



Part of Carbon Smart Ltd

## **Defining Best Practice Assurance for Sustainability and Carbon Reporting**

### [Workshop highlights and key ideas](#)

The Smart Sustainability workshop on 17<sup>th</sup> November 2009 brought together members of the investment and corporate social responsibility communities to discuss the complexities of assuring CSR and sustainability reports. Panellists from DEFRA, investment firms SAM and Insight Investment, and reporting companies BP, BAT, and SAP discussed ways in which CSR reporting and assurance could be made more rigorous and informative.

Below we have outlined the main conclusions from each section of the event. The first panel examined investor opinions of the credibility and applicability of CSR assurance statements to their field. The second panel discussed the process of CSR reporting and assurance from a corporate perspective. A discussion followed in which participants were presented with the best practice criteria that Smart Sustainability's independent advisory panel developed to benchmark assurance statements. They discussed the applicability of the criteria and what best practices they would like to see in assurance in the future.

### **Panel 1: The view from investors and the Government**

In general, investors agreed that greater clarity and standardisation is necessary to increase the value of assurance statements to their profession. There were different levels of understanding of assurance and a variety of expectations about their scope, methodology, and uses. Among the panellists, there were differing opinions on how useful assurance statements currently are to investors, but there was a general consensus among the group that there is room for improvement in both areas.

The effect of differences in assurance approaches, scope and level of detail is to reduce the amount of attention that investors pay to assurance statements. There was overall consensus that CSR assurance statements should be comparable to financial assurance statements, where the approach, scope and level of assurance are consistent between companies. The investor should not have to spend significant amounts of time interpreting assurance statements only to find that a significant topic was outside the scope of assurance. "Investors and analyst should

be reassured about the quality of the CSR report just by looking at the assurance statement. Unfortunately, discrepancies in approaches means that we need to read all assurance statements carefully in order to understand what has been assured and how.”

As a result, many investors emphasized the need for clear guidelines and greater coordination in assurance, particularly in the standards used and the qualifications of assurers.

For investors, the broader purpose of CSR reporting is to “give a clear picture of company values and principles, governance and management practice and performance, as well as to help users understand where the company is going.” Beyond simple information disclosure, sustainability reporting in particular represents “a means of supporting a company’s stakeholders when deciding whether or not they want to enter into a relationship with the organisation, be it as employees, customers, investors or in other capacities.”

Investors said that key questions they ask when looking at CSR reports include “does the report cover the entire business? What are the key financial risks and how have they been identified? What is the process for assessing risk?” Investors are also interested in seeing better information on carbon emissions. “Investors see information on direct and indirect emissions in CSR reports, but there is little clarity around scope, particularly scope 3 emissions and boundaries.”

Different countries have had different rates of adoption of CSR assurance, but overall the use of assurance is increasing. During the panel, some interesting statistics were revealed: In Europe, 35% of CSR reports were independently verified to an assurance standard in 2009, compared to 27% in 2007. In North America the figures were much lower, 4% in 2007 and 5% in 2009. Levels of assurance also vary depending on the industry sector. For example, the utility industry started assuring early and has a relatively high adoption rate at 25% in 2009. “There is a link between exposure to the issue and performance in terms of managing it.”

With carbon reporting likely to become mandatory in the next few years, it will be important for companies to have systems in place for verifying emissions data. “For those who are involved in the climate negotiations, business is an integral part of responding to climate change, and certainly measuring carbon will be part of that.”

## **Panel 2: The view from reporting companies**

In the second panel, reporting companies described some of the challenges they had faced in developing their own CSR and assurance practices. Because both fields are so young, some companies have forged their own best practices and improved them year on year. Companies suggested that greater standardisation in the assurance process would reduce costs and help them respond to stakeholder and investor needs.

Representatives from companies that report CSR and sustainability data shared their experience with assurance and its importance for their internal and external stakeholders.

According to one company representative, the “feedback from our investors, including mainstream investors, is that they do care about the accuracy of non-financial data.” From an internal perspective, “assurance is important to us because of data accuracy and corporate governance. Our board wants to make sure that what we’re reporting is correct, and the external assurance provider helps us determine if the systems we have in place will promote accuracy of data.”

