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CorporateRegister.com

G18 Clerkenwell Workshops
31 Clerkenwell Close
London
EC1R 0AT

t. +44 20 7014 3366
f. +44 20 7014 3367
www.corporateregister.com

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Dear Stakeholder

CSR (Corporate Social Responsibility) reporting has reached the business mainstream, both in volume and quality of reports. This publication takes a long look at the external assurance of these reports, with the aim of shedding some light on developments and helping to identify best practice.

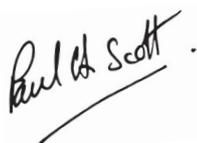
Using our comprehensive CSR report archive, we've examined the approaches and elements of CSR assurance. We've catalogued the way assurance statements are being used across countries and sectors, together with the types of organisation carrying out the assurance. All in greater detail and across a larger number of reports than has ever been undertaken before, at two separate levels of enquiry. We've looked at the entire field over the past 15 years to provide an Overview of nearly 5,000 assurance statements, and we've conducted an in-depth Study of the latest assurance statements from 90 'top' global reporters. And we've distilled our findings into this report.

CorporateRegister.com is not involved in assurance, but we are passionate about advancing the CSR reporting agenda. We see ourselves as being independent and objective, and when we make statements about reporting we base them on the evidence. We've made some bold statements about assurance, and we hope that when you've read this report and seen the results of our research, you'll agree with them.

We hope this publication will be a reference point for all stakeholders in this field – reporting companies, assurance providers, report users. Until now, no organisation has had access to such a wealth of reporting data, so the overview and analysis are unique and comprehensive. With this report we aim to make a significant and enduring contribution to the CSR assurance debate.

We are very grateful to our sponsors SGS, KPMG, LRQA and The Reassurance Network, whose support means we can offer you this report as a free publication. Our sponsors have provided essential background, and input via the Practitioners' Panel.

We hope you find this informative and useful, and welcome your feedback.



Paul Scott
Managing Director



Iain McGhee
Director of Services

NOW IS THE TIME

Sustainability Report Assurance from SGS delivers more than just peace of mind. It shows your commitment to social and environmental responsibility, proves your report assurance has been conducted with integrity, independence and impartiality, and demonstrates your commitment to continuous improvement. We are proud to show our support for CorporateRegister.com as they continue to advance the CSR reporting agenda and identify best practice in this important field.

For more information, visit WWW.SGS.COM or email us at SRA@SGS.COM

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WHEN YOU NEED TO BE SURE



Getting the Most Out of Assurance

By Rebecca Bowens, SGS

Sustainability reporting has become a basic business requirement. Stakeholders are demanding more transparency, and companies themselves are under increasing competitive and regulatory pressure to demonstrate a commitment to corporate responsibility. Yet, with this increase in sustainability reporting, the vast majority of these reports are not being independently reviewed or assured.

Assurance makes reports more credible and improves stakeholder confidence in the information provided. Seeking independent assurance also demonstrates one's commitment to corporate responsibility since the process opens up the company to scrutiny of its management systems. It also provides a mechanism to drive improvements in such systems, and thereby increases their performance.

Barriers to Assurance

There are some risks in seeking assurance that should be considered by all parties. Reporting organisations will be scrutinised by assurance providers and must recognise the need for this process to ensure that assurance is effective. Stakeholders must have faith that the assurance has been conducted with integrity, independence and impartiality and that the assurance provider has the right skills and knowledge to carry out the assurance. Reporting and assurance require resources, and companies now expect more return on their investment in the process.

Differing Approaches

There are many different formats for assurance and the most appropriate approach depends on several factors, such as a company's experience in reporting, the size and scale of its operations, its budget, and the demands of stakeholders.

Conducting assurance internally can provide an opportunity for ensuring the accuracy and completeness of information reported. The advantage of less costly assurance must be balanced with the problem that the assurance may not be recognised by stakeholders as reliable. It would also be more time consuming and require the creation of an internal assurance team with the appropriate skills and knowledge independent from the areas being evaluated.

Stakeholder panels comprising an invited panel of interested parties to undertake assurance have the advantage that assurance will meet the needs of some stakeholders, but probably not all. The views of underrepresented stakeholders may not be taken into account and there may be conflicts of interest between different stakeholders. The method for selection and invitation of stakeholders to a panel, and the

potential impact of these stakeholders having access to confidential information that would not otherwise be published needs to be considered.

An alternative method is the use of a well-known expert in corporate responsibility to provide their commentary and opinion on the report, with the advantage of building trust with other stakeholders. However, this sort of assurance will not usually evaluate the accuracy of the information provided or the underlying systems. It is more likely just to provide an overview of the appropriateness of the scope and the issues reported.

A commonly adopted method of assurance is the use of an independent, impartial and external organisation with the appropriate skills, knowledge and experience. Such an approach should enable the added value of assurance to be realised for the reporting company and should also meet the needs of stakeholders, as well as globally recognised guidelines such as GRI(G3) 2006 and AA1000AS (2003).

This method is likely to cost more in assessor's fees than the other methods mentioned, however, there are potential cost savings. For example local assessors can be selected where possible, and site visits can be combined with other types of audits and certifications. It is also possible to undertake this sort of assurance in real-time rather than as a one-off exercise at the end of the reporting cycle. This way gaps can be addressed early on and improvements made to the reporting process and the information published. A real-time approach to assurance also fits better with electronic reporting where updated information can be included and assured on a regular basis.

Basis for Continuous Improvement

A full and detailed assurance statement published in a corporate responsibility report should identify areas for improvement and areas of good practice that can be duplicated elsewhere. Improvements could be in underlying management systems, data collection, content of the report or in the assurance scope, boundaries or approach.

Assurance, if approached in the most appropriate way for each company, can act as a driver for continuous improvement to corporate responsibility performance.

Rebecca Bowens is the Global Product Manager for Sustainability Report Assurance at SGS, the world's leading inspection, verification, testing and certification company.

What Do We Mean by an Assurance Statement?

Within the context of this publication we understand a CSR assurance statement to be the published communication of a process which examines the veracity and completeness of a CSR report¹. Ideally it should include the entire report, but sections or reporting aspects may be covered instead if this is made clear. For example a statement may cover the processes and systems underlying the development of a CSR report.

Diversity of Approaches

A report assurance statement may have one of several titles: It can be an 'Expert opinion', an 'External Audit' or 'External Assurance', or perhaps an 'Independent Assessment' or 'Verification'. The perception among many readers may be that all such statements are comparable, and possibly governed by rules and regulations, but in fact each statement needs to be examined on its own terms. Whereas the presentation and audit of Annual Reports & Accounts (AR&A) is generally closely regulated (including practitioners' qualifications, the form of statement, legal basis) this is not the case for non-financial information (ie CSR reports) and any associated assurance statements².

There are indeed some parallels between AR&A assurance and CSR assurance. For example there is usually a mix of quantitative and qualitative work (checking data is quantitative and objective, whereas examining underlying processes has a more qualitative dimension to it) and the assurance takes a specified document and reviews it retrospectively, from a given point in time. Despite these parallels the two are very different.

Two Areas of Difficulty

Examined more closely, there are two areas of difficulty:

- 1) There are no generally accepted approaches to how a company should collect, evaluate and report its non-financial performance data. The underlying processes are often opaque, complex and company-specific, so it's difficult to know how far a report reflects actual performance³. Unless a company can define its scope of performance disclosure, how can an assurance provider define the scope of assurance?
- 2) There is no generally accepted approach to non-financial assurance, an aspect discussed below and in *Towards Meaningful Assurance Statements*.

Where's the Common Currency?

There is therefore no 'common currency' (methodology,

terms, definition) across the spectrum of current approaches to CSR report assurance, although specific approaches (such as AA1000AS or ISAE 3000) do use a 'currency' (methodology, terms and definition) specific to one individual approach. Until practitioners can agree what CSR report assurance should entail and how it should be communicated, the picture may remain confusing and (unintentionally) misleading. It should not be assumed that because a CSR report has been 'verified' by including some form of assurance statement, that the scope and quality of the work behind the statement is comparable. An entire team may have investigated every statement in the report, or someone may have looked at one statement in one section of the report, yet both approaches may result in a 'verified' or 'assured' report⁴.

This means that each individual statement needs to define its own terms of reference: what it sets out to achieve, its method and scope, the form of assurance obtained and its conclusions. Those relying on these statements need to read and interpret them carefully.

A Question of Scope

Most stakeholders would assume that assurance statements in CSR reports would be similar in scope and intent to their AR&A counterparts: They would set out responsibilities, conclusions, and the main thrust of the exercise would be to establish a degree of veracity and completeness. In other words, is what is reported accurate, and does it tell the whole story?. This can be compared with the financial reporting 'true and fair' concept used in many countries including the UK, Australia and New Zealand (in the USA, the equivalent concept is based more on rules – *Fairly presented and also in accordance with generally accepted accounting principles – GAAP*).

Currently, there is less alignment on suitable approaches to the creation of CSR assurance statements. Though many leading providers address such important principles as completeness, materiality and accuracy in their statements, it is not uncommon to see CSR assurance statements which only state that underlying systems have been checked, or which address a similarly limited aspect of the report.

While transparent, informative statements are to be encouraged, there are those which appear opaque and uninformative. These fall into two main categories:

- 1) Brief statements. These restrict themselves to a short paragraph or two, stating that the report has been verified but with no further explanations.

- 2) Those following an approach of ‘limited assurance’. Such statements typically list work undertaken followed by conclusions such as:

‘Based on our review, nothing has come to our attention that causes us to believe that the selected quantitative performance information... is not presented fairly in accordance with the relevant criteria.’

These statements are often developed to confer a ‘limited level of assurance’, see *Towards Meaningful Assurance Statements* (page 12). Where an assurance provider’s approach recognises different levels of assurance (usually the case for accountants, but some other provider types are beginning to follow suit), then a ‘limited level’ of assurance distinguishes an assurance process more restricted in scope than the full ‘reasonable level’. While the form of statement may appear merely uninformative to the external stakeholder, in fact it signals that a specific standard has been used, with a specific level of assurance. Such an approach is appropriate when, for example, a company’s systems are not sufficiently developed to withstand the examination of a more rigorous assurance process, or as the result of a cost/benefit decision by the reporting company.

Credibility & Value through Communication

If an aim of the assurance process is to enhance the credibility of the report through the published assurance statement, then statements following the ‘limited’ form offer the external stakeholder less information than ‘reasonable’ ones. As the judging panel for the ACCA UK Awards for Sustainability Reporting 2007 stated:

‘Judges also commented that reporting organisations and assurance providers seem to be moving away from the use of more informative statements, (perhaps for litigation reasons) and that the optimum situation is to produce reasonable levels of assurance, rather than limited which is currently the case for the majority of reporters’⁵.

Our contention here is that stakeholders cannot judge the value of the assurance process if its results and conclusions are not communicated in the statement itself. More informative statements do more to establish transparency and credibility with external audiences, whereas limited statements may be of more value to internal audiences⁶.

Stakeholder Panels – An Alternative?

A relatively new approach is for a company to invite a number of individuals or organisations to form an independent advisory board or panel, which then examines the report and develops a statement on findings and opinions. What such an approach may lack in methodological rigour may be outweighed by the stated credentials and perceived independence of the participants and the

strength of their collective view. Companies taking this approach during 2007 included Nike, Shell, BAE Systems, Kingfisher, Alcoa and Nexen.

A criticism of this approach might be that such a panel might be inclined to accept the information presented to it at face value, and have neither the professional expertise nor the remit to question, criticise and investigate – and that this approach cannot in fact represent true ‘assurance’. By contrast, ISAE 3000 (see page 20) encourages assurance providers to exercise ‘professional scepticism’ during the assurance engagement. This criticism may be addressed to some extent by ensuring an appropriate panel composition (at least some panel members should have auditing or other relevant expertise) and an agreed remit which gives the freedom to question and investigate.

Only 11 of the 650 statements produced in 2007 were from stakeholder panels, and there have been only 38 such statements published since they first emerged in 1999. For the time being this alternative approach remains a fringe activity.

Two Approaches – Neither Recommended

Two further forms of ‘assurance’ need to be mentioned at this point, in order to establish their shortcomings. Our views are based on the assumption that assurance statements are primarily intended to enhance a report’s credibility.

Firstly, if the same assurance providers both wrote the report and also carried out the assurance process, thereby ‘assuring’ their own work, would external stakeholders consider the resulting ‘assurance statement’ to be of value? All manner of potential conflicts of interest arise (can an assurance provider be expected to document its own shortcomings?) as well as a clear lack of independence. And yet of the 4,733 assurance statements published over the last 15 years, 150 have been prepared in just this way. That such statements continue to be prepared is no excuse: If impartiality is fundamental to establishing trust, they’re missing the mark. We do not include such statements in the statistics for this report.

Secondly, would external stakeholders consider someone’s opinion, in isolation, to be of value? Some report ‘assurance statements’ are by an individual rather than an organisation, with no stated methodology or evidence of investigation, and often including extraneous comments about the company. Such statements are frequently from celebrities, representatives of non-governmental organisations, or academics.

We categorise such statements as ‘Opinion Statements’ and of the 4,733 assurance statements published over the last 15 years, 536 fall into this category. A high proportion are for Japanese reports – 337 out of the 536. While the prevalence

of such statements reflects the way assurance has developed in Japan, and may reflect a cultural aversion to directly criticise or confront, they are out of step with international CSR trends and stakeholder expectations. More generally, they are often seen by companies to be a low-cost option. We expect ‘Opinion Statements’ to fall out of favour, also in Japan, and be replaced with more mainstream assurance statements. We do not include ‘Opinion Statements’ in the statistics for this report.

A Step in the Right Direction

Many providers would acknowledge these issues, and the leaders are already developing useful, meaningful statements. What we would like to see is more assurance statements which themselves follow the principles underpinning good CSR performance and communication: Transparency and accountability. The AA1000AS principles of completeness, materiality and responsiveness are a good step in the right direction.

Summary

- Assurance statements should result from a process which examines the veracity and completeness of a CSR report.
- We have no ‘common currency’ across CSR report statements, which means each statement must be assessed individually to see the terms of reference and the work done.
- Statements framed positively are more useful to external stakeholders than statements framed negatively. These approaches correspond with ‘reasonable’ and ‘limited’ assurance levels, respectively.
- An alternative to true ‘assurance’ may be for companies to use stakeholder panels. Few companies are using them at present, but they may be of value if approached in the right way.
- Two current approaches are seen to be inherently inferior and are not recommended: the practice of having the same organisation prepare both the report itself and the assurance statement, and the practice of publishing ‘opinion statements’ by individuals.
- Assurance statements would benefit from following the principles underlying good CSR reporting: Transparency and accountability.

- 2 See *Towards Meaningful Assurance Statements* (page 12) for a discussion of assurance standards & guidelines.
- 3 As an illustration, one third of companies within the Global FT500 reporting their climate change data during 2007 did not use the generally accepted WBCSD/WRI GHG Protocol, making assurance even for this most important of environmental indicators complex and time-consuming. See *The Corporate Climate Communications Report 2007* (free download from CorporateRegister.com).
- 4 This is one of the challenges which needs to be addressed by the Global Reporting Initiative (see www.globalreporting.org). The GRI includes an ‘assurance’ component in the application level of the current ‘G3’ reporting guidelines. By including a ‘+’ symbol in the declared G3 application level, a company asserts that the report has been assured. However, the GRI does not check this assertion of assurance, even where the application level declaration is submitted to the GRI for checking and is subsequently termed ‘GRI checked’. Stakeholders may believe a report to be ‘assured’ in its entirety, whereas only a limited aspect has in fact been examined.
- 5 The Association of Chartered Certified Accountants developed its annual reporting awards programme in 1991. The judging panel currently comprises 24 experts drawn from accountancy bodies, Government, academic institutions and consultancies. See the annual Reports of the Judges at www.accaglobal.com/uk/publicinterest/sustainability/uk_archive
- 6 “Limited assurance featuring negatively expressed opinions is generally provided for a restricted, internal rather than external audience, which does not bring much benefit to the non-specialist reader” (*ACCA UK Awards for Sustainability Reporting 2006 ‘Report of the Judges’*, page 19).

1 We use ‘CSR report’ as a shorthand for many types of non-financial report – see Glossary.

Interested in CSR reporting?



So are we.



- The free online directory of CSR Reports
- Online directory of CSR assurance providers
- Leading-edge reports on CSR themes & issues
- CRRA: first global CSR Reporting Awards
- Authoritative, independent global CSR resources
- News, views, events listings – keep informed!

What Is the Value of an Assurance Statement?

The Value of Assurance – Reporters’ Views

Assurance can have both internal and external value, some of which will be behind the scenes. Here are some illustrative quotes on the value of assurance from clients of our sponsors:

“GSK have publicly reported our health, safety and environmental performance since the company was formed and we have had the data assured since the very first report. Assurance by a third party is beneficial first and foremost to enhance the credibility of the information. But we should not forget that there are other benefits.

- enhanced data quality
- confidence in the measures of progress and success
- demonstrated importance of the data
- ideas for continuous improvement so that each year the data gets a little better and the process gets a little more efficient”

Nancy English, Director, EHS Reporting

– **GlaxoSmithKline** (Client of SGS)

“Our report verification delivers much more than simply assurance. The process and challenge has helped us to identify potential opportunities to deliver performance improvements in our approach to Corporate Responsibility. We welcome and value the challenge, as through internal exploration it stimulates improvements to help us identify, develop and implement strategic decisions to the benefit of our business”

Corporate Responsibility Manager – NEXT plc

(Client of The Reassurance Network)

“Independent assurance provides evidence to report users that:

- the right things are in the report – that all major issues relevant to stakeholders are included
- the things in the report are right – that data is reliable and claims are not exaggerated”

Chris Tuppen, Head of Sustainable Development and Corporate Accountability – BT (Client of LRQA)

Report Credibility

Corporate communications are as many and varied as their intended audiences. Some disclosures enjoy a degree of inherent credibility (Annual Report & Accounts might be readily accepted by investors and employees, for example), others may be exposed to more scepticism and require a supplementary measure to raise credibility. This can depend on the company, sector, region, medium, issue and audience!

