres of sustainability, let alone when they are integrated. The AA1000 Assurance Standard outlines the factors upon which levels of assurance can be determined. These depend on the extent and quality of the following:

- information available
- sufficiency of information
- underlying systems and processes
- internal assurance processes
- existing assurance for specific aspects of performance
- resources allocated for assurance by the organisation
- legal or commercial constraints
- competencies of the assurance provider.

When the provider is making final conclusions, the ISAE3000 states:

*Where the subject matter information is made up of a number of aspects, separate conclusions may be provided on each aspect. While not all such conclusions need to relate to the same level of evidence-gathering procedures, each conclusion is expressed in the form that is appropriate to either a reasonable assurance or a limited assurance engagement. (IAASB 2003a)*

The following sets out in more detail the different levels. An assurance engagement will probably include more than one of these levels and often all of them (note: they are not set out in the sequence in which they would be undertaken).

#### *No external assurance*

Information is not backed up by external assurance but rests on the reputation and reliability of the system, organisation or individual providing it.

#### *Reported data accuracy*

The most basic level of assurance is data-checking, so that the information presented in public reports is accurate; furthermore assurance providers may attest that, for the issues selected, the information disclosed is complete. For sustainability assurance, this type of historical data accuracy assurance is more common at this level.

#### *Effective systems*

At the next level, assurance may ascertain that the systems for collecting data and managing performance on these issues are robust and reliable; additionally it may make recommendations for how these systems may be improved. Again, the development of sustainability management systems, which incorporate internal audit and link various relevant departments, is still at a nascent stage.

#### *Materiality and risk*

Beyond checking the information offered by the company, a materiality-based approach to assurance goes further, in taking a view on whether the nature of this information is relevant to the needs of intended users/stakeholders, and how the definition of materiality has been achieved (eg whether stakeholders were involved in identifying indicators). Novo Nordisk's verifier, as early as 1995, took an approach of checking not only the accuracy of data and systems behind them, but also the extent to which the information was meaningful and met the needs of stakeholders.<sup>5</sup>

#### *Compliance and responsiveness*

Assurers also may be asked to come to conclusions about the extent to which the organisation is meeting its own commitments, responding to stakeholders and complying with legal and other standards on these issues. In some cases this may mean a pass or fail, or a rating outcome in the case of assurance linked to certification schemes and formal standards, or a more quantitative assessment of responsiveness, such as that undertaken by Bureau Veritas in the assurance of BAT's social reporting (Sayce 2002).

#### *Commentary*

As well as normative recommendations based on companies' own commitments and recognised standards, assurers sometimes offer their own

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<sup>5</sup> Vernon Jennings (previously of Novo Nordisk) personal comment.



**Box 10: Excerpt from Ernst & Young’s assurance statement to BP management (BP 2003)**

Our responsibility in performing our assurance activities is to the management of BP plc only and in accordance with the terms of reference agreed with them. We do not therefore accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance any such third party may place on the Report is entirely at its own risk.

**What did we do to form our conclusions?**

This year we have further aligned our assurance process to AccountAbility’s AA1000 Assurance Standard and have reviewed whether in our opinion the Report is in accordance with the Global Reporting Initiative’s 2002 Sustainability Reporting Guidelines (GRI). In order to form our conclusions we undertook the steps outlined below. The text highlighted in *italics* indicates new tasks undertaken this year.

1. Interviewed a selection of BP executives and senior managers.
2. *Reviewed BP’s approach to stakeholder engagement through interviews with key stakeholder relationship holders in BP.*
3. *Reviewed BP’s internal processes for reviewing the sustainability reporting practices of peer organizations.*
4. Reviewed a selection of external media sources for reports relating to BP’s adherence to its policies.
5. Assessed information and explanation about the Report’s data, statements and assertions regarding BP’s sustainability performance.
6. Reviewed selected documents, such as board and ethics and environment assurance committee minutes, to assess management awareness of performance against non-financial policy commitments.
7. Reviewed health, safety and environment, *community investment, ethics dismissals and*

*diversity and inclusion (graduate recruitment and group leadership) data samples and processes.*

8. *Reviewed BP’s processes for determining material issues to be included in the Report.*
9. *Reviewed the information received at group level on which judgements of the issues to be disclosed are based.*
10. *Assessed whether BP’s reporting (which includes both the environmental and social web content and the Report together) are in accordance with GRI.*

**Level of assurance**

There are currently no final guidelines from AccountAbility on agreed definitions for levels of assurance when using the AA1000 Assurance Standard. We planned and performed our review to obtain information and explanation that we considered necessary to form our conclusions against each of the AA1000 Assurance Standard’s assurance principles (materiality, completeness and responsiveness), within the terms of reference agreed with BP management.

**Limitations of our review**

The scope of our work was limited to a sample of 10 visits to operational sites out of approximately 150 material reporting units. Our observation of stakeholder engagement activities was limited to BP’s engagement activities that coincided with our planned work schedule. Our review of data processes only included the following data sets: health, safety and environment (HSE), community investment, ethics dismissals and selected diversity and inclusion data (graduate recruitment and group leadership). Our review of these data processes at operations level was limited to the 10 operational sites visited. A review of BP’s performance against the UN Global Compact Principles was not included in our scope of work.



commentary on how well the company is doing and what else it should be doing in this area. This is most often the case when the assurer is someone who represents specialised expertise or the interests of a particular group of stakeholders. Also common is the use of opinion leaders, who make evaluative statements on the substantive performance of a company. They bring with them not only expertise relating to the particular aspect of a company's performance (eg greenhouse gas emissions) but also legitimacy among stakeholders concerned about such an issue. This latter form of assurance fits in least well with the formal definitions of assurance imported from the financial reporting world. However, this type of assurance certainly can play a role in satisfying the appetites of stakeholders for assurance that the organisation is 'doing well' or 'to be trusted' in terms of sustainability.

Considerations of assurance provider reliability have been important in informing the level of assurance provided (see Box 10 opposite). This is most certainly an issue in the financial world as the infamous Enron affair and subsequent scandals have shown. But it is possibly more so when we once again think about the difficulty in capturing the 'auditability' of sustainability issues and metrics. Professional audit firms have tended not to attest to the relevancy of data or the scope of information, confining themselves to assurance of data accuracy and the systems from which they were sourced. FEE's guidelines on providing assurance on sustainability reports sum up the problem to a certain extent:

*In a financial statement audit, the auditor does not report on the operation of systems of control, only on the amounts and disclosures in the financial statements that arise from their operation. In contrast, assurance on a sustainability report may include the existence and operation of systems within its scope. The assurance provider may have to consider the risk of system failure not only in relation to the disclosure of data but also in relation to the evidence necessary*

*to allow assurance to be given directly on the operation of the system (which may involve aspects that are not in the sustainability report).* (FEE 2002)

IAASB's ISAE3000 is useful in its approach to what is essentially a risk issue for assurance providers, by distinguishing between 'reasonable' and 'limited' types of assurance. This is discussed in more detail in Chapter 4, 'Standardising sustainability assurance'.

While concerns about reliability certainly constrain the level of assurance provided, conversely, its existence offers a guarantee of the quality and competency of the assurance provider. By providing assurance, they put their reputation and capital on the line, which can then enhance stakeholders' trust in the assurance process.

### 3.3 SCOPE

#### Focus: from hot spots to all-over sustainability

Assurance and reporting processes often have developed with a focus on performance in particular areas of social, environmental or economic impact as shown, for example, in Table 3.1.

**Table: 3.1: Areas of social, environmental, or economic impact**

Social	Environmental	Economic
• Human rights	• Emissions	• Financial investments
• Labour standards	• Energy use	• Employment creation
• Diversity	• Water use	• Sourcing and procurement
• Corruption	• Materials use	• Philanthropy
• Conflict resolution	• Biodiversity	• Product development
• Health and safety	• Transport	• Facilities' siting

Note: The Global Reporting Initiative provides a comprehensive set of indicators that cover these three dimensions.

The business case for assurance in these specific areas has been felt strongly, particularly following exposés, challenges and crises in stakeholder confidence. For example, there has been an explosion in assurance related to sourcing and certification around factory and plantation labour standards in developing countries with schemes and initiatives such as the Fair Labor Association (FLA), the Global Alliance for Workers and Communities (GWAC), the Ethical Trading Initiative (ETI) and SA8000. Other areas with strong demand for assurance have included: human rights auditing, greenhouse gas emissions, carbon trading and sustainable forestry. For some companies, the demand for an overall approach to sustainability assurance has grown out of a desire to coordinate these multiple information streams and approaches to reporting and assurance, as a way to simplify and improve management and reporting and maximise brand-level benefits.

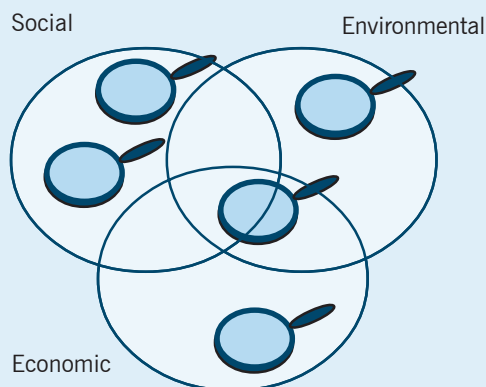
The drive towards sustainability assurance is understandable and should follow the direction taken

by the development of full-cost and risk-based accounting. However, as previously highlighted, while there are social, environmental and economic components to companies' impacts on sustainable development, it is not simply the case that social, environmental and economic impacts can be aggregated in some algorithm of sustainability (Gray and Bebbington 2002).

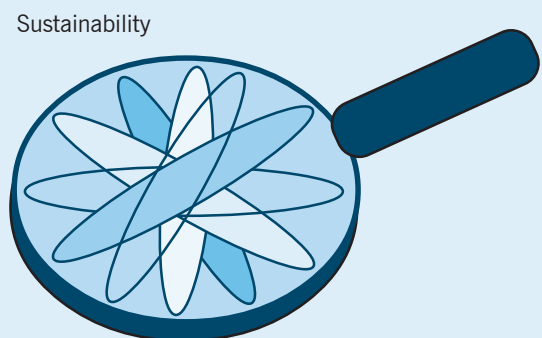
Furthermore, while there are islands of 'auditability' where clear and recognised standards and rigorous measurement metrics make accuracy possible, other areas remain contested and difficult to measure with any kind of accuracy. Even where accuracy of measurement is possible there remains the question as to whether the right approach to understanding the issues is by means of such measurement processes. For example, often in environmental reporting only direct impacts are accounted for. There is little in the way of 'full cost accounting', where the impact of a company's pollution on a local population is considered

**Figure 3.3: The sustainability assurance challenge under the magnifying glass**

How to get from this...



...to this



in addition to pollution levels (Gray and Bebbington 2002). The challenge for the assurance process is to get beyond auditing only what is 'easy to get at' and clearly bounded, to assuring material issues of concern to stakeholders.

**Application: where does assurance take place?**

As highlighted above in the discussion on issues, assurance occurs at different levels within a single company.

*Specific assurance*

Specific assurance may be focused on a site, a supplier or a product line in order to provide accurate and detailed information for ongoing management and improvements at a functional level – such as eco-efficiency or labour standards. In some cases this may be the responsibility of internal staff. Where issues are particularly sensitive or complex, however, or where assurance is required to obtain environmental or social product labels, external assurance providers are used.

*Company and group level assurance*

Company and group level assurance concerns the assurance of statements, systems and metrics covering the whole company or group. This may take the form of assurance of a sustainability report, separate social, environmental and financial reports or stakeholder engagement processes. The complex structure of individual companies, holding companies and groups raises challenges for the boundaries of responsibility and assurance. BAT, in its social reporting process has been straightforward in its approach to this issue by publishing, alongside its group-level report, country-level social reports for many of the areas in which it operates (to date it has published 26 country social reports, from Argentina to Zimbabwe).

While specific assurance is necessary and useful at a functional level, company-wide assurance should not be limited in scope at the outset by the company itself. Assurance of a predetermined, limited area of company

activity is likely to overlook important areas of impact and receive little credibility from external stakeholders. A much stronger approach is to define materiality in relationship to a company's stakeholders and involve them in determining the subject matter to be included in the reporting and assurance process.

The ability to provide effective assurance of the sustainability performance of the company as a whole depends on the quality of information assured at lower levels, in relation to specific issues or areas of operation. In addition, however, one of the more contentious areas in terms of scope relates to the boundaries of a company's responsibility. For example, the labour and employment practices of suppliers and environmental externalities, such as greenhouse gas emissions, increasingly are coming within the scope of accepted responsibility of major companies through legislation, civil society pressure and the potential for foreign direct liability litigation (Ward 2001).

This is not being ignored by such processes as the GRI, which has grappled with the issue of boundaries (Adams 2001) and now states:

*Organisations using the guidelines may have complex internal structures, multiple subsidiaries, joint ventures, and/or foreign operations. Particular care should be taken to match the scope of the report with the economic, environmental, and 'social' footprint (ie the full extent of its economic, environmental, and social impacts). Any differences should be explained. (GRI 2002)*

The key issue in determining the scope for assurance, both in terms of what parts of a company are included, and what issues are covered, must be *materiality*. Moves to define and put into practice a workable and rigorous approach to materiality are discussed in greater detail in Chapter 5.

### 3.4 PROVISION

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#### Providers

Assurance providers of sustainability reports and processes are an eclectic grouping and reflect the diversity of subject matter and approaches to assurance. They also reflect the different appetites of stakeholders.

Broadly they can be divided between:

- (a) professional audit firms (eg PwC, Deloitte, KPMG, Ernst & Young)
- (b) quality assurance firms (eg Bureau Veritas, Lloyds Register, SGS)
- (c) specific CSR assurance consultancies (eg Just Assurance, The Reassurance Network, Verité, Solstice)
- (d) civil society assurers (eg Rainforest Alliance, WWF, RSPCA, COVERCO)
- (e) opinion and NGO leaders/advisory panels (eg internationally renowned individuals with particular expertise, such as Paul Hawken, co-author of *Natural Capitalism* (Hawken et al. 2000), Jonathon Porritt of The Natural Step, John Elkington of SustainAbility, Sophia Tickell of Oxfam). In addition, use is made of external advisory panels to assist companies in various aspects of their accounting and reporting (eg determining materiality, accounting scope).

Within the company itself, staff from relevant departments, the internal audit function and members of the board also will have also responsibility for collecting and verifying information and providing appropriate levels of assurance to others. As yet, however, their role in providing information and their relationship with assurance providers is unclear. For example, there is no clear definition of the role to be played by internal auditors, although views are emerging. The Institute of Internal Auditors (IIA) sees

its role in this area as including ensuring that risk control systems are robust, directors are trained in social and environmental matters, policies are aligned with up-to-date standards, and that management systems support such policies (Institute of Internal Auditors 2003). To date, there is little evidence that there is a great deal of engagement on the part of internal audit functions with the sustainability assurance process. As risk assessment begins to incorporate a wider range of factors, it is likely to become involved more in sustainability issues. For example, in the US, leading experts in risk management fear that SOX404 of the recent Sarbanes–Oxley Act focuses too narrowly on financial risks alone; they are trying to go beyond this to assess the quality of their internal controls to manage wider risks (Russo 2004).

