



## **Sustainability Reporting and Assurance: The Next Phase**

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An institution  
for learning and  
working on the  
ground

## Mission

“Promoting accountability for sustainable development”

- Non-profit, membership-based, international professional institute. Members include Microsoft, Oxfam, Gap, KPMG, Barclays
- Individual and organisational members from business, research and non-governmental organisations (NGOs) and service providers from 20 countries and five continents.
- Multi-stakeholder, member-elected, international governance

The AA1000  
Series of  
standards are  
core to our work

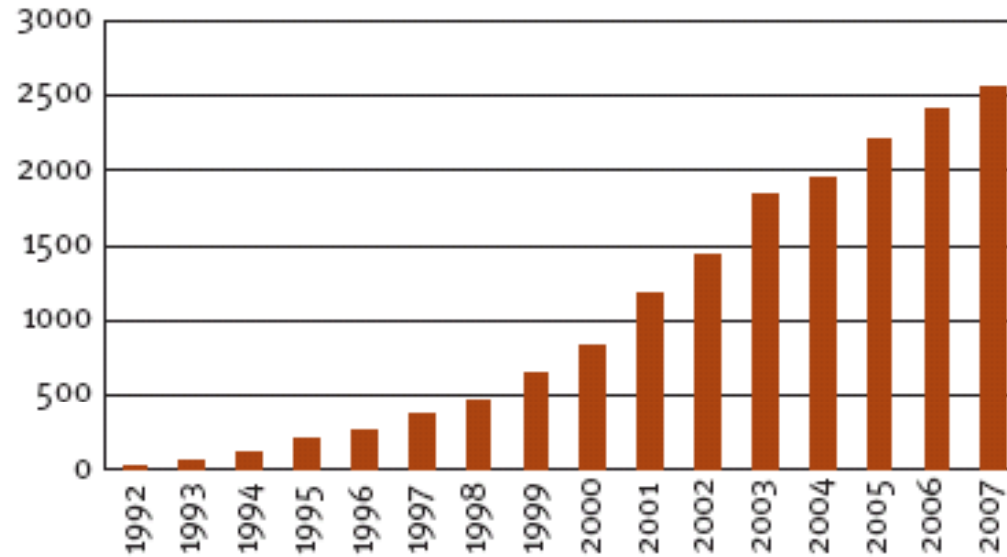
## Core Work Areas

- Developing innovative and effective accountability *tools and standards* on corporate governance, stakeholder engagement, reporting and assurance (AA1000 Series)
- Undertaking *strategic research* that explores best practice for practitioners and policy makers
- Working to build accountability competencies across the professions through **training, mentoring and joint ventures**
- Promoting and enabling a **public policy** environment for effective organisational accountability.