To take carbon emissions as a topical example, in a recent AccountAbility and Consumers International study 70% of respondents in the US and UK said that corporate climate change claims should be proven by independent parties¹. Marketing and advertising claims may not always be accepted by everyone. CSR disclosures might be regarded amongst some stakeholders as falling into a similar category, especially as some companies are using ‘green claims’ in marketing and advertising.

This is one of the reasons why companies producing a CSR report turn to external assurance as a mark of credible business disclosure.

Robust assurance certainly enhances a report’s credibility. A reputable assessor with the required professionalism, qualifications and methodology can check the report and background documentation so stakeholders may have confidence in the reliability and balance of the report’s content. Competent assurance reflects well on the reporting company: It has gone the extra mile, made additional information available, and paid professional fees (for detailed work, often across multiple sites in several countries).

This is not to say that only reports with an assurance statement are ‘credible’. Depending upon the company, its sector, the nature of the report and its tone & style, a report may be perceived by some stakeholders to be adequately credible without an assurance statement (and of course, ‘credibility’ is a subjective view which differs across stakeholder audiences). What we contend is that given a level playing field, a given report with a robust assurance statement will enhance its credibility over the same report without.

What we need is a set of tools so that when a company chooses to assure its CSR report, we can identify whether the assurance methodology is fit for purpose and is reflected in the assurance statement. Such a ‘meaningful’ assurance statement will reflect well on both the reporting company and its assurers. See *Towards Meaningful Assurance Statements* for some pointers.

Internal Management

During the assurance engagement, assurers can provide valuable insights on CSR management systems, data collection, target setting procedures and a range of associated processes. This is especially useful where assurers have a range of expertise across different regions & sectors, and are able to advise on best practice and carry out benchmarking. Many assurers specialise in such work.

An engagement to provide a CSR report assurance statement will often include an element of management systems checking. Where this is relevant to the CSR report and is referenced in the published statement, this can also be useful to the report reader. For example, the assurance statement may identify shortcomings in underlying data collection systems.

A valuable task for assurers is that of risk identification. The risk disclosure increasingly demanded of companies in their financial reports is beginning to extend into the non-financial field. In the UK we've seen a new obligation imposed on directors of listed companies to disclose their environmental and social risks if they consider them 'material' (ie likely to influence company performance), and there are similar developments in other countries. Having assurers identify such risks, or perform a reality check if they have already been identified internally, is a useful exercise provided the independence barrier is not crossed.

Final Report Check

When a large company collates a wealth of information from different sources under pressure of a publishing deadline, the potential for human error arises. By giving an assessor access to employees and insight into how information is derived and collated, such mistakes can be identified and corrected, provided the assessor evaluates and questions rather than accepts on trust. Such work may not all be referenced in the assurance statement – after all, corrected mistakes will not appear in the report – but has a very high value for the reporting company.

Sounding Board

At the same time as assuring the report, an assessor may also take the role of one or more notional stakeholder audiences challenging the company on policy, content and performance. This external perspective can be illuminating for a company used only to seeing issues from its own standpoint. Such additional input from the assessor can help improve the overall quality of the report and its disclosure to external audiences.

CorporateRegister.com's 10 quick checks for reporters:

Report Credibility

- What do our report readers think about our company and sector?
- Is this supported by stakeholder research? What do our advisors say?
- How credible will our report be without external assurance?
- Do our peers use external assurance?

Internal Management

- How robust are our systems for generating reliable report content?
- Will our underlying processes stand up to examination?
- Would they benefit from an assessor's feedback?

Final Report Check

- Do we have the staff to check the entire report for consistency and human error?
- Would having professional qualified assessors help improve report quality?

Sounding Board

- Can we see ourselves as others see us? Do we need to?

¹ www.businessassurance.com/downloads/2007/07/what-assures-consumers-on-climate-change.pdf

Towards Meaningful Assurance Statements

From the viewpoints of the actors involved – reporter, reader, assessor – how can we ensure an assurance statement is ‘meaningful’? We’ve taken a number of approaches to arrive at a balanced set of recommended Key Elements.

In addition to our statistics based on the thousands of assurance statements included in the reports profiled on CorporateRegister.com (see later section *The State of Assurance – An Overview*), we carried out an in-depth analysis: ‘the Study’. This additional Study gives insight into the content of a statement (the individual elements) whereas the overview statistics tell us more about the market (the providers, their shares, growth over time, regional and sectoral trends). Throughout this section, where we use findings from the Study we reference them in the text and illustrate them in the charts.

How We Approached Our In-depth Study

CSR report assurance is developing at different rates across different regions and sectors. Examining the content of statements should be based on a level playing field, so we created one. We looked at the assurance statements from reports from 90 ‘top’ companies (by market cap) across the five leading countries in the field – the UK, the USA, Germany, Australia and Japan. This means the findings are comparable across countries and sectors. We categorise assurance providers into ten ‘types’ (see page 29) of which three types dominate the market: Accountants (Big 4), Certification Bodies, Specialist Consultancies. Our Study and accompanying charts refer to these three provider types. See also *Methodology* on page 42.

Introducing Our Key Elements

Using the available guidance from three common approaches (AA1000AS, GRI Guidelines, ISAE 3000) together with the

analysis from the Study and our own views, we’ve identified Key Elements for inclusion in a ‘meaningful’ assurance statement. At the end of this section we present two very different assurance approaches for you to compare and contrast. Including these elements provides a solid foundation for a best practice CSR assurance statement.

Many of these key elements have a common underlying factor: risk. By giving information over and above the bare minimum, an assessor may be perceived to be more liable for the consequences of misstatement than if nothing had been stated. For example, by explicitly including external stakeholders in the intended audience (see *Specific Declarations*, below) an assessor may be exposed to the risk of external litigation (for more on this theme see *Market Insights: Four Trends to Watch*). Clearly, by producing a more ‘meaningful’ statement an assessor may need to accept a higher degree of perceived risk – there’s a dynamic here.

At the same time, each of the following key elements are:

- Frequently referenced among the 90 ‘top’ statements in the Study.
- Referenced in one or more of our three commonly referenced initiatives (AA1000AS, ISAE 3000, GRI Guidelines)
- Commonly cited as recommended best practice in CSR assurance statements (based on our own experience in hosting the CorporateRegister.com directory for the last decade, as well as participating in several national and international CSR awards panels)

On the evidence of their inclusion in different assurance statements by different providers (across all provider types and across varying sectors and regions) each one of these key

Figure 1: Reference to Standardised Approaches

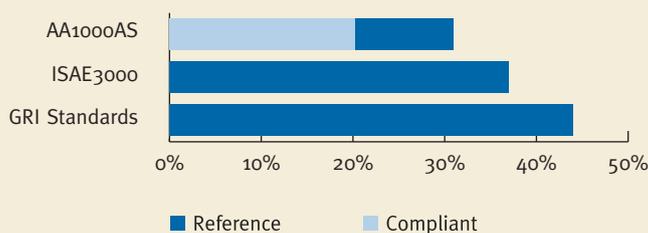
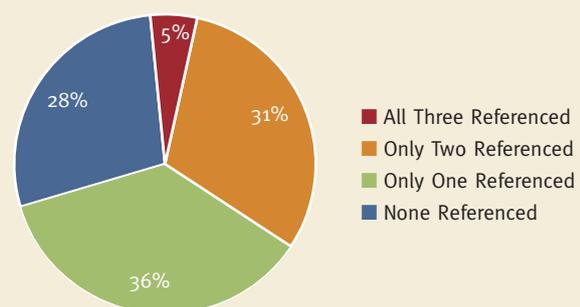


Figure 2: Combined References to Standardised Approaches



elements has been demonstrated to be acceptable for inclusion in a statement.

The Key Elements of a Meaningful Assurance Statement:

A) Reference to Standardised Approaches and Levels of Assurance

We currently have no principles or standards for the assurance of non-financial reports which are accepted and used across the spectrum of assurance providers. We have three separate initiatives accepted and used by *some* providers, sometimes in combination.

Standardised Approaches

Three major approaches have emerged. We will come to look in more detail at each of these approaches on page 20, but to give an idea of how frequently they are being used amongst the world’s largest reporting companies, here are some results from our Study of the top 90 assurance statements:

- 1) **AA1000AS:** 20% of statements in the Study are fully compliant with AA1000AS¹, with a further 11% of statements referencing the standard but not fully compliant with it (see Figure 1).
- 2) **ISAE 3000:** 37% of statements in the Study reference ISAE 3000 (see Figure 1) but the degrees of adherence vary widely – and in fact some statements appear to follow ISAE 3000 almost to the letter, but do not reference it. An interesting development is the referencing by non-accountants of ISAE 3000, although it was developed by the accounting profession for professional accountants. One fifth of ISAE 3000 references in statements are by non-accountants.
- 3) **GRI Guidelines:** 44% of statements in the Study reference the GRI Guidelines (see Figure 1).

While these do not directly compete amongst themselves – indeed some providers reference them in different combina-

tions (see Figure 2) – they have been developed independently from one another and do not represent the ‘common currency’ discussed elsewhere. These separate initiatives are a move towards a common approach which might be used by any assurance provider, but they are not yet sufficiently prescriptive to ensure that they are used consistently by different providers.

Assurance providers appear keen to reference these approaches (especially AA1000AS and GRI) but tend to use them in a ‘pick and mix’ manner in some cases reflecting how the company being reported on has used them. A situation where a provider can adhere to some principles from one approach and some from another, without following the full guidance of either but referencing both, presents progress of a sort, but falls short of the rigour many stakeholders might expect.

Both AA1000AS and ISAE 3000 are intended for the guidance of assurance providers, whereas the GRI Guidelines are intended as guidance for reporting companies. A challenge for the GRI will be how to discourage assurance providers misrepresenting the Guidelines as a form of assurance standard. Both AA1000AS and ISAE 3000 are, on the other hand, recognised assurance standards.

A further consideration is that of ‘demonstrability’ of the guidance or standard used. It is our contention that a standard or other form of guidance should not only specify how the assurance process is carried out, but should also set out how this should be communicated in the assurance statement. In other words, we should not only be relying on a reference to which guidance has been used, it should also be clear and transparent from the form and structure of the statement itself. The current situation is as follows:

- 1) AA1000AS includes guidance for the communication of the process in a statement, which is being interpreted differently by different providers.

Figure 3: ISAE3000 References by Provider Type

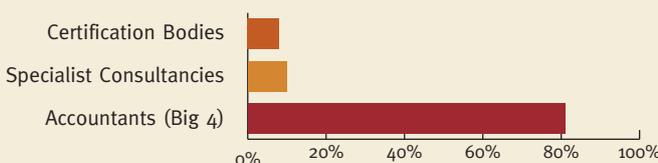
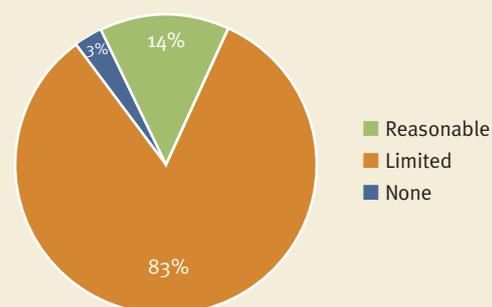


Figure 4: Stated Levels of Assurance by Accountants (Big 4)



Assurance Levels:

Assurance statements by accountants frequently refer to levels of assurance, but whereas the reader of an audit statement in an AR&A may be assumed to know what this means and needs no explanation, we cannot be sure that all readers of a CSR report will be familiar with the term.

An ‘assurance level’ is a technical term from the accountancy profession which defines the level of work behind an assurance engagement. Were assurers or auditors to be completely certain about every aspect and detail of a report they would offer absolute assurance, but of course the constraints of time, effort, costs/benefits and the nature of the subject matter mean absolute assurance is never given.

Instead, based on the quality of systems and evidence, scope of work and time invested in the task (therefore resulting in a differing degree of risk to the assurer), one of two assurance levels may be referenced:

Reasonable assurance: The assurers have carried out enough work to be able to make statements about the report which are framed in a positive manner, eg ‘the reported environmental data accurately reflect XYZ Ltd’s environmental performance during 2007-2008’.

Limited assurance: The assurers have only carried out enough work to make statements about the report which are framed in a negative manner, eg ‘nothing has come to our attention which causes us to believe that the reported environmental data do not accurately reflect XYZ Ltd’s environmental performance during 2007-2008’.

As can be seen, a statement of Limited assurance reflects a narrower scope of work than one to a level of Reasonable assurance.

2) ISAE 3000 recommends specific communication elements but does not prescribe the wording to be used in the statement.

3) The GRI Guidelines have no such detailed guidance.

Levels of Assurance

The scope of what may or may not be included in an assurance statement is extremely broad. Some providers might read the report together with some desk-based research, while other providers may conduct weeks of in-depth research at multiple sites over several months. Clearly the insights and findings from these diverse approaches lead to differing levels of assurance which should be communicated in the statement. Sometimes this is the case – as when assurance providers refer to ‘limited’ or ‘reasonable’ levels of assurance – but often it is not.

Accountants have ISAE 3000 as a standard which defines assurance levels in this field (expressed in terms of risk). The concept of defined assurance levels is valuable and is already being used by some other provider types (either borrowing from ISAE 3000 or developing their own systems), and should be considered by all. The Study of 90 reports by leading companies from across the world shows ‘Accountants (Big 4)’ assurance providers frequently to be referencing assurance levels in their statements (see Figure 4).

It may be relatively straightforward or almost impossible to ascertain a specific level of assurance for any given disclosure. For example, emissions data may be collated and auditable but levels of staff satisfaction across a large company may be much more difficult to quantify because of the nature of the information. Because of the non-homogenous nature of non-financial information, we may need different levels of assurance for different types of CSR disclosure. We can see a similar situation in some lengthy reports where the assurance provider has ‘flagged’ those sections which have been assured.

Figure 5: Declared Audience



Figure 6: Additional Declarations



B) Specific Declarations (Audience, Disclaimers, Independence, Responsibilities)

We can only be certain about information concerning the assurance engagement if it is stated explicitly in the statement – we cannot make any assumptions. This is an area where some best practice guidance is helpful.

The type of information which would be useful to know includes:

- **Intended audience for the statement.** It's still relatively uncommon for the audience to be defined. Within our Study just 20% of statements define the intended audience, and of these, the company management is the most common (16%), as illustrated by Figure 5. While specific stakeholder groups need not be listed (although some assurance providers do this), the fundamental distinction which it is useful to make is: Is the assurance statement addressed solely to the company management, or to anyone reading the report?
- **Any disclaimers** (although legal disclaimers would not be regarded as a positive attribute by most external stakeholders). Within our Study 28% of assurance statements contain a disclaimer declaration of some kind (see Figure 6). A typical disclaimer advises stakeholders not to rely on the assurance statement in the course of financial or other critical decision making about the client company.
- **Declaration of independence.** Within the Study 54% of assurance statements contain a declaration of independence by the assurance provider, leaving 46% without such a statement (see Figure 6).
- **Respective responsibilities of the company management and the assurance provider.** Within the Study 59% of assurance statements clearly outline the respective responsibilities of the assurance provider and the client company in relation to the assurance engagement and the CSR report, drawing a clear distinction between the

responsibilities of the assurance provider and the client company (see Figure 6).

C) Methodology

Setting out how the assurance provider approaches the task is widely recognised as a key element in a 'meaningful' assurance statement, and our Study findings show 88% of assurance statements describing the methods and work undertaken. While this is not necessarily a barometer of overall quality (a long list of tasks may not indicate the standard to which they have been addressed) it's very encouraging (see Figure 7a).

Looking in more detail at the declared methodologies in our Study we find 80% of providers conducting internal interviews and 73% scrutinising internal data systems. Fewer providers review external documents (21%) and fewer still interview external stakeholders (12%), as shown by Figure 7b.

We've already seen that while some assurance statements cover the entire report, others focus only on selected information such as environmental data or targets. The Study findings, based on stated methodology, show a fairly even split between these two approaches, with 56% of statements covering the entire report and 44% covering selected information only (see Figure 8).

D) Provider Recommendations and Opinions

Assurance statements which offer insights (eg into CSR performance, strengths and weaknesses, challenges) are of value for external stakeholders. Providers will usually have views on such topics, but may be inclined to keep them for internal company reports. Including them in published statements should be encouraged². By publishing this information, providers not only create a more useful statement, they demonstrate their level of expertise and competence.

Our Study findings reveal that 61% of leading assurance statements discuss company CSR performance, and around half

Figure 7A: Methodology Is Stated

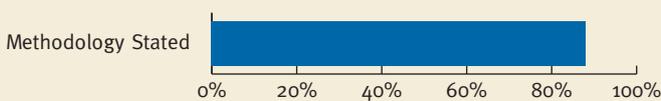


Figure 7B: Methodology Elements Referenced



(53%) include direct recommendations to the company. In this sample of leading reporters, clearly both providers and companies are comfortable with publishing such additional information (see Figure 9).

E) Assurance Conclusion

The provider's conclusion is the most important element of an assurance statement. All statements should include a conclusion: This element is the one to which all the others such as scope and methodology have been leading, it's the statement's 'punchline'.

Around half of statements in the Study expressed their conclusions in a 'positive' form of wording (see Figure 10). This changes dramatically according to provider type (see Figure 11): Certification Bodies and Specialist Consultancies are far more likely to frame their conclusions positively (92% and 73% respectively), while Accountants (Big 4) almost always frame their conclusions negatively (83%) (in line with a 'limited' assurance level).

Eight percent of statements contained no conclusion whatsoever.

From the viewpoint of the average reader, a conclusion written in a 'positive' way would be more expected and more conducive to building trust than a 'negative' formulation. Perhaps providers might consider whether their conclusions could at least include a mix of both, even if an entirely 'positive' conclusion is ruled out because of the scope of the engagement or the perceived level of risk.

So where is this leading?

A generally accepted reporting framework or standard(s) for companies to adhere to would also greatly assist assurers to develop such a common language but this will be a challenge given the diversity of content in CSR reporting. We have a wide range of approaches to how CSR report assurance is addressed (the 'common currency') and we also have wide variation on how CSR report assurance is communicated in

the statement (a 'common language'). The elements identified above are the best we have at present towards speaking a common language among reporting companies, providers and report readers. Individually, they are already in common usage by leading assurance providers and are set out to a varying degree in the three common initiatives. Perhaps we need an agreed approach to assurance communication – one which is not just referenced in a statement, but which specifies structure and content, so it is immediately demonstrable that it has been followed. This would meet everyone's needs – with the benefit of reduced risk (clearer definitions, less uncertainty). With assurance providers speaking one 'language', instead of several, reporting companies might have the confidence to use report assurance more widely, bringing further momentum into the market.