#### Providers' competencies

As discussed above, approaches and methodologies for assurance are not limited to particular kinds of provider, however different types of assurers tend to have strengths in different areas of expertise. Generally, civil society and opinion leaders tend to make more normative and prescriptive judgements, akin to evaluations of substantive performance. For example, in The Co-operative Bank's *Partnership Report 2002* (Co-operative Bank 2003), Jonathan Porritt of The Natural Step comments,

*The proportion of the bank's energy derived from renewables continues to remain extremely impressive... It would be good to still see a higher priority on the systematic reduction of energy consumption within the Report, as much of the 2002 decline resulted from vacation of premises. It's good to see that the bank is still vigorously pursuing sustainable transport policies despite having to tackle an increase in employee miles and greater use of car hire, where the bank has less control over the use of low emission and efficient vehicles.*

Professional accountants, quality assurers and CSR consultancies follow an approach similar to that in financial audit reports, and limit themselves to more clearly delineated judgements about the accuracy of data and systems that produced the information. For example, Deloitte & Touche's independent assurance statement of Novo Nordisk's *Sustainability Report 2002* (Novo Nordisk 2003), states that:

*We have reviewed the Report and its preparation considering the objective of the Report and its accordance with GRI's 2002 Sustainability Reporting Guidelines, as described in 'About the report'. In this part we reviewed the systems, structures and processes applied by Novo Nordisk as described in the Report (excluding quantitative data) and as required in 'the Novo Nordisk Way of Management' pertinent to the company's Triple Bottom Line approach. Our engagement included a review of evidence supporting the subject matters and performing such other analytical procedures and interviews as we considered necessary in the circumstances. We believe that our review provides an appropriate basis for our conclusion.*

To some extent the difference in the two statements reflects the jobs that different types of provider are invited to do, but it also reflects their own lines in the sand concerning what types of assurance they are prepared to take on.

What makes a good assurer is not a straightforward issue to which there is a single answer. Shell realised this early on:

*We have yet to resolve how assurance can best be achieved. There are a number of possibilities including: the use of auditors who are developing their expertise in this area; the use of new firms who specialise in this form of assurance; inviting non-governmental and other organisations to review specific areas of the Group's activities; or a mixture*

*of the three. We will explore all of these options.* (Shell 1999)

Shell was not only looking for the technical competency required for the checking of quantitative data but also competency in terms of the substance of the issues, which in turn enhances credibility in the eyes of stakeholders. This issue is reflected in the nature of accredited monitors of the FLA, where it is stated that:

*In those instances where accredited external monitors themselves are not leading local human rights, labor rights, religious or other similar institutions, [they shall] consult regularly with human rights, labor, religious or other leading local institutions that are likely to have the trust of workers and knowledge of local conditions.* (FLA 2004)

The competencies of financial auditors are secured by recognised certification. For sustainability assurance there is not yet a parallel structure of professional development. Developments in this area include auditor certification/accreditation related to the SA8000 (see Box 11, page 48), the FLA and the AA1000 assurance standard.

Because of the diverse nature of sustainability issues and company operations, the range of competencies needed varies according to the area of focus and the type of assurance provided. These include:

- technical competencies and orientation
- process competencies
- substantive/content competencies.

#### *Technical competencies and orientation*

General assurance competency, for example in collecting and checking data, understanding the role and responsibilities of assurance and analysing the underlying systems of management. There are varied technical competencies as well as approaches to

**Box 11: SA8000 accreditation process**

SAI accredits organisations – known as certification bodies – to conduct audits certifying workplaces as complying with SA8000.

Accreditation must be earned before a firm can have its staff perform SA8000 certification audits. Accreditation is a process similar to licensing, wherein SAI evaluates an applicant certification firm's capacity to audit a workplace thoroughly for compliance with SA8000. This process includes an audit of a company's written policies, procedures and documentation.

The ongoing accreditation process also includes the following:

1. office audit: office review and interview with staff
2. witness audit: observation of auditors conducting SA8000 audits
3. periodic re-evaluation: surveillance audits.

Accreditation applicants must demonstrate adherence to SAI accreditation criteria. Criteria include the requirements that the certification body shall document how it will effectively obtain and maintain information about working conditions from regional interested parties, NGOs and workers. For example, such information gathering could take the form of a semi-annual public meeting in each country or region, with minutes available for all auditors plus a system to acquire relevant informational publications.

Source: Social Accountability International (2004)

checking the accuracy of data. Some assurance providers will take a risk-based approach, focusing on material aspects of performance data, while others check all the data presented. In terms of sustainability, all the Big 4 audit firms are strong in this type of competency and this often informs their approach in that they will confine their role to the checking of accuracy of data, as opposed to their materiality.

*Process competencies*

Process competencies are specific to sustainability assurance in terms of identifying and communicating with stakeholders, of being able to determine materiality and assessing the quality of responsiveness and completeness. These competencies are characteristic of market researchers, 'CSR/sustainability' assurance consultancies, and those involved in conflict resolution.

*Substantive/content competencies*

Substantive/content competencies of assurance providers to understand the wide range of social, scientific, economic and industrial issues that relate to a company's business are crucial. Complex issues relating to a company's social and environmental performance are much more problematic from a risk perspective than for financial assurance since suitable criteria are often less established. Much comes down to the judgement of the assurer and therefore the level of risk associated with an assurance statement is higher. The levels of assurance will therefore vary according to the type of issue and its 'auditability'. Drawing on IAASB's ISAE3000, this would mean there would be a distinction between a 'reasonable level' and 'limited level' of assurance (See Chapter 4 for a more detailed analysis).

Quite clearly no single individual or even organisation will have all the necessary competencies to ensure a credible assurance process in the eyes of all stakeholders (though there are provisions for the use

of specialists in assurance assignments in financial terms).

Often the solution for assurance has been to combine the expertise and legitimacy of different assurance providers either within a team or by using a combination of approaches such as professional assurance combined with civil society commentary (eg Novo Nordisk, Shell) or an advisory panel of experts (eg BT's external advisory group, although ultimate responsibility for the assurance process lies with Lloyds Register, the company's main assurance providers). However, the use of individual opinion leaders in this way is unlikely to be replicable on a large scale, simply because there is a limited number of renowned figures in the world.

Table 3.2, on pages 50–53, outlines the types of assurance providers involved in the assurance process of leading companies that have produced sustainability and accompanying reports between 1999 and 2004. It also illustrates examples of the types of standards used by both the provider and company as part of the reporting and assurance process.

This overview highlights how companies, depending on the issues material to their stakeholders, are drawing on a range of different assurance processes and related standards.

The issues of conflict of interest and the assurance provider's independence and impartiality are as important as competency. As with financial assurance, a conflict of interest can be seen to arise when the provider has previously carried out consultancy work, such as providing advice on human resource management or corporate governance to the reporting organisation. To date, there has been a lack of clarity as to what this means for the role of sustainability assurance providers, but there is concern that conflict of interest issues are not being addressed adequately.

Those organisations providing or having previously provided consultancy services (eg in stakeholder engagement or environmental management systems), are seen to be compromised when providing assurance of sustainability reports. However, in order for providers to understand the nature of the business and the substantive issues in question they may need to get closer to the organisation than, say, a financial auditor would. As Sd3 states in the 'Independent assessment statement' for Royal Mail Group's health, safety and environment report (Royal Mail Group 2003):

*Sd3 have previously advised the Royal Mail Group on aspects of sustainability and as such are well placed to understand the organisation. We have not, however, been involved in the development of any part of this report and currently do not have any other contacts with the Royal Mail Group.*

Although this faces the issue of conflict of interest head on, this may be seen by some stakeholders as falling short of independence. The AA1000 Assurance Standard provides guidance on independence (see 7.2 'Assurance provider independence' in AccountAbility 2003a) and the provider 'is required to make a public statement of independence covering each assurance assignment' that includes a declaration of independence, conflict of interest policies, and 'an account of any recent, ongoing, or potential financial or commercial relationships'. More specific guidance may be required in this sensitive area (AccountAbility 2004). Then there is the issue of the impartiality of the assurance provider. Impartiality concerns its ability and willingness to fulfil the agreed assurance assignment without the provider's understanding, judgement or statements being unduly influenced by the nature of its relationships with the organisation's stakeholders. See the AA1000 Assurance Standard (AccountAbility 2003a) for further guidance on impartiality.



**Table 3.2: Companies and their assurance providers 1999–2004**

	Professional audit firm	Quality assurance provider	CSR consultancy	External advisory panel	Civil society opinion leader	Assurance providers	Examples of standards used*
BAA	•		•		•	Deloitte & Touche, the company's financial auditor, has provided financial data as they relate to sustainability. Casella Stanger, an environmental consultancy, has provided verification of all other data. Forum for the Future has provided inputs into the development of the reporting process.	GRI, AA1000 Assurance Standard, Association of British Insurers Guidelines
BASF	•					Deloitte & Touche has carried out the independent verification of BASF's Corporate Report	IAASB's ISAE3000, European Chemical Industry Council Environmental and Safety Data recommendations, GRI, Responsible Care, German Corporate Governance Code
BAT		•				Bureau Veritas has provided independent assurance of BAT's social report.	AA1000 Framework, AA1000 Assurance Standard, GRI, DJSI
BHP Billiton		•				Environmental Resources Management has provided an auditor's verification statement on the company's health, safety, environment and community report.	DJSI, GRI, UN Global Compact, Minerals Council of Australia Code for Environmental Management.
BP	•			•		Ernst & Young verify the data in BP's social and environmental report. KPMG, LLP and DNV carry out a greenhouse gas audit. Also, independent impact assessments by 'advisory panels' are carried out on proposed siting facilities.	WBCSD/WRI GHG protocol, ISA100 Auditing Standard, UN Global Compact, AA1000 Assurance Standard, ISO14001.



Table 3.2: continued

	Professional audit firm	Quality assurance provider	CSR consultancy	External advisory panel	Civil society opinion leader	Assurance providers	Examples of standards used*
BT plc		•		•	•	Lloyds Quality Register provides assurance of BT's social and environmental report and information on their website. They also provide an external advisory panel, involved in defining materiality and completeness. The company also commissions independent commentaries of their performance from opinion leaders such as SustainAbility (eg offshoring jobs).	ISO14001, AA1000 Assurance Standard, GRI, DJSI, UN Global Compact, Investors in People.
Camelot			•	•		Ashridge Centre for Business and Society carried out the verification of the company's social report. An Advisory Panel for Social Responsibility (APSR) advises the company on the reporting process.	AA1000 Assurance Standard, GRI, Investors in People.
Chiquita					•	The Rainforest Alliance provided an audit of Chiquita's environmental performance in relation to its Better Banana Project certification. The Commission for the Verification of Codes of Conduct (COVERCO) acted as monitor for the company's compliance with SA8000.	Better Banana Project, SA8000
Co-operative Bank			•		•	Ethics Etc. is the auditor of the company's partnership report. In addition, Tomorrow's Company, Business in the Community, and The Natural Step provide assessments of the company's performance in delivering value, social responsibility, and ecological sustainability.	AA1000 Assurance Standard, ISA200, The Natural Step, Investors in People.

**Table 3.2: continued**

	Professional audit firm	Quality assurance provider	CSR consultancy	External advisory panel	Civil society opinion leader	Assurance providers	Examples of standards used*
Co-operative Insurance Society (CIS)	•		•		•	KPMG provided an assurance report of CIS's social accountability. SustainAbility provided commentary on sustainability reporting, to set the report in context. Business in the Community commented on social responsibility, and academic Paul Ekins on environment.	Association of British Insurers Guidelines, AA1000 Assurance Standard, London Benchmarking Group, GRI.
Novo Nordisk	•				•	Deloitte & Touche performed the assurance engagement on Novo Nordisk's sustainability report and underlying systems. In addition, a series of civil society representatives set the material context of 'dilemmas' facing companies such as Novo Nordisk, eg access to health.	AA1000 Assurance Standard, ISA100 Assurance Engagements, GRI, ICC Business Charter for Sustainable Development, UN Global Compact.
Premier Oil			•			Warwick Business School's Corporate Citizenship Unit was asked to provide assurance on the company's underlying social performance management strategy and system rather than the social report.	AA1000 Assurance Standard, GRI, UN Global Compact, OECD Guidelines for Multinationals.
SAB Miller			•			The Corporate Citizenship Company provided assurance of the company's Corporate Accountability Report, and its co-founder provided external commentary on SAB Miller's substantive accountability performance.	GRI, AA1000 Assurance Standard.

Table 3.2: continued

	Professional audit firm	Quality assurance provider	CSR consultancy	External advisory panel	Civil society opinion leader	Assurance providers	Examples of standards used*
Scottish Power		•		•		CSR Network provided verification of the company's social and environmental impact report. Previously, URS Verification had verified its environmental sustainability report. And URS in the UK, and BSR in the US carried out independent stakeholder consultations as part of the process.	GRI, AA1000 Assurance Standard, Combined Code of Corporate Governance (UK), Sarbanes–Oxley (US).
Shell	•		•		•	KPMG and PricewaterhouseCoopers together provided external assurance of the Shell Report. A series of opinion leaders have given context to the issues raised in the reports and commented on substantive performance. In the past Arthur D. Little has assisted in developing the company's 'social responsibility management system'.	International Standard for Assurance Engagements, GRI, WBCSD/WRI GHG protocol.

\* These examples are not meant to cover all the standards used by each company, but rather give a flavour of the overall range of standards undertaken as part of a reporting and assurance process.

This chapter has mapped the diversity of approaches to sustainability assurance. On the one hand, this picture can be confusing for stakeholders; on the other, it enables different appetites to be satisfied by different providers and innovative approaches to be developed in response to companies' and stakeholders' demands. But as the KPMG survey on international sustainability reporting concludes:

*[The] inconsistency in the approach to verification has adversely impacted on the overall credibility of verification with stakeholders. There has also been criticism that third-party verification statements do not always convey the extent of the work undertaken and the extent of the problems identified during the process. (KPMG 2002)*

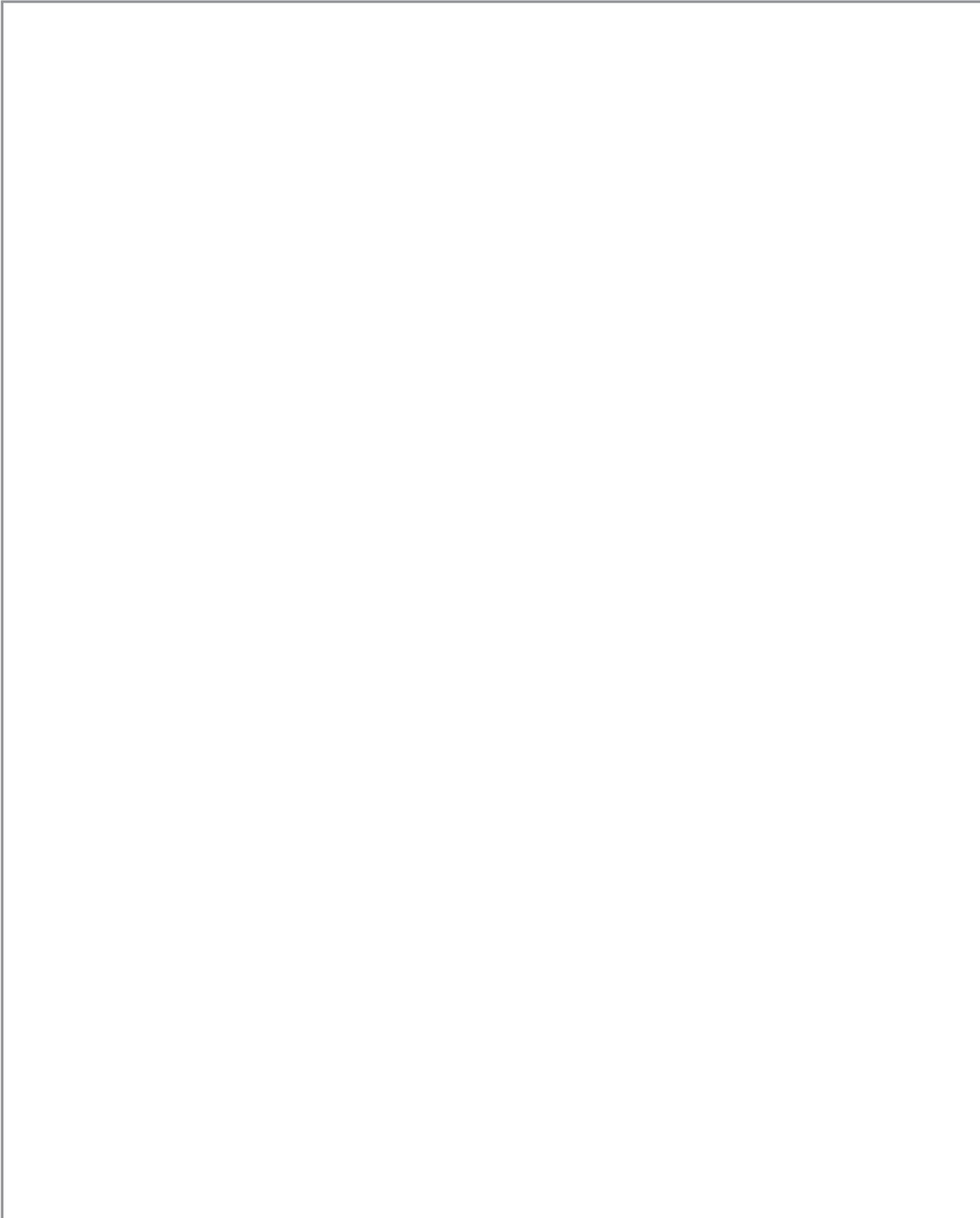
The following chapter highlights current approaches to setting standards of assurance.