# The Growth of Sustainability Reporting

Continued growth in sustainability reporting

Global report output per year

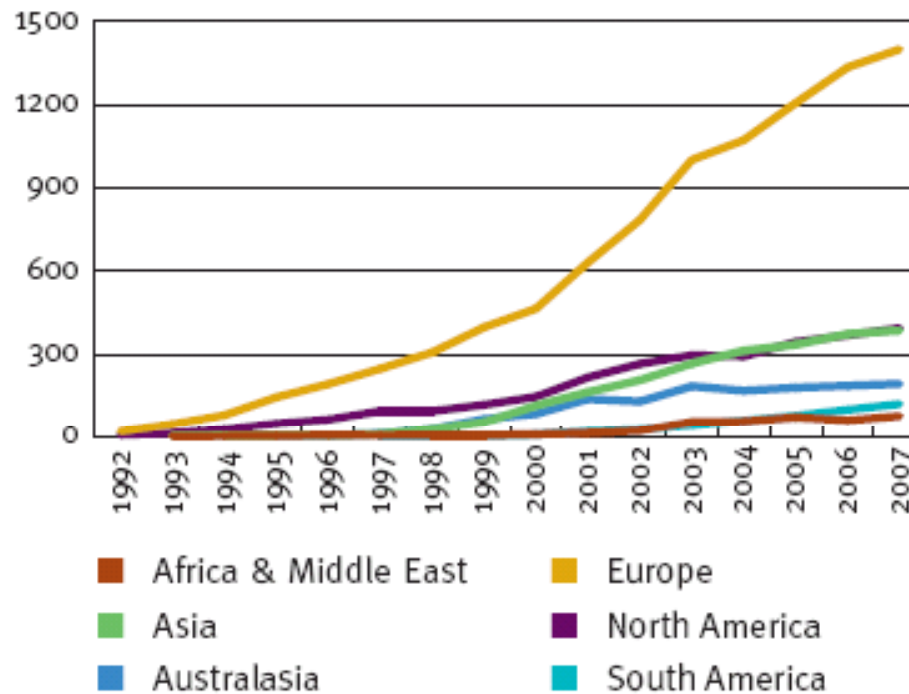


- Continued growth is being driven by reporting spreading to smaller companies and emerging markets

# The Growth of Sustainability Reporting?

Europe leads  
but others areas  
are growing fast

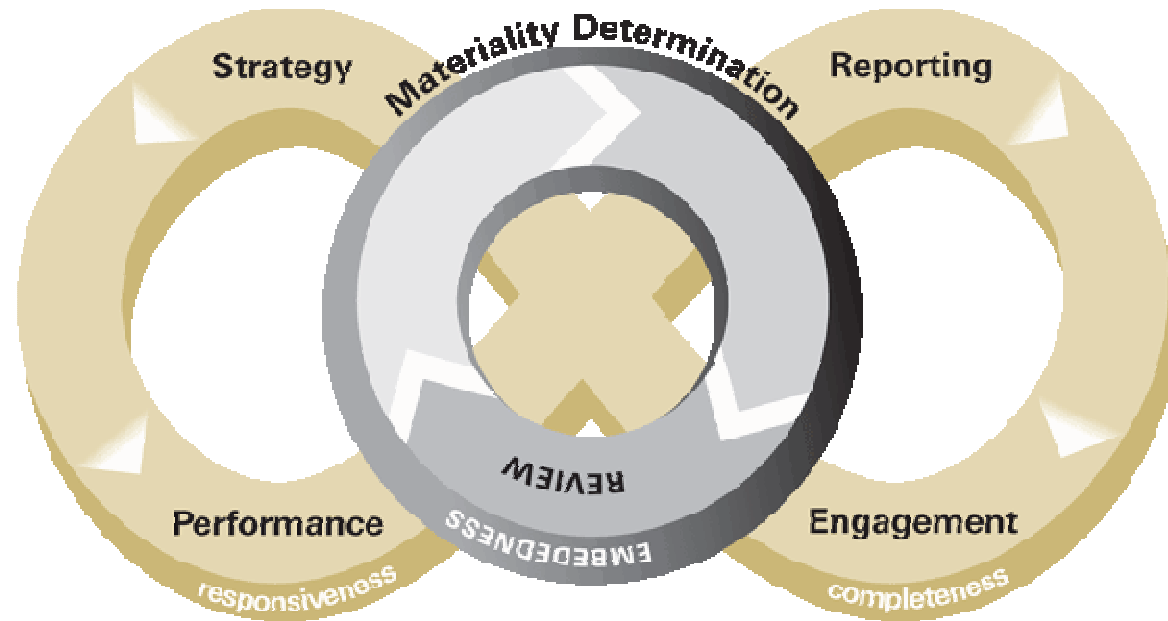
Report output per year by region



- Europe continues to lead with interest spreading to Central and Eastern Europe
- Asia, North America and South America are beginning to embrace sustainability reporting more

# Sustainability Reporting Is Here to Stay

Links to strategy and the transparency agenda ensures reporting is here to stay



- Leading companies are using sustainability reporting and stakeholder engagement to inform and influence strategy and performance
- When aligned to core business activities and not treated as a silo activity, reporting can help highlight new risks and opportunities and increase understanding of previously identified issues

## Four key trends need to be addressed

- **Convergence**
  - With sustainability increasingly seen as a strategic issue companies and decision makers are looking at ways of integrating sustainability and financial reporting to provide a more rounded view on company performance
- **Consistency**
  - Providing information on consistent issues and in a consistent manner
- **Comparability**
  - Decision makers want to be able to compare performance over time and between companies within sectors.
- **Credibility**
  - Would you pay any attention to an un-audited annual report? Credibility is a pre-requisite for decision makers and is as a result the use of various assurance mechanisms is on the increase.