CSR report assurance is a hallmark of a good CSR report. As stakeholder expectations for credible, comparable and transparent CSR reports grows, the trend towards external assurance can only intensify. At the same time CSR report assurance statements should themselves be credible, comparable and transparent.

This is an area CorporateRegister.com intends to address in a future publication.

Figure 8: Scope of Assurance – Covers Full Report or Selected Information Only

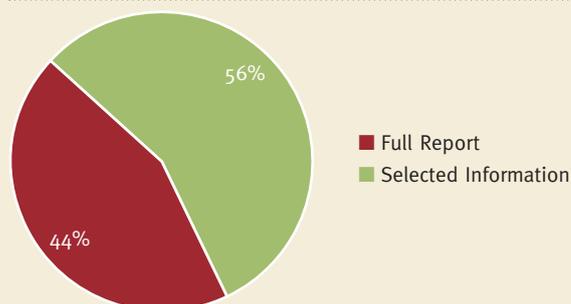
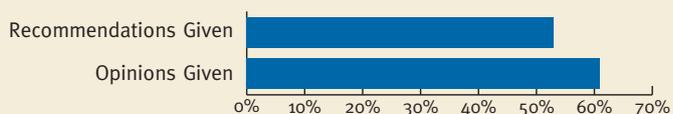


Figure 9: Provider Recommendations & Opinions



Summary: The Key Elements of a Meaningful Statement are:

A) Reference to Standardised Approaches and Levels of Assurance

The approaches we examine are AA1000AS, ISAE 3000, GRI Guidelines, and the Levels of Assurance outlined by ISAE 3000 are ‘reasonable’ and ‘limited’. Individual assurers may reference other levels of assurance of their own.

B) Specific Declarations

We outline ‘Intended audience for the statement’, ‘Any disclaimers’, ‘Declaration of independence’ and ‘Respective responsibilities of the company management and the assurance provider’, but our list is not exhaustive.

C) Methodology

This is the Key Element most often included.

D) Provider Recommendations and Opinions

Their inclusion makes the statement far more informative for external stakeholders.

E) Assurance Conclusion

The most important Key Element.

Two challenges are presented by:

- 1) The lack of a ‘common currency’ – we have no generally agreed approach to CSR report assurance
- 2) The lack of a ‘common language’ – we have no generally agreed way of communicating the work the assessor has done

The Key Elements form a basis for addressing both these challenges.

1 See box ‘Three Commonly Referenced Initiatives’ on page 20 for an explanation of AA1000AS compliance.

2 This has also been a recommendation in the ‘Report of the Judges’ from the ACCA UK Awards for Sustainability Reporting: ‘Some assurance statements do not include or refer to any recommendations for improvement, either from a content, accuracy or internal systems/processes point of view, and so offer little insight into how the assurance process is helping an organisation to improve its reporting and performance. The judges do not doubt that the assurance process is useful within a company, ‘behind the scenes’, but argue that the published outcome could be improved to make the statement more beneficial to readers and/or employees who are not directly involved, and increase their trust in the organisation’s assertions’ (Report of the Judges 2006 p19).

Towards Meaningful Assurance Statement – Taking the Debate Forward

To illustrate some of the issues raised in this section, over the next two pages we’ve captured the flavour of some current CSR assurance statements, highlighting where information is minimal and where it approaches best practice. These are fictional illustrations, but they do reflect the divergent approach of current statements.

We’ve also invited guest commentaries from three of the most significant organisations active in this field:

- Institute of Social and Ethical AccountAbility (AccountAbility).
- The International Auditing and Assurance Standards Board (IAASB).
- The Association of Chartered Certified Accountants (ACCA).

These commentaries are set out on pages 21-23.

Finally, to discuss the issues openly, we’ve invited three leading practitioners to take part in a panel debate – read the discussion on pages 25-27.

Figure 10: Assurance Conclusions

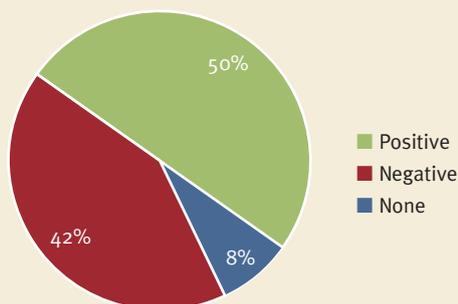
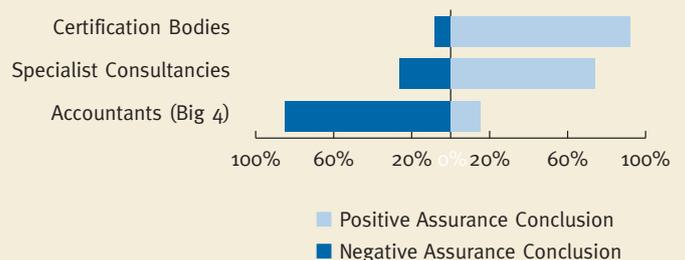


Figure 11: Assurance Conclusions by Provider Type



How Far Does This Statement Meet Your Needs...

Declarations: Addressed to Internal Audience Only

To the Board and Management of Z plc

We have been engaged by Z plc to conduct an assurance engagement on information reported in Z plc's *CSR Report 2007* (the Report), for the purposes of expressing a statement of assurance. This assurance report is made solely to the management of Z plc in accordance with the terms of our engagement. This statement may not be relied upon by individuals or organizations external to Z plc.

Commonly Referenced Approaches: No Specific References

We have evaluated appropriate environmental & social indicators using established procedures, and industry best practice. We conducted our engagement in accordance with the relevant reporting and assurance guidelines and standards.

Assurance Conclusion: Generic, Negative Statements

Conclusion

On the basis of our assurance procedures, nothing has come to our attention to lead us to believe that the information selected for assurance has been misstated or not prepared in accordance with the corporate policies and procedures.

Declarations: Legal Disclaimer Statement

Legal Disclaimer

No reliance may be placed on this statement by any party other than the Board and Management of Z plc, for whom it has been prepared. No other party may rely on information or disclosures contained within it. Y (assurance provider) is not responsible to any third party for any direct or indirect financial or other loss arising from reliance on this statement.

Y USE US LTD

Declarations: No Named Individual, No Specific Place or Date

Levels/Basis of Assurance: No Statement on Scope of Work (eg 'Limited' or 'Reasonable' with Reference to ISAE3000)

Methodology: Not Clearly Expressed, No Scope or Detail of Work Undertaken

Declarations: No Declaration of Responsibilities or Statement of Independence

Provider Recommendations/Opinions: Not Included

...Compared with This One?

Declarations: Addressed to All Stakeholders

To X plc's Stakeholders

X's CSR Report 2007 (the Report) has been prepared by the management of X plc, who retain responsibility for its content. Our responsibility is to carry out a reasonable assurance engagement on the full Report.

Methodology: Scope Identified

This engagement has been performed in accordance with AccountAbility's AA1000AS and the International Auditing and Assurance Standards Board's ISAE3000.

- The following evaluation criteria have been used:
- Adherence to the principles of Materiality, Completeness and Responsiveness as set out in the AA1000AS.

Commonly Referenced Approaches: ISAE3000, AA1000AS

Methodology: Clearly Stated with Specifics

Methodology

We undertook the following:

- 1) Interviewed a selection of X executives and senior managers.
- 2) Reviewed X's approach to data collection at Group & regional levels.
- 3) Peer review of CSR reports to benchmark disclosure requirements.
- 4) Reviewed a selection of internal performance documents.
- 5) Performed 25 site visits across X's operations, interviewing operations managers.
- 6) Reviewed independently collected stakeholder feedback on previous editions of the Report.

Methodology: Specific Tasks Described

Limitations of Our Review

The scope of our work was limited to a sample of 25 visits from approximately 50 locations. Our stakeholder reviews were limited to 3 externally collected feedback surveys.

Assurance Conclusion: Positive Statements

Conclusions

Our work confirms that the information included in the X plc CSR Report 2007 is reliable and objective, and is presented clearly and understandably.

Declarations: Responsibilities Stated

Assurance Conclusion: Specific and Narrative

AA1000AS Conclusions

Materiality: We consider that the information contained in the Report focuses on the most relevant aspects of X's sustainability performance and management, and those most relevant to its operating performance: the material issues.

Completeness: The report provides a fair and balanced representation of X's sustainability performance and challenges, and covers the full range of material issues. We are not aware of the omission of any material issue.

Responsiveness: X is committed to comprehensive stakeholder engagement, following its Sustainability Policy. X has commissioned external stakeholder research, the results of which have formed the framework of this Report.

Provider Recommendations/Opinions

Observations & Recommendations

- Over the three years we have been engaged to assure X's CSR Report we have observed a marked improvement in data quality, CSR management systems and stakeholder engagement.
- We recommend each of X's 50 sites adopt specific CSR Policies endorsing the Group policy and addressing site-specific issues.
- We recommend the implementation of a group-wide data management system to collate more readily comparable data from multiple sites, together with an auditable data trail.
- We note that our recommendation in last year's Statement that X plc adopt the WBCSD/WRI GHG Protocol has been implemented in this year's report

Declarations: Independence

Our Independence

As an independent consultancy, we have no financial dependencies on X plc at Group level beyond the scope of this engagement. During 2007 one of our US subsidiaries undertook stakeholder engagement for the Chicago site of X plc for a total of USD 200,000. No members of the assurance team were involved in this US research.

Declarations: Signed by an Individual with Place and Date

SIGNED, A. N. OTHER

Mr A N Other, (Director, Transparent Assurance Ltd)
London, July 2008

Three Commonly Referenced Initiatives:

1) **AA1000 Assurance Standard (AA1000AS).** Developed by the London-based Institute of Social and Ethical AccountAbility (more commonly known as AccountAbility) in March 2003, AA1000 is a free, open-source set of principles. It focuses on the learning aspects of addressing sustainability/CSR. CorporateRegister.com hosts the directory of all reports using AA1000AS (www.corporateregister.com/aa1000as/) and uses the following set of definitions for inclusion, as supplied by AccountAbility:

An AA1000AS assurance statement should address the credibility of the CSR report and the underlying systems, processes and competencies that deliver the relevant information and underpin the organisation's performance.

An assurance statement, complying with the AA1000 Assurance Standard, must cover the following elements:

- A statement on use of the AA1000 Assurance Standard (including how the assurance provider applied the AA1000 principles of materiality, completeness and responsiveness).
- A description of work undertaken and a description of level of assurance pursued.
- Conclusions as to the quality of the report and underlying organisational processes, systems and competencies.
- Additional commentary (which could cover suggestions for improvements in the organisation's CSR reporting).
- The assurance provider is also required to make information publicly available about its independence from the reporting organisation, and its competencies.

AA1000AS is currently in a process of revision, using an innovative 'Wiki' process – see www.accountability21.net

2) **Global Reporting Initiative Guidelines.** The GRI Guidelines (www.globalreporting.org) are a framework of principles and guidance, together with a list of disclosures and indicators, for voluntary use by organisations in reporting their sustainability performance. CorporateRegister.com hosts the directory of all reports using the GRI Guidelines (www.corporateregister.com/gri/). The GRI Guidelines are a reporting tool, applied by reporting companies. The current G3 version of the Guidelines, introduced in October 2006, includes 'Principles for Defining Report Content' (Materiality; Stakeholder Inclusiveness; Sustainability Context; Completeness) as well as 'Principles for Ensuring Report Quality' (Balance; Comparability; Accuracy; Timeliness; Clarity; Reliability).

These two sets of principles are not put forward as a standard or benchmark against which assurance providers should measure reports¹. At the very least, many recent statements are ambiguous on what has been assured regarding the GRI Guidelines, but at the same time by referencing the GRI Guidelines the impression is given that a protocol is being followed. Here is a challenge for the GRI to address.

3) **ISAE 3000.** Published in 2005 by the International Auditing and Assurance Standards Board, ISAE 3000, or to give the full title, 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information', is a standard which provides guidance in the form of basic principles and essential procedures for professional accountants on how to conduct non-financial assurance. Much of the ISAE 3000 guidance would be useful for any organisation undertaking CSR assurance, and indeed several non-accountant assurers are referencing it in their statements. ISAE 3000 does not require a standardised format, but it does require a list of basic elements. However, it provides that the assurance may take a short or a long form ('short form' being a basic listing of elements, and 'long form' including additional items such as terms of engagement and findings). In the interests of transparency CorporateRegister.com would recommend that a full statement (ie 'long form') always be made available, if not in the printed report then elsewhere.

ISAE 3000 provides for two levels of assurance: 'reasonable' and 'limited' (see separate box on page 14).

1 In addition to the principles, the G3 framework lists one of six 'key qualities' for external assurance as:

'Assesses the extent to which the report preparer has applied the GRI Reporting Framework (including the Reporting Principles) in the course of reaching its conclusions'.

Aside from a possible confusion here between reporting company and assessor (companies don't necessarily reach conclusions in their reports, whereas assessors should do), this provision is leading to misunderstanding. Providers and stakeholders are assuming that this 'assessment' is a necessary part of using the Guidelines, but at the same time providers are not assessing the application of the overall framework (principles, protocols, lists of indicators etc) but are limiting themselves to one part of the whole (the principles) and often do not cover the declared application level.

GUEST COMMENTARY

AccountAbility

AA1000AS Assurance Statements – Driving Quality and Comparability

We welcome CorporateRegister.com's 'Assure View' report and see it as an important contribution to the debate on assurance. It identifies some key issues and challenges, and the overview and statistics provide valuable insights into this still emerging field.

AccountAbility has long argued that assurance is a pre-requisite for credible sustainability reporting and can also play an important role in helping organisations understand and improve their sustainability performance. The AA1000 Assurance Standard (AA1000AS) from AccountAbility is the only international standard specifically designed for assurance on sustainability reporting. It is principles based which provides the flexibility required for application in very different organisations and sectors. The rigour of the AA1000AS assurance process results in an assurance statement that is comparable and that articulates the quality and value of reporting and assurance to readers:

- In applying the AA1000AS an assurance provider must evaluate and provide conclusions on the quality and extent of the reporting organisation's adherence to the principles of Materiality, Completeness and Responsiveness within the context of a Commitment to Inclusivity. This provides a consistent and comparable basis for assurance statements. These conclusions ensure that an AA1000AS assurance statement evaluates an organisation's identification, understanding of, and response to sustainability issues, not just a conclusion on the reliability of selected data. This means that the assurance provider considers the most important sustainability issues, rather than simply those for which data is more readily available.
- The AA1000AS is forward looking and an assurance provider offers observations and recommendations which identify areas of potential improvement. This helps move the assurance statement beyond the traditional focus purely on historical performance and adds value for both the intended audience and the reporting company.
- An AA1000AS statement requires the clear communication of the assurance engagement's scope and the work undertaken. This provides the reader with an insight into the assurance process and sets the context for the assurance conclusions.
- An AA1000AS statement includes statements of independence and competency from the assurance provider, both of which build trust and credibility.

The AA1000AS was developed through extensive multi-stakeholder consultation, and is designed for use by all assurance providers. The aim and intention is that AA1000AS be used as a free standard open to anyone working in this area: Sustainability assurance requires multi-disciplinary teams, and innovative assurance from different types of providers continues to be important to the development and improvement of this field. Although the AA1000AS is open to all we believe the continued professionalisation of the field is an important and necessary step.

Though the practice of assurance has developed significantly in recent years further improvements are undoubtedly required. There are many aspects of assurance to be refined and a greater degree of consistency and quality of practice would certainly be beneficial to reporting organisations and report users alike. It is with this in mind that AccountAbility embarked on a revision of the AA1000AS in early 2007. Since then widespread international consultation in over 20 countries and continued multi-stakeholder dialogue has contributed to the draft that is currently open for public consultation. We are encouraged to see CorporateRegister.com's findings reflect many of the comments from our own consultations and would invite readers to participate in the revision process by visiting www.accountabilityaa1000wiki.net. The final revised standard will be launched on October 24th 2008. While the revised AA1000AS will mark a major development in the world of sustainability assurance it is by no means the final word and we look forward to working with others on the future development of assurance standards and practices.

Daniel Waistell
Standards Manager
daniel@accountability21.net
www.accountability21.net

International Auditing and Assurance Standards Board (IAASB)

Welcome the fact that CorporateRegister.com has produced this report on the state of assurance on CSR reports. This is a developing field in which many variations in practice are to be found, as is clear from the report's findings. Any analysis of the current scene is therefore of value to assurance practitioners, report preparers and users alike.

Assurance seeks to add credibility to reports for the benefit of users. It is the International Auditing and Assurance Standards Board (IAASB)'s role to develop standards for audit, review and other assurance services provided by professional accountants, which we do in the public interest. The majority of our standards are for audits and reviews of historical financial information (and in particular, financial statements). However, we have issued ISAE 3000¹ as a standard for other assurance engagements. It is a generic standard that establishes basic principles and essential procedures for the reporting accountant. It may therefore be used to support assurance engagements of many kinds, and in particular it is widely used by accountants as a basis for assurance on CSR reports. At a time when CSR reporting practice itself is developing, it may in fact be helpful that the standard is not so specific as to impede legitimate developments in assurance.

The standard is written for professional accountants who bring to their work certain key characteristics – for example, a training in the disciplines and techniques of assurance and a commitment to ethical principles. The standard therefore requires the accountant to comply with the IFAC Code of Ethics for Professional Accountants, which contains important provisions about competence, due care and objectivity. Competence includes having the necessary skills to undertake a specific assurance engagement, which is why professional accountants working in the CSR field put together multi-disciplinary teams appropriate to the engagement in hand. The accountant is also required to implement appropriate quality control measures.

An important feature of any professional assurance engagement is that any conclusion or opinion is based on evidence. For this reason, the nature of the subject matter and the criteria by reference to which the subject matter information is to be evaluated are crucial to whether the engagement will be meaningful and the accountant may accept it.