## 4. Standardising sustainability assurance

The challenge is that we've evolved into a post-industrial economy, with a business climate that is infinitely more complex than before, when most of our accounting standards and securities regulations were formulated. In this context, generally accepted accounting principles (GAAP) don't do a very good job of describing any modern company.

Steve Butler, KPMG (quoted in Bray 2003)

<b>4. Standardising sustainability assurance</b>	<b>55</b>
4.1 Assurance levels and types	57
4.2 Subject matter	58
4.3 Suitable criteria	59
4.4 Intended users: shareholders and stakeholders	61



A number of standards, exposure drafts of proposed standards and guidelines for providing assurance of sustainability reports and associated processes have been developed recently. These include national standards from Australia, the Netherlands and Sweden, guidelines from FEE, the International Auditing and Assurance Standards Board (IAASB) ISAE3000, and the AA1000 Assurance Standard. This chapter draws on these standards to illustrate the main differences between financial and sustainability assurance and the issues these raise for assurance as a whole. Specifically, this is done by examining: assurance levels and types; subject matter; suitable criteria; and intended users.

#### 4.1 ASSURANCE LEVELS AND TYPES

High levels of assurance are possible in the field of financial performance because of the specificity of the subject matter and the long history of financial assurance. There is a wide array of GAAP and GAASS that covers the area of the financial performance of a company, and regulates the assurance provider in its assignment. Compare this with sustainability (a contested term in itself), sustainability reporting (a process under review and challenge) and sustainability assurance (an embryonic profession), then one can begin to understand the difficulties faced by those developing methodologies and standards in the field in the attempt to get to an equivalent high level of certainty.

Yet even in the financial sphere, there are constant evolutions of standards as organisations and issues become more complex. The accountancy field is fully aware of the challenges it faces, as the former global executive chairman of KPMG, Steve Butler has stated:

*The challenge is that we've evolved into a post-industrial economy, with a business climate that is infinitely more complex than before, when most of our accounting standards and securities regulations*

*were formulated. In this context, generally accepted accounting principles (GAAP) don't do a very good job of describing any modern company. (Bray 2003)*

The International Auditing and Assurance Standards Board's (IAASB) International Standard on Assurance Engagements (ISAE) is a case in point. The ISAE3000, published in January 2004, means that the term 'levels of assurance' is no longer used. The IAASB believes that such a distinction oversimplifies complex relationships between variables, as well as overemphasising the quantitative aspects of the assurance. It therefore does not use the terms 'high' or 'moderate' when describing levels of assurance. Instead, the terms 'reasonable' and 'limited' assurance are used. It is hoped that these then inform the type of conclusion made by the practitioner<sup>6</sup> as a way of reducing risk, as the following illustrates:

*The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner's conclusion. The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion. (IAASB 2003a)*

All the above appears relevant and most appropriate for sustainability assurance. However, this does not mean that we are any nearer to there being an audit-level type assurance in this area, or even a 'reasonable' level beyond checking of data. Bureau Veritas, in its assurance of BAT's social report, approaches a high

<sup>6</sup> The IAASB prefers the term 'practitioner' to what was previously described as 'auditor' for a professional accountant, as the term is broader and reflects the wider range of subject matter being asked of accountants.

level of assurance by effectively scoring in terms of 'advanced', 'positive', and 'basic', as follows (BAT 2004).

#### **Advanced**

*We assessed whether the information reported was supported by underlying evidence and whether the activities described were aligned to the requirements of AA1000.*

#### **Positive**

*In relation to activities responding to commitments made during the 2001/02 social reporting cycle, we assessed whether information reported in the 2002/03 Social Report was supported by underlying evidence.*

#### **Basic**

*The information reported against the GRI indicators was assessed by interviews and limited review of relevant documentary evidence.*

As yet no large assurance provider will provide an audit-level type assurance. Large providers such as PwC typically offer four levels of sustainability assurance:

1. high-level – very rare and close to audit-level ISA100 applicable
2. moderate-level (positive statement) – review-level with sufficient evidence to offer a positive assurance statement
3. moderate-level (negative statement) – the most common level of sustainability assurance offered, based on a review. ISA910 applicable
4. no assurance (agreed-upon procedures) – no assurance is expressed as the assurance provider simply gives a report of the factual findings.

A number of factors limit the level of assurance, the main ones being that there is no set of Generally Accepted Accounting Principles (GAAP) for sustainability reporting, the intangible aspect of some subject matter (see below) and lack of available procedures for providing sufficient evidence (FEE 2002).

#### **4.2 SUBJECT MATTER**

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IAASB determines the basis upon which an assurance provider undertakes an engagement only when

*the subject matter is identifiable, capable of consistent evaluation or measurement against identified suitable criteria, and in a form that can be subjected to procedures for gathering evidence to support that evaluation or measurement. (IAASB 2003b)*

With financial information and associated systems, subject matter is generally more straightforward, as the data are more quantitative and subject to less ongoing negotiation and controversy. However, even here the characteristics of subject matter can be both quantitative and qualitative, objective or subjective, historical or prospective, all of which have implications for the type of assurance provided.

The present and future subject matter on which sustainability reports are based is not clear-cut. Information is often:

- difficult to confirm, eg supply chain working conditions, effectiveness of human rights policies, assertions such as 'sustainability is at the core of our business strategy'
- inconsistent, in that it is not being measured year-on-year, eg when new issues come into play, or sustainability management systems evolve.



This partly is because of the new evolution of sustainability reporting itself, but is also inherent in the nature of the social impacts of organisations.

As discussed above, there is a myriad of standards on offer to organisations to guide them in the appropriate subject matter, which can then form the basis upon which suitable criteria can be established. The GRI is certainly the present 'gold standard' in helping define overarching and increasingly more sector-specific subject matter as well as the suitable criteria for its presentation. In specific areas, such as labour standards, initiatives such as the ETI, FLA, and SA8000 provide process guidelines based around ILO conventions, against which an organisation's performance in this area can be assured.

As argued throughout and in more detail in Chapter 5, no standard can provide a checklist of all the issues that are significant and need to be covered in every conceivable situation. Stakeholder engagement is therefore essential to ensure the materiality of the subject matter.

### 4.3 SUITABLE CRITERIA

IAASB defines criteria as being

*the benchmarks used to evaluate or measure the subject matter of an assurance engagement including, where relevant, benchmarks for presentation and disclosure of the subject matter.* (IAASB 2003b)

In financial terms these can be international financial reporting standards or international public-sector accounting standards. Needless to say, these are standards that are properly recognised and taken up by all organisations of relevant sizes and types in the presentation of financial information. The suitability of criteria is linked directly to the subject matter in question and whether it is capable of 'reasonable

evaluation'. Characteristics for assessing suitability are: relevance, completeness, reliability, neutrality and understandability. But it must be said that these reporting standards of financial information are being revised constantly in the light of events, as is the case in the UK regarding the life assurance reporting requirements of the Financial Services Authority (FSA).<sup>7</sup>

In due course, one might expect the GRI *Sustainability Reporting Guidelines* (2002) to be accepted as 'suitable criteria' against which to conduct an assurance engagement based on ISAE3000.

For sustainability purposes, suitable criteria, as with subject matter, are an evolving area. Reference to, and being 'in accordance' with the GRI, is one of the main criteria currently being used by assurance providers in this area. Being 'in accordance' is based on a number of key principles (see Box 12 on page 60).

Dropping down into specific areas, particularly in relation to the environment, certain guidelines are becoming more established. FEE uses the same characteristics as IAASB in determining the suitability of criteria; these can be established in law, established by recognised bodies of experts, or specifically developed. The following are seen to be specific areas of difficulty in sustainability terms (FEE 2002).

- *Completeness and balance* – without suitably established criteria for sustainability reporting, 'an assurance provider cannot make a positive statement about such matters'.
- *Indirect impacts* – whether they be environmental externalities or impacts down the supply chain, the boundaries of a company's responsibility are blurred, making the identification of suitable criteria more

<sup>7</sup> See 'Standard Life in dispute with FSA', *Financial Times*, 8 January 2004.

**Box 12: The GRI's principles of reporting**

**Transparency** – full disclosure of the processes, procedures and assumptions in report preparation is essential to its credibility.

**Inclusiveness** – the reporting organisation should engage its stakeholders systematically to help focus and continually enhance the quality of its reports.

**Auditability** – reported data and information should be recorded, compiled, analysed and disclosed in a way that would enable internal auditors or external assurance providers to attest to their reliability.

**Completeness** – all information that is material to its users for assessing the reporting organisation's economic, environmental and social performance should appear in the report in a manner consistent with the declared boundaries, scope and time period.

**Relevance** – is the degree of importance assigned to a particular aspect, indicator or piece of information; it represents the threshold at which information becomes significant enough to be reported.

**Sustainability context** – the reporting organisation should seek to place its performance in the larger context of ecological, social or other limits or constraints, where such context adds significant meaning to the reported information.

**Accuracy** – refers to achieving the degree of exactness and low margin of error in reported information necessary for users to make decisions with a high degree of confidence.

**Neutrality** – reports should avoid bias in selection and presentation of information and should strive to provide a balanced account of the reported organisation's performance.

**Comparability** – the reporting organisation should maintain consistency in the boundary and scope of its reports, disclose any changes and restate previously reported information.

**Clarity** – the reporting organisation should remain cognisant of the diverse needs and backgrounds of its stakeholder groups and should make information available in a manner that is responsive to the maximum number of users, while still maintaining a suitable level of detail.

**Timeliness** – reports should provide information on a regular schedule that meets user needs and comports with the nature of the information itself.

problematic. However, developments in the field of labour standards, human rights norms and principles (eg UN norms on the responsibilities of transnationals in regard to human rights) for example, are emerging and will assist in overcoming this issue. Again, it is how materiality is defined that will be key to understanding boundaries.

- *Comparatives* – comparing information over time, when previous data haven't been assured, presents risks to the assurance provider. Again, with the development of systems, this problem should be overcome eventually.

Suitable criteria will remain a problematic area and will be driven by developments in subject matter. As stated in relation to indirect impacts, there is a convergence taking place that will assist assurance providers in determining the suitable criteria for sustainability reporting.

Many of the models of sustainability assurance and reporting currently in development (eg Standards Australia) are taking both an annual reporting and financial audit model as their starting points, then transposing them. They mainly focus on how an external assurance provider (organisation) enhances the credibility of a public report.

This raises certain concerns. As we have argued, sustainability assurance is more than assuring the information contained in a public report, since annual reporting models are unlikely to provide appropriate levels of timely information or assurance for decision making purposes by internal or external stakeholders. For example, in this model it is unclear how codes of conduct (eg ETI), quality assurance standards (ISO, product standards) influence the subject matter, or how opinion leaders' commentaries, external advisory panels' guidance or stakeholder-defined materiality are used. This is likely to constrain the ability of assurance providers to capture the wide array of sustainability

issues (subject matter) because of the narrow focus on which suitable criteria are based. They will be separate and lie outside of what is, in this case, defined as sustainability assurance. This is likely to mean duplication of efforts through multiple measurement streams, a lost opportunity for sustainability assurance to contribute to learning, innovation and improvement throughout the organisation, and ultimately a complete disconnection between assurance and the drivers of future performance.

#### 4.4 INTENDED USERS: SHAREHOLDERS AND STAKEHOLDERS

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A key difference between financial and sustainability reports is in the intended users. Sustainability reports are aimed at 'stakeholders' – defined as being those individuals and organisations that either affect or are affected by the activities of the company; financial reports are more narrowly aimed more narrowly at only one stakeholder group, shareholders.

In the future this distinction not only may be seen to be crude but also increasingly may become a red herring. Over the long term, broader societal expectations increasingly affect the financial bottom line and therefore should also be the concern of shareholders (Zadek and Merme 2003). In the UK, the Company Law Review (CLR) and Operating and Financial Review (OFR) which strive to increase the level and relevance of information put out by UK companies to their stakeholders, have both grappled with this issue. For example, the CLR White Paper recognises that the OFR addresses information that is not only relevant to members (ie shareholders), but also to a wider group of stakeholders. It states that:

*The basic goal for directors should be the success of the company in the collective interest of shareholders, but directors should also recognise, as the circumstances require, the company's need to*

*foster relationships with employees, customers and suppliers, its need to maintain its business relationships, and its need to consider the company's impact on the community and working environment.* (Department for Trade and Industry 2002)

Although concern for stakeholders is only now beginning to be recognised within mainstream corporate governance debates, it is central to the reporting and accounting of social, environmental and economic information. Stakeholders are key in determining materiality and in defining the boundaries of reporting, as well as in some cases involved in the assurance process itself.

For assurance providers, the inclusion of stakeholders in the reporting and assurance process ensures not only a higher level of legitimacy and credibility in, but also a higher overall quality of, the process. There are though, practical questions to consider when assuring the quality of stakeholder engagement processes. How, for example, has the assurance provider gone about its sampling process to ensure that the stakeholders are appropriately defined? Second, and potentially more difficult, is how to define the quality of stakeholder dialogue. But these are issues where specialist practitioners are establishing an increasingly robust body of experience and guidance. They also are drawing on other disciplines, for example, market research survey and sampling techniques and using these in, for example, the audit of 'value for money' in healthcare (National Audit Office 2001).