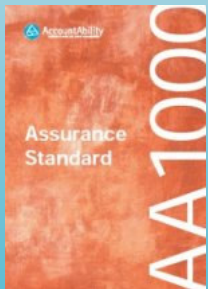
Sustainability Assurance adds value internally and enhances credibility externally

- Assuring sustainability reports **builds the credibility** of a company and of the sustainability information they disclose
- Independent assurance means that decision makers can use the information disclosed in reports with a **greater degree of confidence and trust**
- Through sustainability assurance companies can demonstrate to various stakeholders, from investors to employees, that their **commitment to sustainability is genuine** and not just PR
- Sustainability assurance also adds value by providing an external view on material sustainability issues and stakeholder engagement and provides **strategic level recommendations** to improve sustainability performance

# The need for principles based assurance

Sustainability  
assurance  
requires a  
flexible  
approach

- Assuring sustainability reports is very different from compliance based audits like ISO 14001 or SA8000
- The issues and context varies by industry, region and company. Therefore principles based assurance is key
- Principles based standards can deliver the structure and credibility required while providing enough flexibility to adapt to the individual organisation
- **The AA1000AS provides generally applicable principles to evaluate when providing assurance. It is built on the principles of Inclusivity, Materiality, and Responsiveness.**

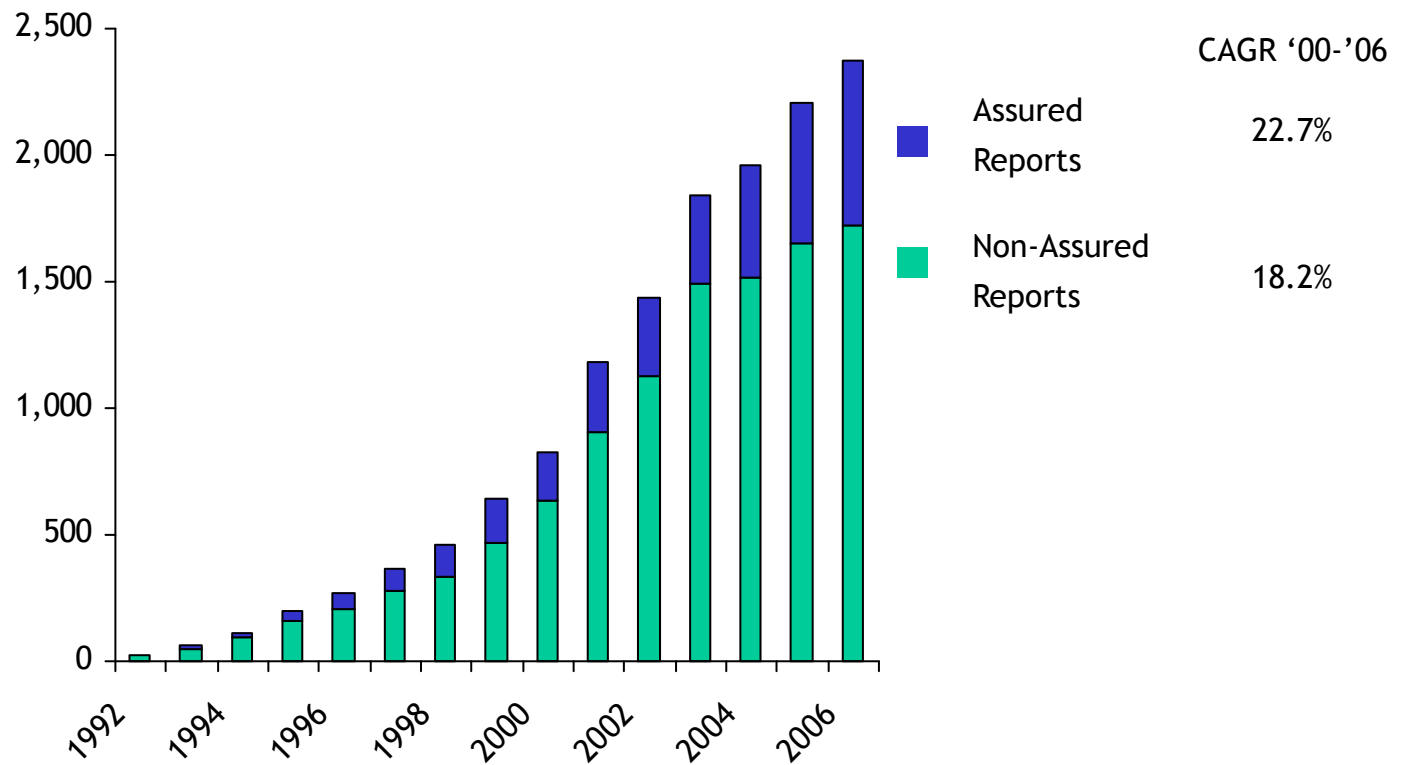


## Principles based assurance differs from usual audit procedures

- Principles based assurance means assessing whether organisations are **reporting on the right issues** as well as evaluating the reliability and accuracy of performance information
- Principles based assurance means understanding the context of performance and reporting rather than just the areas for compliance.
- Principles based assurance provides an overarching frame within which to understand and capture issue and system specific standard and certification programs

# The Assurance Market

Assured CR reports have grown faster than non-assured reports and this will continue

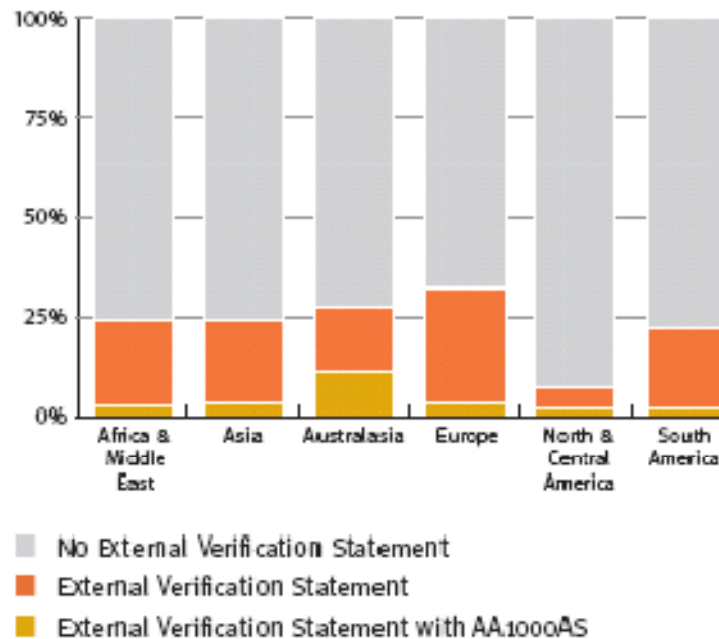


Source: Corporate Register, 2007

# The Regional View Of Assurance

AA1000AS is the leading global sustainability standard

Figure 6: External assurance in 2007 reports by region



Source: Corporate Register, 2008

- Approximately 25% of reports now have some form of assurance.
- Assurance is even more common in the largest companies, e.g. 60% of FTSE 100 reports have external assurance
- Assurance is provided in a number of ways through a full independent assurance process, assurance panels, individual opinion statement or just verification of data