The IAASB has an active project that may lead to a standard for assurance on carbon emissions information. Looking further ahead, the IAASB may develop a standard or guidance on assurance engagements or reports specific to certain types of CSR information.

John Kellas
Chairman, IAASB
johnkellas@ifac.org
www.ifac.org

¹ *International Standard on Assurance Engagements 3000, "Assurance engagements other than audits or reviews of historical financial information."*

GUEST COMMENTARY

Association of Chartered Certified Accountants (ACCA)

The now widespread importance of sustainability reporting has raised the question of the value of associated assurance (audit) engagements. Many argue that without some form of assurance, such reports have little value because they are then simply the unverified views of corporate management. Others, while agreeing in principle that assurance is a 'good thing', argue that extant sustainability reporting frameworks are, as yet, an insufficiently objective reporting base on which to build an objective assurance process.

ACCA believes that the credibility of published reports can be enhanced through independent assurance and that the use by assurers of authoritative international standards improves assurance quality and report users' understanding. As discussed in this report, assurance standards for non-financial reporting have been developed within the accountancy profession (ISAE 3000) and by AccountAbility (AA1000AS); only the latter standard is specific to sustainability. Both these standards are in frequent use, but they are not immune to criticism that either they are applied inconsistently in practice or else they are ineffective in teasing out a balanced view of sustainability performance.

ACCA has argued strongly within the accountancy profession for the development of a specific international standard for assurance on sustainability reports. This is now on the work plan of the International Auditing and Assurance Standards Board, but only beginning in the third quarter of 2009 with a review of a recent Dutch standard, to see if it provides an appropriate basis for an international standard. AccountAbility is already engaged in a ground-breaking, wiki-based revision of AA1000AS, which will come to fruition in the last quarter of 2008. ACCA is pleased to be involved in that development, through membership of the AccountAbility Technical Committee.

ACCA is a global organisation with over 122,000 members, operating across 80 offices, and has established independent Sustainability Reporting Awards in ten countries. In the UK, the panel of 24 independent judges issues a 'Report of the Judges' as part of the annual UK Sustainability Reporting Awards programme. These reports include observations and recommendations to improve the quality of reporting – and also the quality of assurance statements.

For example, in 2006 the judges stated, regarding the inclusion of recommendations within the assurance statement: 'Some assurance statements do not include or refer to any recommendations for improvement, either from a content, accuracy or internal systems/processes point of view, and so offer little insight into how the assurance process is helping an organisation to improve its reporting and performance'. The archive of Reports of the Judges is available at www.uk.accaglobal.com/uk/publicinterest/sustainability/uk_archive

Some of the judges' most important assurance recommendations – in many cases made year on year – include:

- Clearly defining the scope and methodology of the assurance engagement
- Stating the assurance provider's independence from the reporting organisation
- Addressing the statement to all intended users of the report; not just to those within the narrow confines of the organisation
- Making it clear to the reader which specific parts of the report have been assured
- Distinguishing between an assurance statement and an opinion leader's commentary: the latter is not a substitute for the former
- Adding commentary, opinion, recommendations and highlights/lowlights in addition to the more box-ticking approach of defining scope and remit
- Addressing the previous year's recommendations – describing what changes have been made in the reporting process or content to address the assessor's past recommendations
- Making specific reference to the completeness or otherwise of the report being assured

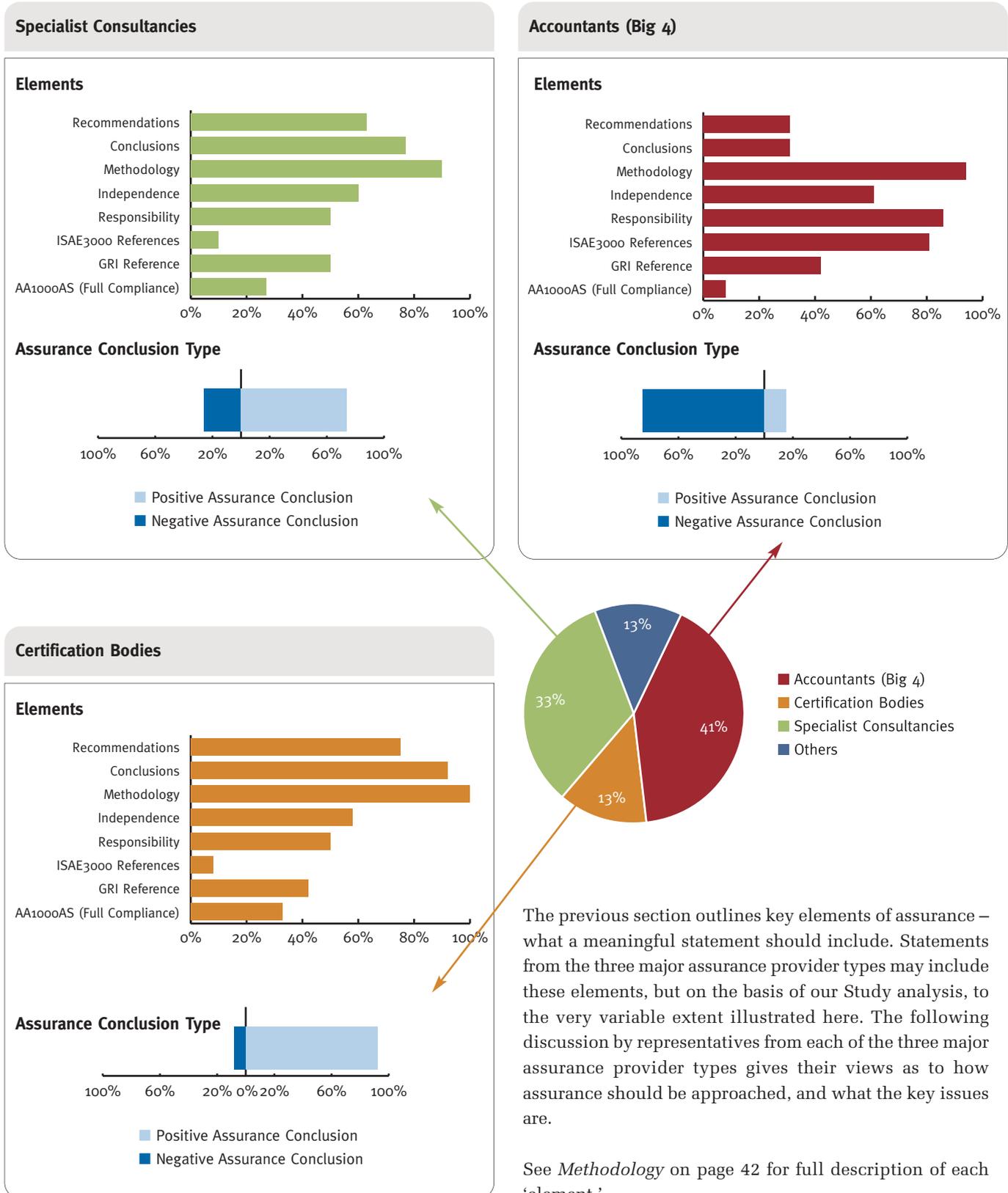
ACCA commends CorporateRegister.com and the sponsors on this 'Assure View' report which makes a valuable contribution to the field and deserves a wide readership. The UK judges' recommendations chime with the Key Elements identified in this report.

Rachel Jackson

Head of Social and Environmental Issues
 Rachel.Jackson@accaglobal.com
www.accaglobal.com

Approaches to Assurance Statements – Comparison by Provider Type

Findings from our Study of assurance statements for the three major provider types:



Approaches to Assurance Statements – Practitioners’ Panel

Our Silver Sponsors represent each of the three main provider types active in CSR report assurance, so we gave them the opportunity to discuss some of the key issues. The online discussion was chaired by CorporateRegister.com.

Panel Members:



■ **Accountants (Big 4)**
Lynton Richmond (LR),
 Partner, KPMG
 (UK) LLP.
Lynton heads up sustainability reporting & assurance for KPMG in the UK and is also the assurance lead for KPMG’s Carbon Advisory Group.



■ **Certification Bodies**
Deborah Evans (DE),
 Head of CSR Reporting
 and Assurance,
 LRQA.
Deborah has been assuring CSR reports since the early 90s and is also a member of several advisory & technical committees in the field.



■ **Specialist Consultancies**
Malcolm Guy (MG),
 Director, The
 Reassurance Network.
Malcolm is founder of The Reassurance Network, with over 15 years experience in responsible business management, consulting and assurance.

How can a reporting company ensure it gets maximum value from an assurance provider?

MG: A company needs to be sure exactly who, internally, is getting value from assurance – this should include non-executive directors, as they can derive governance benefits from the assurance process.

LR: Yes, and they also need to carry out a materiality analysis prior to reporting, so that the reporting narrative and data are focused on the material issues. Assurance, in turn, will then be focused on these issues. At the same time, companies must be honest about their readiness to withstand independent assurance, and assurers should give an honest appraisal and recommend the appropriate approach – an assessor should not be afraid of being critical. The assessor should be ‘visible’ to all company employees during an engagement, as this emphasises management commitment to sustainability reporting.

Two further points towards getting maximum value: the company should

look for synergies with Financial Statement reporting, and the assessor should be up to date with the latest ‘best practice’ and regulatory developments.

DE: The point about not being afraid of being critical – exactly, a company should seek an assessor who can challenge them on key issues, and this underscores the importance of independence. It also means that a company should align with an assessor who understands their business.

Chair: Should reporters demand that their assurance follows recognised standards such as ISAE 3000¹ or AA1000AS¹ to get maximum value?

DE: Our clients will not always specify which standards should be used, but they would still receive robust assurance as our approach consistently draws on ISAE 3000, and the principles of AA1000AS together with additional data auditing principles ie uncertainty, comparability, reliability.

LR: AA1000AS and GRI¹ are sometimes referenced, but there isn’t a direct choice to be made between the two. ISAE 3000 is the only standard being used by assessors globally. Some trade bodies are

starting to develop sector-specific member programmes which draw on a range of standards including AA1000AS, GRI and the Global Compact.

What are the strengths of your own approach to assurance?

MG: We aim at providing true assurance rather than just report verification, and this means a range of activities beyond simply sampling data. All assignments need to be carried out by a team with the necessary private sector experience. They systematically check the accuracy of all data, claims, targets and accounts of progress, and they also identify significant opportunities for operational, strategic or commercial improvements. The team evaluates CSR awareness, strategy and performance, and then reviews whether the CSR report is consistent with their findings. They also research stakeholder opinion, and review both the company performance and its report from the stakeholder perspective. We’re an independent company, so we’re prepared to include our own opinions in the assurance statement.

DE: I agree, it's important to use highly trained assessors and verifiers with the necessary sectoral experience – and the team needs to deliver consistent services anywhere in the world, to carry out complex international assessments. We prevent potential for conflict of interest by only offering assurance, rather than combining assurance with CSR consultancy, and we underline our independence and impartiality by the fact we're a not for profit organisation. Our team's approach is to structure assurance around internationally recognised standards – such as AA1000AS, GRI, ISAE 3000 – many of which we've helped design and develop.

The team samples systems, processes and data – including source data. But we also conduct our own 'materiality' research, which we compare with our clients' results, then we jointly agree which material issues and activities should be sampled.

LR: Our approach is based on our extensive experience of financial statement audit work, so it includes a range of activities: risk assessment, planning, consideration of 'materiality', a compliance based approach, and working to standards. We have a worldwide reach for multi-national clients, using a consistent methodology, and this reach means we can form a team with the 'right' skills regardless of location. We have in-house quality control procedures for the entire engagement. Our team will look for what a company has chosen to omit as much as what's been included, it will use benchmark data alongside its own expertise, and it will report findings, usually, to the Board or an appropriate Committee of the Board.

Do you have all the tools you need?

LR: Any single assessor has the necessary tools, given the lack of legis-

lation. But we need to find a balance here: on the one hand a standardised reporting framework would be useful, against which assessors can work. This would include measurement standards where applicable.

Some standardisation is inevitable, and we're likely to see it first in the area of GHG reporting and assurance. On the other hand, would the market really benefit from a new 'tool'? Companies and the public sector won't want another level of reporting bureaucracy.

Chair: Is the lack of a standard the cause of the current diversity in assurance approaches? What's the role for ISAE 3000 and AA1000AS?

LR: It's partly a lack of standards. But the diversity of the topic makes it hard to develop a 'standardised' assurance statement.

MG: The closest we have to detailed guidance is ISAE 3000, but this has forced assessors to couch their 'limited assurance' statements in the negative, mainly because companies aren't willing to pay the additional fees for 'reasonable assurance'². So some assurance elements would benefit from standards, with supporting tools, and others need to remain flexible.

LR: It isn't quite so simple – often 'limited assurance' is the appropriate approach if a company has not fully developed its internal controls to a level that would permit 'reasonable assurance' to be achieved. We can differentiate between reporting standards and assurance standards – AA1000 is currently a 'hybrid', but its revision will refine its content. We can see that financial statement audit opinion has evolved into a very standard format, one which isn't always easy to interpret.

Should assurance statements follow in this bland direction, or should they include more content and narrative?

DE: I agree that ISAE 3000 and AA1000AS are the most relevant tools – perhaps what's needed is a rationalisation and harmonisation of reporting tools and performance indicators. On the narrative issue in assurance statements, perhaps we don't see much narrative because corporate lawyers feel it could expose assessors to too high a degree of liability.

MG: Assurance is at a crossroads. I can see it either moving towards convergence and standardisation of approach, or towards diversification into a spectrum of bespoke assurance products. If we have the latter, companies at different stages of reporting can choose the right assurance engagement for them, but of course they'd need to be sure about what they need, and assessors would need clarity on their offerings.

Assurance can operate on several levels: simple verification of report data, or deeper analysis into 'completeness, materiality and responsiveness'³ of report content, as set out by AA1000AS, and of course assurance can move beyond reporting to address company performance, it has huge potential to catalyse improvement.

What should an assurance statement always include?

DE: There's a whole list of elements to include, for example: name of company, reporting period, geographical coverage, the terms of engagement, the criteria (eg ISAE 3000 or AA1000AS) plus the level of assurance. Then we have the statement of responsibilities, the activities undertaken and sites / facilities visited, the statement of conclusion – with separate conclusions for each of the criteria, if there are several. And of course we have recommendations (as distinct from the conclusion), a statement on any

conflicts of interest, and signature and date. That’s about it!

LR: That’s also how we see it, at least until we have a better understanding and acceptance of a brief standardised statement. But this can lead to rather impenetrable statements, and conclusions can often become lost over two pages of A4.

DE: I would agree the language may be impenetrable for the majority of stakeholders, but conclusions aren’t lost, they always have equal weighting in the statement layout. Statements are supposedly for external stakeholders, but in practice they’re probably written for internal audiences, and the language of assurance reduces its appeal to the wider audience.

When does a report need to be assured?

DE: Assurance is needed when stakeholders are seeking confidence that a company is providing credible, reliable and performance-related data and information. Such assurance can be used at various stages, for example when a company needs trust on a specific issue such as climate change, or when a company is starting the CSR reporting process. And it’s useful when a large company is establishing CSR reporting in one business area, before rolling it out elsewhere. Both reporting and assurance are ongoing processes.

LR: There’s no strict need for a report to be assured, but there are some deeper values to consider, such as the intangible values around elements such as trust, confidence and integrity. Assurance is broadly relevant only for large companies and the public sector – around the public sector all stakeholders expect assurance but this isn’t the case in the private sector, in the sense of expecting an ISAE 3000 type statement.

DE: Stakeholder dialogue is the mechanism for determining how a CSR report is assured. Different stakeholders have different viewpoints and expectations: some place great importance on an assurance statement, others don’t. Following this logic, some companies don’t even need to produce a CSR report, let alone have it assured.

MG: This is about trust. CSR reports aim to build trust, whether to attract ethical investment, to motivate and engage employees or to reassure customers. Trust comes from a combination of performance and communication. So a responsible company needs to accurately communicate its strategy, policies and impacts in order to be accountable (and gain trust). Assurance is the main factor that distinguishes a CSR report from all other types of CSR communication – it guarantees accurate and credible information.

So yes, a report needs assurance – lets redefine a CSR report as ‘an independently assured, accurate and complete account of non-financial matters relating to a company’s operations’.

DE: No major disagreement there. CSR report assurance is necessary for ‘serious’ stakeholders such as SRI professionals, who expect a cross-over from audited Annual Reports & Accounts. But consumers? Do they even read CSR reports? How do they gain trust in a company? Perhaps we shouldn’t even expect an assured CSR report to do this for consumers, perhaps we need alternative means.

I’d say a CSR report needs assurance when a company wants to build credibility by showing that: it’s meeting recognised quantification protocols; it knows the importance of data integrity to ‘serious’ stakeholders, and it hasn’t avoided ‘difficult issues’ – so it can demonstrate openness and accountability.

Contact the Panel



Contact: Lynton Richmond,
Partner
lynton.richmond@kpmg.co.uk
+44 (0) 20 7311 4701



Contact: Deborah Evans,
Head of CSR Reporting
& Assurance
debbie.evans@lrqa.com
+44 (0) 24 7688 2373



Contact: Malcolm Guy,
Director
mguy@re-assurance.co.uk
+44 (0) 1243 545525

- 1 *ISAE 3000, AA1000AS, GRI – Three commonly referenced initiatives in this field. See page 20 for further information.*
- 2 *‘Limited assurance’/‘Reasonable assurance’ – The two levels of assurance specified by ISAE 3000. See also page 14.*
- 3 *‘Completeness, materiality and responsiveness’ – The three principles underpinning the AA1000 Assurance Standard. See Glossary on page 44 for further information.*

The State of Assurance – An Overview

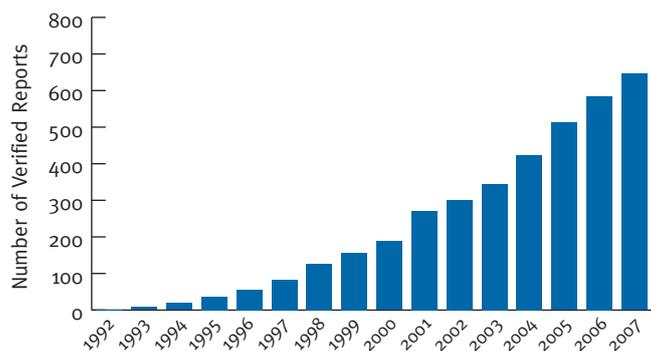
See page 42 for Methodology.