Both companies and assurance providers are responding to the measurement challenge of the quality of stakeholder dialogue. The AA1000 Assurance Standard states that the assurance provider must evaluate whether a reporting organisation has provided adequate evidence to support the information contained in the report. In doing so evidence includes:

*Qualitative information about historical performance, such as stakeholder views, should be investigated to determine in particular: the appropriate scope of accounting to satisfy the completeness principle, as well as the materiality of information provided in the public report; balance in case selection and the quality of stakeholder engagement.<sup>8</sup> Direct engagement between the assurance provider and stakeholders may be deemed necessary by the assurance provider to assess the quality of evidence provided by the reporting organisation. This may include the assurance provider deciding on the need to directly witness engagement between the stakeholder and the reporting organisation.* (AccountAbility 2003a)

Bureau Veritas has developed what it calls VeriSEAAR, an assurance process based on the AA1000 Framework that assesses the quality of stakeholder engagement (Sayce 2002). VeriSEAAR scores the constituent requirements of the AA1000 Framework across three main stages: pre-stakeholder consultation (involving the planning and implementing of systems to support sustainability accounting and reporting, including stakeholder identification); stakeholder consultation (the quality of processes by which the organisation consults its stakeholders on issues important to them and indicators and targets relating to these issues); and post-consultation (the interpretation of information gathered through consultation and the production of the report). Other assurance providers similarly are focusing more on the stakeholder engagement aspects, including the larger providers such as KPMG and PricewaterhouseCoopers, as well as smaller specialist assurance providers such as the CSRNetwork and Ashridge Management School (Zadek and Raynard 2002).

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<sup>8</sup> Note that a separate AA1000S Module is being prepared to provide guidance on how best to measure and communicate the quality of stakeholder engagement.

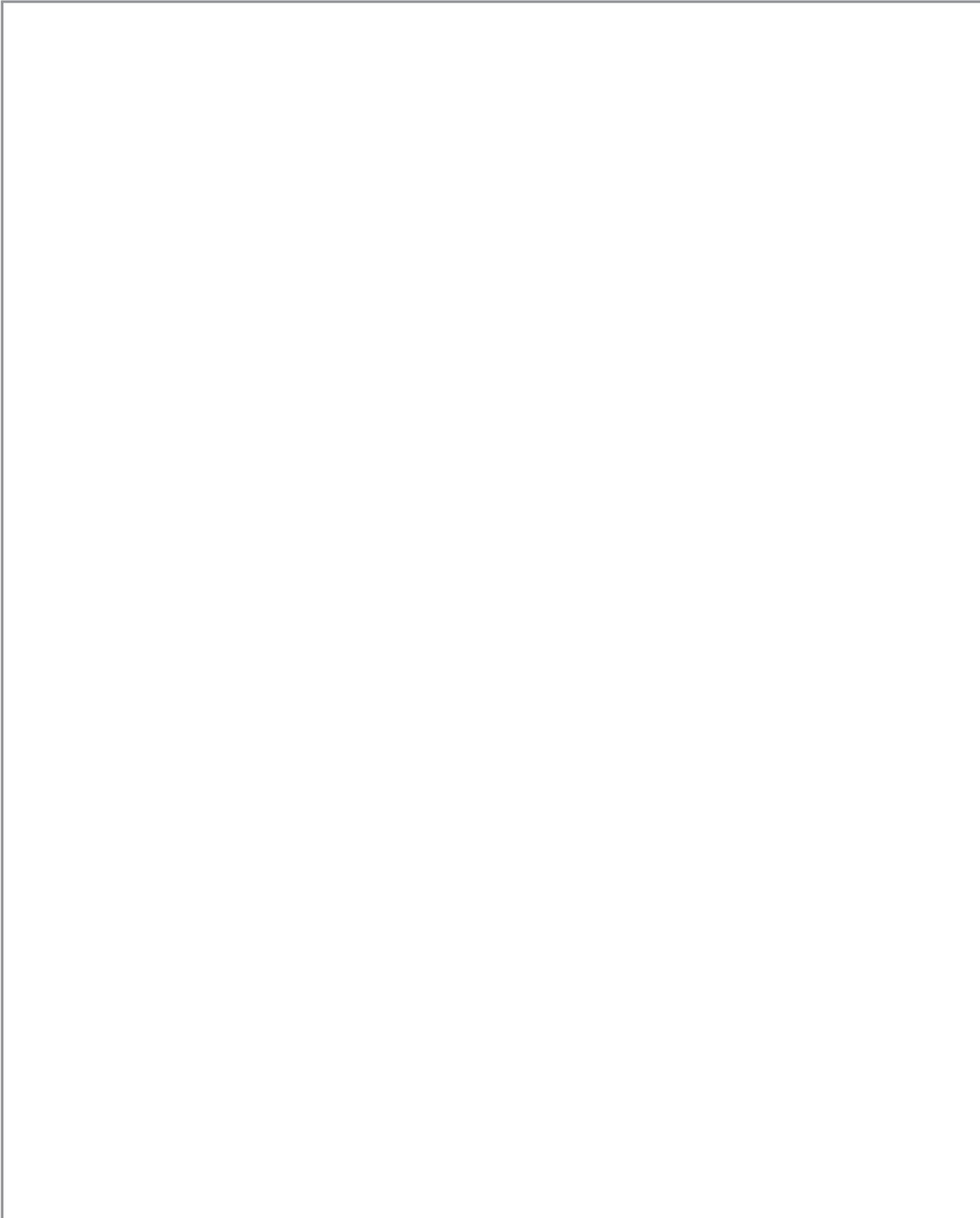
## 5. Materiality

A meaningful definition of 'materiality' must effectively identify information that, if omitted or misstated, would significantly misrepresent the organisation to its stakeholders, and thereby influence their conclusions, decisions and actions.

Zadek and Merme 2003

<b>5. Materiality</b>	<b>63</b>
5.1 Reporting and materiality	65
5.2 Assurance and materiality	66
5.3 Redefining materiality for sustainability	68

Materiality



## 5.1 REPORTING AND MATERIALITY

Undoubtedly, materiality has been, and will remain, a key issue for accounting and assurance, under whatever guise. Materiality and its redefinition, both in the context of financial as well as sustainability reporting, are being debated and grappled with in practice – ranging from the GRI through to the UK's Operating and Financial Review (Operating and Financial Review Working Group on Materiality 2003). Materiality will be an ever-present issue, as it is in financial auditing, but seems to be today's hot topic. For those involved in sustainability reporting, it is deemed to be the key issue in disclosing relevant and meaningful information to stakeholders, as well as persuading the financial markets of the importance and relevance of sustainability (SustainAbility 2002).

The classic approach to defining materiality has three dimensions (Zadek and Merme 2003).

**Intention** – ie materiality to whom? Defined in terms of 'member interests', essentially the concerns of the owners of financial capital or their representatives.

**Subject** – ie materiality about what? This generally assumes that the only concern of these investors is the financial performance of the company in question.

**Calibration** – ie how significant does an issue have to be to fall within the bounds of materiality? This is also termed 'materiality threshold' and is often defined in terms of what a 'reasonable person' would deem significant to the company.

But there is a real challenge in defining materiality in practice, whether for financial information or more widely. A survey of the top 1000 companies concerning materiality and the OFR concluded that, 'few company boards appear to have a rigorous, transparent and auditable process in place to determine the 'significance' (or materiality) of issues that may

### Box 13: Defining and redefining materiality

*Information will be material to the OFR if failure to disclose it clearly, fairly and unambiguously might reasonably be expected to influence members' assessments of the company and hence the decisions they may take, either directly or indirectly as a result of the significance that the information has for other stakeholders and thus the company. (OFRWGM 2003) NB: the resultant OFR, published in 2004, doesn't include the term 'materiality'.*

*Information is considered to be material if, by its inclusion or exclusion, it can be seen to influence any decisions or actions taken by users of it. A material discrepancy is an error (for example, from an oversight, omission or miscalculation) that results in a reported quantity or statement being significantly different to the true value or meaning. (World Business Council/World Resources Institute 2004)*

*A meaningful definition of 'materiality' must effectively identify information that, if omitted or misstated, would significantly misrepresent the organisation to its stakeholders, and thereby influence their conclusions, decisions and actions. (Zadek and Merme 2003).*

potentially need to be disclosed in the OFR' (RPS Group/BDO Stoy Hayward 2003).

In the area of sustainability reporting it could be argued that materiality is more important simply because of the large amount of information on offer to stakeholders. This range of issues and potential reporting requirements, against which a company is assured, could make the whole situation

unmanageable for reporters, stakeholders and assurance providers. Materiality, therefore, assists in ensuring that what is reported is relevant and useful for stakeholders in the decisions they take in relation to a company's activities.

Sustainability assurance (and financial assurance that takes long-term risks into account) demands a reassessment of materiality.

#### **Intention**

Corporate reports, particularly environmental, social and sustainability reports, are not simply aimed at shareholders and their representatives.

#### **Subject**

Non-financial aspects of performance increasingly are taken to be material: both because they are associated with direct risks and opportunities and because they are considered significant by stakeholders, who are themselves significant to the company.

#### **Calibration**

While materiality never will be cut and dried, the extension of intention and subject changes the basis on which 'a reasonable person' would decide whether an issue is material or not.

The OFR Working Group on Materiality's recommended definition (see Box 13 on page 65) began to bring in the 'stakeholder' aspect when considering whether financial information is material or not. But this was not clear enough, and was subsequently not included in the OFR. Rather the OFR states that information be included 'to the extent necessary to comply with the objective and other general requirements'. This raises issues for directors, particularly if directors' reports are to be replaced by a standard OFR. Early signs suggest that there may be enough flexibility in the guidelines for determining materiality at one level. For example, the regulations stipulate that information about employees, the environment and wider community issues

be considered in the OFR. The question directors then have to ask themselves is whether or not more specific issues within these 'broad' topics are material enough to the business to be included in the OFR. Again the guidance document offers a sliver of advice regarding the inclusion of stakeholders:

*Businesses with significant groups of key stakeholders are also likely to benefit from the results of consultation with these groups to ascertain what, in their view, are the key issues.* (Department for Trade and Industry 2004)

Avoiding 'death by data', while at the same time offering up information useful to stakeholders, demands that materiality is defined through engagement with stakeholders. This is summed up by John Davies, Head of Business Law at ACCA, in response to the OFR regulations (ACCA 2004):

*As the draft rules are framed, they are likely to give ample opportunity to some directors to decide that it is unnecessary for them to disclose any meaningful information on the impact of their companies' activities on stakeholders and the environment in particular. We consider that the government has missed the chance to make the OFR into a comprehensive tool of stakeholder engagement.*

## **5.2 ASSURANCE AND MATERIALITY**

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The challenge lies in how to identify materiality as part of an assurance process, as well as what role the assurance provider plays. The ISAE3000 makes clear the importance of the role the assurance provider, when describing the scope of the task:

*The practitioner [assurance provider] considers materiality when determining the nature, timing and extent of evidence-gathering procedures, and when evaluating whether the subject matter information is free of misstatement. Considering materiality requires*



*the practitioner to understand and assess what factors might influence the decisions of the intended users. (IAASB 2003a)*

IAASB is also analysing the current relevance of ISA320, *Audit Materiality*, in order to determine whether there is a need for a more holistic approach. Such developments reflect concerns by others:

*Although the concept of materiality, in conjunction with audit risk and its components (AU312A), forms the backbone of the audit process, applying it properly has often been elusive, and professional standards do not provide specific guidelines or approaches to operationalising these concepts. (Gist and Shastri 2003)*

Applying these principles to sustainability assurance presents real challenges to the profession. As already discussed, when comparing financial with sustainability reporting and assurance, the lack of any agreed and standardised subject matter or generally accepted standards for sustainability assurance makes it difficult to evaluate whether the subject matter conforms with the identified criteria.

A review of the assurance statements of providers shows a number of approaches to materiality being practised. In many cases materiality is not considered at all. In this instance, providers are there only to check that the data are correct, not whether they are the correct data. This is mainly the approach taken by professional audit firms when carrying out explicitly stated verification or audits of sustainability reports. For example, PwC Canada's audit report of Suncor Energy's *Report on Sustainability* states, 'In our opinion, the quantitative information set out in this report marked with the symbol  is supported by appropriate underlying evidence and is fairly stated in all material aspects' (Suncor Energy 2003). Here, materiality is defined as relating to calibration or threshold, not the appropriateness of subject matter.

The picture changes somewhat when such firms are carrying out reviews or more broadly defined assurance processes. Taking PwC as an example again, its Review of Cable & Wireless plc's *Environment Report* (Cable & Wireless 2002) does not give an opinion as usually defined in audit reports, but rather a set of findings. PwC states: 'We are not aware of any significant issues relating to the environmental performance of C&W's operations that have been omitted from the report'. In this case PwC go further and give recommendations, one of which is, 'the development of a Group-wide approach to stakeholder engagement to confirm the material environmental issues at Group, business and site level and to support preparation of future reports'. Reviews by professional audit firms allow them to be more proactive in relation to materiality.

Smaller assurance providers and those from CSR consultancies, tend to go further in giving an opinion on the materiality of the report as part of their assurance statement. Their approach relates to where they believe their responsibilities lie, which are with stakeholders. For example, CSR Network's 'independent assurance statement' of United Utilities (see Box 14 on page 68) gives the opinion that, 'we consider that issues material to stakeholders in the UK have been identified in the report'. They then go on to recommend material issues for future reports, including remuneration levels, the development of the renewables business and the social and environmental risk of the company's international operations (United Utilities 2003).

The approach to materiality appears to be linked to the type of assurance provider; however, it is also driven by the demands of the client organisation – some companies may purposely go for low levels of assurance in order to avoid risk.

**Box 14: CSR Network’s assurance statement of United Utilities’ materiality (United Utilities 2003)**

*We consider that issues material to stakeholders in the UK have been identified in the report. Further work by United Utilities is required to explore other issues that should be reported, for example remuneration levels across the company, and also issues from international operations. The reported increase in environmental prosecutions against the company, and the levels of fines incurred, is significant both to the company and within the utilities sector. United Utilities has included in this report, and in more detail on the company’s Internet site, commentary on how United Utilities has learnt from these incidents. Looking forward, the company has adopted a proactive position that is reflected in this report in respect of the Water Framework Directive. The development of the renewables business is potentially highly significant for the impact profile of the company. Future reports should seek to present, as far as is possible, a vision for how the increase in energy generated from renewable sources might affect the balance of the company’s greenhouse gas accounting. We also recommend that the company should report against further long-term targets for the generation of renewable energy within the service delivery business. The overall energy strategy for United Utilities is significantly influenced by elements of the company’s strategy for disposal and use of sewage sludge. Future reports should show how the company considers the interactions between these strategies. For the company’s international operations, United Utilities has a considered strategy of partnership through joint ventures in selected countries, and senior management display good awareness of the issues that can arise even where the company’s operations are directly raising standards of living and improving public health. However, international operations are an active source of social and environmental risk, and we recommend that international issues and stakeholder groups be reviewed as part of next year’s independent assurance process.*

**5.3 REDEFINING MATERIALITY FOR SUSTAINABILITY**

The way in which materiality is defined in sustainability terms needs to be turned on its head. In these circumstances, because of the evolution of subject matter in sustainability, materiality cannot consider only the detail of what is covered against a predefined set of issues (that being predefined subject matter and its calibration) but the whole scope as it relates to stakeholder interests. In other words, materiality, in sustainability terms, cannot be a predefined, standards-driven concept. Its definition must be the responsibility of an organisation and its stakeholders.

AccountAbility, within the context of its AA1000 Assurance Standard, provides guidance on such a stakeholder-based approach to materiality. This is founded upon a set of tests, which cover the following points (AccountAbility 2003a).

**(a) Compliance performance**

The materiality test must consider those aspects of non-financial performance where a significant legal, regulatory or direct financial impact exists.

**(b) Policy-related performance**

The materiality test should identify those aspects of performance linked to agreed policy positions, irrespective of financial consequences.

**(c) Peer-based norms**

Aspects of performance could be material where a company's peers and competitors take it as being so in their own case, irrespective of whether the company itself has a related policy or whether financial consequences can be demonstrated.