A variety of organisations play in this market

- Accountants
  - Dominated by the Big 4. Deep process knowledge based on financial audit practices
- Certification Bodies
  - Audit and certification process knowledge with deep experience of various non-financial issues
- CSR Specialists
  - Subject matter expertise is applied to the assurance process
- Assurance Panels and Expert Opinions
  - Less formal forms of assurance are used by some organisations

# What does best practice look like

## Best practice assurance should...

- Evaluate whether the report **addresses the right things** as well as assessing the reliability and accuracy of performance information
  - Assessing materiality is the basis of assurance
- Assess The Quality and Extent of **Stakeholder Engagement**
  - Stakeholder engagement that informs reporting and performance is crucial
- Use Recognised Global **Standards**
  - AA1000AS, ISAE 3000
- Provide a **Narrative On Disclosure and Performance**
  - Stakeholders want to read an assurance practitioners opinion not just a confirmation of accuracy
- Give **Forward Looking Recommendations**
  - Highlighting future areas of significance and identifying areas for improvement

# Mainstreaming Brings Challenges

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Assurance is becoming more mainstream but this brings challenges

- Ensuring widespread adoption of assurance without dilution of the purpose and practices
- Mainstream stakeholders are challenging the usefulness and credibility of information in sustainability reports and assurance statements to a greater extent than historically
- As sustainability reporting becomes mainstream more stakeholders are involved (e.g. the financial world) bringing new challenges
- These challenges must be welcomed but developments will take time and involve many small steps

# The AA1000AS Revision Process - Why?

The call for an updated standard reflects a shift in the market

The AA1000 is the key global assurance standard and revision is one piece of the mainstreaming agenda. Reasons for the revision include:

- **Demand from the marketplace** for clarity and coherence to ensure better outcomes - greater procedural guidance to increase consistency
- Realisation that **sustainability issues are increasingly core to business strategy** means the context has changed since 2003
- The need for a standard that can be **linked to other audit and assurance standards** while providing support for important reporting standards and guidelines, such as the GRI.
- Long term strategy needed to **integrate corporate reporting** is being suggested, but short to mid term steps are needed to help get there
- Increasing mainstream interest and professional development (ISAE 3000 and CSAP)