History and Current Trends

Assurance has been an important element of non-financial reports from the outset, with the first assurance statements published as early as 1992. Following 15 years of steady growth, by 2007 nearly 650 assurance statements were produced annually worldwide. Between 1997 and 2007 the average annual growth rate in assurance statements has been 20%.

Key Finding:
650 assurance statements produced globally in 2007

Figure 12: Growth of External Assurance Statements

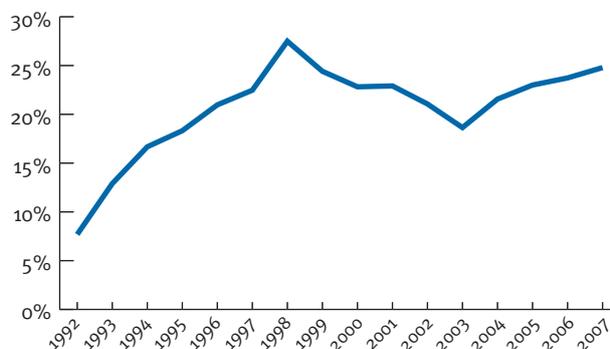


The proportion of assurance statements to published reports (ie relative growth) has not been steady over this 15 year period. Starting at around 7% in 1992, uptake increased to 27% in 1998 only to fall again over the following 5 years. In 2007 after 5 years of growth the rate has settled at 25%, still below the 1998 peak.

How might this be explained? The surprising pattern is probably related to the rapid growth in reporting from 1998-2003, the most productive period to date for reporting. During these years many companies were producing their first CSR reports, which they would be far less likely to externally assure. This is because new systems need to become embedded, and the full range of data is often simply not available for the first reporting year. Companies may feel assurance, and the scrutiny it entails, is best left until later. This is why only 16% of first time reports are externally assured, compared to 30% of subsequent reports.

Key Finding:
16% of first time reports are assured – but 30% of follow-ups

Figure 13: Relative Growth of External Assurance Statements (% of CSR Reports)



The Provider Types

Many different types of organisation – and even individuals – jostle together in the assurance marketplace. We characterise these diverse providers into the following ten provider ‘types’: Academic Institutions, Accountants (Big 4), Accountants, Certification Bodies, Broader Consultancies, Specialist Consultancies, Independent Advisory Boards, Individuals, Government Bodies and NGOs.

Key Finding:
350 assurance providers active in 2007

Globally, over 350 different providers produced an assurance statement during 2007. We profile all of them and more, a total of nearly 800 assurance providers, in our free ‘ReportingPartners’ directory – www.corporateregister.com/reportingpartners.

Key Finding:
3 provider types have 89% of the market

There are three major provider types: Accountants (Big 4), Certification Bodies, and Specialist Consultancies, and together they account for 89% of the market. In 2007 they held 40%, 25% and 24% of the market respectively. The remaining 11% is divided between the 5 remaining provider types, underlining their marginal positions.

Although this 11% is a small share of a large market, it isn’t uniform across all sectors. Some sectors have a far higher than average reliance on assurance from the ‘minority’ provider types, but this fact is masked by the sheer numbers of statements from the larger sectors. It appears that there are at least two sector groupings which fall outside the average:

- 1) **Chemicals, Food & Beverages, Leisure & Media.** Over 25% of assurance statements from these sectors are provided by the more niche provider types.
- 2) **Banks & Finance, Industrials.** These sectors produce far more reports than the average sector, and at the same time favour the three major provider types.

Detailed sector profiles can be found on page 38.

Assurance Provider Types

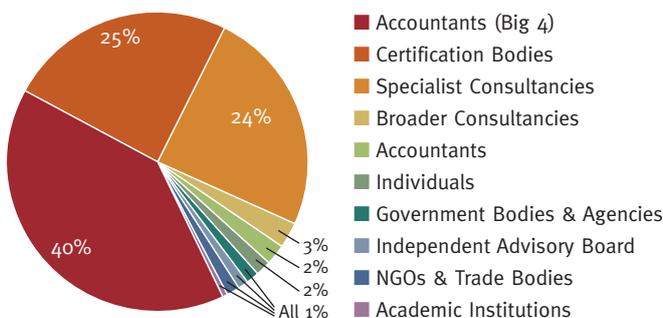
- Academic Institutions: eg a university department or a business school.
- Accountants (Big 4): KPMG; Ernst & Young; PricewaterhouseCoopers; Deloitte.
- Accountants: All the others!
- Broader Consultancies: eg management and engineering consultancies.
- Certification Bodies: Organisations providing certification and risk advisory services.
- Government Bodies & Agencies
- Independent Advisory Boards: Sometimes a body appointed by a company to advise on CSR / sustainability issues, but occasionally an ad hoc panel or committee set up solely for the purposes of providing an external view of the CSR report.
- Individuals: Occasionally a prominent ‘green’ personality or NGO representative, but more usually an academic (especially the case in Japan).
- NGOs & Trade Bodies
- Specialist Consultancies: eg environmental / CSR / EHS consultancies.

Accountants (Big 4), Certification Bodies, and Specialist Consultancies) have collectively moved from a 65% market share in 1997 to 89% in 2007 – primarily at the expense of Accountants (non-Big 4) and Broader Consultancies. This appears to underline a shift in demand to more focused assurance providers, or at least those with greater perceived competencies. It is increasingly rare to see broader management or engineering consultancies providing assurance statements (< 5% in 2007).

Of the leading three provider types, Specialist Consultancies have held the most consistent year on year market share, with 27% in 1997 and 24% in 2007 and very little variation in between. Accountants (Big 4) and Certification Bodies have effectively moved into the space previously occupied by more niche provider types: Certification Bodies developed their market share from around 12% in 1997 to 24% in 2007, and Accountants (Big 4) from around 28% to 40% in the same period.

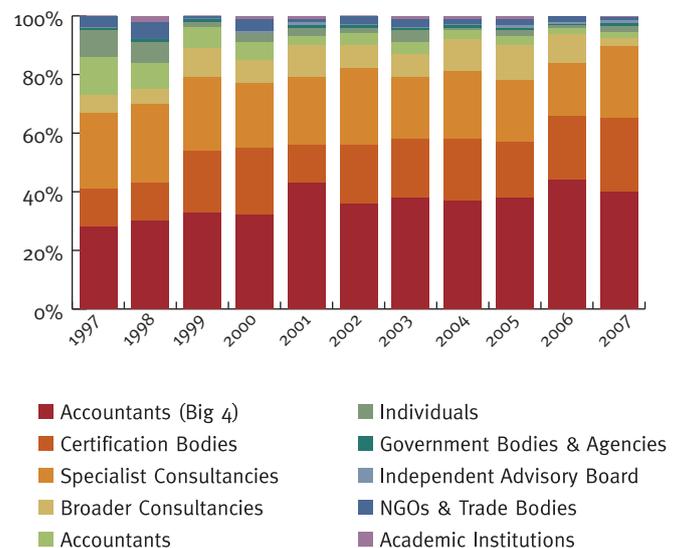
If the market were to remain unchanged year on year (ie the annual number of assurance statements is static) then a 1% shift in market share for an individual provider would be of little consequence. However, the global CSR assurance market over the past 10 years has seen an average annual growth rate of 20%. This gives a completely different picture for a 1% shift in market share for an individual provider. As an illustration, a provider with 5% of a market of 100 assurance statements in 1997 would be supplying 31 such statements by 2007 if they retained their same 5% market share.

Figure 14: External Assurance Statements by Provider Type in 2007



The provider type market breakdown has consolidated over the past decade. Our three leading provider types (i.e.

Figure 15: External Assurance Statements by Provider Type 1997-2007



A more detailed analysis of market developments for the three leading assurance provider types can be found on page 40.

The Regional Picture

Europe has always led the field in CSR reporting, and in 2007 almost half of all reports (47%) were issued by European companies. At the same time, European companies have always been keen to establish the credibility of their reports through external assurance. It's no great surprise that in current volume terms, Europe is the most significant region for provision of external assurance, with 30% of reports published in 2007 including an assurance statement. By way of complete contrast, in the second most active reporting region, North America, the assurance rate is right down at 7.5%. Here we have a maturing reporting market with an underdeveloped external assurance market. We'll be looking at this in more detail in the *Market Insights* section on page 34.

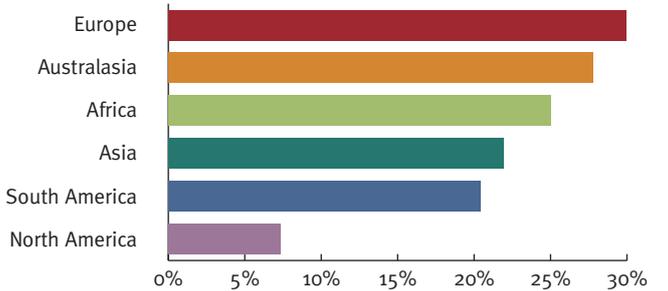
Key Finding:
30% of European reports assured, only 7.5% in North America

The following chart looks at the actual number of assurance statements in each region over the past 15 years. As we've already seen, Europe is leading the way by some margin with a strong 15 year growth trend.

Key Finding:
A growing trend across Asia – now second largest market globally

There is very little to separate North America, South America & Africa, with each of these regions producing no more than 30 external assurance statements in 2007. Asia is the real growth market here, although the first statements weren't produced until 1999. However, within 8 years Asia has become the second largest global market for assurance statements with nearly 100 recorded in 2007.

Figure 16: Reports with External Assurance Statements in 2007 (%)



Of the 650 external assurance statements issued in 2007, over 64% were for European reporters. North America and Asia are very similar in terms of report output, yet the disparity in assurance rates resulted in three times as many statements being produced in Asia as in North America in 2007.

Figure 17: External Assurance Statements in 2007 by Region

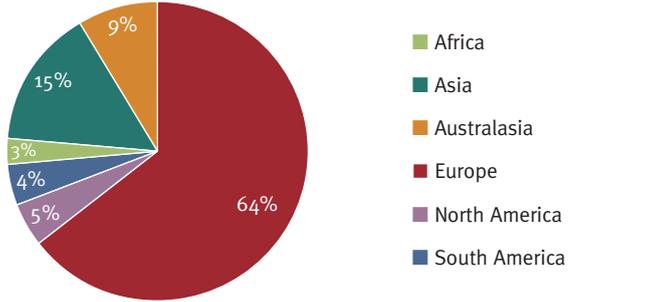
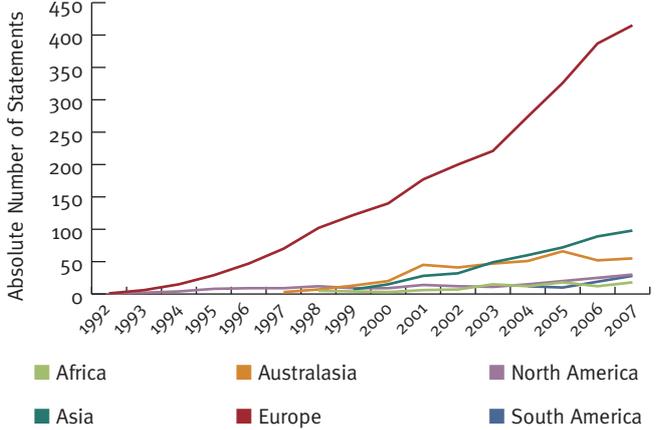


Figure 18: External Assurance Statements by Region (Absolute Numbers)



A more detailed analysis of regional developments can be found on page 41.

The Sectoral Picture

Looking at relative assurance uptake over the same period by industry sector, no clear picture emerges. There is considerable variability between years, which is largely a result of small sample sizes in some sectors.

In 2007 all but five sectors were grouped very tightly around the 15-25% range. The outliers are Telecommunications, Oil & Gas, Banks & Finance and Utilities – these four sectors are characterised by a greater enthusiasm for assurance, between 32-36%. The Insurance sector lies somewhere between these two groups.

Figure 19: CSR Reports with External Assurance Statements in 2007, by Sector (Percentage)

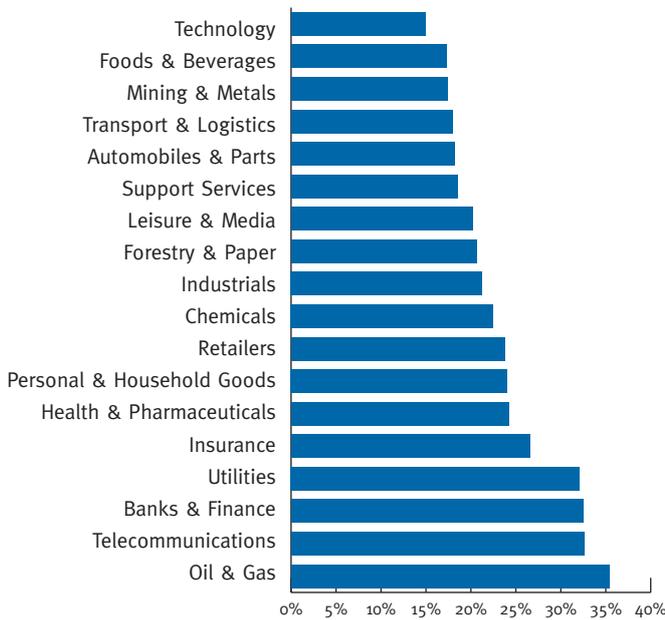
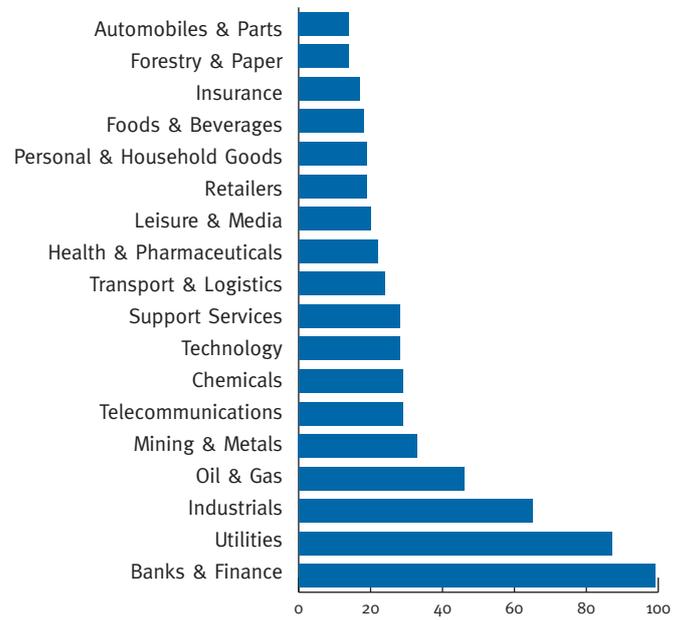


Figure 20: CSR Reports with External Assurance Statements in 2007, by Sector (Absolute Numbers)



To get the full picture we need to look at the actual numbers of statements produced, in addition to relative uptake. Looking at specific sectors:

- In Banks & Finance and Utilities, the absolute uptake (numbers of statements) of assurance mirrors that of relative uptake (proportion of statements to reports). That is to say, companies in these sectors are producing many reports and also have a greater tendency to use external assurance.
- In the Telecommunications and Oil & Gas sectors we see a different picture. Here, a greater assurance uptake rate (proportion of statements to reports) is moderated by a low output of reports.
- The Industrials sector, though being grouped as a sector with low assurance uptake, was the third largest producer of assurance statements in 2007 due to the sheer number of reporting companies.

Sectors with the highest rates of assurance uptake won't always have the greatest number of reporters, and a low rate of assurance may still represent a significant number of statements, depending on the sector. Figures 19 and 20 illustrate that both factors must be borne in mind when evaluating activity in a given sector.

What Does This Mean for Your Company?

External assurance can be a costly and resource-intensive process. Each company needs to decide what it wants from the process (see page 11). The 'return on investment' will vary from company to company and will no doubt be gauged through analysis of key stakeholder expectations and the value of the assurance process for internal management. Before your company makes this decision you may want to see what your peers are doing. The matrix overleaf illustrates assurance rates in reports from specific sectors/region based on cumulative output between 1997-2007. The dark green shading indicates a comparatively high uptake, light green is average, and amber/red low.

What does this mean for your company? By way of example, if you represent an Australasian bank it means you should strongly consider assurance, as 64% of your peers are already using it. Conversely if you represent an African Industrials company there might be less pressure to assure your report, with only 9% of reports from your peers currently doing so.

In terms of comparative peer analysis, and in the light of the matrix, your decision to use external assurance as a means of enhancing the credibility of your report can be a classic example of risk and opportunity:

Figure 21: External Assurance Matrix – Uptake by Region/Sector (1997-2007 Cumulative)

Sector 1	Africa		Asia		Australasia		Europe		North America		South America		OVERALL
	Ass. Rate	Reports	Ass. Rate	Reports	Ass. Rate	Reports	Ass. Rate	Reports	Ass. Rate	Reports	Ass. Rate	Reports	
Automobiles & Parts	17%	6	14%	213	42%	12	24%	238	0%	59	17%	6	17%
Banks & Finance	19%	48	19%	89	64%	109	37%	822	9%	221	24%	50	32%
Chemicals	0%	6	29%	218	33%	42	22%	576	0%	204	6%	18	19%
Foods & Beverages	13%	16	29%	56	10%	30	22%	423	13%	96	8%	24	20%
Forestry & Paper	29%	7	23%	22	36%	45	22%	295	4%	121	33%	45	20%
Health & Pharmaceuticals	0%	4	25%	81	–	0	36%	374	17%	134	27%	11	30%
Industrials	9%	32	18%	294	36%	74	22%	1078	2%	169	26%	27	20%
Insurance	10%	10	13%	24	59%	17	34%	218	0%	46	20%	5	28%
Leisure & Media	17%	6	21%	53	0%	6	28%	319	8%	91	0%	6	22%
Mining & Metals	40%	84	15%	88	18%	466	26%	338	9%	264	5%	93	18%
Oil & Gas	54%	46	35%	101	16%	43	46%	452	18%	243	17%	35	35%
Personal & Household Goods	–	0	25%	75	0%	2	21%	246	3%	107	0%	9	17%
Retailers	0%	4	38%	39	52%	21	25%	309	6%	51	0%	2	25%
Support Services	50%	12	10%	10	25%	52	17%	521	0%	37	0%	2	18%
Technology	0%	10	13%	597	50%	16	24%	238	2%	221	10%	10	13%
Telecommunications	0%	11	11%	19	13%	23	38%	280	6%	63	30%	37	29%
Transport & Logistics	0%	4	18%	103	18%	57	28%	731	0%	50	0%	3	25%
Utilities	32%	28	29%	137	34%	287	39%	1010	5%	341	12%	73	30%
OVERALL	30%		21%		29%		29%		7%		17%		24%

■ 0% – 5%
 ■ 11% – 15%
 ■ 21% – 25%
 ■ 31% – 35%
 ■ 41% – 45%
 ■ 51% – 55%
 ■ 61% – 65%
■ 6% – 10%
 ■ 16% – 20%
 ■ 26% – 30%
 ■ 36% – 40%
 ■ 46% – 50%
 ■ 56% – 60%
 ■ 66% – 70%

Low risk cost saving: Given your market and area of operation can you produce a report that isn't externally assured which will stand up against those of your peers?