**(d) Stakeholder-based materiality**

These issues can include the following.

- (i) Stakeholder behaviour impact. Materiality should take into account concerns of stakeholders where disclosure of information could affect their decisions and behaviour, both towards the company and in other situations.
- (ii) Stakeholder views and perceptions. Materiality should include aspects of performance demonstrably relevant to the views and perceptions of stakeholders, where these are considered relevant to future decisions and behaviour.

These are only guidelines and have certain limitations in practice. For example, in BT's determination of materiality (see Box 15 on page 70), peer-based norms were hard to obtain, as none of the ten peer reports they reviewed contained materiality. Nonetheless, these guidelines provide a way forward for defining materiality that takes stakeholder interests as its starting point.

This is where the role of the assurance provider is so important. In further guidance on assurance in this area, AccountAbility goes on to state:

*In forming its opinion on the extent that the reporting organisation has taken account of the materiality principle in preparing its report, the assurance provider should evaluate the degree to which the reporting organisation has:*

- *demonstrated how it has determined materiality when deciding the content of its sustainability report*
- *ensured that its processes for determining materiality were complete and responsive*
- *taken into account the output of its stakeholder engagement processes*
- *included any information that if omitted or misrepresented would be likely to influence the decisions and actions of stakeholders*
- *resolved any perceived conflict between the materiality and completeness principles*
- *ensured that the information in the report is:*
  - *timely (ie not out of date or mistimed for decision making purposes)*
  - *comparable over time, with other organisations and against relevant standards.*

(AccountAbility 2004)

One of the key challenges will be balancing out the power and influence of stakeholders where, because some stakeholder voices may be louder than others (eg media vs community group), certain issues are seen to be more material than they actually are, while others are not considered important.

**Box 15: How BT determines its materiality**

*The starting point for our determination of materiality is the BT Statement of Business Practice. This defines BT's worldwide business principles and sets out the specific aspirations and commitments that apply in our relations with stakeholders. It was compiled in an inclusive fashion and makes explicit reference to our legal obligations and mechanisms of regulatory compliance.*

*From this we defined six 'material' aspects of non-financial performance, which were reflected in the following areas/stakeholders: business practice; community; customers; employees; environment; and suppliers.*

*These aspects then guided us towards a set of key (or 'material') performance indicators (KPIs) which were selected following extensive consultation, both inside and outside BT. Each KPI is accompanied by a strategic (or 'material') target.*

*These material aspects, indicators and targets cover the most significant and strategic components of BT's sustainability performance:*

- *six 'material' aspects*
- *ten 'material' key performance indicators.*
- *ten related 'material' strategic targets.*

*To ensure that the remainder of the report incorporates all other important information that our stakeholders may require to make informed decisions about our company we:*

- *construct the report in accordance with the Global Reporting Initiative (GRI) guidelines*
- *have undertaken a review of sustainability reports from peer companies*
- *have reviewed relevant prosecutions and international sustainability standards*
- *publish 'Hot Topics' on specific issues of concern.*

*In effect we are introducing two levels of materiality. The top level covers those aspects, indicators and targets we specifically declare as 'material' and the second level covers information that ensure the report's completeness. Our considerations for inclusion of information at this second level of materiality have not led us to alter our selected key performance indicators.*

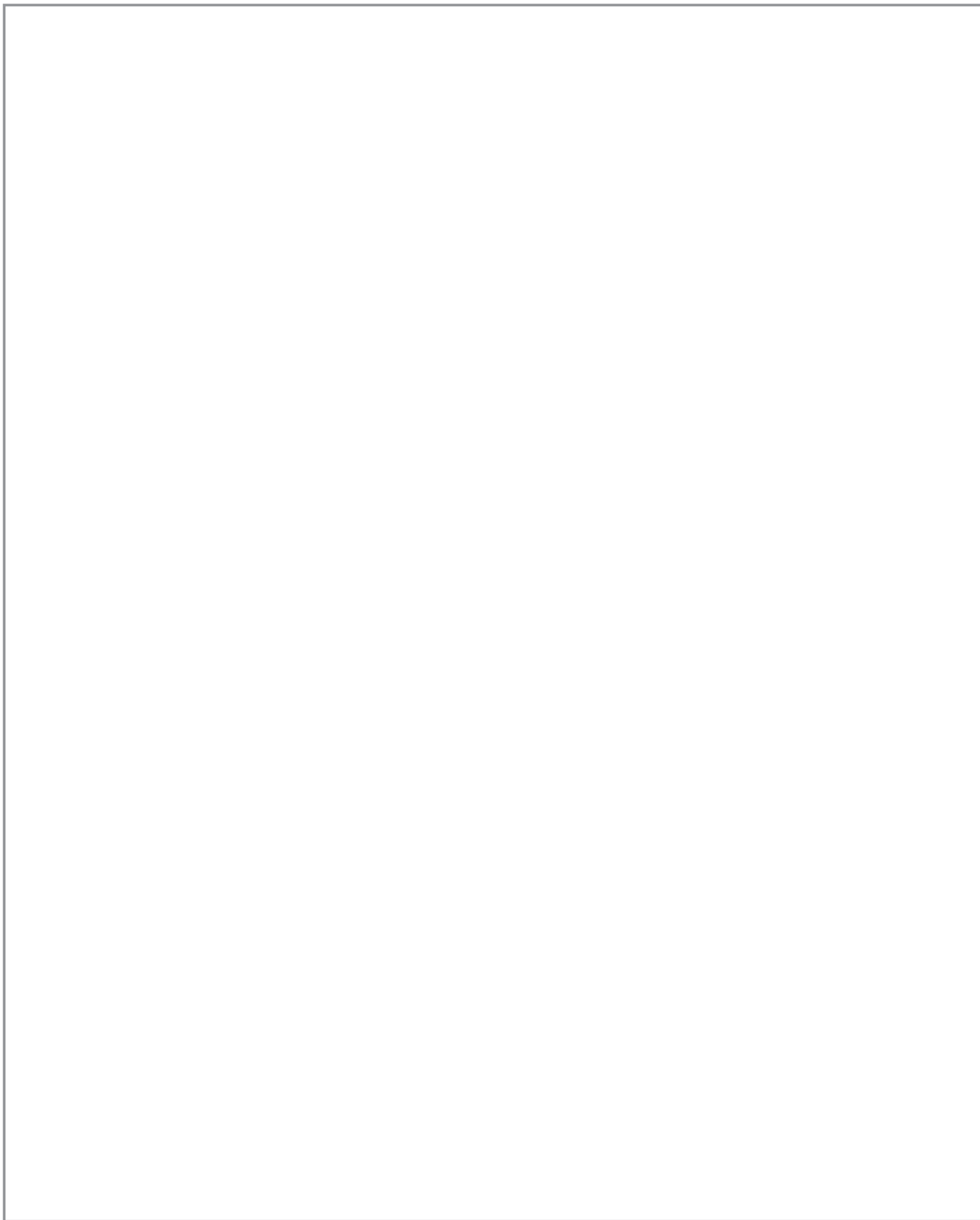
Source: <http://www.btplc.com/Societyandenvironment/Socialandenvironmentreport/Aboutthereport/Assurance/Materiality.htm>

## 6. Assurance scenarios – the world in 2020

Scenarios are carefully crafted stories about the future embodying a wide variety of ideas and integrating them in a way that is communicable and useful. Scenarios help us link the uncertainties we hold about the future to the decisions we must make today.

(Shell 2004)

<b>6. Assurance scenarios – the world in 2020</b>	<b>71</b>
6.1 Grey scenario in 2020	74
6.2 Gold scenario in 2020	74
6.3 Black scenario in 2020	75



The current position, as outlined in Chapter 3, is a rainbow of approaches to sustainability assurance. However, the future is unlikely to be a simple expansion of this situation.

Scenarios are a way to understand the nature and impact of uncertain driving forces affecting future developments (see Box 16, right). In order to speculate on the future direction of the field of sustainability assurance and understand the kinds of dynamics that are likely to lead towards different outcomes, we have outlined three different colour-coded scenarios for 2020.

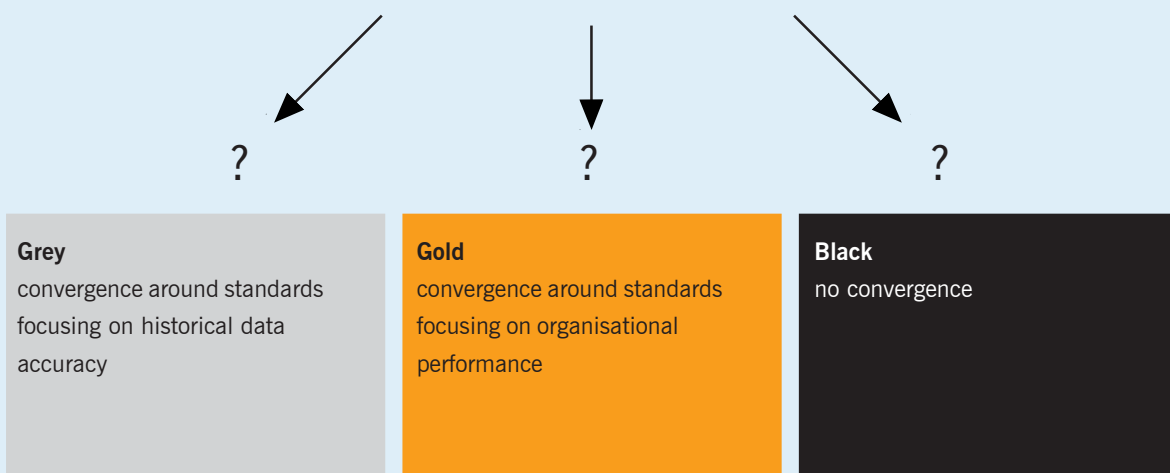
These scenarios offer three divergent futures, which may emerge from today's rainbow of approaches to sustainability assurance. They represent the extrapolation of key trends, which can be seen already within current practice, and aim to draw out the possible outcomes.

**Box 16: What are scenarios?**

*Scenarios are carefully crafted stories about the future, embodying a wide variety of ideas and integrating them in a way that is communicable and useful.*

*Scenarios help us link the uncertainties we hold about the future to the decisions we must make today. (Shell 2004)*

**Figure 6.1: Three scenarios for the future of sustainability assurance**



### 6.1 GREY SCENARIO IN 2020

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Following concern about the anarchic nature of corporate reporting on social and environmental issues at the turn of the century and the undermining of moves towards voluntary disclosure through aggressive litigation, a number of countries have introduced legislation requiring companies to disclose a range of basic quantitative indicators of environmental, social and economic impact data. Major accountancy firms now operate sustainability assurance practices alongside their audit divisions. The profession of sustainability assurance is well established, with clear and limited protocols concerned with checking the accuracy of quantitative social and environmental information. Assurance providers do not make judgements about whether information is relevant or material, or whether performance is acceptable.

The media compile league tables of the headline issues such as the annual list of the 100 top polluters and the Global Diversity Index. Furthermore, the government has introduced a series of tax penalties and incentives linked to some of the areas of performance. The most egregious practices of corporate irresponsibility largely have been stamped out. Civil society organisations and CSR consultancies, which dabbled in assurance in the 1990s, now see it as mundane bean-counting and have reinvented themselves as sustainability analysts, reviewing and interpreting the published data into socially responsible investor and consumer recommendations. Others continue to campaign for wider and more contested issues to be included in the government's forthcoming sustainability indicators review. However, progress is hindered by the need for indicators to be proven and applicable to all companies, rather than driven by best practice and ongoing engagement between stakeholders and individual companies.

Historical financial reporting remains the main guide for investors, despite regulations such as the UK's OFR, the US Sarbanes–Oxley Act and more global attempts to manage risk and prospective performance. But as social and environmental performance is now measured with more consistency and linked to direct financial consequences there are moves to monetise more aspects of environmental and social capital and put them on the balance sheet.

### 6.2 GOLD SCENARIO IN 2020

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Sustainability assurance has converged around standards focusing on stakeholder engagement, learning and innovation, which emerged during the early years of the twenty-first century. It also has moved away from a limited focus on public reporting to a wider consideration of organisations' underlying processes and systems. Building on both established assurance standards such as ISAE3000, and standards such as AA1000 Assurance Standard, the Global Reporting Initiative Sustainability Guidelines and EMAS, a framework of Generally Accepted Assurance Standards for Sustainability (GAASS) and Generally Accepted Accounting Principles for Sustainability (GAAPS) has been established that allows for flexibility, while maintaining credibility and rigour. This enables incorporation of normative requirements for corporate performance and disclosure, such as those developed and formalised by the UN Global Sustainability Alliance – daughter of the earlier UN Global Compact and specific accounting and assurance processes driven by other multi-stakeholder initiatives, such as SA8000, the Forest Stewardship Council Standard and the Ethical Trading Initiative.

Assurance providers are affiliated to the International Federation of Sustainability Assurance Providers (IFSAP), which recognises not only professional audit firms but also those NGOs and certification bodies



involved in the various aspects of assuring sustainability. Investors, stock markets, insurers, public-sector procurement and funding agencies, as well as global brand leaders, require IFSAP standard assurance of the companies they do business with. Assurance statements focus on the materiality, completeness and responsiveness of a company's sustainability reports in relation to stakeholder concerns and international standards for sustainable development.

Annual assurance linked to sustainability reports of the kind first seen in the 1990s has been overtaken by a range of different processes linked into decision making through consumer labels, investor communications, reports to the board and independent rating systems, within an overall assurance framework. Financial audit, for example, is recognised as an accurate assessment of cash flow and money in the bank – but it has become part of a wider source of information about company performance, which is a more forward-looking assessment of the capacity for learning, innovation and performance provided by sustainability assurance. In addition, enabling legislation has been introduced, which has helped drive performance and support implementation of GAASS.

### 6.3 BLACK SCENARIO IN 2020

Sustainability assurance went mainstream in the early twenty-first century, promoted as a more accurate and trustworthy assessment of corporate performance than financial auditing, hopelessly tarnished by scandals. And for a while it seemed true. Canny investors shifted their attention from the backward looking and imperfect financial figures to the assessments of a small band of sustainability assurers, who seemed to have found the holy grail of understanding the underlying factors in long-term performance.

An explosion of approaches to sustainability assurance followed, with no sign of convergence. Investment flowed towards the firms identified as the most sustainable.

Although concerns were expressed about the lack of rigour and the potential for conflicts between the role of assessor and adviser, attempts to develop a generally accepted assurance standard stalled, with assurance providers unwilling to share details of their methodologies and disagreements over basic terms. Government kept at a distance, neither imposing legislation, nor promoting particular approaches.

The bubble burst in 2010 following a number of management scandals, which began with Enron and Parmalat and ended with WalMart. Poorly defined materiality and separate approaches to financial and non-financial assurance meant that inefficiency, injustice and fraud could coexist in splendid isolation alongside apparently 28-carat sustainability credentials. One or two company directors tried the discredited 'my stakeholders made me do it' plea. Assurance providers were seen to be partners in crime and could not create sufficient distance between themselves and companies to be credible in the eyes of intended users. Government regulation reluctantly clamped down late in the day on business operations in a quest for protection of workers, investors, pension-holders, consumers and the environment. What third-party assurance remained, receded to become an internally-directed tool for ensuring areas of legal compliance. Although trust has been somewhat restored, business development and innovations in areas such as medical research, water and energy supplies have slowed to a crawl by red tape.

The key differences between these scenarios are summarised in Table 6.1 on page 76, which focuses on overall sustainability assurance.