Because sustainability reporting and assurance are such new fields, early adopters have had to forge their own best practices and have learned from the experience. “It was a challenge to determine what issues were material for our industry at first because three years ago, there wasn’t a huge demand for sustainability reports. We were taking a risk-based approach, but once the market matured for sustainability solutions, sustainability reports became essential.” To meet ambitious targets, there has to be commitment at all levels of an organisation. “We set ourselves a 50% carbon reduction target by 2020 including scope three. Our target of reducing carbon emissions 50% by 2020 was a management decision. There was a clear signal from the board and CEO that we would have to meet a standard of excellence in CSR reporting just as we do in financial reporting.”

While developing processes for sustainability reporting is challenging, it can help build stakeholder trust and improve internal communications and processes. “We’ve worked hard in recent years to make our assurance more relevant, focusing on what we see as material and asking ourselves what shortfalls there are and how we can adjust. The value in what we report and our assurance builds trust with our stakeholders and generates positive change and debate internally.”

### **Breakout session**

During the breakout session, workshop participants were presented with 10 criteria for assessing the value and credibility of an assurance statement. They discussed ways to improve assurance and what would be appropriate ways to compare different assurance statements. Comments from participants confirmed that these rating criteria address many of the problem areas and areas of interest in assurance to investors. Participants shared their ideas for best practice. Their suggestions gave us new ideas that will be incorporated into Smart Sustainability’s research.

### **Qualifications**

Qualifications of assurers ranked highest amongst the group’s priorities for improving sustainability assurance. Participants wanted to see assurers be held to levels of accountability similar to financial auditors. There was an emphasis on the need for licensing or certification of assurers by a watchdog group or a relevant governmental body.

### **Scope**

The group also identified a need for clarification of the definition of the scope and boundaries of assurance. Looking towards future improvements, the group ideally wanted to see CSR

assurance cover all of a company's geographical operations, CO2 emissions (scopes 1-3), as well as waste, water, and other key performance indicators.

### Methodology

There was also agreement that there should be a standards-based approach to assurance, although different ideas emerged about the usefulness of different forms of assurance. The group named the AA1000 AS and the ISAE 3000 as useful standards, although some felt that the ISAE 3000 was better suited to financial engagements. Several participants suggested that stakeholder panels and expert statements add value to the assurance process because they increase responsiveness to stakeholders and provide commentary on company strategy. Others stated a preference for independent verification.

There was overall consensus that opinion statements provided by "celebrities" or non-independent bodies, such as an Internal Audit Team, added little credibility to the report.

### Depth of investigation

Some suggested that the depth of data verification should depend on the materiality of an activity, what industry a business is in and the scale of the business. To most workshop participants, cost represents a primary factor in what level of assurance a company should seek and how much of their data an assurance provider should verify. Generally, participants wanted to see all material issues verified. Different levels of assurance need to be defined more clearly.

### Carbon

Throughout the afternoon, the group returned to the importance of quantifying carbon emissions. In particular, one new idea that we heard at the workshop was that carbon measurements should become part of the annual financial report. Sustainability has long been one aspect of CSR, but carbon has increasingly become a measure of risk and opportunity, and will continue to do so with the CRC, the Copenhagen conference, and regulation of carbon emissions in general. During the breakout session, participants suggested that carbon reporting would be more reliable and more useful if it were integrated into the annual financial report.

### Clarity

Participants identified a need for clearer language to be used in assurance statements, as well as a standardised way of presenting reports. Assurance statements should be written so that stakeholders can readily understand them.

### Email survey results

The results of the survey sent to participants after the workshop reflected many of the ideas that were voiced during the breakout session. Survey responses emphasised the importance of the quality of assurance and the competence of providers. In particular, respondents rated the scope of assurance and the competence and independence of assurance providers as areas of primary importance. A large proportion of participants reported that their awareness of CSR assurance issues had increased by attending the workshop.