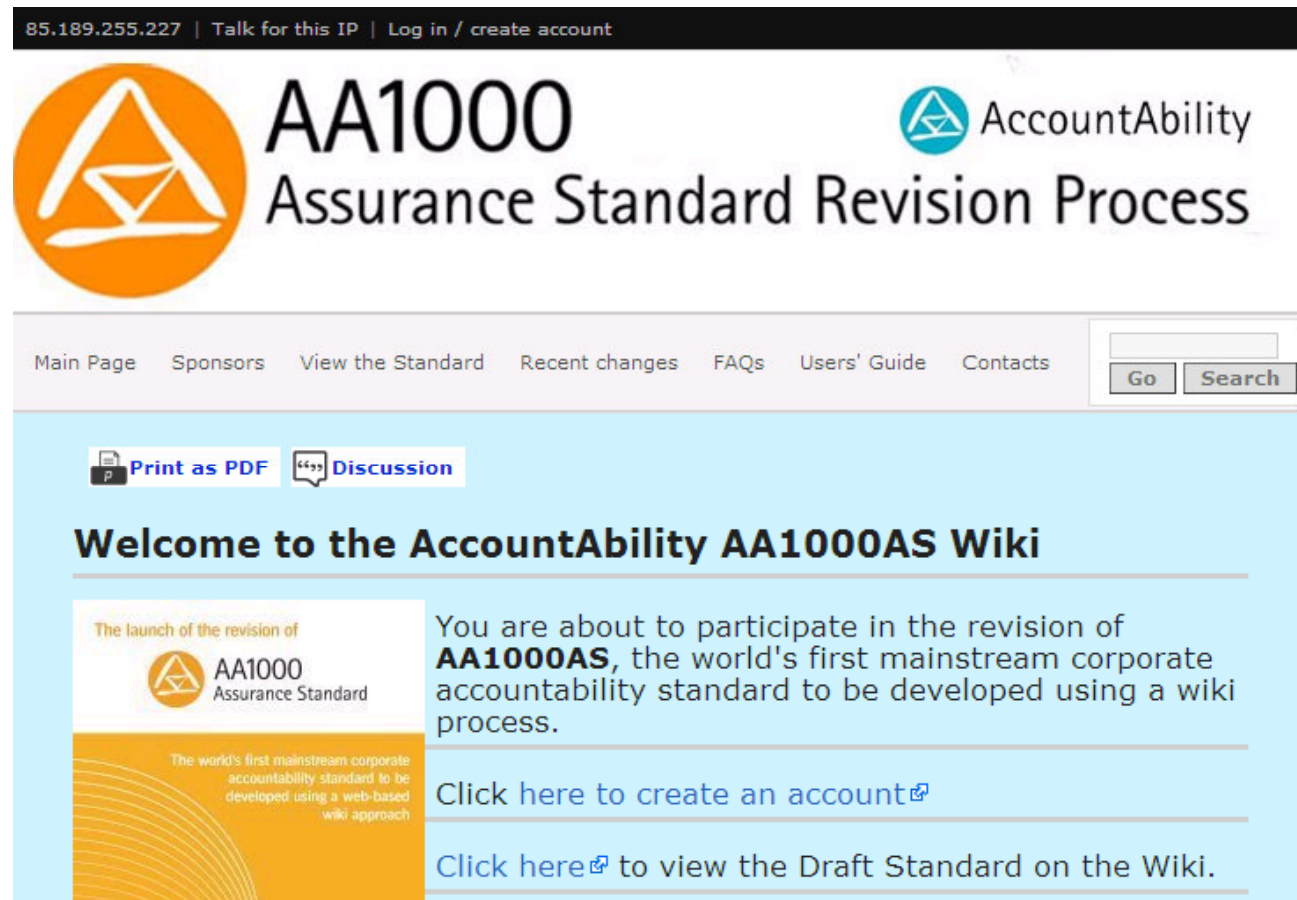
# The Revision Process: Online Wiki

A uniquely transparent and collaborative revision process

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# AA1000 Assurance Standard Revision Process

AccountAbility

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## Welcome to the AccountAbility AA1000AS Wiki

The launch of the revision of **AA1000 Assurance Standard**

You are about to participate in the revision of **AA1000AS**, the world's first mainstream corporate accountability standard to be developed using a wiki process.

[Click here to create an account](#)

[Click here](#) to view the Draft Standard on the Wiki.

The world's first mainstream corporate accountability standard to be developed using a web-based wiki approach

[www.accountabilityaa1000wiki.net](http://www.accountabilityaa1000wiki.net)

# The Revision Process: Who has been involved?

Widespread  
consultation to  
ensure  
inclusivity

- **E- Survey**
  - Members, practitioner, reporters and others surveyed
  - High level feedback on where improvement was needed
  
- **National and Regional Consultations**
  - 20 National Multi-stakeholder Consultations
  - Detailed discussion on key issues
  
- **Briefing Sessions**
  - Short briefing sessions for key individual stakeholder groups e.g. WBCSD, IEMA, UKSIF, OECD
  
- **AccountAbility Technical Committee**
  - Oversee the process and ensure all comments are considered fairly

# Key issues arising

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Our consultations have raised several issues that need addressing

- **Consistency in meanings of terms** is needed to increase clarity and consistency.
- For comparability between reports there is a need for stated **levels of assurance**
- How to deal with limitations to scope
- **Greater procedural guidance** to help increase quality and comparability of assurance processes
- **Clearer links to other standards**
- Provide companies as well as the individual assurers with professional certification and organisational accreditation to increase professionalism

4,500 experts  
registered with  
the wiki



## AA1000

### Assurance Standard Revision Process

*The world's first mainstream corporate accountability standard to be developed using a web-based wiki approach*

- **Three ways to impact the content**
  - **Edit** the text directly on the wiki
  - **Comment** about particular issues to drive discussion on the wiki
  - **Print** the standard, annotate and return to AccountAbility