**Table 6.1: Key differences between the scenarios**

	<b>GREY</b>	<b>GOLD</b>	<b>BLACK</b>
Purpose	Legal compliance	To meet varied stakeholder demands for accountability	No credibility, no business case: minimal assurance
Audience	Varied, some areas of disclosure may lack effective audience	Varied. Management, investors and regulators key audience for overall sustainability assurance	No assurance for external stakeholders; limited assurance, internal stakeholders only
Scope	Weak sustainability (social, environmental plus economic issues)	Aiming towards an understanding of strong sustainability	Minimal, internally determined
Depth	Data accuracy and compliance	Materiality and responsiveness	Compliance
Standards	Mandatory reporting standards	Convergence on a professional assurance standard	None
Providers	Audit firms	Varied	Consultancy-based, low profile
Competencies	Technical	Varied	Specific
<b>Outcomes</b>	<b>Limited, only established issues included – new risks and opportunities not identified</b>	<b>Sustainability assurance provides useful information for decision making, aiding navigation towards sustainability</b>	<b>Sustainability of business behaviour becomes a matter only for regulation; assurance becomes an internal tool for managing compliance</b>

Each scenario has its benefits and advocates but also its disadvantages:

**The grey scenario**

The grey scenario offers universal application and comparability, and puts performance-enhancing pressure on poor performers, not just leading companies and sustainability exponents. However, its impact on sustainability is limited, since reporting and assurance become removed from stakeholders' concerns, ongoing developments and the frontiers of scientific knowledge.

**The gold scenario**

The gold scenario offers flexibility with rigour. However, this is probably the most difficult end point to reach because its success depends on reaching a clear understanding of sustainability and the changes of direction needed in order to meet this aspiration, all of which is likely to challenge the status quo and vested interests.

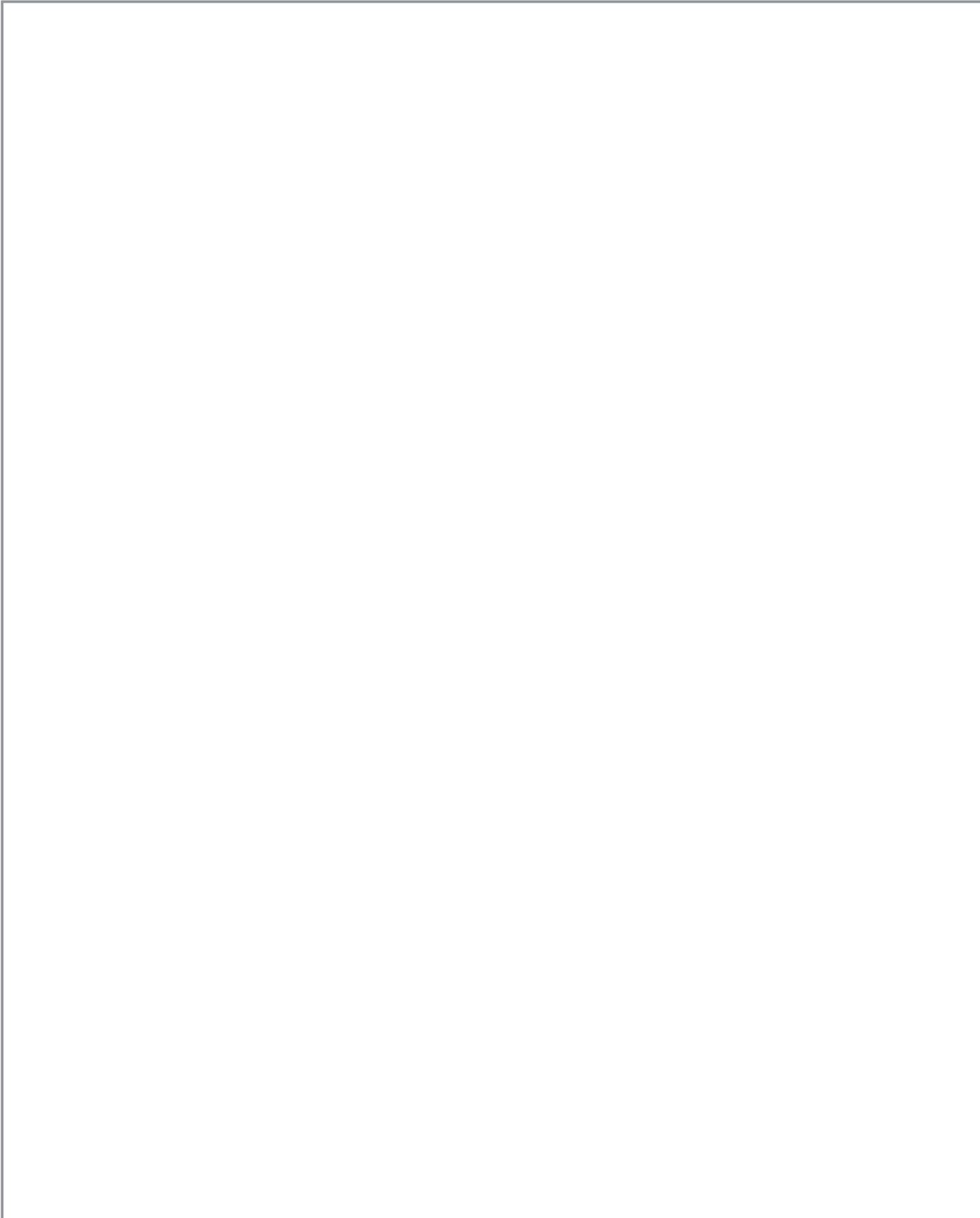
**The black scenario**

The black scenario appears to allow innovation and business case-led approaches to assurances to flourish at the outset. It then results, however, in a collapse in credibility and a return to greater regulation and state control of the standards for business's social and environmental impacts – with all the strengths and weaknesses that national regulation of the international business environment entails.

Today's rainbow situation is likely to remain for some years to come. What is unclear is whether this will develop into the grey or gold, or whether the house of cards will come tumbling down, as described by the black scenario.

Different issues and areas of impact can also pass through different scenarios at different times. For example, financial assurance emerged through a rainbow of different approaches and has for some time been settled within a grey scenario of regulated disclosure and assurance. However, the emergence of sustainability issues coupled with accounting scandals has shaken this equilibrium. Legislation on disclosure, such as the US Toxics Release Inventory (TRI) Act, the UK Pensions Act and the French CAC40 requirements, has moved pollution and ethical investment policies towards the grey scenario.

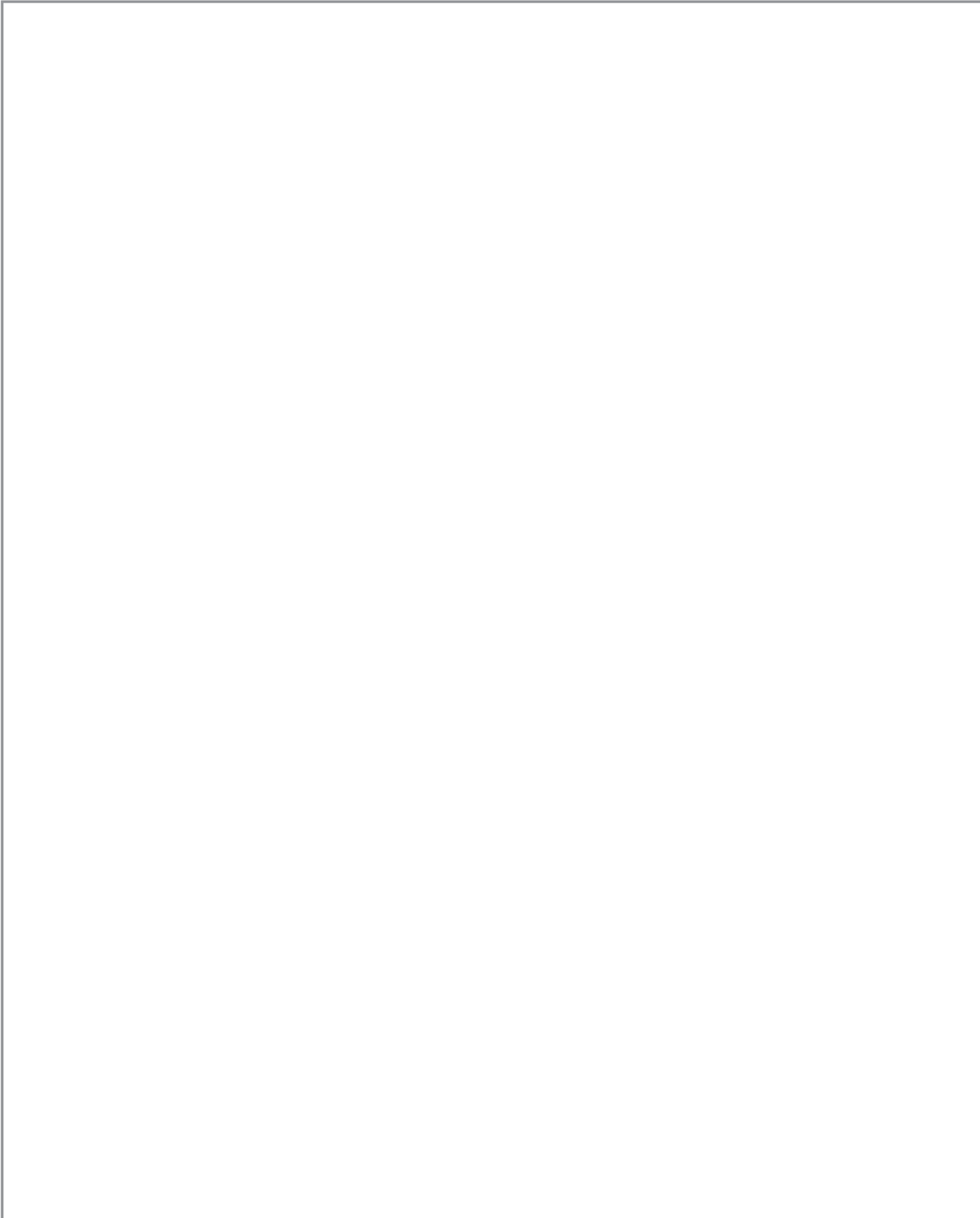
Emergent and contentious issues, which would be captured within gold-style approaches (current examples include the ethics of lobbying and access to healthcare), may move into the more standardised grey scenario as the extent of business responsibility in these areas becomes less contested.



## 7. Experts' views on the future of sustainability assurance

Respondents believe that the current diversity of approaches is likely to continue over the short to medium term. This will reflect the needs of companies and stakeholders in relation to different industries, issues, cultures and national regulatory environments.

<b>7. Experts' views on the future of sustainability assurance</b>	<b>79</b>
7.1 Assurance outcomes	81
7.2 The assurance appetite: who and what will sustainability assurance be for?	82
7.3 Which methodologies will provide the most useful and reliable basis for decision making?	84
7.4 Scope – how will different spheres of impact be covered within a single assurance process?	85
7.5 Assurance provision – who will provide assurance and what competencies will be required in the future?	86



For this part of the research, we have drawn on the experience of practitioners and standards setters as well as the insights of the research community. To strengthen this perspective, we undertook a number of interviews with practitioners, both from assuring and reporting organisations and with leading researchers. The interviews focused on their experience and insights about likely developments in sustainability assurance in the immediate future and beyond. In particular, they were asked to comment on the three proposed scenarios and to make their own predictions about developments in the four key dimensions of assurance (appetite, methodology, scope and providers).

## 7.1 ASSURANCE OUTCOMES

Respondents believe that the current diversity of approaches is likely to continue over the short to medium term. This will reflect the needs of companies and stakeholders in relation to different industries, issues, cultures and national regulatory environments.

Interviewees recognise aspects of the three scenarios but trust that they are not exclusive and can emerge side-by-side in response to the range of different business and stakeholder demands, national approaches to regulation and voluntary and professional standardisation. The following points are seen as key complementary processes driving the overall development of sustainability assurance:

- Pioneering companies and practitioners will set best practice through incremental business-case focused development, which aims to meet the needs both for enhanced credibility and better internal management.
- Subsequent work by standard-setting bodies will build on this experience to develop international standards for assurance. Key standards such as the GRI Guidelines, AA1000 Assurance Standard and ISAE3000, along with possible new standards, may provide the basis for an international architecture of

### Box 17: Interviewees

Ernst Ligteringen, GRI  
 Claus Frier, Novozymes  
 Eileen Kohl Kaufman, SAI  
 Professor Nola Buhr, University of Saskatchewan  
 Anne Gadegaard Larsen, Novo Nordisk  
 Clare Griffin, Camelot  
 Preben Soerensen, Deloitte  
 Geoff Lane, PwC  
 Lars-Olle Larsson, KPMG/FEE  
 Professor David Owen, University of Nottingham

*It will be a long journey towards convergence around an accepted assurance standard. During this time there will be various reports focusing on a range of issues, with an assortment of assurance providers and a variety of different guidelines, frameworks and standards.* Lars-Olle Larsson

assurance standards. Dialogue and convergence between standards setters are mentioned by many as being crucial.

- Regulatory requirements will support these developments and ensure wider uptake. Although interviewees indicate that they do not expect new significant 'hard' legislation to be introduced in the next five years, 'soft' regulations such as the UK OFR guidelines and the Canadian Management Discussion and Analysis, are highlighted as ways in which public authorities may promote universal application and provide comparability. It is believed that regulation will be unlikely to lead developments, but will be important in ensuring wide uptake and accountability.

### What will the future look like?

*I'm afraid that in North America we are likely to see more the 2020 black scenario as companies are very compliance driven.*

Nola Buhr

*The quality of assurance will improve. Its development won't stay at its current position. It will become more sophisticated and better informed. In addition, organisations will be more aware of the issues relevant to them.*

Geoff Lane

*There will be established issues but there will also be a much better understanding in corporate management in terms of spotting and evaluating risks and opportunities, and communicating them to stakeholders – information on risk and opportunities will become the subject matter of assurance.*

Preben Soerensen

*Gold scenario for me is not accountability ... it is not enabling stakeholders to hold managements to account. I prefer the grey scenario, as it at least requires compulsory disclosure and transparency, which will be a massive step forward. I am not sure that the gold scenario actually does that.*

David Owen

*If the appetite is to become bigger than it is today there will have to be a regulatory pressure on companies to either include CSR information in the normal financial report or produce a broad holistic CSR report.*

Anne Gadegaard Larsen

A number of respondents comment on the time-scales of change, comparing the development of sustainability assurance with that of financial and environmental auditing and assurance, as well as with broader processes of social change. Many believe that, given the slow pace of change historically, in 20 years time sustainability assurance will still be undergoing a process of iteration, development and mainstreaming and will not have reached a stable end-point.

### 7.2 THE ASSURANCE APPETITE: WHO AND WHAT WILL SUSTAINABILITY ASSURANCE BE FOR?

Respondents agree that the need to enhance the trust and credibility of reports and public statements, as well as the desire to improve internal management systems, will continue to drive sustainability assurance. However, while some place more emphasis on the internal audience for assurance, others believe it will come from external stakeholders. Some express concern that without rigorous standards, assurance itself will lose credibility and become 'just PR'. Others question whether assurance can indeed combine the two roles of ensuring accountability and supporting management and innovation.

Key audiences for overall corporate-level assurance are identified as follows:

- Management, board and employees interested in driving learning and continuous improvement of performance. Some interviewees believe that the balance in terms of who assurance is for will become more internally focused in the future – becoming less of a 'sign-off' on a public report and more part of ongoing decision making and regular internal reporting and control.