Hitting the benchmark: Given your market and area of operation can you expect to produce a credible report for your key stakeholders without it being externally assured?

Pioneering: Given your market and area of operation can you produce an externally assured report to set you apart from your peers and establish yourselves as a leading reporter?

A more detailed analysis of sectoral developments can be found on page 38.

Is External Assurance Only for Big Companies?

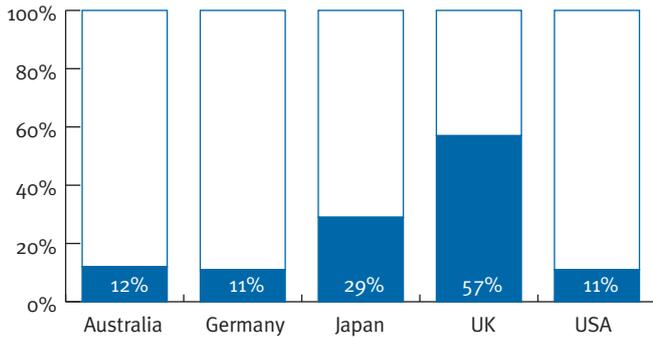
CorporateRegister.com's research shows that in 2007, 43% of Global FT500 companies externally assured their CSR reports – compared with 25% across all companies. Larger companies will typically have a greater number and diversity of external stakeholders expecting such information, and have larger communications budgets.

Key Finding:
World's largest companies lead assurance uptake

However, external assurance isn't exclusively for large companies. Looking at uptake in the top 100 companies across the 5 biggest report producing countries Australia, Germany, Japan, UK & USA there are some interesting regional disparities. Both Australia and

Germany are in regions where external assurance is more popular, yet only 12 and 11 respectively of the largest 100 companies in each country produce externally assured CSR reports.

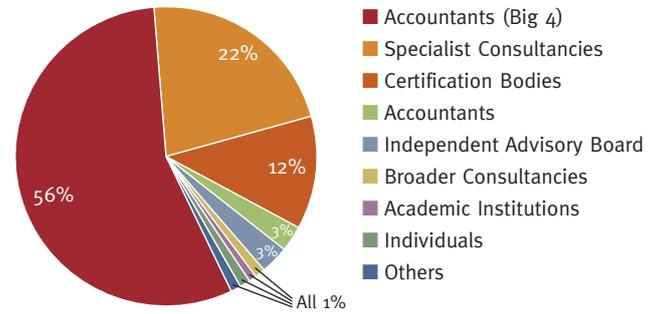
Figure 22: % of CSR Reports with External Assurance from Top 100 Companies Across 5 Countries (2007)¹



Who's assuring CSR reports from the big companies? Accountants (Big 4) have 56% of the Global FT500 assurance market, a much stronger position than their 40% of the overall CSR report assurance market. This can be explained in two ways: Either an issue of budget (larger companies have the budgets to engage with the more 'top end' providers), or an issue of perceived reach and competence (large accountancy firms have the global resources to provide assurance for a large global company). On the basis that Specialist Consultancies have 22% of the Global FT500 market (broadly consistent with their share of the entire market), we could challenge the perceived competency argument: These organisations would tend to be smaller but are still being engaged by the larger companies. Additionally, if the size and international reach of the provider were all-important we might expect Certification Bodies (typically global entities) to hold a larger share of the Global FT500 market, whereas their share is only 12% (compared with a 25% share of the entire CSR report assurance market.)

Key Finding:
Big 4 lead across Global 500

Figure 23: External Assurance Statements by Provider Type in Reports from the Global FT500 (2007)



¹ We used the following national indices to identify the 'Top 100' companies in each country (as at July 2008): Australian ASX100, German DAX100, Japanese TOPIX100, UK FT100, US NYSE100.

Market Insights: Four Trends to Watch

CSR Reporting Drives Assurance into Mainstream

In 2007 over 650 external assurance statements were produced globally, that's a statement in 25% of all published 2007 CSR reports. The number of CSR reports produced each year has grown annually since 1992, and the uptake of assurance (the number of assurance statements included in these reports) has increased year on year since 2003. If we were ever in any doubt, this is a growth market. As reporting has reached the business mainstream, assurance has established itself as one of the main indicators of reporting 'quality'.

1 Provider Professionalisation & Consolidation

The market is witnessing increasing professionalisation. Previously the domain of a wide spectrum of provider types, from Individuals, NGOs, Engineering/Management Consultancies to Accountants, CSR report assurance is now dominated by just three provider types with a combined market share of 89%. These are Accountants (Big 4), Certification Bodies, Specialist Consultancies.

Not only have CSR reports become more significant communications documents, their scope of issues for inclusion and the detail of their disclosures are becoming broader and deeper. At the same time, companies recognise the need to match these emerging complexities with the 'perceived competencies' of their assurance providers. These competencies may be evidenced by an organisation's CSR specialisation (in the case of the consultancies), or by sheer size, reputation and competencies in comparable markets (in the case of Accountants and Certification Bodies).

In addition to changing market demands, there are supply-side influences shaping this market. Assurance risk is inextricably linked to reporting complexity. As this complexity increases, the level of associated risk may become a deterrent to some providers. This is particularly relevant for organisations such as non-specialised, broader consultancies whose assurance services represent a small proportion of their product portfolio: Does the revenue from this one product line justify the increased exposure to risk? The result of these market dynamics is that more niche provider types are being squeezed out by the favoured three major provider types.

We expect to see this trend continue, with the remaining 11% of the market gradually divided between our three major

provider types. Experience tells us that Specialist Consultancies are much less successful at expanding their market share, with a near consistent 24% over the past 15 years. We expect Certification Bodies and Accountants (Big 4) to be more effective than the Specialist Consultancies in moving into the space previously occupied by the other provider types.

Of our major provider types, the Accountants (Big 4) have the upper hand with 40% of the global market in 2007. Their share at the top of the market, as determined by correlating against Global FT500 CSR reports, increases to 56%. They have a leading market share in 11 of our 18 business sectors and across 4 of our 6 reporting regions (see page 40 for detailed profiles).

2 Regional Prospects for Providers: Lands of Opportunity

Europe will continue to be the largest producer of both CSR reports and assurance statements for the foreseeable future. The growth rate from 1997-2007 is relatively modest, but in numbers of assurance statements European companies produced 4 times as many as any other region in 2007.

Asia is the market to watch. Characterised by a 10 year assurance statement average annual growth rate of 31% and an output of nearly 100 statements in 2007, the Asian market has grown rapidly. Japan is the most significant reporting country in Asia. The propensity of Japanese companies to mobilise and align en masse on reporting issues will be an important driver in this region. Two important factors will shape the Asian market over the next few years:

- 1) **Mandatory Reporting.** We are hearing reports of developments towards mandatory reporting of substantive non-financial information in Asian countries. Not only would this increase report output but would also focus attention on assurance and credibility. If mandatory reporting is introduced we may not see an immediate increase in assurance statements, as our research shows that 'first timers' are only half as likely to use assurance as established reporters, but we certainly would within two to three years.
- 2) **Chasing Best Practice.** The CSR report assurance rate in Asia for 2007 was just over 20% compared with 30% in Europe. Increasing the assurance rate in an expanding

reporting market will result in Asia becoming a leader in the field. How will this happen? Interestingly, many Asian companies have included external ‘voices’ in their reports for years, in the form of ‘Opinion Statements’ by prominent individuals such as NGO representatives and academics. These are tracked by CorporateRegister.com but not categorised as representing true assurance statements due to their lack of rigour. We expect many companies currently including such ‘Opinion Statements’ to upgrade to full assurance as part of the momentum towards professionalisation.

Asian companies, especially in Japan, are quick to spot trends. We’ve seen similar developments before, where Asian companies watch the market, decide on a course of action, and then implement with surprising swiftness. The uptake of ISO 14001 is one example, or the switch from single-issue environmental reports or to multi-issue CSR reports, and even the development of referencing GRI guidelines in reports to including a GRI contents table. In each case European companies first led the field, but Asian companies then followed suit in large numbers a couple of years later. We expect the same phenomenon in CSR report assurance, with Asian companies adopting assurance as they adopt best reporting practice.

Asian CSR report assurance has another notable characteristic – niche provider types accounted for 32% of Asian 2007 statements (compared with 11% globally). As we’ve seen, the global trend is for the continued ‘squeezing out’ of these niche provider types, which in Asia represents real opportunities for other providers. The Accountants (Big 4) hold a 32% market share there, a much weaker position than in other regions. Certification bodies are well represented in Asia with 25% of the market, which leaves the Specialist Consultancies in a much less favourable position at just 11%. We are already beginning to see major provider types aligning with more niche providers to offer joint assurance. For example in South Korea we can see Consultancies working with Government Bodies. Will this trend continue? We anticipate these ‘marriages of convenience’ representing a period of transition as Asian reporters follow the European pattern.

3 Regional Prospects for Providers: Challenging Markets

Specialist Consultancies may have enjoyed little success in expanding their market shares globally, but this is not the case in North America & Australasia. In these regions they are strong with 33% and 55% market share respectively.

The Australasian CSR assurance market has a high 10 year

average annual growth rate (27%), but low output of reports and statements. Anecdotally, we can add that the Australasian market is dominated by a handful of very active Specialist Consultancies which appear to be successfully holding their own against Accountants (Big 4) and Certification Bodies (which have a particularly low 5% share). Australia is the largest reporting country in the region, but despite being the 5th largest producer of CSR reports globally, report numbers don’t compare with those from the leading four countries. There are a small number of high quality reporters in Australia, and in the absence of any significant legislative shifts it’s hard to imagine the market developing further over the next few years. We would expect increased competition for existing assurance work. We would expect the Accountants (Big 4) to offer the assurance approaches more typically associated with the Specialist Consultancies in this region (full AA1000AS assurance, and a more customised, narrative approach).

No review of CSR report assurance is complete without due attention being paid to North America, which is the second largest reporting region but has the lowest uptake in external assurance (7.5% in 2007). Let’s look at US reporting specifically, as the region’s reporting is over 80% US based. There’s a possible, sophisticated explanation for the low uptake of assurance in the US relating to risk, specifically legal risk (see box ‘Risk and US Reporting’ overleaf).

We believe there’s a simpler explanation for the low uptake of assurance in US CSR reports. On first impressions, US and European reporting are equally well developed: Both regions started reporting at the same time and both have experienced a steady growth over the past 15 years. However, in our Differing Accents article (published in CRO Magazine in 2007¹) we looked beyond first impressions and revealed how US reporting is of a much lower ‘quality’ than its European counterpart. There are a number of well-known leading US reporters bucking this trend, but on the whole, US reports are not up to European standards. As an illustration, the Differing Accents study of top 100 companies in each region revealed GRI uptake in the US to be nearly half that of Europe, as is average page length.

US companies are reporting, but they are not covering the depth and breadth of issues seen in European reports. The development of assurance provision is contingent upon a foundation of quality disclosure. Of the top 100 US companies currently reporting, 8% are producing ‘Philanthropy’ reports rather than multi-issue CSR reports – this type of disclosure will simply not demand or even benefit from external assurance. Whether it’s a protective corporate culture or an interpretation of the perceived risk discussed in the box overleaf, US reporting is not of the quality we might expect as a precursor to rising assurance demand. Corporate

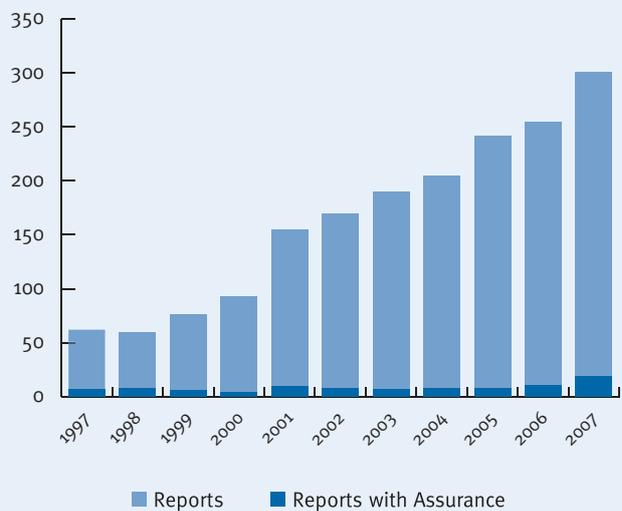
Risk and US Reporting

The broad context surrounding US CSR reporting is of very recent experience of a handful of high-profile corporate scandals, coupled with a litigious culture. This is compounded by the 2003 Kasky v. Nike case (covered in far more detail by Phillip Rudolph in his Ethical Corporation article²) in which Marc Kasky filed a lawsuit in California regarding letters and advertisements issued by Nike in relation to labour rights. Initially it was feared that the case, which was eventually settled out of court, would result in a dramatic reduction in US CSR reporting as companies sought to avoid the unnecessary legal risks considered to arise through voluntary disclosures. Depending on interpretation, it could be argued that the case would allow class actions to be brought against US reporters on the basis of their public communications.

By extension, it's clear that the risk landscape would change for an external assurance provider engaging with a US company. As the external party verifying and expressing opinions on a company's public disclosure (in this case CSR reports) how much of this risk are they exposed to, and can they indemnify themselves against this risk whilst still offering an assurance statement of value to the stakeholder? The crux of this explanation is that companies could be exposed to risk by making voluntary CSR-type disclosures, and assurers could be exposed to associated risks, and so wouldn't be keen to develop this area of activity.

A possible explanation, but one which doesn't appear to fit the facts. US CSR reporting and assurance provision have increased at a modest but steady rate over the past 15 years. The predicted reluctance of US companies to report never materialised. With the exception of a brief hiatus in Nike's CSR reporting during the period of the legal case, CorporateRegister.com statistics show that existing US reporters continued to report (and assurance followed its growth curve) and other companies produced their first reports at the same rate as before.

Figure 24: US CSR Reporting & Assurance



peer pressure and stakeholder expectations will have to operate to raise the quality of disclosures before addressing their credibility.

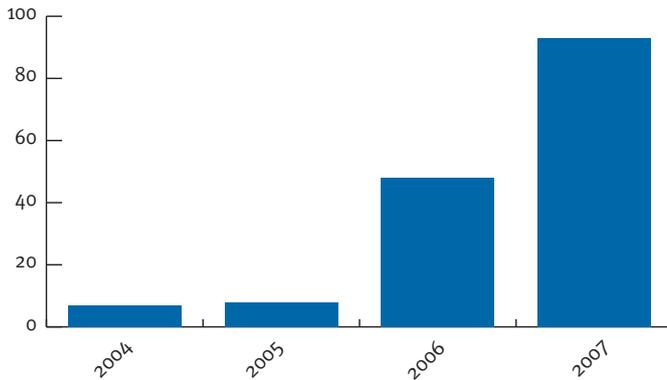
There are still opportunities in North America for external assurance providers: Specialist Consultancies are performing well, holding a leading 33% of this small market. The niche provider types are still very popular in the region (30%). As in Australasia, Certification Bodies are failing to make significant progress in North America, and Accountants (Big 4) are comparatively weak in this region. Perhaps these larger providers are more attuned to the perceived risk discussed above and are disinclined to seek North American assurance engagements. Specialist Consultancies would be much less likely to have separate legal departments. Those assessing any risk, may also act as the ultimate decision makers and even individuals delivering the services. This intimacy with the nature of the engagement might encourage Specialist Consultancies to be more open to taking on any potential risk (or depending on your viewpoint, perhaps less cautious) than a multi-national Certification Body or Accountancy firm.

We've seen that reporting and assurance rates didn't stall as a result of the perception of 'risk' in the US, but perhaps we are nevertheless seeing some effects, through the shifts in the types of provider active in this region.

4 Report Integration – The Shape of Things to Come?

A recent CSR reporting trend, particularly in Europe, is to produce fully integrated Annual Financial & CSR reports. These reports cover a wide range of CSR issues in conjunction with traditional Annual Report & Accounts (AR&A). An 'integrated' report consolidates a company's CSR disclosures in a 'serious' business communication. An integrated report demonstrates how a company can consolidate both financial and non-financial information, and by analogy, may be assumed to address its business in the same holistic manner. CorporateRegister.com data reveals that 93 such reports were issued globally in 2007.

Figure 25: ‘Integrated’ Reports per Year (2004-2007)



Just under a third of these ‘integrated’ reports included an external assurance statement covering CSR disclosures. This is only 5% higher than the average uptake of assurance across all reports – in itself not a significant finding – but interestingly, of the 30% with assurance 60% included statements provided by Accountants (Big 4).

We anticipate the continued development of ‘integrated’ reporting over the short-term in Europe, Africa & Australasia, and over the mid-term in Asia. The evidence suggests that producers of integrated reports are far more likely to opt for an Accountant (Big 4) to assure their CSR information. Using just one provider for both financial and non-financial assurance could be cost-effective and logistically more convenient, while demonstrating integration and consistency of approach. This could mean new opportunities for Accountants both large and small:

- 1) Companies currently producing both AR&As and stand-alone CSR reports may integrate reports and dispense with the non-Accountant assurator.
- 2) Companies producing a first-time report and deciding to use an integrated format will naturally gravitate towards Accountants to assure the entire report (assuming Accountants offer this service).