# When to Expect the New Standard?

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The new  
Standard will be  
published October  
24, 2008

- Three public wiki periods of 60-90 days
  - Jan 24<sup>th</sup> - April 4<sup>th</sup>
  - April 30<sup>th</sup> - June 20<sup>th</sup>
  - July 4 - September 12
  
- Transparent review and edit by the AccountAbility Technical Committee
  
- Finalisation by Technical Committee and AccountAbility Board

# Is the new AA1000AS the end game?

The AA1000AS is  
not the end  
game

- The AA1000AS is a medium term step towards more credible and meaningful sustainability information
  
- **What about the longer term future of assurance**
  - Are we moving towards integrated financial and sustainability reporting and what would assurance of these reports look like?
  - How will other changes to reporting impact assurance?
  - How will the growing interest of the financial accounting community in this area affect matters?
  - Will assurance become mandatory for sustainability reporting?
  - Will formal assurance continue to dominate or will panels or other forms of assurance become increasing popular?

Assurance is a growing market and demands new skills from experienced professionals

## Increased demand for quality assurance

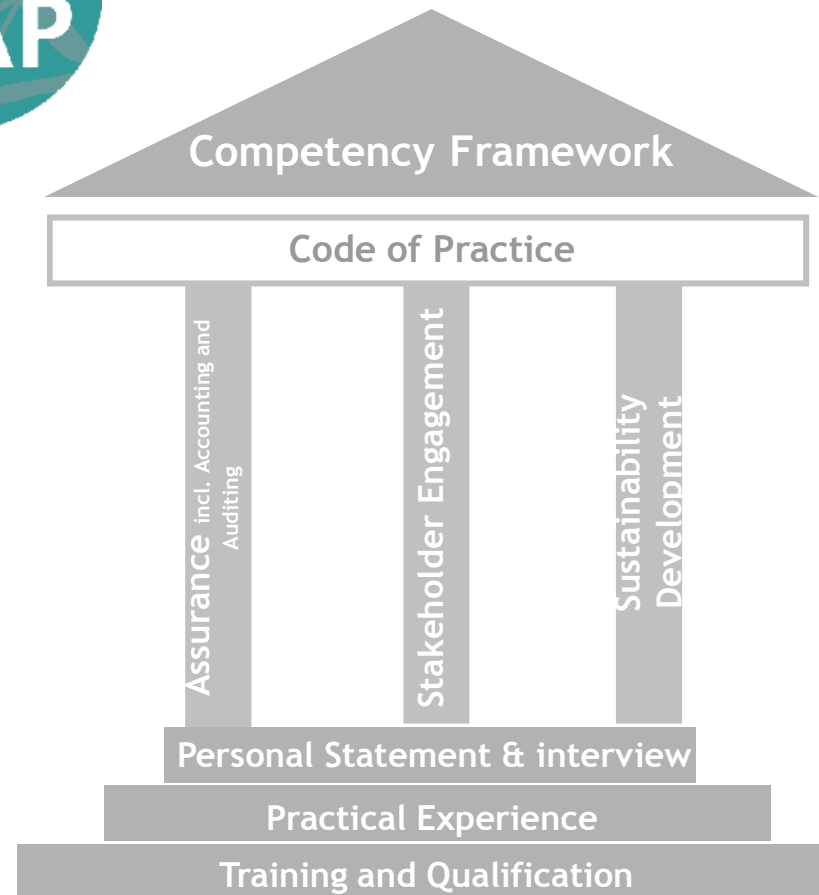
- There is an increasing global market for assurance and this is likely to continue to grow rapidly. Emerging markets are starting to report more and are becoming interested in reporting
- As sustainability reporting becomes more mainstream the need for credibility increases and the demand for assurance mechanisms grow

## Existing skills are relevant but may not be sufficient

- Many of your existing competencies are useful in assurance provision
- There are a number of new skills and ways of thinking to learn

# What does this mean for me?

Training and professional qualifications exist



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