- Investors interested both in the organisation's credibility and information to enable effective management of intangible assets and liabilities and understanding of risk arising from social and environmental issues.
- Relevant public authorities and regulators that grant specific licences and make planning decisions, as well as regulators more broadly interested in corporate governance and regulation.

As well as the audiences for organisational-level assurance, the following audiences for more specialised issues within an overall sustainability assurance framework also are mentioned as being important.

- Trading partners will demand certain types of assurance in order to protect their own liability.
- Consumers are not seen as a key audience of corporate level assurance, although it is recognised that consumer concern over products can be a driver of change. Different types of information and assurance, such as labelling, will need to be provided for consumers.

Some respondents believe assurance at present lacks a clear focus in terms of audience and many agree that in future it will be more focused towards the needs of particular groups of stakeholders.

*GRI and AccountAbility are in dialogue. Members of the accounting community have been engaged with GRI for some time, and IFAC has recently opened channels of communication with GRI – I think this is the start of constructive and creative collaborations that will enhance approaches to assurance of sustainability reports. Ernst Ligteringen*

*So initially you are not going to have systems reviews; it is going to be more a review of how the report was prepared. I think that is just the way it will have to go until assurance principles are developed for assurance that is system based and comprehensive. Nola Buhr*

*The purpose of assurance will be the same as it is now: credibility. Eileen Kohl Kaufman*

*Assurance is going wrong when it mixes up 'strategic commentary' and 'adding value' with the concept of 'holding to account'. The point about social reporting is holding powerful organisations to account – it is nothing to do with adding value and nothing to do with business cases. David Owen*

*Investors will drive corporations into a discussion regarding their responsibility and legitimacy of reports and assurance provision. Lars-Olle Larsson*

*I am not at all certain if the audience is acknowledged enough by the assurance provider. Assurance statements are not addressed to anyone; if they are addressed at all then it is to the board, directors, management or company and not addressed to stakeholders. David Owen*

*There are customers who are interested in more detailed information and maybe assurance with regards to an organisation's products or processes. Geoff Lane*

*We use the GRI Reporting Standard and the AA1000 Assurance Standard and I am sure that those will still be important in five years. However, because assurance providers have to undertake the assurance process against the commitment made by companies, other kinds of standards and codes of conducts will be important in the assurance process. Claus Frier*

*Users and audiences will want real commentary and opinions from the assurance provider. They are looking for the assurance provider to not only check whether the report is factually correct, but whether they are the right facts. Clare Griffin*

*AA1000 will be present in five years time and will have a very good influence, but the concept may not only be owned by AccountAbility. Other organisations internationally grasp these concepts of materiality, completeness and responsiveness and apply them in their own area and constituency. Preben Soerensen*

### **7.3 WHICH METHODOLOGIES WILL PROVIDE THE MOST USEFUL AND RELIABLE BASIS FOR DECISION MAKING?**

---

The respondents agree that an architecture of standards for assurance needs to be developed to provide clarity, comparability and robustness for assurance methodology. The GRI guidelines, AA1000 Assurance Standard and ISAE3000 are mentioned as early foundations, alongside other existing and emerging specialist standards. A majority of interviewees strongly advocate dialogue and convergence of thinking and advice between these overarching standards.

Interviewees stress the need for a standard to be able to support a multi-disciplinary approach and accommodate the diversity of assurance providers as well as the needs and issues present in different industries and companies. A number of interviewees highlight the concern that without a generally accepted and rigorous standard, assurance will be subject to the pressure of competing assurance provider 'brands' tailoring their services to win clients.

In terms of methodology, a key tension cited by many is between the need for materiality and for comparability of data. Most recognise the need for assurance to move beyond data integrity approaches towards assuring materiality of issues covered and the systems which underpin performance. However, they believe that in the short term most assurance will continue to focus on data accuracy. One respondent notes that even where materiality is addressed it is often approached from the point of view of assessing what the organisation is *saying* rather than starting with the concerns of stakeholders. Many cite the dialogue and convergence between AA1000 and the GRI as an important step in reconciling these two demands.

Related to the question of how far assurance can go beyond confirming data accuracy, many interviewees discuss the issue of liability of assurance providers. The high level of risk, particularly for the Big 4 audit firms, is seen by some as a brake on the development of more risk-based and materiality-based assurance approaches. However, the existence of this liability is recognised as essential to the credibility of assurance.

Many of the interviewees discuss the need for greater clarity around the necessary and appropriate levels of assurance available and how these can be put into practice consistently and communicated clearly to stakeholders.

#### **7.4 SCOPE – HOW WILL DIFFERENT SPHERES OF IMPACT BE COVERED WITHIN A SINGLE ASSURANCE PROCESS?**

Most interviewees agree with the need for integration of the social, environmental and economic impacts of organisations in order for them to be managed effectively. However, they believe that although the social, environmental and economic responsibilities of business are being recognised increasingly, a true understanding of how the triple bottom line can be integrated was some way off.

They note that in practice the degree to which each of the companies seek assurance in relation to social, environmental and economic impacts is dependent on the pressures of the industry they operate in. They agree that suitable criteria for assurance are most well developed in the environmental sphere, while the social sphere is more complex and disputed, although initiatives such as the GRI industry-sector guidance are helping to provide clarity here. The economic pillar of sustainability is cited as the least developed area, where it is often taken merely to involve a translation of the financial statement.

*The fewer available levels of assurance the better. People are looking for clarity.* Eileen Kohl Kaufman

#### **Key standards in the future development of sustainability assurance**

***ISAE3000** will have to play a role as it regulates the accountancy profession internationally and they have no excuse but to stay with it – it is not a voluntary standard. Some more specific interpretations are needed – [which] will most likely come within five years – [of] how this would apply to aspects of sustainability.* Preben Soerenson

***AA1000** is a process standard and therefore will allow companies to focus in on the things that are really relevant for them and their stakeholders. I think companies will want to focus in that way.* Clare Griffin

***GRI** has got fairly good acceptance among those companies who are interested in doing sustainability reporting. It now may become the principle for reporting.* Nola Buhr

***ISO** has a broad network and has brand strength – it can be a consolidator and can establish or set a common norm. But if it were to issue its own reporting and assurance standard this would add to fragmentation, fail to add value and undermine years of multi-stakeholder consensus invested in existing standards. They seem aware of this and this sentiment was reflected in the recently released report from ISO's multi-stakeholder Advisory Group on Social Responsibility.* Ernst Ligteringen

*A very high level of assurance is dangerous for both assurance provider or company as they open themselves up to litigation and the prospect of paying compensation. With a lower level of assurance, although you are less likely to face legal action, you lose credibility.* Geoff Lane

*It is very important that you account for environmental, social, economic and financial issues, as well as consider how they are connected.* Anne Gadegaard Larsen

*Just putting together issues in print in an integrated annual report doesn't mean that you have really integrated them. People may think it is a sustainability report even when it isn't as it doesn't cover all or doesn't really integrate the various factors and issues.* Lars-Olle Larsson

*Assurance can enable a better understanding of the link between the business model and decision making [ie between theory and practice], thereby meeting the demands of stakeholders, while at the same time addressing issues of risk and innovation. It therefore helps create a further challenge to upper management who otherwise make decisions based on insufficient evidence.* Claus Frier

The problem of integration is discussed by a number of interviewees, who note that it cannot be achieved simply by the 'signing-off' of a single report covering social, environmental and economic aspects. They believe that it also must include assuring underlying systems, which govern the way in which these impacts arise from the day-to-day activities of the organisation.

Equally, on the issue of the boundaries of responsibility, respondents highlight the diversity of approaches across different industries and countries with regard to different issues and in relation to 'forerunner' companies and 'laggards'.

#### **7.5 ASSURANCE PROVISION – WHO WILL PROVIDE ASSURANCE AND WHAT COMPETENCIES WILL BE REQUIRED IN THE FUTURE?**

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Interviewees are in agreement over the need for multi-disciplinary teams to be involved in delivering assurance. This is because of the requirement to provide the necessary mix of technical, industry and cultural knowledge, stakeholder participation and audit-type assurance expertise, so as to secure credibility and legitimacy in the eyes of stakeholders. However, there are different views on the compositions of these teams, with some recommending the involvement of lawyers and others saying this isn't necessary, and disagreement over the role of NGOs in assurance. Some also highlight the 'new breed' of assurance providers coming up, who combine traditional accountancy skills, environmental science expertise and practice-based experience of sustainability assurance.

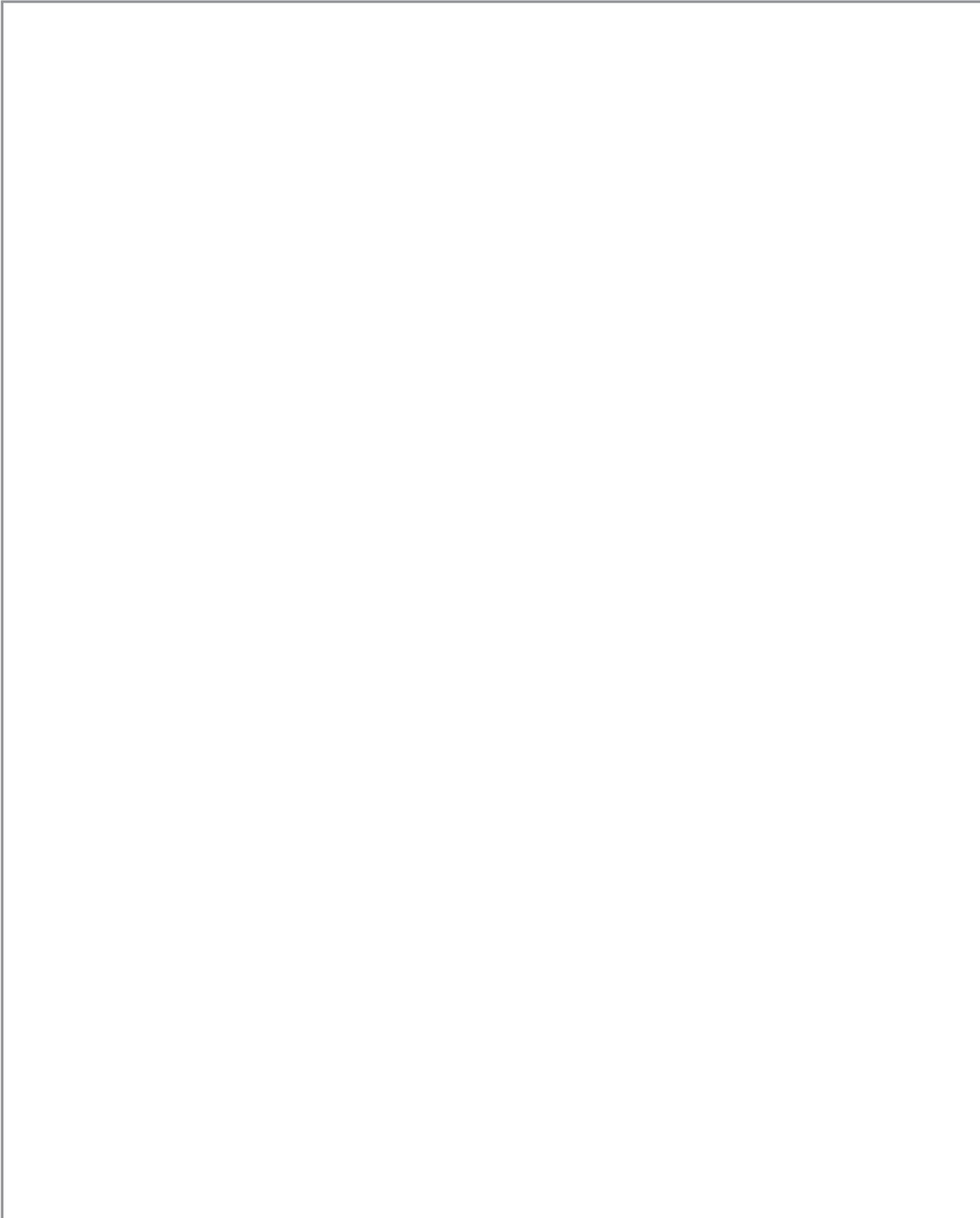
Professional audit firms were identified by all as key providers of assurance now and in the future, including but not limited to the 'Big 4'. Their ability to bring together multi-disciplinary teams, with international capacity and formal systems to manage liability issues is recognised as a key strength. However, some

concern is expressed about their tendency to be internally, rather than stakeholder, focused and their limited concept of risk in terms of direct short-term financial consequences, which is implicit in the transposition of financial assurance models to the sustainability sphere.

It is recognised that NGOs can play a part in assurance, but there are disagreements as to their role, with some seeing them as a part of a multi-disciplinary team, while others see them as stakeholders to be consulted where relevant. Interviewees highlight the difficulty of combining an assurance provider and an independent activist role. Others point out their weakness in terms of liability and confidentiality issues.

*In certain industries, companies will have rigid systems in place to manage and report on social and environmental performance of their suppliers within five years. So it may take another five years for industries where this is less of a priority, and probably another five to ten years for small and medium sized businesses to implement such practices. On a general level, you might want to explore a little into the subject of 'who' the assurance provider addresses their independent statement to, vis à vis standards, legal requirements, practice and potential liability aspects for professional accountants (and their firms).*  
Preben Soerensen

*Two years ago in our environmental and social report we asked the environmental NGO, WWF, to challenge us on environmental issues. We chose them because they know us very well. You can't just ask any NGO because they won't have the insight or in-depth knowledge of what kind of company we are. WWF wrote an article for our 2001 report, which was a quite a good challenge.* Claus Frier



## 8. Conclusion

Although forms of assurance are being developed to provide credibility to some sustainability reports, we have only taken the initial steps towards the widespread use of a robust independent evaluation.

## Conclusion





What is clear from this examination of current practice is that while forms of assurance are being developed to provide credibility to some sustainability reports, we have only taken the initial steps towards the widespread use of a robust independent evaluation. That is an evaluation that captures an organisation's contribution to sustainable development and provides useful and timely information to the intended users, who can steer an organisation's path towards sustainability.

### **Assurance appetite**

Thus far sustainability assurance has been linked to the publication of annual sustainability reports and has been aimed at making these reports – and the reporting organisations themselves – more credible. However, sustainability assurance, while increasingly widespread, continues to lack sufficient credibility and influence both internally and externally. Current developments in sustainability assurance aim to strengthen its role in driving performance by ensuring the provision of relevant, useful and trusted information for decision making – these needs will be different according to the appetites of stakeholders.

### **Assurance methodology**

Sustainability assurance is beginning to centre on emerging standards and methodologies borrowed from spheres such as financial auditing and quality assurance. Key differences in approach to assurance centre on the question of what is being assessed: past or future indicators of performance and what determines the scope of assurance; stakeholder concerns or some form of comprehensive standard.

### **Assurance scope**

Although some assurance approaches focus on a pre-defined set of performance indicators (financial profit and loss, carbon emissions or child labour, for example) *sustainability* assurance aims to capture the entirety of a company's impacts. Limited scope assurance is useful for stakeholders interested in specific issues (a product line free from genetically

modified organisms, for example) and managers of functional areas. Sustainability assurance must cover these issues as well as emerging areas and risks, which cannot be captured with predetermined and limited scope. Assessment of materiality to stakeholders must therefore form the basis of determining scope within sustainability assurance.