Currently it’s mainly the very large companies producing these integrated reports, so it may be that Accountants are already their natural choice. Should integrated reporting become more widely-spread (this seems a likely trend) it will be interesting to see whether small and medium-sized companies also choose Accountants to assure the entire report.

1 www.thecro.com/node/592

2 www.ethicalcorp.com/content.asp?ContentID=3448

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Sector Profiles (based on all reports issued 1997-2007)

Key

Uptake of External Assurance in 1997:

No. of Statements: Number of statements issued in CSR reports from companies in the specified sector during 1997. Ranking of this number against all other sectors in (brackets).

As percentage of reports: Number of statements issued as a proportion of all CSR reports from companies in the specified sector during 1997. Ranking of this number against all other sectors in (brackets).

Uptake of External Assurance in 2007: As above but for the year 2007.

Average Annual Growth Rate (1997-2007):

Average annual growth rate (over 10 years) in the number of assurance statements issued in CSR reports from companies in the specified sector.

Providers active in 2007:

The number of unique assurance providers producing statements in CSR reports from companies in the specified sector during 2007.

Pie Chart:

The breakdown of all statements issued in CSR reports from companies in the specified sector during 2007 by the 'type' of assurance provider.

Automobiles and Parts

Uptake of External Assurance in 1997

No. of Statements: 2 (11th)
As percentage of reports: 15% (11th)

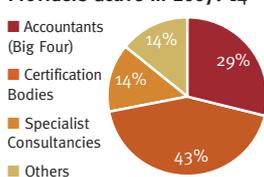
Uptake of External Assurance in 2007

No. of Statements: 14 (17th)
As percentage of reports: 18% (14th)

Average annual growth rate (97-07) 17%



Providers active in 2007: 14



Forestry and Paper

Uptake of External Assurance in 1997

No. of Statements: 4 (7th)
As percentage of reports: 17% (10th)

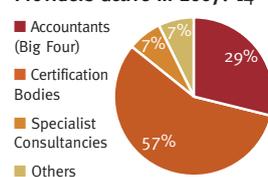
Uptake of External Assurance in 2007

No. of Statements: 14 (17th)
As percentage of reports: 21% (11th)

Average annual growth rate (97-07) 8%



Providers active in 2007: 14



Banks and Finance

Uptake of External Assurance in 1997

No. of Statements: 2 (11th)
As percentage of reports: 11% (13th)

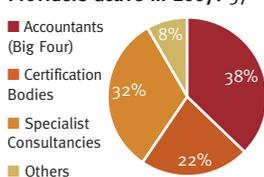
Uptake of External Assurance in 2007

No. of Statements: 99 (1st)
As percentage of reports: 32% (3rd)

Average annual growth rate (97-07) 34%



Providers active in 2007: 57



Health and Pharmaceuticals

Uptake of External Assurance in 1997

No. of Statements: 9 (3rd)
As percentage of reports: 43% (3rd)

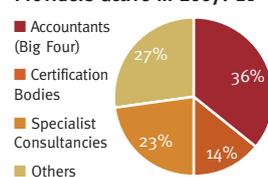
Uptake of External Assurance in 2007

No. of Statements: 22 (11th)
As percentage of reports: 24% (6th)

Average annual growth rate (97-07) 10%



Providers active in 2007: 21



Chemicals

Uptake of External Assurance in 1997

No. of Statements: 9 (3rd)
As percentage of reports: 23% (5th)

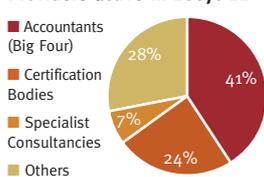
Uptake of External Assurance in 2007

No. of Statements: 29 (6th)
As percentage of reports: 22% (9th)

Average annual growth rate (97-07) 12%



Providers active in 2007: 22



Industrials

Uptake of External Assurance in 1997

No. of Statements: 2 (11th)
As percentage of reports: 7% (14th)

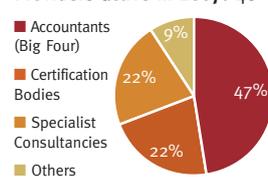
Uptake of External Assurance in 2007

No. of Statements: 65 (3rd)
As percentage of reports: 21% (10th)

Average annual growth rate (97-07) 30%



Providers active in 2007: 48



Food and Beverages

Uptake of External Assurance in 1997

No. of Statements: 3 (10th)
As percentage of reports: 23% (5th)

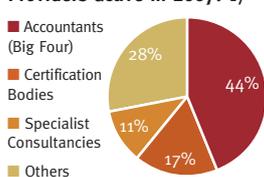
Uptake of External Assurance in 2007

No. of Statements: 18 (15th)
As percentage of reports: 17% (17th)

Average annual growth rate (97-07) 20%



Providers active in 2007: 17



Insurance

Uptake of External Assurance in 1997

No. of Statements: 0 (18th)
As percentage of reports: 0% (18th)

Uptake of External Assurance in 2007

No. of Statements: 17 (16th)
As percentage of reports: 27% (5th)

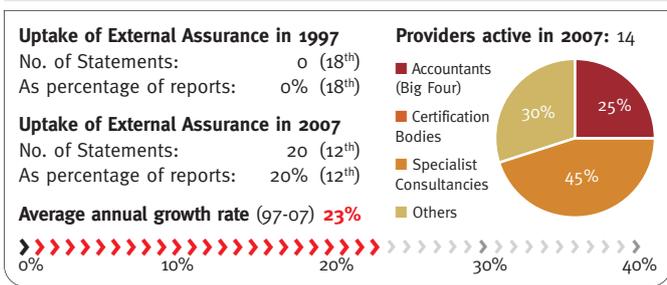
Average annual growth rate (97-07) 37%



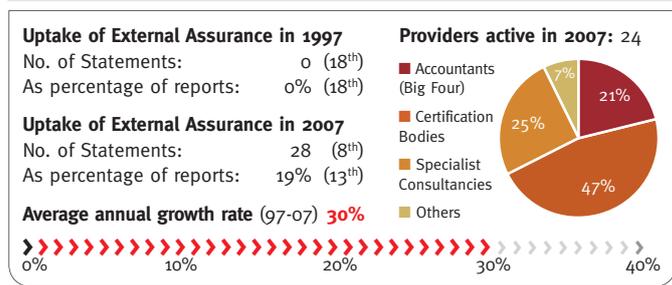
Providers active in 2007: 12



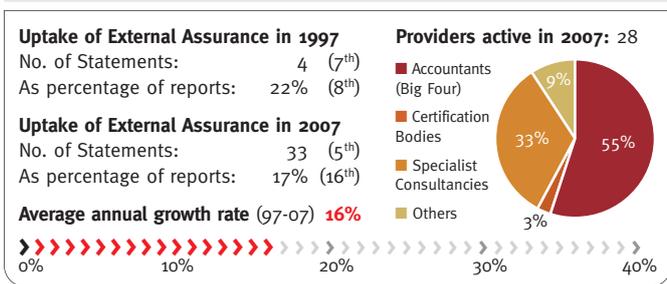
Leisure and Media



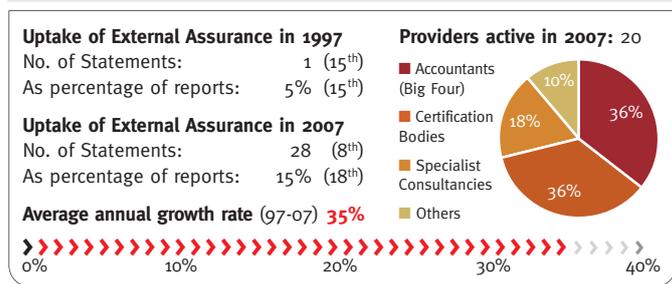
Support Services



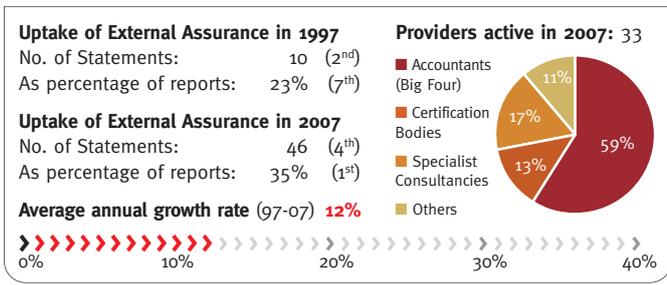
Mining and Metals



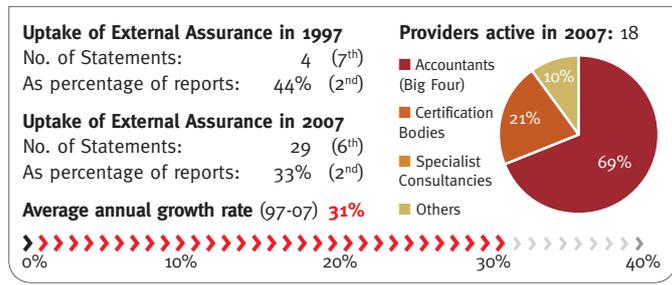
Technology



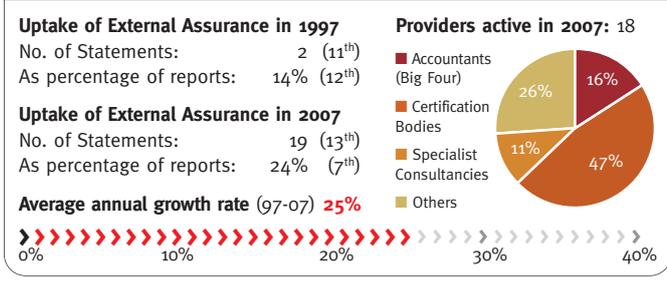
Oil and Gas



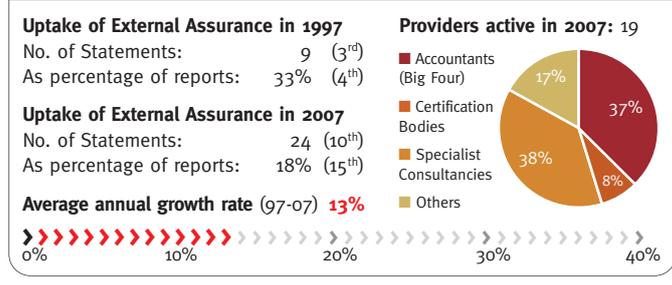
Telecommunications



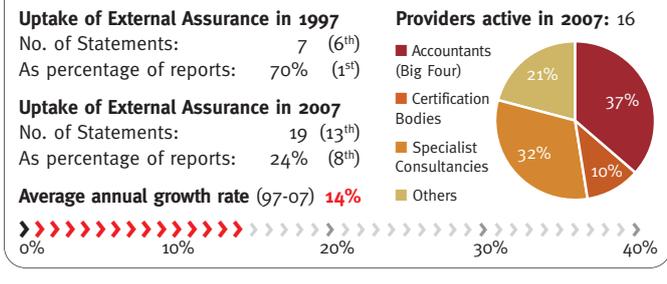
Personal and Household Goods



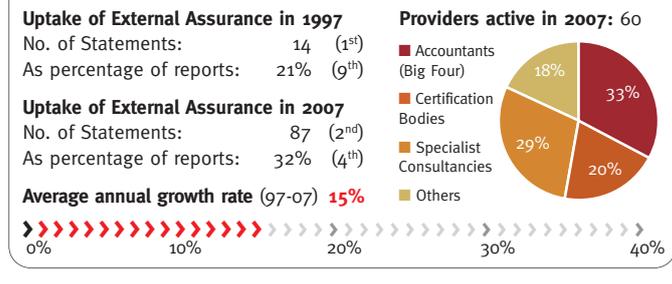
Transport and Logistics



Retailers



Utilities



Provider Type Profiles (based on all reports issued 1997-2007)

Key

Statements in 1997: Number of statements issued in CSR reports by specified provider type during 1997.

As % of Market: Number of statements issued in CSR reports by specified provider type as a percentage of total statements issued during 1997.

Statements in 2007: As above but for the year 2007.

Average Annual Growth Rate

(1997-2007): Average annual growth rate (over 10 years) in the number of assurance statements issued in CSR reports, by specified provider type.

Leading in 2007 (Sectors)

List of industry sectors in which the specified provider type held a leading market share in the provision of statements issued in CSR reports.

Leading in 2007 (Regions)

List of regions in which the specified provider type held a leading market share in the provision of statements issued in CSR reports.

Provider/Client ratio in 2007:

The number of CSR assurance providers of a given type compared against the total global number of assurance clients using that same provider type in 2007. Ratio expressed first followed by the actual numbers in (brackets).

Accountants (Big Four)

Statements in 1997: 22

As percentage of market: 27%

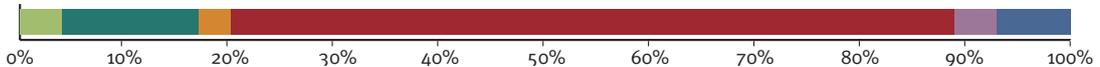
Statements in 2007: 244

As percentage of market: 40%

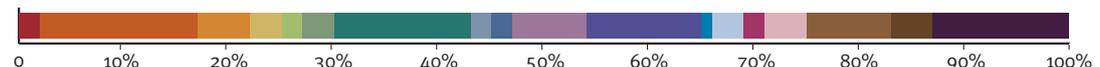
Leading in 2007 (Sectors): Banks & Finance, Chemicals, Foods & Beverages, Health & Pharmaceuticals, Industrials, Mining & Metals, Oil & Gas, Retailers, Technology, Telecommunications, Utilities

Leading in 2007 (Regions): Africa, Asia, Europe, South America

Regional Profile (2007):



Sectoral Profile (2007):



Average annual growth rate (97-07)

24%



Provider/Client ratio in 2007:

1:3.19 (75:239)

Certification Bodies

Statements in 1997: 10

As percentage of Market: 12%

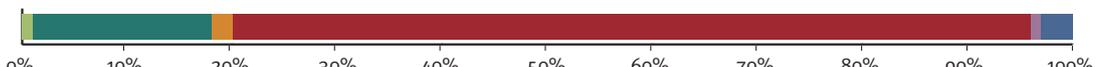
Statements in 2007: 158

As percentage of Market: 25%

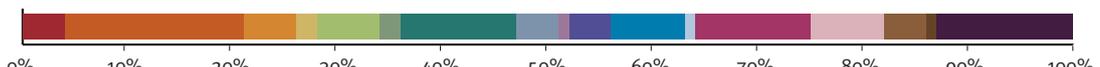
Leading in 2007 (Sectors): Automobiles & Parts, Forestry & Paper, Personal & Household Goods, Support Services, Technology

Leading in 2007 (Regions): None

Regional Profile (2007):



Sectoral Profile (2007):



Average annual growth rate (97-07)

24%



Provider/Client ratio in 2007:

1:2.36 (59:139)

Specialist Consultancies

Statements in 1997: 21

As percentage of Market: 26%

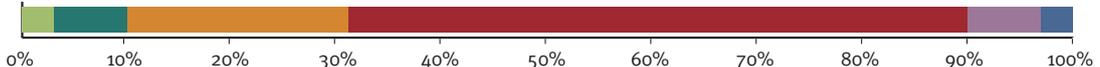
Statements in 2007: 155

As percentage of Market: 24%

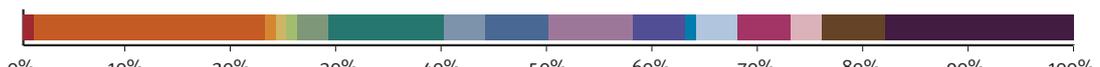
Leading in 2007 (Sectors): Insurance, Leisure & Media, Transport & Logistics

Leading in 2007 (Regions): Australasia, North America

Regional Profile (2007):



Sectoral Profile (2007):



Average annual growth rate (97-07)

18%



Provider/Client ratio in 2007:

1:2.96 (50:148)

Key for Regional Profiles

- Africa
- Asia
- Australasia
- Europe
- North America
- South America

Key for Sectoral Profiles

- Automobiles & Parts
- Banks & Finance
- Chemicals
- Foods & Beverages
- Forestry & Paper
- Health & Pharmaceuticals
- Industrials
- Insurance
- Leisure & Media
- Mining & Metals
- Oil & Gas
- Personal & Household Goods
- Retailers
- Support Services
- Technology
- Telecommunications
- Transport & Logistics
- Utilities

Regional Profiles (based on all reports issued 1997-2007)

Key

Uptake of External Assurance in 1997

No. of Statements: Number of statements issued in CSR reports from companies in the specified region during 1997. Ranking of this number against all other sectors in (brackets).

As percentage of reports: Number of statements issued as a proportion of all CSR reports from companies in the specified region during 1997. Ranking of this number against all other sectors in (brackets).

Uptake of External Assurance in 2007:

As before but for the year 2007.

Leading Country:

Country with the greatest total number of assurance statements between 1997 and 2007 within the specified region.

Average Annual Growth Rate (1997-2007):

Average annual growth rate (over 10 years) in the number of assurance statements issued in CSR reports from companies in the specified region.