### **Assurance provision**

Assurance providers range from audit professionals, to NGOs, to opinion leaders. In order to provide robust and wide-ranging assurance, a spectrum of competencies is required, from the technical knowledge of assurance processes to expertise in communicating with specific stakeholders, to technical and commercial knowledge about industry-specific issues. In addition the legitimacy of assurance providers in the eyes of the intended assurance users is crucial. Many companies have concluded that a single assurance provider is unable to offer all these competencies and have opted for a range of different providers. This is likely to remain the case, given the demands of different assurance audiences and the likelihood that emerging issues and new technological developments will be outside the sphere of expertise of even the current range of organisations involved in assurance.

The scenarios outlined in Chapter 6 offer three possible future directions from the current rainbow of assurance approaches:

- convergence around standards focusing on historical data accuracy (grey)
- convergence around a forward-looking approach focused on organisational performance (gold)
- lack of convergence (black).

The bottom line for judging the effectiveness of sustainability assurance is its ability to catalyse

significant changes in patterns of production and consumption, and the business operations and market conditions that underpin these. In the first scenario there is a separation between civil processes of standard setting and professionalised processes of measurement and assurance. It offers stability and a guarantee of minimum standards but it does not contribute to the kinds of step-changes and innovation needed to meet the major challenges of sustainable development.

In the second scenario there is a convergence around an architecture of standards based both on normative criteria and meaningful stakeholder engagement. Such convergence tests organisational learning, innovation and performance as well as backward accounting, and frames a range of specialised accounting and assurance processes to meet stakeholder demands. Such a delicate balance in convergence between organic yet structured, participative and professionalised, integrative yet flexible, will be hard to achieve. It is a worthwhile goal however, as it offers the greatest potential for positive change, with sustainability assurance at the heart of how organisations manage and account for their performance.

The final scenario highlights the dangers of no convergence: a future in which competing standards and approaches undermine the credibility of sustainability assurance leading to its collapse. Ultimately this would not just be bad news for assurance providers but would mean a failure in the twenty-first century's attempt to create a system of hybrid regulation, which enables business to fulfil its role of providing innovative solutions for meeting human needs with ever greater efficiency. The alternatives either could be a race-to-the-bottom of unregulated international business, in which the worst out-compete the best, or a return to more strict regulation of business, which puts obstacles in the way of innovation and development.

These scenarios underline the need for some form of Generally Accepted Assurance Standards for Sustainability (GAASS) to avoid the black scenario, and secondly, highlight the characteristics of such a framework that could push the assurance beyond the limited grey scenario towards the gold scenario.

These GAASS would include the following aspects:

#### **Focus on driving performance**

Disclosure must be useful for informing stakeholders' decision making (including that of internal stakeholders) as a way of positively influencing the direction and performance of the organisation. Limited forms of assurance, which guarantee data accuracy and reporting of well-established issues, can help to deliver accountability to consumers and civil society as well as performance in terms of compliance with basic standards. However, there are likely to be complex trade-offs between different areas of impact, or controversies over whether issues fall within a company's responsibility, or challenges that require completely new ways of working. Consequently only assurance that ensures that more than lip service is paid to stakeholder engagement and that ensures that measurement and management systems are able to translate this into learning and innovation, will be able to deliver the requisite performance changes.

#### **Build on a foundation of materiality and stakeholder engagement**

This approach does not take a pre-defined set of issues or specific stakeholder interests as its starting point. It aims to ensure that issues that are material to the present and future decisions of stakeholders are included as suitable criteria for assurance and that the necessary level of assurance is obtained. In this way accountability drives the performance of organisations and the assurance process focuses on how material issues are being incorporated into innovation and change.

### **Enable a range of organisations and individuals to provide assurance**

No single assurance provider is able to assure the sustainability of an organisation. Multiple sources of legitimacy and expertise always will need to be involved in sustainability assurance, reflecting technical and process competencies and specific expertise. This is neither a feature of the newness of the field nor of the inexperience of those involved, but reflects the need to understand information and concerns from those outside commercial and professional spheres.

### **Provide a common platform for diverse assurance processes**

Multiple processes of assurance are necessary to meet different stakeholder appetites. Different groups of stakeholders demand different types of assurance; boards and investors need an overview of sustainability which is forward looking; managers need timely and credible information for day-to-day decision making; consumers are more often concerned with certification related to individual products; civil society organisations are concerned with such guarantees, but also with assurance that companies are acting transparently and responsively. These are likely to be met by specific types of assurance, including financial auditing, site-based environmental verification, labour standards audits ('social audits') and audits against other multi-stakeholder agreed standards.

### **Enable the integration of these diverse assurance processes within an overarching framework**

There is a need to bring together the processes focusing on different stakeholders and issues throughout a company's operations in order to understand overall performance and the trade-offs involved. Sustainability assurance cannot simply aggregate these areas but must be able to integrate different forms of assurance within a common framework. Some areas of impact are susceptible to accurate measurement, others to more exploratory and participative processes. Over time, issues may move

from being the subject of fierce stakeholder debate to becoming more standardised. The assurance process therefore takes various forms (audit, review, commentary, certification), depending on material issues involved.

Issue specific standards, such as SA8000 and audit-type assurance standards, currently in development by national public accounting bodies such as Standards Australia, offer the foundations for what could become part of a more stabilised architecture of standards for assurance. In particular, standards currently being developed by IAASB, as well as guidelines from FEE, which has been at the forefront of developments in this area for a number of years, will be extremely influential. However, such developments are likely to provide only partial solutions to the problem of assessing overall sustainability. Some are purposely limited in scope (as with issue-specific standards) and others are limited by their transposition of financial or quality models of assurance, which may not be able to capture fully the subject matter that makes up a picture of sustainability. Others are only applicable to professional auditors and do not provide for non-audit-type organisations, such as NGOs, to fit into the assurance process.

An overall audit level of assurance of this type will not be possible for a whole organisation in sustainability terms in the foreseeable future; assurance will be at review level for the whole organisation, but may be at audit level for specific issues. So, for example, financial audit would be one specific area of focus within sustainability assurance – providing a measure of cash flows, financial assets and liabilities but being recognised as a partial snapshot of a much larger and more complex picture.

The AA1000 Assurance Standard offers the basis for a common platform for integrated sustainability assurance into which these various standards and levels of assurance can fit, depending on the needs of

## Conclusion

an individual organisation and its stakeholders. It provides a model around which a set of GAASS could converge. It allows different organisations and individuals with relevant competencies to provide assurance relevant to different stakeholders.

Such a set of GAASS must, however, be complemented by similar developments in accounting and reporting. The Global Reporting Initiative (GRI) guidelines may be the basis for a generally accepted reporting standard for sustainability reporting and, as mentioned above, AccountAbility and the GRI are working closely to make the link between sustainability reporting and sustainability assurance.

The future envisioned is one in which sustainability assurance moves out of its niche to become *the* way that organisations attest to their overall performance. This will neither happen by administrative fiat, nor because it says so in any standard. It will come about over time only if sustainability assurance is able to prove itself as providing a better set of signals about an organisation's ongoing health and performance than do the financial figures alone. This is dependent partly on the development of GAASS with the characteristics outlined above, but also on the ability of regulators, investors, pricing mechanisms, industry and consumer pressure to use this information to affect the business environment, ensuring the internalisation of environmental and social costs. In this scenario, sustainability assurance will become driven less by the need to appear trustworthy to all and more aligned to the needs of investors, regulators and managers to respond to stakeholders' concerns and to identify, reward and invest in strategies that deliver innovation and performance.

## Appendix: Descriptions of the key standards referred to in the report

### **AA1000 ASSURANCE STANDARD**

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AA1000 Assurance Standard is a generally applicable standard for assessing, attesting to, and strengthening the credibility and quality of an organisation's sustainability reporting, and its underlying processes, systems and competencies. It provides guidance on key elements of the assurance process.

([www.accountability.org.uk](http://www.accountability.org.uk))

### **DOW JONES SUSTAINABILITY INDEXES (DJSI)**

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Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes, STOXX Limited and SAM, they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios. Currently 51 DJSI licences are held by asset managers in 14 countries, to manage a variety of financial products, including active and passive funds, certificates and segregated accounts. In total, these licensees presently manage 2.8 billion EUR, based on the DJSI. ([www.sustainability-indexes.com](http://www.sustainability-indexes.com))

### **ECO-MANAGEMENT AND AUDITING SCHEME (EMAS)**

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The EU Eco-Management and Audit Scheme (EMAS) is a management tool for companies and other organisations to evaluate, report and improve their environmental performance. The scheme has been available for participation by companies since 1995 (Council Regulation (EEC) No 1836/93 of 29 June 1993) and was originally restricted to companies in industrial sectors. ([http://europa.eu.int/comm/environment/emas/index\\_en.htm](http://europa.eu.int/comm/environment/emas/index_en.htm))

### **ETHICAL TRADING INITIATIVE (ETI)**

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The Ethical Trading Initiative (ETI) is an alliance of companies, non-governmental organisations (NGOs) and trade union organisations. It exists to promote and improve the implementation of corporate codes of practice which cover supply chain working conditions. Its ultimate goal is to ensure that the working conditions of workers producing for the UK market meet or exceed international labour standards.

([www.ethicaltrade.org](http://www.ethicaltrade.org))

### **FÉDÉRATION DES EXPERTS COMPTABLES EUROPÉENS (FEE)**

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The Fédération des Experts Comptables Européens (FEE) [the European Federation of Accountants] is the representative organisation for the accountancy profession in Europe. FEE's membership consists of 41 professional institutes of accountants from 29 countries. FEE member bodies represent more than 500,000 accountants in Europe. FEE has published a series of guidance documents on the assurance of sustainability reports. ([www.fee.be](http://www.fee.be))

### **FAIR LABOR ASSOCIATION (FLA)**

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The FLA is a non-profit organisation combining the efforts of industry, non-governmental organisations (NGOs), colleges and universities to promote adherence to international labour standards and improve working conditions worldwide. The FLA was established as an independent monitoring system that holds its participating companies accountable for the conditions under which their products are produced. To advance fair, decent and humane working conditions, the FLA enforces an industry-wide Workplace Code of Conduct, which is based on the core labour standards of the International Labor Organisation (ILO). ([www.fairlabor.org](http://www.fairlabor.org))

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**GLOBAL ALLIANCE FOR WORKERS AND COMMUNITIES (GA)**

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The Global Alliance for Workers and Communities (GA) is a partnership of private, public and non-governmental organisations established in 1999 to improve the workplace experience and future prospects of workers involved in global production and service supply chains in developing countries, the majority of whom are young adults. GA is currently working in five countries (China, India, Indonesia, Thailand and Vietnam) and reaching over 200,000 workers. ([www.globalalliance.org](http://www.globalalliance.org))

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**INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS (ISAE3000)**

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The purpose of the ISAE3000 is to establish basic principles and essential procedures for, and to provide guidance to, professional accountants in public practice for the performance of assurance engagements other than audits or reviews of historical financial information covered by International Standards on Auditing (ISAs) or International Standards on Review Engagements (ISREs). ([www.ifac.org/iaasb](http://www.ifac.org/iaasb))

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**ISO STANDARDS**

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ISO is the International Organisation for Standardisation, which is a network of national standards institutes from 148 countries working in partnership with international organisations, governments, industry, business and consumer representatives. ISO 9000 is concerned with 'quality management'. This means what the organization does to enhance customer satisfaction by meeting customer and applicable regulatory requirements and continually to improve its performance in this regard. ISO 14000 is primarily concerned with 'environmental management'.

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**SOCIAL ACCOUNTABILITY INTERNATIONAL'S SA8000**

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SA8000 is a tool for retailers, brand companies, suppliers and other organisations to assure just and decent working conditions in the supply chain. SA8000 is based on international workplace norms in the ILO conventions and the UN's Universal Declaration of Human Rights and the Convention on Rights of the Child. The standard was developed by Social Accountability International, a human rights organisation founded in 1996, that seeks to improve workplaces and communities around the world by developing and implementing socially responsible standards. ([www.cepaa.org](http://www.cepaa.org))

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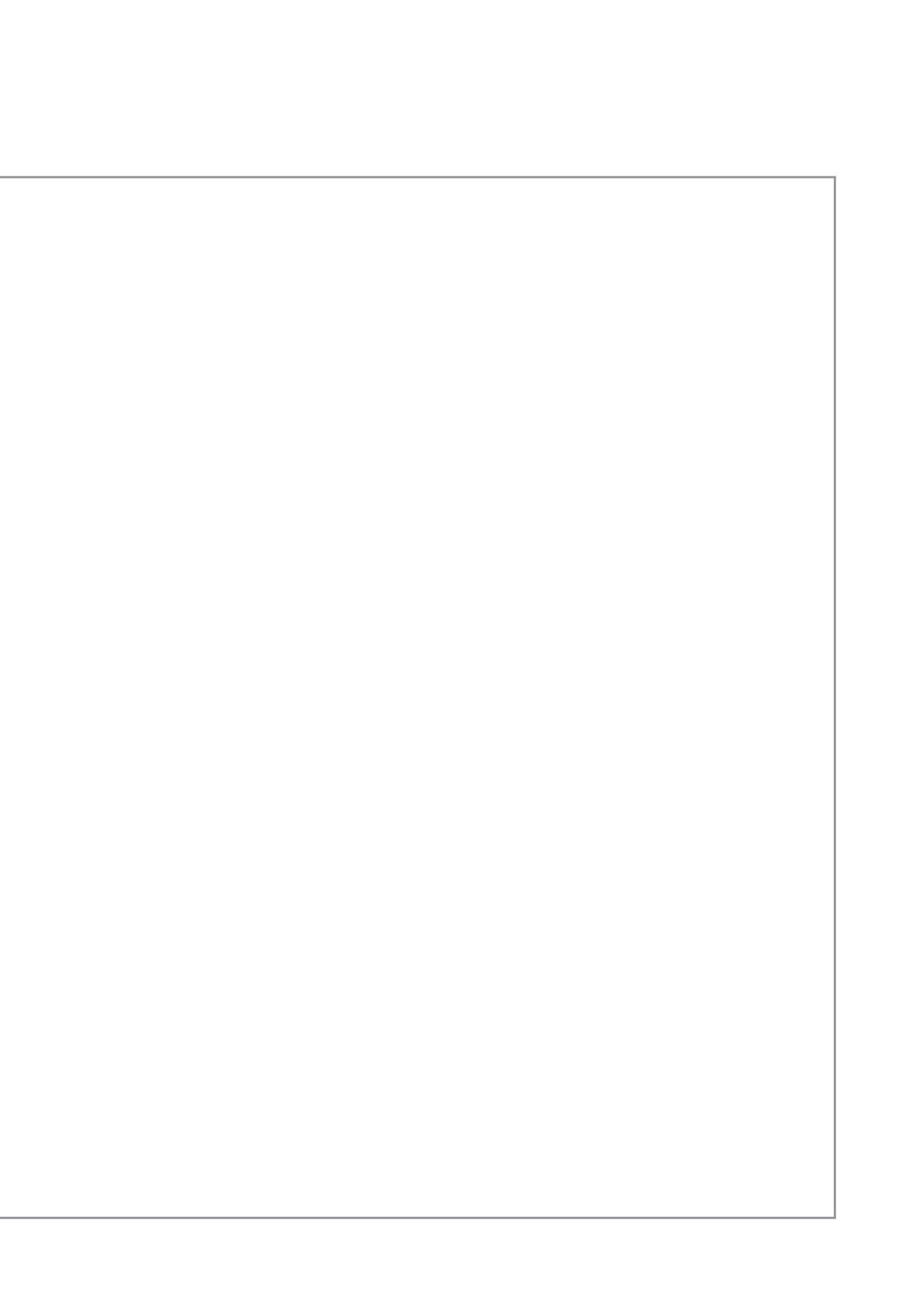
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**RR/086/001**

ISBN: 1 85908 407 9

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