Africa

Uptake of External Assurance in 1997

No. of Statements: 0 (6th)
As percentage of reports: 0% (6th)

Uptake of External Assurance in 2007

No. of Statements: 18 (6th)
As percentage of reports: 25% (3rd)

Leading Country South Africa

Average annual growth rate (97-07) 19%

Provider type profile



Europe

Uptake of External Assurance in 1997

No. of Statements: 70 (1st)
As percentage of reports: 27% (2nd)

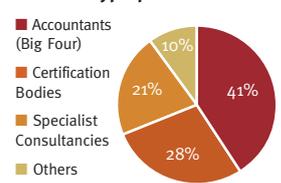
Uptake of External Assurance in 2007

No. of Statements: 415 (1st)
As percentage of reports: 30% (1st)

Leading Country UK

Average annual growth rate (97-07) 17%

Provider type profile



Asia

Uptake of External Assurance in 1997

No. of Statements: 0 (6th)
As percentage of reports: 0% (6th)

Uptake of External Assurance in 2007

No. of Statements: 98 (2nd)
As percentage of reports: 22% (4th)

Leading Country Japan

Average annual growth rate (97-07) 31%

Provider type profile



North America

Uptake of External Assurance in 1997

No. of Statements: 9 (2nd)
As percentage of reports: 9% (3rd)

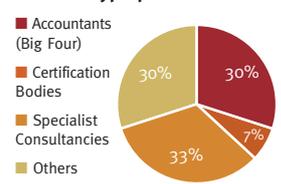
Uptake of External Assurance in 2007

No. of Statements: 30 (4th)
As percentage of reports: 7% (6th)

Leading Country USA

Average annual growth rate (97-07) 11%

Provider type profile



Australasia

Uptake of External Assurance in 1997

No. of Statements: 3 (3rd)
As percentage of reports: 33% (1st)

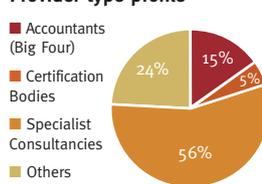
Uptake of External Assurance in 2007

No. of Statements: 55 (3rd)
As percentage of reports: 28% (2nd)

Leading Country Australia

Average annual growth rate (97-07) 27%

Provider type profile



South America

Uptake of External Assurance in 1997

No. of Statements: 0 (6th)
As percentage of reports: 0% (6th)

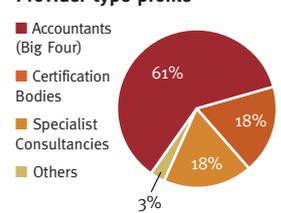
Uptake of External Assurance in 2007

No. of Statements: 28 (5th)
As percentage of reports: 20% (5th)

Leading Country Brazil

Average annual growth rate (97-07) 22%

Provider type profile



Methodologies

We present two sets of data and charts in this report. We present data from our online directory, ('An Overview') and we present data from a Study carried out specifically for this report ('The Study').

For both sets of data we developed an approach to identify each assurance provider as belonging to one of our defined 'provider types'. In the case of three of these 'types' (Accountants (Big 4), Certification Bodies, Broader Consultancies) the companies work as global networks. Where a statement has been produced by a local member of one of these networks, our statistics ascribe the statement to this individual provider for the purposes of numbers of providers and their region, but to the overarching provider type for the purposes of aggregate analysis.

The State of Assurance – An Overview

The CorporateRegister.com CSR report directory profiles reports from any reporting company irrespective of size, location, sector or ownership status (ie private/public). We actively seek out reports (as opposed to relying on companies submitting them) and estimate that we profile 90-95% of all published reports.

The CorporateRegister.com report directory profiles corporate non-financial reports from the early 1990s to the present, and currently (July 2008) profiles over 17,000 published reports across 103 countries. The data in the *The State of Assurance – An Overview* section covers all reports in the directory which include an external assurance statement¹. The majority of charts in the section only refer to reports published between January 1 1997 and December 31 2007 owing to the small sample sizes of earlier years. The following sectors were ignored in the sectoral analysis due to small sample sizes: Tobacco, Government Authorities & Agencies, Packaging, Education.

¹ With the exception of 'Opinion' statements and those prepared by the report developers themselves, see page 7.

The Study Of 90 Leading Statements

The motivation for our study was to demonstrate the wide diversity in assurance statements. Our aim was to examine assurance statements as carefully as possible, noting the individual elements within them, and identifying convergence and divergence.

Study Universe

We examined assurance statements from reports published between May 1 2006 and May 1 2008. Only one statement was examined per company with preference given to the most recent. We excluded Government entities and SMEs from our study.

We divided our study over five countries: Australia, Germany, Japan, the UK and the USA. These are the leading countries in numbers of published CSR reports. We chose the largest 18 companies (as ranked by market capitalisation) publishing a CSR report with an assurance statement in each country. In total, we looked in depth at 90 assurance statements.

The Research

The specific text of assurance statements was examined objectively and methodically. We chose broad themes which could be compared consistently and fully across all 90 assurance statements.

In all, we evaluated a total of 13 issues across the following 5 themes:

- Standardised Approaches
- Declarations
- Methodology
- Provider Recommendations and Opinions
- Assurance Conclusion Type

Standardised Approaches

How are recognised standardised approaches guiding the assurance process? We looked for mention of

such approaches in assurance statements:

1. Which assurance statements refer to AA1000AS?
2. Which assurance statements refer to ISAE3000?
3. Which assurance statements refer to the GRI G3 Reporting Guidelines?

Declarations

How are assurance providers choosing to disclose the exact terms of their assurance engagement with the client company?

4. Which assurance statements are addressed to a declared audience? (Management / All stakeholders / Other)
5. Which assurance statements include a separate legal disclaimer for the general reader?
6. Which assurance statements contain a declaration of independence by the assurance provider?
7. Which assurance statements outline the respective responsibilities of the assurance provider and the client company regarding the assurance engagement and the CSR report?

Methodology

How are assurance providers choosing to disclose the details of the work undertaken during the assurance process?

8. What exactly is being assured? (Full Report / Selected Information within the Report)
9. Which assurance statements include a discussion of work undertaken?
10. What specific tasks constitute the work undertaken described in an assurance statement? We identify: Review of Documents Internal to Client Company, Review of Documents External to Client Company, Interviews with People Internal to Client Company, Interviews with People External to Client Company, Review of Data Systems, Field Work.

Provider Recommendations and Opinions

Are assurance providers going beyond the terms of simple CSR assurance and providing their own insights or recommendations to the client company about their CSR performance?

11. Which assurance statements include a discussion of the CSR performance of the client company?

12. Which assurance statements include direct recommendations to the client company to guide their future CSR performance?

Assurance Conclusion Type

How do the assurance providers describe their conclusions? Do they use negative or positive wording to frame their conclusions?

13. What kind of Assurance Conclusion can be found in an assurance statement?

Establishing Trends

For each assurance statement in our study, we also noted the name of the assurance provider and categorised them by provider type (for definitions of each provider type, please see the box in *The State of Assurance – An Overview*).

The 90 Companies Included

Company Name	Country	Company Name	Country
AGL Energy Limited	Australia	Ricoh Company Ltd	Japan
Australia & New Zealand Banking Group Ltd	Australia	Seven&I Holdings Co Ltd	Japan
Bendigo Mining Limited	Australia	Sharp Corporation	Japan
BHP Billiton Limited	Australia	Sumitomo Electric Industries Ltd	Japan
Boral Limited	Australia	Terumo Corporation	Japan
British American Tobacco (Australia) Limited	Australia	The Tokyo Electric Power Company Inc	Japan
Insurance Australia Group Limited	Australia	Toshiba Corporation	Japan
Investa Property Group	Australia	Toyota Industries Corporation	Japan
National Australia Bank Group	Australia	Toyota Motor Corporation	Japan
Origin Energy	Australia	Anglo American plc	UK
Pilbara Iron	Australia	BAE Systems plc	UK
Stockland Corporation Ltd	Australia	Barclays plc	UK
Thiess Pty Ltd	Australia	BG Group plc	UK
Toyota Motor Corporation Australia Limited	Australia	BP plc	UK
Transurban Group	Australia	British American Tobacco plc	UK
Wesfarmers Ltd	Australia	BT Group plc	UK
Westpac Banking Corporation	Australia	Diageo plc	UK
Zinifex Limited	Australia	GlaxoSmithKline plc	UK
Axel Springer Verlag AG	Germany	HBOS plc	UK
BASF SE	Germany	HSBC Holdings plc	UK
Bayer AG	Germany	Imperial Tobacco Group PLC	UK
British American Tobacco (Germany) GmbH	Germany	Lloyds TSB Group plc	UK
C&A Europe	Germany	Reckitt Benckiser plc	UK
Daimler AG	Germany	Rio Tinto plc	UK
Degussa AG	Germany	SABMiller plc	UK
Deutsche BP Aktiengesellschaft	Germany	Unilever plc / NV	UK
Deutsche Post AG	Germany	Vodafone Group plc	UK
E.ON AG	Germany	3M	USA
HOCHTIEF Aktiengesellschaft	Germany	Baxter International Inc	USA
KfW Bankengruppe	Germany	Bristol-Myers Squibb Company	USA
PUMA AG Rudolf Dassler Sport	Germany	Chevron Corporation	USA
RWE AG	Germany	ConocoPhillips	USA
SolarWorld AG	Germany	Exxon Mobil Corporation	USA
Verband der Chemischen Industrie eV	Germany	Genentech Inc	USA
Volkswagen AG	Germany	General Electric Company	USA
WestLB AG	Germany	Hess Corporation	USA
Dai Nippon Printing Co Ltd	Japan	Intel Corporation	USA
Eisai Co Ltd	Japan	National Grid USA	USA
FUJIFILM Holdings Corporation	Japan	Newmont Mining Corporation	USA
Fujitsu Ltd	Japan	Nike Inc	USA
Japan Tobacco Inc	Japan	Office Depot	USA
Kao Corporation	Japan	ProLogis	USA
Komatsu Ltd	Japan	Schering-Plough Corporation	USA
Kyocera Corporation	Japan	Starbucks Corporation	USA
Mizuho Financial Group Inc	Japan	The Coca-Cola Company	USA

Useful Links

AccountAbility

An international not-for-profit organisation that works with partners in business, the public sector and civil society. Their aim is to bring together people working in apparently diverse fields to learn from each other about accountability experiences and innovations and to understand and disseminate global best practice. Acting as an innovation hub, they develop and promote new tools and systems which enable people to hold to account those individuals and institutions whose decisions and actions affect their lives. At the core of their work is the AA1000 Series of Standards.

www.accountability21.net

Association of Chartered Certified Accountants (ACCA)

ACCA is the global body for professional accountants, supporting 122,000 members and 325,000 students throughout their careers, providing services through a network of 80 offices and centres. ACCA's focus is on professional values, ethics, and governance, and on delivering value-added services through 50 global accountancy partnerships, working closely with multinationals and small entities to promote global standards and support. ACCA uses its expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

www.accaglobal.com

International Auditing and Assurance Standards Board

The International Auditing and Assurance Standards Board (IAASB) serves the public interest by setting – independently and under its own authority but subject to oversight by the International Public Interest Oversight Board – high quality standards dealing with auditing, review, other assurance, quality control and related services. It also facilitates the convergence of national and international standards in this area. It is the organisation responsible for the ISAE3000 Standard.

www.ifac.org/IAASB

www.ifac.org/Store/Details.tmpl?SID=12048375762286923&Cart=1216391049421877

The Global Reporting Initiative (GRI)

The GRI has developed a sustainability reporting framework which sets out principles and indicators that organisations can use to measure and report their CSR performance – The G3 Guidelines. Contained within the G3 Guidelines are recommendations for companies in their approach to the external assurance of CSR reports.

www.globalreporting.org

Glossary

Accountant (Big 4): See page 29.

Annual Report and Accounts (AR&A): A report which is typically made up of an account of the company's business performance and financial statements for the previous financial year.

Assurance: Professional Assurance may take many forms. The American Institute of Certified Public Accountants (AICPA) as quoted in Wikipedia, defines assurance as 'Independent Professional Services that improve information quality or its context'

Assurance Provider: For the purposes of this publication, an individual or organisation making a published assurance statement.

Assurance Statement: The published findings of an assurance engagement. For the purposes of this publication we use this term to refer to statements published in the context of a CSR report. Such statements may describe themselves under a variety of headings, such as 'Verification', 'Validation', 'External Assessment'.

Benchmarking: The assessment of company performance, or an aspect of performance, against best practice.

Certification Body: See page 29.

Completeness: Does a CSR report include all the relevant information?

CSR: Corporate Social Responsibility. A term covering a wide range of non-financial business issues, eg environmental, social, ethical issues.

CSR Report: Report produced by a company or organisation to describe its performance across a range of non-financial issues. There is a wide diversity of corporate non-financial reports (eg environmental, sustainability, EHS, community and social reports) and this publication uses the term 'CSR Report' as a shorthand for any such non-financial report.

Global FT500: Financial times index of the world's 500 largest companies by market capitalisation

Level of Assurance: A technical term from the accountancy profession which defines how certain the assurance providers are about their work. See also page 14.

Materiality: Deriving from a financial accounting term the definition of 'materiality' in the field of CSR is still evolving, but centres on the importance of specific information which affects or influences judgement about company performance

Responsiveness: Does a CSR report respond adequately to the concerns, expectations and interests of a company's stakeholders?

Specialist Consultancy: See page 29.

Stakeholders: A person or group who affects – or can be affected by – a company's actions such as employees, customers, investors, government bodies, the media and NGOs

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KPMG

KPMG LLP is delighted to be sponsoring this report on the status of assurance over Sustainability Reporting.

It is a rapidly evolving area for public and private sectors with investors, reporters, regulators, government, customers, suppliers and assurance providers all seeking to develop their responses to one another's demands and needs.

KPMG's assurance experience in the UK and Internationally over reporting of CSR, Sustainability and Carbon performance is second to none. We help our clients report high quality data and narrative that is balanced, relevant and which takes full account of 'best practice' guidance. We also believe that

the best assurance helps our clients embed responsible corporate behaviour and sustainability and in so doing, delivers strategic objectives. KPMG has sector and topic expertise across industry groups and the public sector; we see this as essential to understanding and responding, with good judgement, to the different detailed sustainability issues that exist. With regulation now crystallising around climate change, we also have a dedicated Carbon Advisory Group that operates across Audit, Advisory and Tax.

Reporting over Sustainability is dynamic and assurance is having to respond. We look forward to working with all our clients to meet the challenges ahead.

Contact: Lynton Richmond, Partner,
lynton.richmond@kpmg.co.uk, +44 (0) 20 7311 4701

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LRQA is a member of the Lloyd's Register Group and is a leading provider of business assurance services. Through our Business Assurance methodology we deliver a broad range of integrated services including assurance of corporate social responsibility and sustainability reports. The founding principles of LRQA are based in independent risk management, working to help improve our clients' quality, safety, environmental and business performance throughout the world, because life matters. We offer assessment, verification and certification to international standards.

We work across global supply chains, addressing the key issues facing corporations today, including security, climate change, product conformity, business continuity, ethics and human rights, among others.

As an assurance provider we are unrivalled. We lead the way in management system certification being:

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- in the initial group that was certified to deliver ISO 14001 (environmental)
- the first to be granted full-scope accreditation to deliver OHSAS18001 (health and safety).

Our clients include over half of the world's top 200 corporations. LRQA brings transparency and globally recognised assurance to their business systems.

Contact: Deborah Evans, Head of CSR Reporting & Assurance,
debbie.evans@lrqa.com, +44 (0) 24 7688 2373



The Reassurance Network

The Reassurance Network provides a range of assurance services that look in depth at how organisations define, manage and communicate responsible business practices, to derive business benefits and stakeholder value. We believe that the most respected companies of the future will be those who can demonstrate intrinsic responsibility through:

- well-informed strategies
- engagement of employees
- effective implementation of policies, and
- credible communications.

We see high calibre, external challenge being central to the assurance process, playing a pivotal role in developing and maintaining a cohesive, effective and credible management approach. Our rigorous verification of Corporate Responsibility Reports provides stakeholders with confidence in the completeness, focus and accuracy of content. Over and above this, we offer a range of specialised internal assurance services designed to improve management systems, reduce risk and assure directors that the CR agenda is managed effectively. We have provided assurance and advice to clients such as Barclays, British Airways, Camelot, Charter, EON, Japan Tobacco, Next, National Australia Bank, Prudential and STMicroelectronics. Our supply chain business has carried out over 300 factory audits and improvement programmes in Europe, Africa and Asia for clients such as Burberry, Oxfam, Monsoon, Primark and Rohan.

Contact: Malcolm Guy, Director,
mguy@re-assurance.co.uk, +44 (0) 1243 545525

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SGS is the global leader and innovator in inspection, verification, testing and certification services. Founded in 1878, SGS is recognised as the global benchmark in quality and integrity. With over 53,000 employees, SGS operates a network of over 1,000 offices and laboratories around the world.

SGS has a strong track record in providing solutions in the area of sustainable development:

- **Sustainability Report Verification:** SGS offers an independent verification of social and sustainability reports against international standards, such as GRI and AA1000AS. Our approach is based on four modules that address the various and progressing needs of clients. These range from assuring the accuracy of the chosen scope of reporting to establishing management systems for social and environmental reporting and to managing stakeholder relationships.
- **Monitoring and Assessment activities:** SGS provides a range of solutions to help clients to monitor the performance of their organisation and supply chain against defined sustainability objectives. SGS undertakes compliance monitoring audits against a wide range of international standards, 3rd party or internal requirements using trained local auditors. Our assessments can be integrated with other monitoring requirements relating to quality, environmental or security.
- **SGS Climate Change Programme** offers a comprehensive portfolio of services addressing the growing need for mandatory and voluntary reporting of greenhouse gas emissions.

For more information, please contact: Rebecca Bowens, Global Manager, Sustainability Report Assurance, tel. + 44 7764 28 57 98, email: Rebecca.bowens@sgs.com. You can also reach your local SGS representative at sra@sgs.com.

About CorporateRegister.com



CorporateRegister.com was founded in 1998 as a website dedicated to providing global CSR resources. By mid 2008 over 22,000 registered users benefited from free access to over 17,000 CSR reports, updates of the latest reports, upcoming events, related news items and a comprehensive directory of CSR reporting service providers.

We offer an array of services to CSR reporters and the organisations which assist in CSR report development. We create awareness of new CSR reports, facilitate online stakeholder dialogue, and connect service providers with CSR report developers. We value our independence and impartiality, and exist as a link between CSR reporters and CSR stakeholders. Our mission is to continue to provide high quality CSR related information to an informed global audience.

The Report Team



Paul Scott
Managing Director



Iain McGhee
Director of Services



Martin Wayman
Consultant & Lead Researcher



Wojtek Kawecki
Data & Research

Tel: +44 20 7014 3366 | Email: info@corporateregister.com
www.corporateregister.com

... and a Final Word

We hope you have found Assure View informative and stimulating, whether your perspective is from a reporting, assurance or CSR report user standpoint. For us the most important section is *Towards Meaningful Assurance Statements*, and especially the Key Elements we identified. We'd like to encourage our readers to consider how we can all move towards more widespread and more meaningful assurance statements – and we'd be most interested in hearing your own views.

Paul & Iain

You've read the report, now access the detail!

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